

c h a n g e

Hawaiian

Electric

Industries, Inc.



1003

Annual

Report

c h a l l e n g e

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Financial Highlights

<i>Years ended December 31</i>	<i>1993</i>	<i>1992</i>	<i>1991</i>
<i>(dollars in thousands, except per share amounts)</i>			
Operating income from continuing operations	\$ 157,638	\$ 136,219	\$ 133,056
Net income (loss)	\$ 48,659	\$ (11,582)	\$ 54,826
Continuing operations	\$ 61,684	\$ 61,715	\$ 55,620
Discontinued operations	\$ (13,025)	\$ (73,297)	\$ (794)
Earnings (loss) per common share	\$ 1.88	\$ (0.46)	\$ 2.40
Continuing operations	\$ 2.38	\$ 2.54	\$ 2.43
Discontinued operations	\$ (0.50)	\$ (3.02)	\$ (0.03)
Dividends per common share	\$ 2.29	\$ 2.25	\$ 2.21
Book value per common share*	\$ 23.23	\$ 22.12	\$ 24.36
Market price range per common share			
High	\$ 38.88	\$ 44.63	\$ 37.88
Low	\$ 31.00	\$ 34.75	\$ 29.38
Yearend	\$ 35.88	\$ 37.25	\$ 36.75
Return on average common equity	8.2%	(2.1)%	10.0%
Indicated annual yield*	6.5%	6.1%	6.1%
Price earnings ratio**	15.1	14.7	15.1
Common shares outstanding (thousands)			
Yearend	27,675	24,762	23,867
Weighted average	25,938	24,275	22,882

* At December 31.

** Calculated using yearend market price per common share divided by earnings per common share from continuing operations.

On the cover:

With landmark Diamond Head Crater looming in the distance, the moon rises over the hotels and condominiums on Waikiki Beach in Honolulu. The city is on the island of Oahu, which is home to 75% of Hawaii's population and hub of the state economy.



● HECO/MECO/HELCO Power Plant Sites (45) ASB Branches

- HEI operates solely in Hawaii — a state with long-term growth prospects.
- HEI's electric utility subsidiaries supply electricity to about 95% of the state's population. A five-year construction program totaling about \$900 million net is underway to assure reliable service.
- The savings bank subsidiary is sound, profitable and growing.
- Dividends per share have increased each year for 30 years. Near-term dividend increases will be moderate. Over the long term, HEI's goal is to increase dividends to at least match inflation.
- Average annual total return on HEI common stock over the past 10 years was 16% vs. 15% for the S&P 500 and 17% for the S&P Electric Utilities.

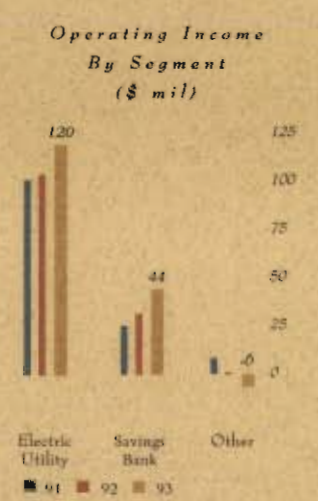
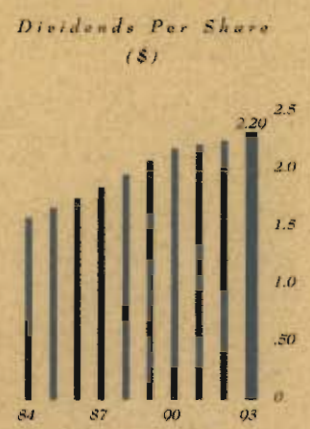
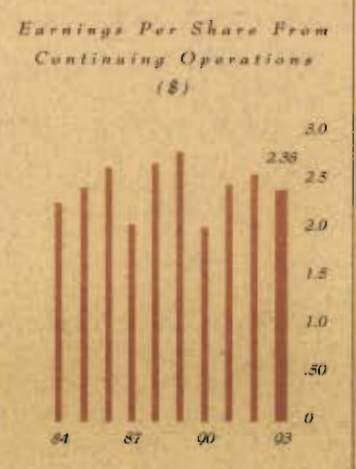
Hawaiian Electric Industries, Inc. is a diversified electric utility holding company providing essential services to the people of Hawaii. Its core businesses are electricity and banking. Other smaller subsidiaries are engaged in maritime freight transportation and real estate development.

Hawaiian Electric Company, Inc. and its subsidiaries, Maui Electric Company, Limited and Hawaii Electric Light Company, Inc., provide electricity to 95% of the state's 1.2 million residents. The utilities serve more than 370,000 residential, commercial and industrial accounts on the islands of Oahu, Maui, Hawaii, Lanai and Molokai.

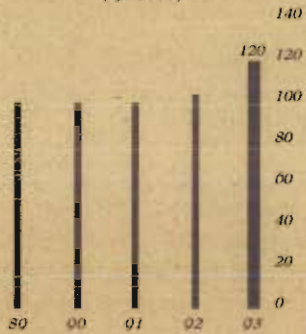
American Savings Bank, F.S.B., with assets of \$2.6 billion, operates a strong retail franchise and is sharply focused on high-quality residential mortgage lending. American Savings serves more than 270,000 accounts through a network of 45 branch offices — the largest branch network of any savings bank in Hawaii.

Hawaiian Tug & Barge Corp. and *Young Brothers, Ltd.* are the principal movers of maritime cargo within the state, operating a fleet of 11 tugs and 11 barges. Hawaiian Tug & Barge provides charter towing and harbor-assist services. Young Brothers provides regulated, scheduled barge service to all of the state's major islands.

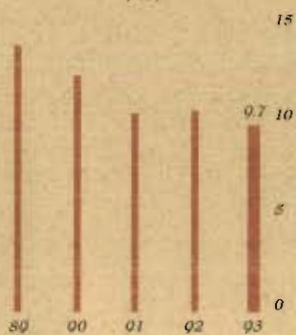
Malama Pacific Corp., a real estate development subsidiary, is helping to ease the state's chronic housing shortage by developing residential homes and lots.



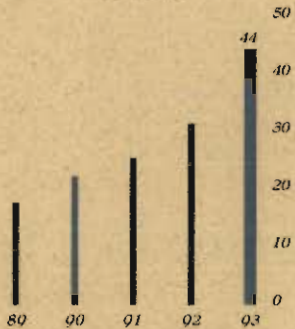
Electric Utility
Operating Income
(\$ mil)



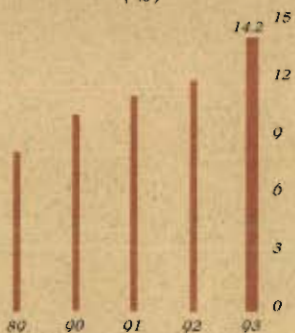
Electric Utility
Return on Average
Common Equity
(%)



Savings Bank
Operating Income
(\$ mil)



Savings Bank
Return on Average
Common Equity
(%)



Electric Utility Profile

Years ended December 31
(dollars in millions)

	1993	1992	1991
Electricity sold — KWH (millions)	8,325	8,332	8,090**
Revenues	\$ 879	\$ 779	\$ 741
Operating income	\$ 120	\$ 104	\$ 100
Net income	\$ 52	\$ 49	\$ 42
Return on average common equity	9.7%	10.5%	10.3%
Property, plant and equipment, net*	\$ 1,461	\$ 1,294	\$ 1,165
Service area population (thousands)	1,104	1,082	1,062
Customer accounts*	371,098	363,117	357,046
Average annual residential use — KWH	7,367	7,460	7,427
Generating and firm purchased capability — MW* ***	2,111	2,046	1,780
Peak load — MW****	1,496	1,493	1,446

* At December 31.

** Excludes the effect of the change in the method of estimating unbilled kilowatthour sales and revenues.

*** Sum of the generating and firm purchased capability on all islands served.

**** Sum of the peak demands on all islands served, noncoincident and nonintegrated.

Savings Bank Profile

Years ended December 31
(dollars in millions)

	1993	1992	1991
Total interest income	\$ 189	\$ 193	\$ 189
Net interest income	\$ 96	\$ 78	\$ 64
Operating income	\$ 44	\$ 31**	\$ 25
Net income	\$ 25	\$ 19**	\$ 15
Loans receivable, net*	\$ 1,735	\$ 1,463	\$ 1,149
Mortgage-backed securities*	\$ 630	\$ 710	\$ 802
Total assets*	\$ 2,618	\$ 2,462	\$ 2,176
Deposits*	\$ 2,092	\$ 2,033	\$ 1,615
Advances from Federal Home Loan Bank*	\$ 290	\$ 194	\$ 259
Real estate owned through foreclosure*	\$ 0.2	\$ 1.9	None
Delinquent loans to total loans outstanding*	1.02%	1.42%	0.74%
Interest rate spread	3.99%	3.45%	3.26%
Return on average common equity	14.2%	12.0%**	11.2%
Return on average assets	1.0%	0.8%**	0.7%

* At December 31.

** Reflects allocation of corporate-level expenses for segment reporting purposes that was not billed to the savings bank subsidiary.

Our decisions and actions are guided by the following core values:

Customer Service

Each of our operating companies is dedicated to providing superior products and services to its customers at a fair price.

Integrity

Our strength and character as an organization begins with each of us as individuals. We are committed to honesty in our dealings with each other and our customers, trustworthiness in our conduct, and responsibility in our words and our deeds.

Employees

We recognize that our employees are vital to our success. We will treat them with respect and dignity and support them in reaching their full potential.

Corporate Citizenship

We recognize our responsibility to assume leadership in making our community a better place to live for all of Hawaii's people.

Shareholder Value

We recognize that in being a public corporation we are the guardians of our owners' investment. Consistent with the values above, we will strive to maximize the value of our owners' investment over time.

Change and challenge is the theme of this year's report to HEI stockholders. Chief among the challenges we face is competition. Our strategies to succeed in a more competitive environment are shaped by HEI's mission to be a premier Hawaii corporation, recognized for customer satisfaction, integrity, excellent employees, community leadership and long-term growth in shareholder value.



ALOHA. "Change and challenge" is the theme of this year's report. Chief among the challenges facing our companies is competition. HEI's nonutility companies have always faced stiff competition. You may not think that an electric utility faces competition. The traditional view of an electric utility was as a regulated monopoly without competitors. Today, the U. S. electric utility industry is being transformed. New regulations open the business to competition from interconnected neighbor utilities, nonutility generators and others.



Robert F. Clarke

HEI's President and Chief Executive Officer stands before a photo mural of Honolulu Harbor in the 1920s, a sharp contrast to the view of contemporary Honolulu on this report's cover. Over the decades, HEI and its predecessor companies have played important roles in Hawaii's progress.

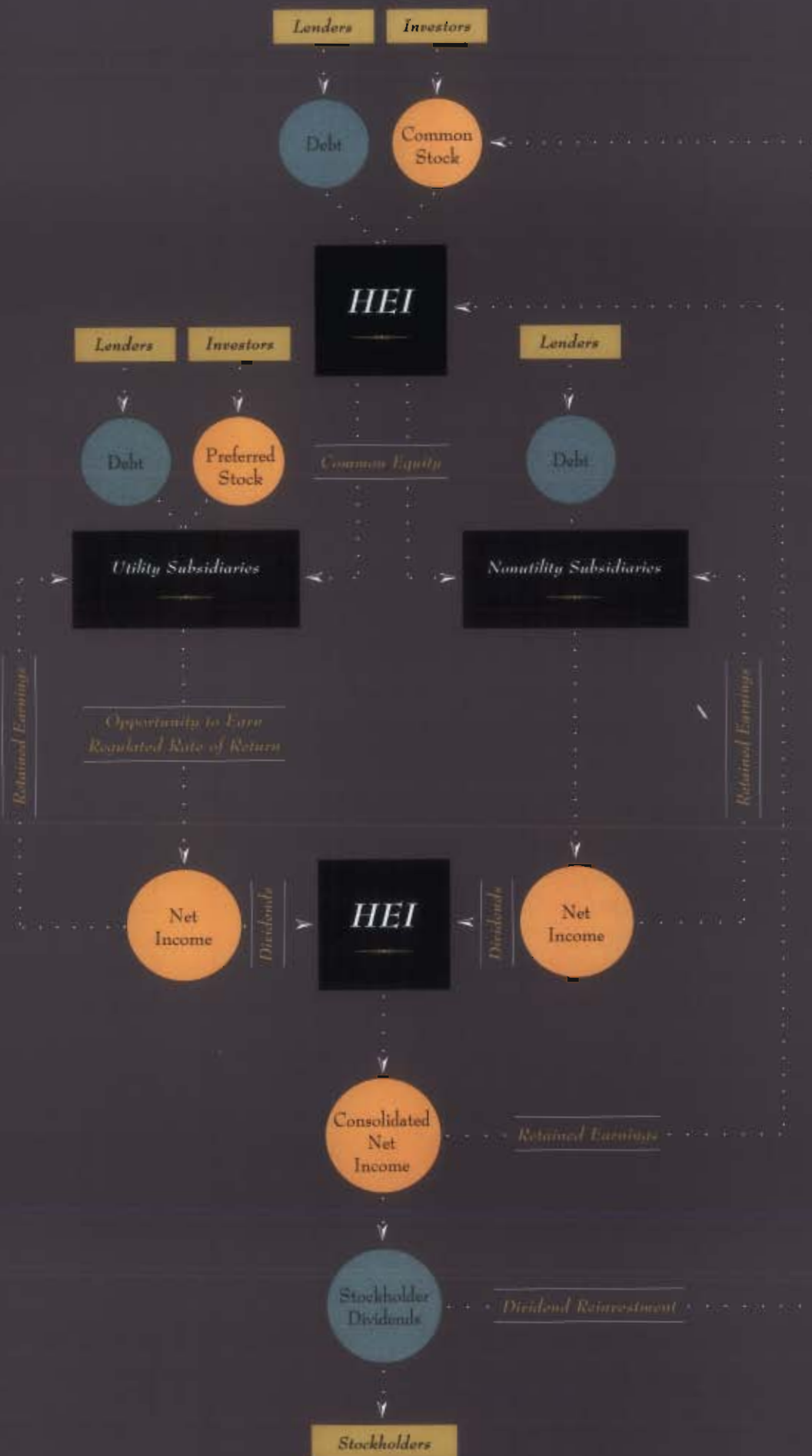
In Hawaii, these competitive threats are somewhat less compared with utilities on the U. S. mainland. Even so, our utility companies are gearing up to succeed in a new competitive environment. Starting on page 12, you will read about our utilities' plans to meet these competitive challenges. ● American Savings Bank has faced an increasingly competitive and consolidating market in Hawaii over the past several years and is emerging a winner. Deposits, loans, market share and earnings were all up from last year and the fundamentals are in place for continued success. American's strategy to compete is to remain a sharply focused retail bank: Responsive to customers, with convenient locations, good rates and superior service. ✦ Our smaller subsidiaries in maritime freight transportation and real estate

development have completed new business plans which, when successfully implemented, should markedly improve the performance of both companies. • HEI's financial performance in 1993 was influenced by the state's soft economy. Hawaii's economy is in a recession caused by the weak visitor industry. Our tourism industry's main markets — California and Japan — continue to experience their own economic distress. The soft economy reduced our utilities' kilowatthour sales which, on a consolidated basis, were down 0.1%. This contrasts with an average sales growth of 3.5% per year for the five years ended in 1992. • Reflecting this, HEI's net income of \$61.7 million from continuing operations was essentially the same as 1992, but less than we had forecast. Earnings per share of \$2.38 from continuing operations were down 6% because we sold 2.9 million common shares to help finance our utilities' ongoing construction program. The construction program is needed to improve reliability and customer service and to prepare for renewed growth. Another public offering is planned for later this year or in early 1995 to support continued investment in our utility companies. • We are encouraged that the national economy is recovering. When that recovery extends to California and when the Japanese economy regains its confidence, Hawaii's visitor industry and overall economy should begin growing again. Hawaii's natural beauty and unique cultural and historical appeal remain. • We recently announced an out-of-court settlement of the lawsuit stemming from our 1992 decision to exit the insurance business after Hurricane Iniki. That decision and ensuing litigation were difficult for all of us. We believe this settlement, which is subject to court approval, is in the best interests of stockholders, policyholders and the community at large. • In 1993, we rewrote HEI's mission statement, striving for a simple expression of our core values as a company. On page 3 you will find a new mission statement with five

guiding principles that apply to all of our companies. Our long-term commitment to you remains unchanged: To increase the value of your investment in HEI by building and managing a portfolio of high-performance businesses focused on growth through superior customer service. We know that dividend growth is important to you. We are proud of our record of paying dividends continuously since 1901 and increasing dividends for 30 years in a row. While dividend growth is indeed a major goal for the company, we expect that near-term dividend increases will be moderate. We are concerned that our dividend payout ratio is too high and we intend to control our dividend growth until our payout ratio returns to a more acceptable level. Over the long term, our goal remains to increase our dividend at least to keep pace with inflation. At our 1994 annual meeting, we will say "aloha" to Thurston Twigg-Smith. Mr. Twigg-Smith, who has reached the mandatory retirement age for directors, gave outstanding service to HEI, Hawaiian Electric Company (HECO) and American Savings Bank, and for several years has chaired the Executive Committee of HEI's board. We are grateful for his wise counsel. We were saddened by the death of William G. Foster, who served 14 years as a director of both HEI and HECO. Mr. Foster was a vital member of Hawaii's business community. He will be missed. My thanks to the directors for their continued support and the employees for their enthusiasm and hard work during these challenging times.



Robert F. Clarke
President and Chief Executive Officer
February 11, 1994



HEI's strategic role is to build and manage a high-performance portfolio of businesses, capture efficiencies among them and establish investment priorities.

This is a complex management challenge where success is measured by customer satisfaction and growth in shareholder value. To achieve those goals, HEI puts money to work.

In addition to retaining earnings, HEI raises common equity by selling stock and through stockholders who reinvest their dividends. Capital is also raised by HEI and its subsidiaries through the issuance of debt and preferred stock.

Since 1983 when HEI was reorganized as the parent company, HEI's stockholders' equity increased from \$235 million to \$643 million. Over this period, HEI's investment in its utility subsidiaries increased \$336 million and investments in continuing diversified businesses, including acquisition costs, totaled \$250 million.

Over the next five years, HEI's investment in utility operations is expected to increase about \$235 million, or 40%. During the utility companies' construction program, nonutility operations are expected to use internal resources to grow.

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"Hawaii's unique culture and remarkable beauty are assets that separate our state from other destinations. Careful emphasis of these strengths will contribute to Hawaii's long-term economic health."

Thomas S. Sakata
President —
Hawaii Visitors Bureau



Honolulu's lush Moanalua Gardens frame dancers from a halau or school as they rehearse ancient hula. Hawaii's rich culture and natural beauty are key factors in the state's tourism-driven economy.

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Hawaii's tourism-driven economy has slowed after a decade of robust growth, largely because of recessions in California and Japan. The state's



long-term prospects are healthy. The islands' rich culture and natural beauty remain top attractions.

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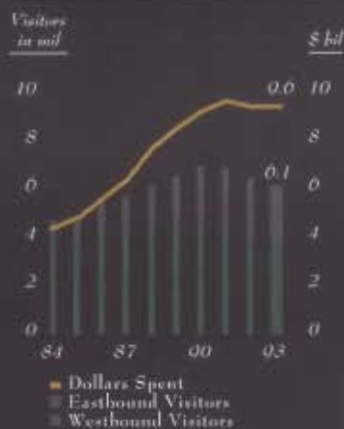
Moderating growth After a decade of growth, Hawaii's tourism-driven economy continued to slow in 1993 in the face of economic problems in Japan and the U.S. mainland, California in particular. The 1994 outlook is for more of the same. When Hawaii's \$30-billion economy resumes growing, the pace is expected to match the national average.

Rebound expected by 1995 Hawaii's tourism industry generates about 25% of gross state product (GSP). Visitor arrivals declined in 1993 for the third straight year. Big influences were damage to the island of Kauai from a September 1992 hurricane, Japan's faltering economy and California's recession. The state's 1994 visitor count is expected to be flat. New sources for visitors are being developed in Europe and other Asian nations. The state plans to build a \$350 million convention center on Oahu over the next three years. Kauai continues to rebuild.

Stable military spending Federal, state and local government expenditures account for about 20% of GSP. Hawaii is headquarters for the U.S. Pacific Command and key to forward deployment of our armed forces. The military component of federal expenditures is expected to remain stable at least through 1995. Only one naval air station is targeted for closure. Public and private construction generate about 8% of GSP. Despite a boost from hurricane-related rebuilding, construction expenditures in Hawaii are expected to taper through 1994.

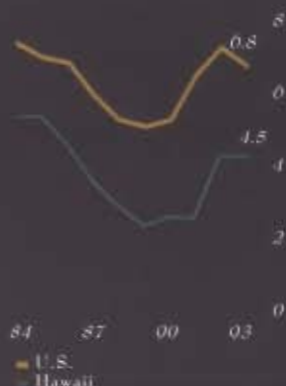
Economic resilience Hawaii's economy is resilient. State unemployment was less than 5% in 1993, compared with a national average of nearly 7%. The state's economy is expected to rebound when the U.S. and Japan recover. However, recovery is taking longer than expected. Hawaii's long-term prospects are healthy. The islands' natural beauty remains a top attraction.

Visitor Arrivals and Dollars Spent



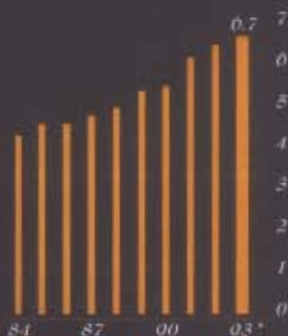
Sources: State of Hawaii, Hawaii Visitors Bureau, Bank of Hawaii

Unemployment Rates U.S. vs. Hawaii (%)



Source: State of Hawaii

Federal Government Spending in Hawaii (\$ bil)



Source: Bank of Hawaii

* Projection

Construction Spending (\$ bil)



Source: Bank of Hawaii

Real Economic Growth Trends Hawaii GSP vs. U.S. GDP



— U.S.
— Hawaii

Sources: State of Hawaii, U.S. Dept. of Commerce Blue Chip Economic Indicators

Visitor spending has plateaued, despite declining arrivals for three straight years.

Although the state economy is slowing, Hawaii enjoys essentially full employment.

The defense component of government spending is expected to remain stable through 1995, despite a planned base closure.

Hawaii public and private construction spending peaked in 1991 with the wave of foreign investment in resorts and commercial projects.

Hawaii economic trends generally lag the U.S. mainland by 12 to 18 months. When Hawaii growth resumes, it is expected to match the national average.

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"Our challenge in this competitive environment is to strengthen our business and increase our market share. We can do that only by meeting the needs of our customers — today and tomorrow."



Ihilani Resort and Spa changed the west Oahu skyline when it opened in 1993. HECO's Kaha Power Plant, which supplies about half of the island's electricity, peeks over a distant ridge.

Harwood D. Williamson,
President and Chief
Executive Officer,
Hawaiian Electric
Company, Inc.

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Change is sweeping across an increasingly competitive electric utility industry. Today's utilities are challenged to keep costs low, provide top-notch service and



retain and attract customers. HECO is responding to these challenges with initiatives to build its business.

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Change and challenge Change is sweeping across the electric utility industry.

At the heart of this change are two federal laws — the Public Utility Regulatory Policy Act of 1978 and National Energy Act of 1992 — that have opened the utility industry to competition in power generation and transmission. At the same time, consumers expect more of their utilities. Today's electric utilities face new challenges to keep costs low, provide top-notch service and retain and attract customers.

HECO's strategic response Hawaiian Electric Company and its subsidiaries (HECO) are responding to these challenges with initiatives to protect and build their business. HECO is changing with its industry, working to establish partnerships with customers. The utility companies are empowering employees to use technology, improve service and reliability and reduce operating costs.

Crucial construction Fulfilling HECO's commitment to serve means providing electric power whenever customers flip a switch. Although HECO's consolidated sales were down 0.1% in 1993 compared with 1992, demand for electricity is currently forecast to increase an average of 1.7% annually from 1994 through 1998. That projected growth requires continuous improvements to HECO's generation, transmission and distribution facilities. Improvements in 1993 included new generating units on Maui, additional work on a proposed power corridor to enhance system reliability on Oahu and many other transmission and distribution projects in HECO's five-island territory. Over the next five years, HECO net capital expenditures will total about \$900 million.

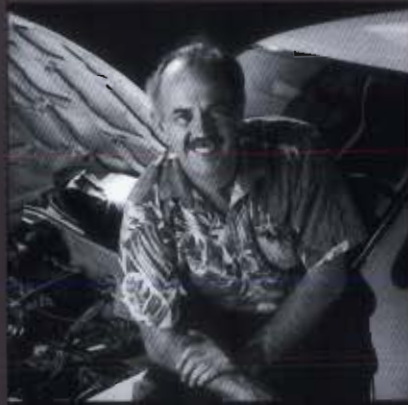
Customer partnerships A new relationship is emerging between HECO and its customers. In 1993, HECO distributed more than 55,000 copies of *Energy Tips*



*Norman Ahakuelo
Business Manager-International
Brotherhood of Electrical Workers,
Local 1200, Honolulu.*



*Toni Cofran
Property Manager-Beta West Inc.,
Honolulu.*



*Ralph W. Dobson
Senior Marketing Research Engineer-
HECO, Honolulu.*



"Union members are on the front line of the changes in the utility industry. Together with management, we can put those changes to work to serve customers and keep the company competitive. When the company prospers, the union prospers and members prosper."



"We worked with HECO to replace the lights in City Financial Tower with energy-efficient systems. The retrofit has reduced our energy use by nearly 26%. We expect to cut our electric bill by \$40,000 a year."



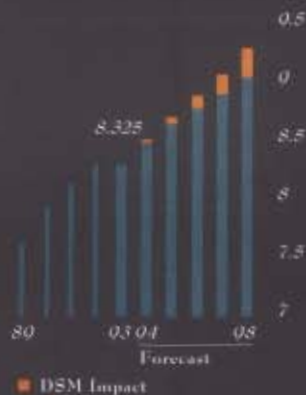
"With off-peak charging, HECO could support more than 100,000 electric vehicles, or 10% of all vehicles on Oahu — without building a new power plant."

Choices, a booklet that outlines many energy-saving suggestions. HECO launched a campaign to help customers understand the issue of electric and magnetic fields (EMF). HECO's acclaimed environmental education program, "In Concert with the Environment," completed its second year of teaching young people in Hawaii public schools the connection between energy use and the environment. Since 1992, HECO's Energy Services Department has run pilot financial-incentive programs in commercial and residential lighting to encourage customers to use energy-efficient equipment. With Hawaii Public Utilities Commission (PUC) approval, HECO will roll out full-scale programs in the near future to help customers control their electric bills by subsidizing installation of energy-efficient equipment. These new programs are expected to reduce growth in power demand throughout HECO's system by 48 megawatts in five years.

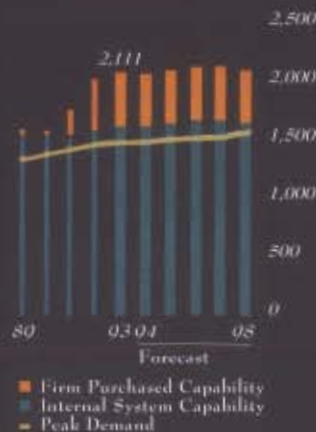
Working smarter HECO employees are determined to improve service and keep costs down. A new incentive program rewards HECO employees for developing money-saving ideas. Through yearend 1993, nearly 400 suggestions had been submitted to the "Awards for Creative Efforts" (ACE) Program. The savings benefit utility customers by reducing operating costs. HECO is examining new business ventures to boost off-peak electricity sales so power plants can be used even more efficiently. Among these ventures is the electric vehicle. HECO and project partners received a \$5 million federal grant in 1993 to demonstrate the feasibility of electric cars, trucks and buses. Hawaii is seen as ideal for these vehicles because driving distances are short.

HECO is different In the increasingly competitive utility industry, HECO has a number of distinct advantages. Because HECO's island systems are not intercon-

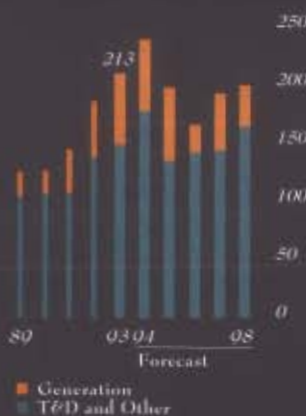
Electric Utility
KWH Sales (bil)



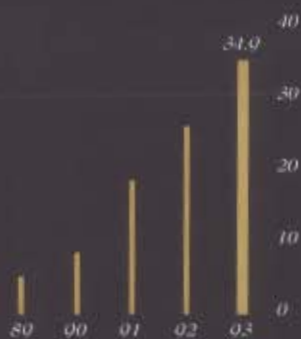
Electric Utility
Generating & Firm
Purchased Capability (MW)



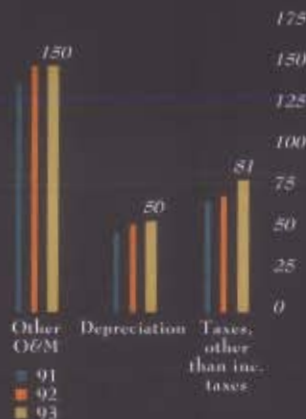
Gross Utility
Capital Expenditures
(\$ mil)



Purchased Power as a
% of Total Generation



Utility Major Expenses
(\$ mil)



After steady growth, 1993 sales were relatively flat. Average annual growth of 1.7% is currently forecast through 1998.

Slower forecast growth in peak demand is expected to reduce the need for new power plants, particularly on Oahu, Hawaii's population center.

Transmission and distribution projects comprise the majority of forecast capital expenditures.

More power was bought from independent producers to serve growing demand in HECC's five-island territory.

New employee - incentive programs are aimed at reducing operation and maintenance expenses.

nected, competing neighbor utilities do not have access to HECO's transmission network. This "wholesale wheeling" process threatens many mainland utilities.

Hawaii's isolation and trade winds have led to HECO's exemption from a number of costly federal regulations, including most provisions of the Federal Power Act and the acid-rain provisions of the Clean Air Act. The utility companies do not operate nuclear power plants. ✨ Ratepayers have benefited from HECO's access to low-cost capital through state-issued, tax-exempt special purpose revenue bonds. The utilities' consolidated embedded cost of long-term debt is slightly less than 7%, — that is 0.5% to 1% lower than most mainland utility companies. ✨ The Hawaii PUC has recognized the unique and changing environment in which HECO operates. Authorized returns compensate investors for HECO's geographic isolation, lack of interconnection, large five-year construction program and the financial effects of buying power from independent producers to augment company-owned generation.

Provider of choice Clearly, technology, energy efficiency and competition are reshaping HECO and its industry. HECO employees are responding with initiatives to improve service affordably and ensure that HECO remains the power provider of choice now and in the future.



Muriel Watanabe
Teacher-Language Arts, Grades 4-6,
Wahiawa Elementary School, Oahu;
Student Advisor in "ICE" Program.



John D. Williams
Superintendent-Maalea Power Plant,
Maui Electric Company, at control panel
of the new combined-cycle generators.



Mitsuo Shinsato
Computer Electronics Engineer-HECO,
whose suggestion should reduce circuit-
board repair time by 60%, saving nearly
\$50,000 over five years.



"The HECO 'In Concert with the Environment' (ICE) Program is helping us to increase environmental awareness in the home and the community. Currently, our students are working on a project to improve solid waste management on Oahu."

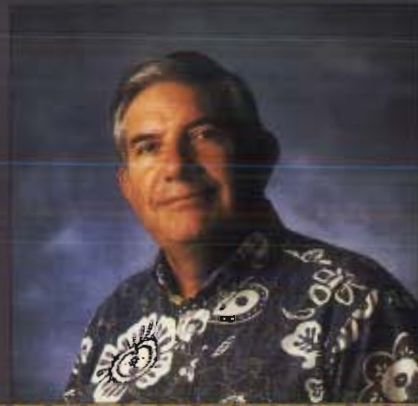


"Our new combustion turbines in combined cycle generate electricity about 13% more efficiently than the plant's most efficient diesel generators. They are the most efficient utility-owned generators in the state."



"Finding new ways to reduce expenses helps save our customers money."

d i v e r



"HEI's continuing

diversified
operations
have made
significant
contributions to
net income.

The challenge
for the future is
to continue to
contribute
during a time
of slower
economic
growth."

*Edward J. Blackburn,
Group Vice President -
Diversified Companies*



*Honolulu suburb Hawaii
Kai is an important
neighborhood market for
American Savings Bank,
HEI's largest nonutility
operation.*

c o m p

s i f i e d

Since 1984, net income from continuing diversified operations has increased 13-fold to \$23 million in 1993. The growth has been led by American Savings



Bank where assets, net income and deposit market share have doubled since its 1988 acquisition by HEI.

a n i e s

Continued contributions to net income Since 1984, when HEI began to invest in nonutility businesses, net income from continuing diversified operations has increased 13-fold to \$23 million in 1993. HEI's nonutility or diversified group is comprised of American Savings Bank; maritime freight transporters Hawaiian Tug & Barge Corp. and Young Brothers, Ltd.; residential real estate developer Malama Pacific Corp; and HEI Investment Corp.

The long-term goal for the nonutility businesses is to earn leveraged returns on equity of 15% to 18%. Currently, only American Savings Bank is performing at that level. The maritime freight transportation and real estate subsidiaries developed new strategic plans in 1993. When they are successfully implemented, the new plans will improve their results. In the near term, HEI's diversified operations are expected to use internal resources to grow during the utility companies' construction program. Over the long run, diversified operations are expected to remain significant contributors to HEI's net income.

American Savings: a source of strength American Savings Bank is the largest and most successful of HEI's nonutility businesses. The bank's success stems from a sharply focused retail strategy: Gather low-cost core deposits and make solid single-family mortgage loans. This strategy has resulted in remarkable growth, profitability and excellent asset quality. Since its 1988 acquisition, American's asset base, net income and deposit market share have doubled. Despite fast growth, American's lending standards remain high and asset quality is much better than the Federal Home Loan Bank 12th District average.

Sound growth The challenge for American is to remain focused on its retail strategy, grow at a reasonable pace without undue risk in an increasingly competitive



*Andrew and Masine Zarrillo
with daughter Brooke at their new
Waialeale home on Oahu.*



"We love our new home and the American Dream Loan made it all possible. We couldn't have done it without American Savings."



*Wayson Chong
Honolulu architect and American
Savings Bank-Manoa branch customer.*



"I used to worry that interest rates on my savings weren't keeping up with inflation. I moved my accounts to American Savings because of their higher interest rates and good service."



*Allen Ono
Director-Training and Development,
American Savings Bank, Honolulu.*

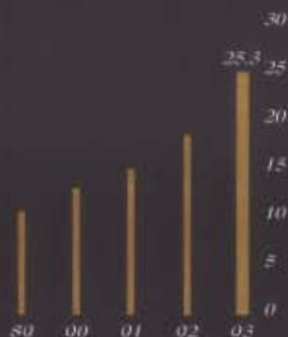


"Sales and service are crucial to American Savings' competitiveness. Through our training programs, we are creating a sales culture where our employees seek out new ways to serve American's customers."

market, and continue to provide superior customer service. ✨ The bank's growth and profitability have been driven, in part, by its reputation for paying attractive interest rates on checking and savings deposits. As other Hawaii institutions have lowered their rates, American has lagged the market in dropping rates. As a result, American's market share has increased, without sacrificing profitability. ✨ The bank's "American Dream Loan" Program is an important part of a strategy to develop new customers. Launched in 1993, the "American Dream Loan" Program offers mortgage loans with smaller down payments to qualified, first-time home buyers. The growing populations on Maui, Kauai and Hawaii also present new business potential for American. ✨ The bank staff is working hard to offer additional services to existing clientele. Increasing market penetration will hinge, in part, on instilling all American employees with a sales culture. New emphasis has been placed on comprehensive training programs in "cross-selling" the bank's range of financial products and services.

Superior service The bank is investing in automation and other technology to enhance service while lowering operating costs. More "Money Express" automated teller machines were installed at high-traffic branches in 1993. Installation of the computerized Loan Guide system on Oahu was completed in 1993 to streamline lending decisions and processing. The system will be installed in neighbor island branches during 1994. In addition, investments of more than \$1 million are planned during the year in other electronic systems to speed customer access to account information, reduce administrative time and expenses and continue to improve customer service. With its tightly focused strategy for retail banking, American Savings is positioned for continued success.

Net Income (\$ mil)

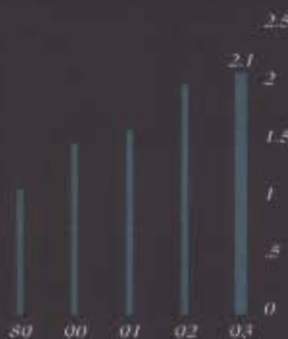


Assets (\$ bil)



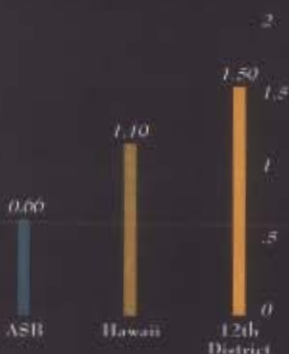
At December 31

Deposits (\$ bil)



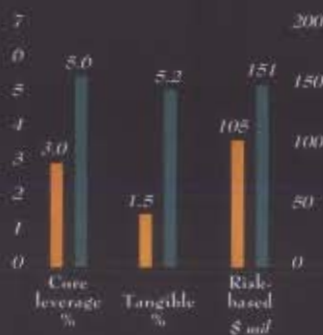
At December 31

Delinquent Loans/ Total Assets (%)



Source: Office of Thrift Supervision
as of September 30, 1993

Regulatory Capital



Required
ASB

At December 31, 1993

Interest Rate Spread (%)



American Savings Bank

American's net income has more than doubled in the past five years.

American is Hawaii's fourth largest financial institution and has recorded five years of steady asset growth.

About 76% of American's 1993 total deposits were core checking and savings deposits.

American's asset quality is much better than the average for institutions in the Federal Home Loan Bank 12th District.

American is considered a "well capitalized" institution, the highest of five capital categories.

A key measure of profitability, the difference between American's interest on earning assets and cost of funds has widened, despite changing interest-rate environments over the past five years.

Maritime freight transportation Hawaiian Tug & Barge Corp. and Young Brothers, Ltd. operate a fleet of 11 tugs and 11 barges. Consolidated assets totaled approximately \$54 million at yearend 1993. The subsidiaries recorded a loss for the year, largely due to the state's economic slowdown and a restructuring. Hawaiian Tug & Barge (HTB) downsized in 1993, exiting the heavy fuel-oil transportation business after the sale of a tug and two barges. HTB continues to provide harbor assist and contract towing services. Young Brothers (YB) is licensed and regulated by the Hawaii Public Utilities Commission to transport intrastate cargo. During the year, YB was authorized its first rate increase since 1982. The commission approved a general rate increase of about 5% based on a return on equity of 15.2% and an increase in the minimum bill of lading to \$18 from slightly less than \$11. In 1994, YB plans include continued improvements in customer service through equipment upgrades and increased automation.

Real estate development Malama Pacific Corp. is developing five residential projects involving nearly 500 homes and lots on the islands of Oahu, Maui and Hawaii. The subsidiary's yearend 1993 consolidated assets totaled \$50 million. Malama Pacific and its joint venture partners have sold 717 units since 1990. Sales declined to 91 units in 1993 from 309 in 1992 in the face of Hawaii's slowing economy. The subsidiary has adjusted its sales strategy to feature less-expensive homes. The state's shortage of affordable housing is not expected to ease in the foreseeable future. As the Hawaii economy improves, Malama Pacific may acquire and develop new moderately priced projects.

Hawaiian Electric Industries, Inc. and subsidiaries

Years ended December 31	1995	1992	1991	1990	1989
<i>(dollars in thousands, except per share amounts)</i>					
Revenues	\$ 1,142,170	\$ 1,031,383	\$ 993,242	\$ 928,702	\$ 810,828
Net income (loss)					
Continuing operations	\$ 61,684	\$ 61,715	\$ 55,620	\$ 42,895	\$ 58,130
Discontinued operations	(13,025)	(73,297)	(794)	707	5,945
	\$ 48,659	\$ (11,582)	\$ 54,826	\$ 43,602	\$ 64,075
Earnings (loss) per common share					
Continuing operations	\$ 2.38	\$ 2.54	\$ 2.43	\$ 1.99	\$ 2.77
Discontinued operations	(0.50)	(3.02)	(0.03)	0.03	0.29
	\$ 1.88	\$ (0.48)	\$ 2.40	\$ 2.02	\$ 3.06
Return on average common equity	8.2%	(2.1)%	10.0%	8.7%	13.5%
Total assets	\$ 4,521,592	\$ 4,142,768	\$ 3,716,872	\$ 3,502,023	\$ 2,968,382
Deposit liabilities of savings bank subsidiary	\$ 2,091,583	\$ 2,032,869	\$ 1,615,361	\$ 1,511,291	\$ 1,094,558
Advances from Federal Home Loan Bank					
to savings bank subsidiary	\$ 289,674	\$ 194,099	\$ 258,593	\$ 205,716	\$ 253,410
Long-term debt, net	\$ 697,836	\$ 582,475	\$ 525,641	\$ 463,362	\$ 430,385
Preferred stock of electric utility subsidiaries					
Subject to mandatory redemption	\$ 46,730	\$ 48,920	\$ 50,665	\$ 52,210	\$ 53,655
Not subject to mandatory redemption	\$ 48,293	\$ 36,293	\$ 36,293	\$ 36,293	\$ 36,293
Stockholders' equity	\$ 643,028	\$ 547,741	\$ 581,446	\$ 510,543	\$ 493,014
Book value per common share*	\$ 23.23	\$ 22.12	\$ 24.36	\$ 23.29	\$ 23.18
Market price range per common share					
High	\$ 38.88	\$ 44.63	\$ 37.88	\$ 40.00	\$ 40.25
Low	\$ 31.00	\$ 34.75	\$ 29.38	\$ 27.25	\$ 29.38
Yearend	\$ 35.88	\$ 37.25	\$ 36.75	\$ 31.63	\$ 40.25
Market price to book value					
per common share*	154%	168%	151%	136%	174%
Price earnings ratio**	15.1	14.7	15.1	15.9	14.5
Dividends per common share	\$ 2.29	\$ 2.25	\$ 2.21	\$ 2.17	\$ 2.07
Dividend payout ratio	121%	NM	92%	107%	68%
Dividend payout ratio-continuing operations	95%	88%	91%	109%	75%
Common shares outstanding (thousands)					
Weighted average	25,938	24,275	22,882	21,559	20,960
Geographic distribution of ownership*					
State of Hawaii***	6,969	6,663	6,399	6,100	5,610
Other	20,706	18,099	17,468	15,818	15,656
Total shares outstanding	27,675	24,762	23,867	21,918	21,266
Stockholders by geographic distribution*					
State of Hawaii***	22,092	21,305	20,441	18,053	17,350
Other	18,374	16,891	15,598	13,883	13,946
Total stockholders	40,466	38,196	36,039	31,936	31,296

NM Not meaningful.

* At December 31.

** Calculated using yearend market price per common share divided by earnings per common share from continuing operations.

*** Does not include depository and brokerage accounts, which may contain additional shares beneficially owned by Hawaii stockholders.

See Note 2, "Discontinued operations" in the "Notes to Consolidated Financial Statements" for a discussion of the Company's former property and casualty insurance business and wind energy business.

Hawaiian Electric Industries, Inc. and subsidiaries

		1003	1002	1001
<i>Years ended December 31</i>				
<i>(in thousands)</i>				
<i>Revenues</i>	Electric utility	\$ 879,110	\$ 778,690	\$ 740,632
	Savings bank	199,734	202,995	198,776
	Other	63,326	49,698	53,834
		<u>\$1,142,170</u>	<u>\$ 1,031,383</u>	<u>\$ 993,242</u>
<i>Operating income (loss)</i>	Electric utility	\$ 119,565	\$ 103,841	\$ 100,256
	Savings bank	44,117	31,327	25,215
	Other	(6,044)	1,051	7,585
		<u>\$ 157,638</u>	<u>\$ 136,219</u>	<u>\$ 133,056</u>
<i>Depreciation and amortization of property, plant and equipment</i>	Electric utility	\$ 55,960	\$ 53,856	\$ 49,005
	Savings bank	3,167	2,852	2,466
	Other	5,187	5,220	4,805
		<u>\$ 64,314</u>	<u>\$ 61,928</u>	<u>\$ 56,276</u>
<i>Capital expenditures</i>	Electric utility	\$ 212,916	\$ 188,323	\$ 145,898
	Savings bank	3,920	4,828	5,099
	Other	3,822	4,283	10,463
		<u>\$ 220,658</u>	<u>\$ 197,434</u>	<u>\$ 161,460</u>
<i>Identifiable assets (at December 31)</i>	Electric utility	\$1,703,276	\$ 1,501,330	\$1,318,023
	Savings bank	2,618,485	2,461,694	2,175,789
	Other	199,831	179,072	170,968
		<u>4,521,592</u>	<u>4,142,096</u>	<u>3,664,780</u>
	Net assets of discontinued operations	—	672	52,092
		<u>\$4,521,592</u>	<u>\$ 4,142,768</u>	<u>\$3,716,872</u>

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

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

RESULTS OF OPERATIONS

Hawaiian Electric Industries, Inc. (HEI) and its subsidiaries (collectively, the Company) reported net income of \$1.88 per share in 1993, due to the results of the major operating segments—the electric utility and the savings bank, partly offset by losses in the “Other” segment. Also included in the 1993 results is a loss from the discontinued insurance business of \$0.58 per share, partly offset by a gain from the discontinued wind energy operations of \$0.08 per share. In early 1994, HEI, the Insurance Commissioner of the State of Hawaii, the Hawaii Insurance Guaranty Association (HIGA) and others signed an agreement, which is subject to court approval, to settle the lawsuit filed by the Insurance Commissioner and HIGA against HEI, HEI Diversified, Inc. (HEIDI) and certain officers and directors, resulting in a charge, net of income tax benefit, to discontinued operations of \$15 million for 1993. Earnings per share from continuing operations for 1993 were down 6% to \$2.38 per share compared to \$2.54 per share in 1992 due primarily to an increase in the weighted average number of common shares outstanding.

Many factors affected HEI's 1993 consolidated results, including Hawaii's economic environment. Hawaii's economic growth rate has fallen below the U.S. economic growth rate in the past 3 years. Worldwide competition, restructuring in the airline industry and economic sluggishness, particularly in California and Japan, are affecting tourism, the state's largest industry. As growth in Hawaii has moderated and conservation efforts have increased, Hawaiian Electric Company, Inc. (HECO) and its subsidiaries currently estimate that the kilowatthour sales average annual growth rate will be approximately 1.7% for the five-year period 1994 through 1998. The electric utilities have proposed demand-side management programs which will encourage conservation and have asked the PUC for continued recovery of their fixed costs and the costs of implementing the demand-side management programs and for shareholder incentives.

As the credit rating agencies have noted—regulatory, economic and technological changes are exposing the electric utility industry to increased competition. The electric utilities' response to these competitive challenges and their ability to obtain timely and adequate rate relief will be key in 1994 and beyond. It is also uncertain whether two of the state's major industries—tourism and construction—will recover in 1994. Economic forecasts for growth in Hawaii real gross state product in 1994 range from negative 2% to no growth.

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

Consolidated

	1993	% change	1992	% change	1991	% change
<i>(in millions, except per share amounts)</i>						
Revenues	\$ 1,142	11	\$ 1,031	4	\$ 993	7
Operating income	158	16	136	2	133	14
Net income (loss)						
Continuing operations	\$ 61.7	—	\$ 61.7	11	\$ 55.6	30
Discontinued operations	(13.0)	82	(73.3)	NM	(0.8)	NM
	\$ 48.7	NM	\$ (11.6)	NM	\$ 54.8	26
Earnings (loss) per common share						
Continuing operations	\$ 2.38	(6)	\$ 2.54	5	\$ 2.43	22
Discontinued operations	(0.50)	83	(3.02)	NM	(0.03)	NM
	\$ 1.88	NM	\$ (0.48)	NM	\$ 2.40	19
Weighted average number of common shares outstanding	25.9	7	24.3	6	22.9	6
Effective tax rate for continuing operations	43.3%		32.4%		36.8%	

NM Not meaningful.

◆

* 1993 results include \$15.0 million in net losses, or \$0.58 per share, from the discontinued operations of The Hawaiian Insurance & Guaranty Co., Limited and its subsidiaries (the HIG Group), the Company's property and casualty insurance business currently in rehabilitation proceedings, and \$2.0 million in gains, or \$0.08 per share, from the discontinued operations of Hawaiian Electric Renewable Systems, Inc. (HERS), the Company's former wind energy business. Pursuant to a settlement agreement signed in early 1994, upon final court approval, HEI will pay \$32.0 million to the Insurance Commissioner as Rehabilitator/Liquidator of the HIG Group in return for a dismissal of the lawsuit and a release of claims against HEI, its affiliates and their past and present officers and directors. The \$32.0 million settlement amount, less income tax benefits and certain amounts in previously established reserves, resulted in a \$15.0 million after-tax charge to discontinued operations in 1993. HEI will fund the settlement out of available cash and/or borrowings. HEI is seeking reimbursement from certain of its insurance carriers. HEI's claims against its insurance carriers will require resolution of several insurance coverage and other policy issues and the outcome of such claims cannot be predicted at this time. One of HEI's insurance carriers has filed a declaratory relief action in the U.S. District Court for the District of Hawaii seeking resolution of these issues. Recoveries from HEI's insurance carriers, if any, will be recognized when realized.

1993 income from continuing operations was flat when compared to 1992 and included increases in net income from the savings bank and the electric utility companies, offset by a decrease in net income from the freight transportation subsidiaries and an increase in net loss from HEI corporate. In 1993, the savings bank's interest rate spread increased 54 basis points compared to 1992. Also in 1993, the freight transportation companies incurred losses on the sale of their heavy fuel oil shipping assets and have been negatively impacted by the slowing in Hawaii's construction activity and the economy in general. As of January 1, 1993, HEI refined its method of identifying costs chargeable to its subsidiaries, resulting in the retention of a greater amount of expense at the HEI level.

"Interest expense—electric utility and other" increased 13% due to increased borrowings at the electric utilities and at the corporate level, partially offset by lower interest rates. Also in 1993, the effective tax rate applicable to continuing operations increased significantly as explained below.

* 1992 results include \$73.3 million, or \$3.02 per share, in losses from the discontinued operations of the HIG Group and HERS. 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 the islands of 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.

* The effective tax rate applicable to continuing operations was higher in 1993 than 1992 and 1991 primarily due to the 1% federal income tax rate increase retroactive to January 1, 1993, the recapture of tax benefits due to the sale of a barge acquired with cash from the Maritime Administration Capital Construction Fund (CCF) and the effects of the adoption of Statement of Financial Accounting Standards (SFAS) No. 109. SFAS No. 109 does not allow net-of-tax accounting for the "Allowance for Funds Used During Construction" (AFUDC). This results in higher income taxes due to the "gross-up" of AFUDC for income taxes, but does not impact net income. SFAS No. 109 also changes the accounting for financial reporting purposes of Hawaiian Tug & Barge Corp.'s (HTB) contributions to the CCF. Income tax expense was higher in 1993 because CCF contributions are now treated as temporary (rather than permanent) differences between book and tax income. The effective tax rate was relatively low in 1992 due primarily to the utilization of capital loss carryforwards.

* Dividends per common share increased in 1993 to \$2.29, from \$2.25 in 1992 and \$2.21 in 1991. Dividends have been higher each year for the past 30 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 28 and in the "Notes to Consolidated Financial Statements."

Electric utility

	1993	% change	1992	% change	1991	% change
<i>(in millions, except per barrel amounts and number of employees)</i>						
Revenues ¹	\$ 879	13	\$ 779	5	\$ 741	5
Expenses						
Fuel oil	213	(5)	226	(18)	276	(17)
Purchased power	259	50	173	62	107	131
Other ²	287	4	276	7	258	12
Operating income	120	15	104	4	100	—
Allowance for funds used during construction	10.8	22	8.9	67	5.3	(10)
Net income	51.7	5	49.2	18	41.6	(5)
Average price per barrel of fuel oil ¹	21.09	7	19.69	(14)	22.79	(8)
Kilowatt-hour sales	8,325	—	8,332	3	8,090 ³	2
Number of employees	2,226	5	2,118	5	2,015	3

1 The rate schedules of the electric utilities include energy cost 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.

2 HEI charges to the electric utilities for general management, administrative and support services totaled \$2.3 million, \$5.0 million and \$5.1 million in 1993, 1992 and 1991, respectively. As of January 1, 1993, HEI refined its method of identifying costs chargeable to its subsidiaries.

In 1993, the electric utilities established a regulatory asset for vacation earned by employees, but not yet taken. The recognition of the regulatory asset reduced 1993 expenses on a one-time basis by \$4.0 million.

3 Excludes the effect of the change in the method of estimating unbilled kilowatt-hour sales and revenues.

■ In 1993, the electric utilities' revenues increased 13% compared to 1992 revenues due in part to rate relief received in late 1992, primarily to recover purchased power expenses. Kilowatt-hour sales of electricity for the year were down 0.1% compared to 1992 primarily because of cooler weather, a downturn in the state economy and conservation. Lower fuel oil expense was the result of fewer kilowatt-hours generated, as purchased power increased, partly offset by higher fuel oil prices. Higher purchased power expense was due to the full-year effect of power purchased from a major independent power producer, AES Barbers Point, Inc., which had commenced commercial operations in September 1992. The 4% increase in other expenses was partly due to a 4% increase in depreciation as a result of plant additions and a 13% increase in taxes, other than income taxes. Operating income for 1993 increased 15% compared to 1992 due in part to rate relief, lower management service fees from HEI and the one-time effect of the establishment of a regulatory asset for vacation earned by employees, but not yet taken. For rate-making purposes, vacation pay is being recovered in rates as the vacation time is taken. As of December 31, 1993, the regulatory asset for vacation earned, but not yet taken, amounted to \$5.5 million. The recognition of the regulatory asset increased operating income by \$4.0 million and net income by \$2.4 million for the year ended December 31, 1993. Consolidated HECO's return on average common equity for 1993 was 9.7%, compared to 10.5% for 1992 and 10.3% for 1991.

■ 1992 revenues increased over 1991 revenues due to higher kilowatt-hour sales of electricity and rate relief granted by the Hawaii Public Utilities Commission (PUC), including rate relief for power purchased 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 were passed through to customers. While sales of electricity in HECO and its subsidiaries' service territory increased faster than the national industry average, consolidated HECO kilowatt-hour sales growth was only 3%. Higher 1992 operating income was primarily due to rate relief and increased kilowatt-hour sales at consolidated HECO, offset in part by higher expenses. Net income increased 18% as a result of the higher operating income and higher AFUDC due to higher construction 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 kilowatt-hour sales of electricity and the one-time effect of approximately \$7 million of a change in the method of estimating unbilled kilowatt-hour sales and revenues. The increase in revenues was tempered by lower fuel oil prices, the cost savings of which were passed through to

customers. The relatively low kilowatt-hour sales growth reflected the departure of troops 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 in 1990 because the effect of the increase in 1991 kilowatt-hour sales was offset by higher other operation and maintenance expenses and by higher depreciation expense as a result of plant additions.

Regulation of electric utility rates The PUC has broad discretion in its regulation of 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 any delay in rendering a decision in a rate proceeding could have a material adverse effect on the Company's financial condition and results of operations. Upon a 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 complete application if the evidentiary hearing is completed (subject to extension for 30 days if the evidentiary hearing is not completed), but there is no limitation on the time within which it must render a final decision.

Pending rate requests In July 1993, HECO applied to the PUC for permission to increase electric rates, based on a 1994 test year and a 12.6% return on average common equity. In December 1993, HECO applied to the PUC for permission to increase electric rates, based on a 1995 test year and a 12.3% return on average common equity. Both requests combined represent a 16.7% increase over present rates, or approximately \$106 million in annual revenues. The requested increases are needed to cover rising operating costs, to cover the cost of new capital projects to maintain and improve service reliability, to cover additional expenses associated with proposed changes in depreciation rates and methods and to establish a self-insured property damage reserve for transmission and distribution property in the event of catastrophic disasters.

In November 1993, Hawaii Electric Light Company, Inc. (HELCO) applied to the PUC for permission to increase electric rates to provide approximately \$15.8 million in annual revenues, or a 13.4% increase over present rates. The requested increase is based on a 1994 test year and a 12.4% return on average common equity. The increase is needed to cover plant, equipment and operating costs necessary to maintain and improve service and provide reliable power for its customers.

In November 1991, Maui Electric Company, Limited (MECO) filed a request to increase rates by approximately \$18.3 million annually, or approximately 17% above the rates in effect at the time of the filing. Evidentiary hearings were held in January 1993 and, at the conclusion of the hearings, MECO's final requested increase was adjusted to approximately \$11.4 million annually, or approximately 10% above the rates then in effect, 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 return on average common equity of 13.0%. In 1993, MECO received four interim decisions which authorized step increases totaling \$8.2 million in annual revenues, or 7.2%, based on a 12.75% rate of return on average common equity. The interim increases are subject to refund with interest, pending the final outcome of the case.

Management cannot predict with certainty when decisions in the rate cases will be rendered or the amount of any interim or final rate increase that will be granted.

HECO purchased power billing disputes HECO is disputing certain amounts billed each month under its purchased power agreements with Kalaheo Partners, L.P. and AES Barbers Point, Inc. and has withheld payment of some of the disputed amounts pending resolution. See "Power purchase agreements" under Note 4 in the "Notes to Consolidated Financial Statements" for a further discussion of this matter.

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 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.

Waiau-CIP transmission lines In 1993, the PUC held hearings concerning Part 2 of the proposed Waiau-CIP 138-kilovolt transmission lines. These lines will be a part of a second transmission corridor in west Oahu, running approximately 15 miles between Campbell Industrial Park (CIP) and HECO's Waiau power plant. The new lines are needed (1) to increase system reliability by locating the new lines in a separate corridor from the existing lines, (2) to provide additional transmission capacity to meet expected load growth and (3) to provide transmission capacity for existing and new power generation projects planned for west Oahu. HECO is experiencing community opposition over the proposed placement of portions of these lines based in part on the potential effects of the lines on aesthetics and the concern of some that the electric and magnetic fields (EMF) from the power lines

may have adverse health effects. HECO witnesses addressed EMF, the route selection process, which involved extensive public input, as well as engineering and related subjects. One proposal by those who oppose the route of the overhead lines is to place Part 2 of the Waiiau-CIP lines underground. HECO estimates that this proposal would cost approximately \$100 million more than the cost of overhead lines.

Management cannot predict with certainty the final outcome of the hearings or the impact the final outcome, including resulting delays, if any, may have on the cost of the lines or on system reliability.

Undergrounding of utility lines There is a proposal before the Honolulu City Council and some public support for the mandatory undergrounding of utility lines "whenever possible," except in some remote areas. HECO opposes the proposal, in its current form, because the resulting costs could be too much of a burden for customers. Both the City Planning Department and the City Planning Commission oppose the bill. Management believes the cost of undergrounding utility lines would be recoverable in rates. However, management cannot predict with certainty the ultimate outcome of such proposals or the impact of such proposals on HECO or the Company.

Savings bank

	1993	% change	1992	% change	1991	% change
<i>(in millions)</i>						
Revenues	\$ 200	(2)	\$ 203	2	\$ 199	10
Net interest income	96	23	78	21	64	22
Operating income ¹	44	41	31	24	25	14
Net income ¹	25	36	19	24	15	16
Interest-earning assets						
Average balance	\$ 2,356	7	\$ 2,207	15	\$ 1,917	15
Weighted average yield	8.01%	(8)	8.73%	(11)	9.84%	(4)
Interest-bearing liabilities						
Average balance	\$ 2,306	6	\$ 2,171	14	\$ 1,898	15
Weighted average rate	4.02%	(24)	5.28%	(20)	6.58%	(9)
Interest rate spread	3.99%	16	3.45%	6	3.26%	9
One-year "gap"	3.2%		2.3%		(10.1)%	

1. Reflects allocation of corporate-level expenses for segment reporting purposes. For segment reporting purposes, HEI expenses allocated to the savings bank segment for general management, administrative and support services totaled \$0.8 million, \$2.0 million and \$1.7 million for 1993, 1992 and 1991, respectively. As of January 1, 1993, HEI refined its method of identifying costs chargeable to its subsidiaries.

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.

■ 1993 net interest income increased 23% over 1992 due to the significantly lower cost of funds and a higher average balance of loans. In 1993 and 1992, the spread between short-term and long-term interest rates was wider than in 1991. In 1993, the weighted average rate on interest-bearing liabilities decreased 126 basis points, while the weighted average yield on interest-earning assets declined only 72 basis points, causing the interest rate spread to increase 54 basis points. The increase in net interest income was partially offset by higher administrative and general expenses, including \$0.8 million of higher federal insurance premiums for deposits.

■ 1992 net interest income increased 21% due largely to a higher average balance of interest-earning assets, a low interest rate environment and an increase in the interest rate spread resulting from an inflow of low-cost deposits. The \$290 million increase in the average balance of interest-earning assets was funded primarily with low-cost deposits. The weighted average rate on interest-bearing liabilities decreased 130 basis points, while the weighted average yield on interest-earning assets declined only 111 basis points, causing the interest rate spread to increase 19 basis points.

■ 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.

■ "Gap" is the difference between the amount 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.

As rates in 1993 have remained at low levels, the gap in the near term (0-6 months) was a negative 4.1% of total assets as compared to a cumulative one-year positive gap position of 3.2% of total assets as of December 31, 1993. The negative near-term gap position reflects customers moving more interest sensitive funds into liquid passbook deposits. The cumulative one-year 1993 "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 noninterest rate sensitive 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.

■ At December 31, 1993, ASB's private-issue mortgage-backed securities represented whole or participating interests in pools of first mortgage loans collateralized by real estate in the continental United States, and approximately 81% of the portfolio was collateralized by real estate in California. ASB's management has concluded, based on internal reviews of its private-issue mortgage-backed securities, that any impairment in the value of its mortgage-backed securities portfolio resulting from the consequences of the earthquake that occurred on January 17, 1994 near Los Angeles, California is not likely to have a material effect on the Company's financial condition or results of operations. Substantially all private-issue mortgage-backed securities at December 31, 1993, were rated investment grade by various securities rating agencies.

Other

	1993	% change	1992	% change	1991	% change
(in millions)						
Revenues	\$ 63.3	27	\$ 49.7	(8)	\$ 53.8	3
Operating income (loss)	(6.0)	NM	1.1	(86)	7.6	NM

NM Not meaningful

The "Other" business segment includes results of operations from HTB and its subsidiary, Young Brothers, Limited (YB), which are maritime freight transportation companies; HEI Investment Corp. (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 and HEIDI, parent companies; and eliminations of intercompany transactions.

■ The freight transportation subsidiaries recorded an operating loss of \$0.1 million in 1993, compared with operating income of \$3.4 million in 1992 and \$5.0 million in 1991. Despite YB's rate increases in 1993, HTB's consolidated operating results were down significantly due in part to lower charter revenues at HTB, the termination of an oil hauling contract in mid-1992 and losses on the sale of a tug and two oil barges when HTB exited the business of shipping of heavy fuel oil. HTB and YB have been negatively impacted by the slowing in Hawaii's construction activity and the slow economy. The decrease in operating income in 1992 was due in part to higher maintenance costs due to the drydocking of more barges and higher depreciation expense. Operating income increased \$0.4 million in 1991 compared to 1990 primarily due to the gain on the sale of an oil barge and lower maintenance expenses, offset in part by higher depreciation expense.

■ In 1993, HEIIC refinanced the nonrecourse debt supporting a leveraged lease, resulting in additional income, which was largely offset by the cumulative effect of the 1% federal income tax rate increase. As of December 31, 1993, HEIIC primarily held investments in leveraged leases. No new investments are currently planned.

■ MPC's operating loss was \$0.6 million in 1993, compared with an operating loss of \$1.3 million in 1992 and operating income of \$0.9 million in 1991. In 1993, MPC's real estate development activities were impacted by the slow economy. MPC sold fewer units in 1993 than 1992. However, large writedowns were taken for the carrying value of certain joint venture real estate projects in 1992. See Notes 6 and 16 in the "Notes to Consolidated Financial Statements" for a further discussion on MPC and its subsidiaries.

■ The HEI and HEIDI corporate operating loss increased \$4.6 million in 1993 compared to 1992

primarily due to a refinement in the method of identifying costs chargeable to subsidiaries, resulting in lower allocations to subsidiaries and more expenses retained at corporate. See Note 3 in the "Notes to Consolidated Financial Statements" for more information on the corporate allocation methodology refinement.

Discontinued operations

	1993	1992	1991
<i>(in millions, except per share amounts)</i>			
Net income (loss)			
Insurance business	\$ (15.0)	\$ (59.7)	\$ 1.7
Nonutility wind energy business	2.0	(13.6)	(2.5)
	\$ (13.0)	\$ (73.3)	\$ (0.8)
Earnings (loss) per common share			
Insurance business	\$ (0.58)	\$ (2.46)	\$ 0.08
Nonutility wind energy business	0.08	(0.56)	(0.11)
	\$ (0.50)	\$ (3.02)	\$ (0.03)

See Note 2 in the "Notes to Consolidated Financial Statements" for information on the discontinued operations of the HIG Group and HERS.

Environmental matters

HEI and its subsidiaries are subject to numerous laws and regulations which are designed to protect the environment, and include air and water quality controls, hazardous waste and toxic substance controls and the Federal Oil Pollution Act of 1990. HEI's electric utility subsidiaries are exempt from certain environmental requirements applicable on the U.S. mainland. For example, the electric utility subsidiaries are exempt from the acid rain provisions of the 1990 Clean Air Act Amendments. However, HEI and its subsidiaries are subject to environmental laws and regulations which could 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 the recovery through rates of most, if not all, of any costs incurred by HECO and its subsidiaries in complying with these environmental requirements would be allowed by the PUC. However, as with other costs reviewed by the PUC in the rate-making process, costs incurred by HECO and its subsidiaries in complying with these environmental requirements may not be fully allowed or recovered. Based on information available to the Company to date, management is not aware of any contingent liabilities relating to environmental matters that would have a material adverse effect on the Company's financial condition or results of operations.

Effects of inflation

Inflation, as measured by the Consumer Price Index, averaged 2.7% in 1993, 3.0% in 1992 and 4.2% in 1991. Although the rate of inflation over the past three years has been relatively low compared with the late 1970's and early 1980's, 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 1993, the electric utility companies received rate relief, in part to cover increases due to inflation in operating expenses and construction costs.

Accounting changes

Postretirement benefits other than pensions Effective January 1, 1993, the Company adopted the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The resulting change in the method of accounting for postretirement benefits other than pensions did not have a material effect on the Company's financial condition or results of operations primarily due to the regulated nature of the electric utility subsidiaries and YB. The PUC opened a generic docket to determine whether SFAS No. 106 should be adopted for rate-making purposes, but has not yet issued its final decision and order. See Note 18 in the "Notes to Consolidated Financial Statements" for more information.

Income taxes Effective January 1, 1993, the Company adopted the provisions of SFAS No. 109, "Accounting for Income Taxes." The resulting change in the method of accounting for income taxes did not have a material effect on the Company's financial condition or results of operations primarily due to the regulated nature of the electric utility subsidiaries and YB. See Note 15 in the "Notes to Consolidated Financial Statements" for more information.

Postemployment benefits Effective January 1, 1994, the Company adopted the provisions of

SFAS No. 112, "Employers' Accounting for Postemployment Benefits." This statement requires employers to recognize the obligation to provide postemployment benefits in accordance with SFAS No. 43, "Accounting for Compensated Absences," if the obligation is attributable to employees' services already rendered, employees' rights to those benefits accumulate or vest, payment of the benefits is probable, and the amount of the benefits can be reasonably estimated. The resulting change in the method of accounting for postemployment benefits did not have a material effect on the Company's financial condition and, in the opinion of management, will not have a material effect on the Company's 1994 results of operations. See Note 1 in the "Notes to Consolidated Financial Statements" for more information.

Certain investments in debt and equity securities Effective January 1, 1994, the Company adopted the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement requires that investments in equity securities that have readily determinable fair values and investments in debt securities be classified in three categories: held-to-maturity securities, trading securities and available-for-sale securities. Each category has specific accounting requirements. The resulting change in the method of accounting for investments in debt and equity securities did not have a material effect on the Company's financial condition and, in the opinion of management, will not have a material effect on the Company's 1994 results of operations. See Note 1 in the "Notes to Consolidated Financial Statements" for more information.

Loan impairments In May 1993, the Financial Accounting Standards Board (FASB) issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." This standard requires that certain impaired loans be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The provisions of SFAS No. 114 must be adopted by ASB no later than January 1, 1995. If SFAS No. 114 were adopted on December 31, 1993, it would not have had a material effect on the Company's financial condition or results of operations. See Note 1 in the "Notes to Consolidated Financial Statements" for more information.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated

The Company believes that its ability to generate cash, both internally from operations and externally from debt and equity issues, is adequate to maintain sufficient liquidity to fund its construction programs and to cover debt and other cash requirements in the foreseeable future.

The Company's total assets were \$4.5 billion and \$4.1 billion at December 31, 1993 and 1992, respectively. Asset growth in 1993 stemmed from growth in ASB's loan portfolio, increased capital expenditures by the electric utility companies and the recognition of regulatory assets.

The consolidated capital structure of HEI was as follows:

December 31	1993		1992	
(in millions)				
Short-term borrowings	\$ 40	3%	\$ 160	12%
Long-term debt, net	698	47	583	42
Preferred stock of electric utility subsidiaries	95	6	85	6
Common stock equity	643	44	548	40
	\$ 1,476	100%	\$ 1,376	100%

ASB's deposit liabilities, securities sold under agreements to repurchase and advances from the Federal Home Loan Bank are not included in the table above.

HEI plans to maintain its debt and equity structure within range of the levels at December 31, 1993 and 1992 through the 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, 1993, short-term borrowings were \$120 million lower than at December 31, 1992. In 1993, short-term borrowings were replaced with long-term debt, preferred stock equity of the electric utility subsidiaries and common stock equity. HEI raised approximately \$105 million, after expenses, from the sale of 2.9 million shares of common stock through a public offering completed in August 1993 and through the Dividend Reinvestment and Stock Purchase Plan and other plans.

Pursuant to the settlement agreement signed in early 1994, upon final court approval, HEI will pay \$32 million to the Insurance Commissioner as Rehabilitator/Liquidator of the HIG Group in return for a dismissal of the lawsuit and a release of claims against HEI, its affiliates and their past and present officers and directors. HEI will fund the settlement out of available cash and/or borrowings.

In October 1993, Standard & Poor's Corporation (S&P) completed its review of the U.S. investor-owned electric utility industry and concluded that more stringent financial risk standards are appropriate to counter mounting business risk. "S&P believes the industry's credit profile is threatened chiefly by intensifying competitive pressures," the agency said in a statement. It also cited sluggish demand expectations, slow earnings growth prospects, high dividend payouts and environmental cost pressures. Under the new guidelines, S&P rated HECO's business position as average.

As of February 11, 1994, HEI and HECO's 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
HEI			
Medium-term notes	BBB	Baa2	BBB+
Commercial paper	A-2	P-2	Duff 1-
Outlook	Negative	N/A	N/A
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-
Outlook	Negative	N/A	N/A

N/A Not applicable.

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, 1993, \$213 million of a \$250 million registered medium-term note program was available to HEI. HEI and HECO also maintained bank lines of credit which totaled \$50 million and \$108 million, respectively, at yearend 1993. As of January 1, 1994, HECO maintained bank lines of credit which totaled \$85 million. There were no borrowings under any line of credit during 1993 and 1992.

Operating activities provided net cash of \$139 million in 1993, \$98 million in 1992 and \$142 million in 1991.

Investing activities such as capital expenditures and the origination and purchases of loans accounted for a significant portion of the net cash used of \$352 million in 1993, \$392 million in 1992 and \$318 million in 1991.

Financing activities provided net cash of \$172 million in 1993, \$395 million in 1992 and \$130 million in 1991. In 1993 significant amounts of cash came from advances from the Federal Home Loan Bank and from the issuances of 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 nor its ability to meet other cash obligations. (See Note 19 in the "Notes to Consolidated Financial Statements.")

Total HEI consolidated financing requirements for the years 1994 through 1998, including net capital expenditures, debt retirements and sinking fund requirements, are currently estimated to total \$1.4 billion. Of this amount, approximately \$0.9 billion are for net capital expenditures (mostly relating to the electric utility companies' net capital expenditures described below). HEI consolidated internal sources, after the payment of HEI dividends, are expected to provide approximately 42% of the consolidated financing requirements, with debt and equity financing providing the remaining requirements. Over the five-year period 1994 through 1998, HEI estimates that it will require approximately \$225 million in common equity, other than retained earnings, which is expected to be provided principally by HEI's Dividend Reinvestment and Stock Purchase Plan and the Hawaiian Electric Industries Retirement Savings Plan.

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

Electric utility

HECO's consolidated capital structure was as follows:

December 31	1993		1992	
(in millions)				
Short-term borrowings from nonaffiliates and affiliate	\$ 41	3%	\$ 122	11%
Long-term debt, net	485	41	375	35
Preferred stock				
Subject to mandatory redemption	47	4	49	5
Not subject to mandatory redemption	48	4	36	3
Common stock equity	570	48	500	46
	\$ 1,191	100%	\$ 1,082	100%

In 1993, the electric utility companies used \$206 million in cash for capital expenditures, \$81 million for repayments of short-term borrowings and \$30 million for preferred and common stock dividends. Operations provided \$98 million in cash and \$20 million of cash came from third-party contributions in aid of construction. Financing activities provided \$110 million, net of long-term debt repayments, from the issuance of unsecured notes and the drawdown of proceeds from tax-exempt special purpose revenue bonds. Also, HEI provided \$45 million of cash through its purchase of HECO common stock.

The electric utility's consolidated financing requirements for the years 1994 through 1998, including net capital expenditures, debt retirements and sinking fund payment requirements, are estimated to total \$1.0 billion. HECO's consolidated internal sources, after the payment of common stock and preferred stock dividends, are currently expected to provide approximately 50% of the total \$1.0 billion requirements, with debt and equity financing providing the remaining requirements. HECO currently estimates that it will require approximately \$100 million in common equity, other than retained earnings, over the five-year period 1994 through 1998. The PUC must approve issuances of long-term debt and equity for HECO, HELCO and MECO.

Capital expenditures include projects which are required to meet expected load growth and improve reliability, and projects to replace and upgrade existing equipment. Net capital expenditures for the five-year period 1994 through 1998 are currently estimated to total \$0.9 billion. Approximately 70% of gross capital expenditures, including AFUDC and capital expenditures funded by third party cash contributions in aid of construction, is for transmission and distribution projects, with the remaining 30% primarily for generation projects. At December 31, 1993, purchase commitments other than fuel and power purchase contracts were approximately \$61 million, including amounts for construction projects. (Also see Note 4 in the "Notes to Consolidated Financial Statements" for a discussion of power purchase commitments.)

For 1994, electric utility net capital expenditures are estimated to be \$205 million and gross capital expenditures are estimated to be \$240 million, of which approximately 65% is for transmission and distribution projects. An estimated \$55 million is planned for new generation projects. Drawdowns of proceeds from the sale of tax-exempt special purpose revenue bonds, sales of common stock to HEI and the generation of funds from internal sources are expected to provide the cash needed for the net capital expenditures.

Capital expenditure estimates and the timing of construction projects are reviewed periodically by management and may change significantly as a result of many considerations, including changes in economic conditions, changes in forecasts of kilowatt-hour 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.

In 1993, HECO and its subsidiaries raised \$70 million from the issuance of unsecured notes, with maturities varying from two to five years, and \$12 million from the sale of preferred stock, which is not subject to mandatory redemption. Also in 1993, the State of Hawaii issued a total of \$100 million in tax-exempt special purpose revenue bonds, with a maturity of thirty years and a fixed coupon interest rate of 5.45%, on behalf of HECO, HELCO and MECO at a 2% discount for an effective interest rate of approximately 5.6%. As of December 31, 1993, approximately \$56 million of the proceeds from the sale of special purpose revenue bonds were available to be used and an additional \$47 million of revenue bonds was authorized by the Hawaii legislature for issuance prior to the end of 1995.

	1993		1992	
	\$	% change	\$	% change
<i>(in millions)</i>				
Assets	\$ 2,618	6	\$ 2,462	13
Loans receivable	1,735	19	1,463	27
Mortgage-backed securities	630	(11)	710	(12)
Deposit liabilities	2,092	3	2,033	26

As of September 30, 1993, ASB was the second largest savings bank in the state based on total assets of \$2.5 billion. In 1993, ASB's total assets increased 6% primarily due to originations and purchases of loans of \$557 million, partly offset by repayments on loans of \$289 million. Loans and deposits continued to grow in 1993, although at a slower pace than in 1992.

At December 31, 1993, loans which do not accrue interest totaled \$5.7 million or only 0.32% of net loans outstanding. At the end of 1993, there was only one property acquired in settlement of a loan valued at \$0.2 million.

For the year ended December 31, 1993, cash used by investing activities was \$175 million, due largely to the origination of loans receivable, partly offset by principal repayments. Cash provided by financing activities included a net increase of \$96 million in advances from the Federal Home Loan Bank and \$59 million in deposit liabilities, offset by repurchases of all of ASB's remaining securities sold under agreements to repurchase of \$27 million and common stock dividends of \$14 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 and mortgage-backed securities, 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 Office of Thrift Supervision (OTS). ASB was in compliance with OTS liquidity requirements as of December 31, 1993.

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, 1993, ASB was in full compliance with the minimum capital requirements with a tangible capital ratio of 5.2%, a core capital ratio of 5.6% and risk-based capital of \$151.0 million, \$46.2 million in excess of the minimum requirement.

The OTS has adopted a new rule adding an interest rate risk (IRR) component to the existing risk-based capital requirement. The regulation is effective January 1, 1994; however, the requirement that thrifts incorporate IRR into their risk-based capital calculations, based on the OTS Thrift Financial Report as of December 31, 1993, is effective July 1, 1994. 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 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 regulation will require a savings association with an "above normal" level of IRR exposure 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, 1993, ASB would not have been required to hold additional capital if the new rule had been in effect at that time.

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, under-capitalized, significantly under-capitalized and critically under-capitalized), 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%. As of December 31, 1993, ASB believes that based on OTS capital standards it would have been classified as "well-capitalized" with a leverage ratio of 5.6%, a Tier-1 risk-based ratio of 11.1% and a total risk-based ratio of 11.5%.

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, 1993, ASB would have been in compliance with the proposed 4% requirement with a core capital ratio of 5.6%.

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.

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, 1993 and 1992, 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, 1993. 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, 1993 and 1992, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 15 to the consolidated financial statements, effective January 1, 1993, the Company changed its method of accounting for income taxes. Additionally, as discussed in Note 18 to the consolidated financial statements, effective January 1, 1993, the Company changed its method of accounting for postretirement benefits other than pensions.

KPMG Peat Marwick

Honolulu, Hawaii
February 11, 1994

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C O N S O L I D A T E D S T A T E M E N T S O F I N C O M E

Hawaiian Electric Industries, Inc. and subsidiaries

<i>Years ended December 31</i>		<i>1003</i>	<i>1002</i>	<i>1001</i>
<i>(in thousands, except per share amounts)</i>				
<i>Revenues</i>	Electric utility	\$ 879,110	\$ 778,690	\$ 740,632
	Savings bank	199,734	202,995	198,776
	Other	63,326	49,698	53,834
		1,142,170	1,031,383	993,242
<i>Expenses</i>	Electric utility	759,545	674,849	640,376
	Savings bank	155,617	171,668	173,561
	Other	69,370	48,647	46,249
		984,532	895,164	860,186
<i>Operating income (loss)</i>	Electric utility	119,565	103,841	100,256
	Savings bank	44,117	31,327	25,215
	Other	(6,044)	1,051	7,585
		157,638	136,219	133,056
	Interest expense—electric utility and other	(53,192)	(47,141)	(43,521)
	Allowance for borrowed funds used during construction	3,869	2,095	1,307
	Preferred stock dividends of electric utility subsidiaries	(6,518)	(6,710)	(6,887)
	Allowance for equity funds used during construction	6,973	6,781	3,998
	Income from continuing operations before income taxes	108,770	91,244	87,953
	Income taxes	47,086	29,529	32,333
	Income from continuing operations	61,684	61,715	55,620
	Discontinued operations, net of income taxes			
	Loss from operations	—	(57,090)	(794)
	Loss on disposal	(13,025)	(16,207)	—
	Loss from discontinued operations	(13,025)	(73,297)	(794)
	Net income (loss)	\$ 48,659	\$ (11,582)	\$ 54,826
	Earnings (loss) per common share			
	Continuing operations	\$ 2.38	\$ 2.54	\$ 2.43
	Discontinued operations	(0.50)	(3.02)	(0.03)
		\$ 1.88	\$ (0.48)	\$ 2.40
	Dividends per common share	\$ 2.29	\$ 2.25	\$ 2.21
	Weighted average number of common shares outstanding	25,938	24,275	22,882

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C O N S O L I D A T E D S T A T E M E N T S O F R E T A I N E D E A R N I N G S

Hawaiian Electric Industries, Inc. and subsidiaries

<i>Years ended December 31</i>	<i>1003</i>	<i>1002</i>	<i>1001</i>
<i>(in thousands)</i>			
Retained earnings, beginning of year	\$ 138,484	\$ 204,663	\$ 200,286
Net income (loss)	48,659	(11,582)	54,826
Common stock dividends	(58,825)	(54,597)	(50,449)
Retained earnings, end of year	\$ 128,318	\$ 138,484	\$ 204,663

See accompanying "Notes to Consolidated Financial Statements."

Hawaiian Electric Industries, Inc. and subsidiaries

December 31

1993

1992

(in thousands)

Assets

Cash and equivalents	\$ 116,260	\$ 156,754
Accounts receivable and unbilled revenues, net	117,116	118,246
Inventories, at average cost	39,405	38,952
Real estate developments	29,673	14,424
Loans receivable, net	1,735,098	1,462,888
Marketable securities (estimated market value \$710,369 and \$785,926)	698,755	768,415
Other investments	77,106	81,974
Property, plant and equipment, net	1,542,989	1,387,828
Regulatory assets	62,077	7,668
Other	53,449	53,944
Goodwill and other intangibles	49,664	51,003
Net assets of discontinued operations	—	672
	\$ 4,521,592	\$ 4,142,768

*Liabilities and
 stockholders' equity*

Accounts payable	\$ 88,628	\$ 82,235
Deposit liabilities	2,091,583	2,032,869
Short-term borrowings	40,416	160,211
Securities sold under agreements to repurchase	—	27,223
Advances from Federal Home Loan Bank	289,674	194,099
Long-term debt, net	697,836	582,475
Deferred income taxes	168,329	156,915
Unamortized tax credits	44,357	42,912
Contributions in aid of construction	165,005	126,300
Other	197,713	104,567
	3,783,541	3,509,814
Preferred stock of electric utility subsidiaries		
Subject to mandatory redemption	46,730	48,920
Not subject to mandatory redemption	48,293	36,293
	95,023	85,213
Stockholders' equity		
Preferred stock, no par value, authorized 10,000 shares; no shares outstanding		
Common stock, no par value, authorized 100,000 shares; outstanding 27,675 shares and 24,762 shares	514,710	409,257
Retained earnings	128,318	138,484
	643,028	547,741
	\$ 4,521,592	\$ 4,142,768

See accompanying "Notes to Consolidated Financial Statements."

Hawaiian Electric Industries, Inc. and subsidiaries

Years ended December 31

1993

1992

1991

(in thousands)

Cash flows from operating activities

Income from continuing operations	\$ 61,684	\$ 61,715	\$ 55,620
Adjustments to reconcile income from continuing operations to net cash provided by operating activities			
Depreciation and amortization of property, plant and equipment	64,314	61,928	56,276
Other amortization	(2,623)	602	2,033
Deferred income taxes and tax credits, net	3,164	(4,530)	7,456
Changes in assets and liabilities, net of effects from disposal of businesses, acquisition of partnership interest and acquisition of control of joint venture			
Decrease (increase) in accounts receivable and unbilled revenues, net	1,108	(17,515)	14,248
Decrease (increase) in inventories	(453)	2,593	15,959
Increase in other securities held for trading	(22,359)	(9,161)	(13,876)
Increase in accounts payable	6,248	8,474	1,975
Changes in other assets and liabilities	33,380	(6,353)	1,714
	144,463	97,753	141,405

Cash flows from discontinued operations	(5,142)	—	750
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Net cash provided by operating activities	139,321	97,753	142,155
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Cash flows from investing activities

Loans receivable originated and purchased	(557,009)	(585,292)	(379,445)
Principal repayments on loans receivable	288,932	268,672	164,848
Proceeds from sale of loans receivable	633	5,208	6,271
Mortgage-backed securities purchased	(190,517)	(216,289)	(169,276)
Principal repayments on mortgage-backed securities	269,816	307,364	162,269
Proceeds from sale of mortgage-backed securities	—	—	29,543
Increase in other marketable securities and other investments	(4,912)	(1,506)	(16,112)
Proceeds from redemption, sale, maturity and principal repayments of other marketable securities and other investments	24,350	12,129	30,934
Capital expenditures	(213,685)	(190,653)	(157,462)
Contributions in aid of construction	20,158	17,949	16,632
Other	10,542	15,330	533
	(351,692)	(367,088)	(311,265)

Net investment in discontinued operations	—	(24,751)	(6,750)
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Net cash used in investing activities	(351,692)	(391,839)	(318,015)
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Cash flows from financing activities

Net increase in deposit liabilities	58,714	417,508	104,070
Net increase (decrease) in short-term borrowings with original maturities of three months or less	(93,247)	92,303	(93,876)
Proceeds from other short-term borrowings	25,622	36,000	—
Repayment of other short-term borrowings	(72,707)	—	—
Proceeds from securities sold under agreements to repurchase	—	43,000	235,307
Repurchase of securities sold under agreements to repurchase	(27,000)	(145,200)	(242,876)
Proceeds from advances from Federal Home Loan Bank	194,692	32,900	178,860
Principal payments on advances from Federal Home Loan Bank	(99,117)	(97,400)	(126,000)
Proceeds from issuance of long-term debt	193,788	83,736	125,579
Repayment of long-term debt	(70,801)	(43,436)	(63,300)
Proceeds from issuance of electric utility subsidiaries' preferred stock	12,000	—	—
Redemption of electric utility subsidiaries' preferred stock	(2,190)	(1,745)	(1,545)
Net proceeds from issuance of common stock	88,658	18,248	51,415
Common stock dividends	(42,012)	(39,214)	(36,877)
Other	5,477	(1,595)	(617)
	171,877	395,105	130,140

Net cash provided by financing activities	171,877	395,105	130,140
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Net increase (decrease) in cash and equivalents	(40,494)	101,019	(45,720)
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Cash and equivalents, beginning of year	156,754	55,735	101,455
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Cash and equivalents, end of year	\$ 116,260	\$ 156,754	\$ 55,735
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See accompanying "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, regulatory assets, the provisions 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); Lalamilo Ventures, Inc. (LVI); Malama Pacific Corp. (MPC); and HEI Investment Corp. (HEIC). In the fourth quarter of 1992, HEI/HEIDI wrote off its investment in HIG and no longer consolidated the accounts of HIG and its subsidiaries for financial reporting purposes.

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

Utility regulation. The electric utility subsidiaries and YB are regulated by the Public Utilities Commission of the State of Hawaii (PUC) and account for the effects of regulation under Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." As a result, the actions of regulators can affect the timing of recognition of revenues, expenses, assets and liabilities.

Investments.

Marketable securities. Investments in mortgage-backed and other marketable securities, which management intends and has the ability to hold until maturity, are carried at amortized cost.

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

Other investments. Investments in joint ventures and other investments for which the Company has the ability to exercise significant influence over the operating and financing policies of the enterprise are accounted for under the equity method.

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 ordinary 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. Effective January 1, 1993, the Company adopted the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires that the expected cost of postretirement benefits other than pensions be accrued during the years in which employees render service (see Note 18). Previously, the cost of these benefits were recognized when paid. The resulting change in the method of accounting for postretirement benefits other than pensions had no material effect on net income for the year ended December 31, 1993, primarily due to the regulated nature of the electric utility subsidiaries and YB.

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

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.

Environmental expenditures. In general, environmental contamination treatment costs are charged to expense, unless such costs are probable of recovery through rates authorized by the PUC. Also, environmental costs are capitalized if: the costs extend the life, increase the capacity, or improve the safety or efficiency of property owned; the costs mitigate or prevent environmental contamination that has yet to occur and that otherwise may result from future operations; or the costs are incurred in preparing for sale property currently held for sale. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the cost can be reasonably estimated. Corresponding regulatory assets are recorded when it is probable that such costs would be allowed by the PUC as reasonable and necessary costs of service for rate-making purposes.

Income taxes. As further explained in Note 15, the Company adopted SFAS No. 109, "Accounting for Income Taxes" effective January 1, 1993. Previously, income taxes were recognized in accordance with the provisions of Accounting Principles Board Opinion No. 11. The resulting change in the method of accounting for income taxes had no material effect on net income for the year ended December 31, 1993, primarily due to the regulated nature of the electric utility subsidiaries and YB.

Tax credits are deferred and 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 deposit, 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 1993 presentation.

Discontinued operations. In 1992, management decided to discontinue the operations of Hawaiian Electric Renewable Systems, Inc. (HERS). Also, in 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 therein was written off. Control of HIG and its subsidiaries is vested in the Insurance Commissioner of the State of Hawaii under a formal rehabilitation order. The nonutility wind energy and insurance businesses are accounted for as discontinued operations in the accompanying financial statements for all years presented.

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.

Accounting changes - 1994 and 1995 implementation.

Postemployment benefits. In November 1992, the Financial Accounting Standards Board (FASB) issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits." This statement requires employers to recognize the obligation to provide postemployment benefits in accordance with SFAS No. 43, "Accounting for Compensated Absences," if the obligation is attributable to employees' services already rendered, employees' rights to those benefits accumulate or vest, payment of the benefits is probable, and the amount of the benefits can be reasonably estimated. The Company adopted the provisions of SFAS No. 112 on January 1, 1994. The implementation of SFAS No. 112 did not have a material effect on the Company's consolidated financial condition and, in the opinion of management, will not have a material effect on the Company's 1994 results of operations.

Certain investments in debt and equity securities. In May 1993, the FASB issued SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement requires that investments in equity securities that have readily determinable fair values and investments in debt securities be classified in three categories and accounted for as follows:

- ✱ Debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as *held-to-maturity securities* and reported at amortized cost.

- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as *trading securities* and reported at fair value, with unrealized gains and losses included in earnings.
- Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as *available-for-sale securities* and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

The Company adopted the provisions of SFAS No. 115 on January 1, 1994. The implementation of SFAS No. 115 did not have a material effect on the Company's consolidated financial condition and, in the opinion of management, will not have a material effect on the Company's 1994 results of operations.

Loan impairments. In May 1993, the FASB issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." This standard requires that certain impaired loans be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The provisions of SFAS No. 114 must be adopted by ASB no later than January 1, 1995. If SFAS No. 114 were adopted on December 31, 1993, it would not have had a material effect on the Company's consolidated financial condition or results of operations.

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 energy cost 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 30 years which approximates the estimated useful lives of the facilities for which the contributions were received. This amortization is an offset against depreciation expense.

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 collectability.

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.

Electric utility

Savings bank

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. In March 1993, HEI sold the stock of HERS to The New World Power Corporation for an amount which was not material. In 1993, in connection with the sale of HERS, HEI reversed reserves for site restoral and other HERS' disposal costs that were no longer needed due to the terms of the sale, resulting in income from discontinued operations of \$2.0 million.

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

Income statement data

<i>Years ended December 31</i>	1992	1991
<i>(in thousands)</i>		
Operations		
Revenues	\$ 564	\$ 1,063
Operating loss	\$ (12,630)	\$ (3,151)
Interest expense	(953)	(1,385)
Income tax benefits	8,128	2,038
Loss from operations	\$ (5,455)	\$ (2,498)

<i>Years ended December 31</i>	1993	1992
<i>(in thousands)</i>		
Disposal		
Gain (loss)	\$ 3,218	\$ (17,131)*
Income tax benefits (income taxes)	(1,223)	9,021
Gain (loss) on disposal	\$ 1,995	\$ (8,110)

* Includes provision of \$700 for loss from operations during phase-out period.

Balance sheet data

	<i>December 31, 1992</i>	
<i>(in thousands)</i>		
Assets		
Property, plant and equipment, net	\$	71
Other		642
		713
Liabilities		
Deferred income taxes		(112)
Unamortized tax credits		6
Other		147
		41
Net assets of discontinued windfarm operations	\$	672

HIG and its subsidiaries (the HIG Group) are property and casualty insurance companies in the State of Hawaii. HEIDI, a subsidiary of HEI, is the holder of record of all of the common stock of HIG. On December 2, 1992, the Board of Directors of HEI concluded that it would not contribute additional capital to HIG and HEI/HEIDI'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, it was 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) in capital contributions from HEI 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.

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, vesting full control over the HIG Group in the Insurance Commissioner and her deputies.

On April 12, 1993, the Rehabilitator filed her proposed rehabilitation plan for approval by the First Circuit Court of the State of Hawaii. The plan, after minor technical modifications, was approved by the court in May 1993.

On April 12, 1993, the Rehabilitator, HIG, UNICO and HUI filed a complaint against HEI, HEIDI and certain current and former officers and directors of HEI, HEIDI and the HIG Group in state court on the island of Kauai, and demanded a jury trial. The complaint sets forth several separate counts, including claims to the effect that HEI and/or HEIDI should be held liable for HIG's obligations based on allegations, among others, that HIG was held out to be part of an HEI family of companies (and not as a separate enterprise) and

that HEIDI is liable for an assessment levied by the Rehabilitator. The complaint alleges that certain current and former officers and directors of HEI, HEIDI and the HIG Group have breached their fiduciary duties to the HIG Group in numerous respects. The complaint seeks declaratory relief and compensatory, general, special and punitive damages, together with costs and attorneys' fees.

On July 12, 1993, the Rehabilitator filed a first amended complaint, which repeats the claims asserted in the original complaint but adds the Hawaii Insurance Guaranty Association (HIGA) as a plaintiff and asserts certain additional claims. The first amended complaint asserts new claims for negligence and the imposition of a constructive trust and a statutory claim for unfair and deceptive trade practices under Chapter 480 of the Hawaii Revised Statutes, which permits the recovery of treble damages in certain cases.

Although the damages requested were not specified in the complaint or amended complaint and were reserved for proof at trial, by demand letter dated February 26, 1993, the Rehabilitator had demanded (1) from HEI and/or HEIDI, the amount required to cure HIG's deficit, estimated by the Rehabilitator in the letter at \$68 million, and (2) \$55 million for alleged breaches of duties and other obligations owed to HIG by the officers and directors of HEI, HEIDI and HIG. These demands were based on alternative theories of liability and the amounts claimed are believed by management to be duplicative and not cumulative.

On October 13, 1993, HEI and HEIDI filed their answers to the First Amended Complaint, denying the material allegations thereof and asserting various affirmative defenses. The officer and director defendants have filed similar answers, together with a counterclaim against the Rehabilitator for indemnification. On November 2, 1993, defendants HEI and HEIDI filed counterclaims against the Rehabilitator and HIGA alleging that the Rehabilitator and HIGA have not acted in accordance with their statutory duties. Discovery proceedings were initiated beginning in late 1993.

In early 1994, HEI, HEIDI, certain officers and directors, the Rehabilitator/Liquidator and HIGA signed an agreement to settle the lawsuit. Under the agreement, which is subject to court approval, HEI will pay \$32.0 million to the Rehabilitator/Liquidator in return for a dismissal of the lawsuit and a release of claims against HEI, its affiliates and their past and present officers and directors. A hearing on a motion to approve the settlement is scheduled in March 1994. The \$32.0 million settlement amount, less income tax benefits and certain amounts in previously established reserves, resulted in a \$15.0 million after-tax charge to discontinued operations in 1993. HEI is seeking reimbursement from certain of its insurance carriers. HEI's claims against its insurance carriers will require resolution of several insurance coverage and other policy issues and the outcome of such claims cannot be predicted at this time. One of HEI's insurance carriers has filed a declaratory relief action in the U.S. District Court for the District of Hawaii seeking resolution of these issues. Recoveries from HEI's insurance carriers, if any, will be recognized when realized.

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

Income statement data

<i>Years ended December 31</i>	<i>1992</i>	<i>1991</i>
<i>(in thousands)</i>		
Operations		
Revenues	\$ 80,654	\$ 89,536
Operating income (loss)	\$ (80,146)	\$ 1,328
Income tax benefits	28,511	376
Income (loss) from operations	\$ (51,635)	\$ 1,704

<i>Years ended December 31</i>	<i>1993</i>	<i>1992</i>
<i>(in thousands)</i>		
Disposal		
Loss	\$ (24,225)	\$ (13,060)
Income tax benefits	9,205	4,963
Loss on disposal	\$ (15,020)	\$ (8,097)

Segment financial information on page 28 is incorporated herein by reference. As of January 1, 1993, HEI refined its method of identifying costs chargeable to its subsidiaries. Under the refined methodology, additional common costs categories have been identified and the number of cost causation factors used to allocate common costs has increased. Also, timesheets are used to identify chargeable labor costs. The refined methodology resulted in lower allocations to subsidiaries and more expenses retained at corporate in 1993.

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 an authorized common carrier that services all major ports in Hawaii under the Hawaii Water Carrier Act and is regulated by the PUC.

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

HEIC 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 were placed in rehabilitation proceedings under the control of the Insurance Commissioner of the State of Hawaii by a Rehabilitation Order entered by the First Circuit Court of the State of Hawaii on December 24, 1992. HIG continues to operate in rehabilitation and its insurance company subsidiaries are being liquidated.

HERS owned and LVI owns nonutility wind energy facilities. HERS was sold in March 1993.

See Note 2 for further information on discontinued operations.

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

Income statement data

Years ended December 31

	1993	1992	1991
<i>(in thousands)</i>			
Revenues			
Operating revenues	\$ 874,010	\$ 776,929	\$ 739,636
Other—nonregulated	5,100	1,761	996
	879,110	778,690	740,632
Expenses			
Fuel oil	213,285	225,611	275,806
Purchased power	258,723	172,761	106,660
Other operation	105,957	105,303	100,990
Maintenance	44,281	44,653	39,463
Depreciation	55,960	53,856	49,005
Taxes, other than income taxes	80,712	71,452	67,648
Other—nonregulated	627	1,213	804
	759,545	674,849	640,376
Operating income from regulated and nonregulated activities	119,565	103,841	100,256
Allowance for equity funds used during construction	6,973	6,781	3,998
Interest and other charges	(37,384)	(35,196)	(35,535)
Allowance for borrowed funds used during construction	3,869	2,095	1,307
Income before income taxes and preferred stock			
dividends of HECO	93,023	77,521	70,026
Income taxes	36,897	23,843	23,816
Income before preferred stock dividends of HECO	56,126	53,678	46,210
Preferred stock dividends of HECO	4,421	4,525	4,600
Net income for common stock	\$ 51,705	\$ 49,153	\$ 41,610

Balance sheet data

December 31

	1993	1992
<i>(dollars in thousands)</i>		
Assets		
Utility plant, at cost		
Property, plant and equipment	\$ 1,976,192	\$ 1,770,374
Less accumulated depreciation	(641,230)	(583,031)
Construction in progress	126,342	107,030
Net utility plant	1,461,304	1,294,373
Accounts receivable, net	64,012	62,088
Unbilled revenues, net	34,735	35,647
Regulatory assets	60,612	7,668
Other	82,613	101,554
	\$ 1,703,276	\$ 1,501,330
Capitalization and liabilities		
Common stock equity	\$ 570,663	\$ 499,894
Cumulative preferred stock		
Not subject to mandatory redemption, dividend rates of 4.25-8.875%	48,293	36,293
Subject to mandatory redemption, dividend rates of 7.68-13.75%	46,730	48,920
Long-term debt, net	484,736	374,835
Total capitalization	1,150,422	959,942
Short-term borrowings from nonaffiliates and affiliate	40,928	122,176
Deferred income taxes	107,449	101,447
Unamortized tax credits	43,348	41,600
Contributions in aid of construction	165,005	126,308
Other	196,124	149,849
	\$ 1,703,276	\$ 1,501,330

Cash flow data

Years ended December 31

	1993	1992	1991
<i>(in thousands)</i>			
Cash flows from operating activities			
Income before preferred stock dividends of HECO	\$ 56,126	\$ 53,678	\$ 46,210
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	55,960	53,856	49,005
Decrease (increase) in accounts receivable and unbilled revenues, net	(1,012)	(17,095)	8,109
Decrease (increase) in inventories	(484)	2,449	16,027
Other	(12,185)	(14,195)	3,667
Net cash provided by operating activities	98,405	78,693	123,018
Cash flows from investing activities			
Capital expenditures	(205,943)	(181,542)	(141,900)
Contributions in aid of construction	20,158	17,949	16,632
Proceeds from sales of assets	—	14,270	—
Net cash used in investing activities	(185,785)	(149,323)	(125,268)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings from nonaffiliates and affiliate with original maturities of three months or less	(81,248)	87,606	(35,350)
Proceeds from other short-term borrowings	25,259	—	—
Repayment of other short-term borrowings	(25,259)	—	—
Proceeds from issuance of long-term debt	156,788	33,130	40,579
Repayment of long-term debt	(46,901)	(23,393)	(32,222)
Proceeds from issuance of preferred stock	12,000	—	—
Redemption of preferred stock	(2,190)	(1,745)	(1,545)
Preferred stock dividends	(4,421)	(4,525)	(4,600)
Proceeds from issuance of common stock	45,000	33,000	61,000
Common stock dividends	(25,887)	(23,048)	(27,468)
Other	5,278	67	831
Net cash provided by financing activities	58,419	101,092	1,225
Net increase (decrease) in cash and equivalents	(28,961)	30,462	(1,025)
Cash and equivalents, beginning of year	30,883	421	1,446
Cash and equivalents, end of year	\$ 1,922	\$ 30,883	\$ 421

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. In December 1993, HECO's subsidiaries issued \$12 million of preferred stock not subject to mandatory redemption with a dividend rate of 7.625%. The total sinking fund requirements on preferred stock subject to mandatory redemption for the next five years and thereafter are \$1.3 million in 1994, \$2.2 million in 1995, \$2.2 million in 1996, \$2.2 million in 1997, \$1.8 million in 1998 and \$37.0 million thereafter.

Indebtedness. See Notes 11 and 12.

Major customers. The electric utility subsidiaries derived 10% of their operating revenues from the sale of electricity to various federal government agencies amounting to \$91 million in 1993, \$78 million in 1992 and \$77 million in 1991.

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 residual fuel oil and 0.4% sulfur diesel fuel annually through 1995. The fuel oil prices under these contracts are tied to market prices of products as reported in Singapore and the U.S. Pacific Northwest. Based on the average price per barrel at January 1, 1994, the amount of required purchases for 1994 is estimated at \$83 million. HECO's subsidiaries have contractual agreements through 1995 under which the amount of required purchases for 1994 is estimated at \$43 million, based on the average price per barrel at January 1, 1994. The actual amount of such purchases by HECO and its subsidiaries could vary substantially as a result of changes in the market price of fuel oil and other factors. HECO and its subsidiaries purchased \$205 million, \$216 million and

\$251 million of fuel under these or prior contractual agreements in 1993, 1992 and 1991, respectively. New contracts to replace expiring ones are expected to be entered into in the normal course of business.

At December 31, 1993, HECO and its subsidiaries had purchase commitments other than fuel and power purchase contracts amounting to approximately \$61 million.

Power purchase agreements. In general, payments under the major 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 and its subsidiaries may pass on changes in the fuel component of the energy charges to customers through energy cost adjustment clauses in its rate schedules. HECO and its subsidiaries do not operate nor participate in the operation of any of the facilities that provide power under the major agreements. Title to the facilities does not pass to HECO or its subsidiaries upon expiration of the agreements, and the agreements do not contain bargain purchase options with respect to the facilities.

As of December 31, 1993, HECO and its subsidiaries had power purchase agreements for 473 megawatts (MW) of firm capacity representing approximately 22% of the total of their generating capabilities and purchased power firm capacities. Rate recovery is allowed for energy and firm capacity payments under these agreements. Assuming that each of the agreements remains in place and the minimum availability criteria in the power purchase agreements are met, aggregate minimum fixed capacity charges are expected to be approximately \$107 million annually in 1994 and 1995, between \$99 million and \$106 million annually from 1996 through 2015, between \$50 million and \$77 million annually from 2016 through 2022 and \$4 million annually from 2023 through 2028.

HECO is disputing certain amounts billed each month under its power purchase agreements with Kalaeloa Partners, L.P. (Kalaeloa) and AES Barbers Point, Inc. (AES-BP) and has withheld payment of some of the disputed amounts pending resolution. With respect to the billings from Kalaeloa, HECO believes that it has counterclaims which would mitigate, if not more than offset, the disputed amounts billed by Kalaeloa. Disputed amounts billed by Kalaeloa and AES-BP through December 31, 1993 totaled approximately \$2.1 million and \$1.5 million, respectively. Approximately \$0.5 million of the total disputed amounts, if paid, are includable in HECO's energy cost adjustment clause, and would be passed through to customers.

HECO has not recognized any portion of the disputed amounts as an expense or liability in its financial statements. Discussions between HECO and Kalaeloa, and HECO and AES-BP to resolve the disputed billing amounts are continuing. In the event the parties are unable to settle the disputes, both the Kalaeloa and AES-BP power purchase agreements contain provisions whereby either party to the agreement may cause the dispute to be submitted to binding arbitration. Kalaeloa has requested that its dispute with HECO be arbitrated and this arbitration process has commenced. Based on information currently available, HECO's management believes that the ultimate outcome of these disputes will not have a material adverse effect on HECO's consolidated financial condition and results of operations.

HELCO's power purchase agreements include an amended power purchase agreement with Hamakua Sugar Company (Hamakua), a power purchase agreement with Puna Geothermal Ventures (PGV) and a power purchase agreement with Hilo Coast Processing Company (HCPC). Hamakua is in a Chapter 11 bankruptcy proceeding and is now conducting a final sugar cane harvest over a period of 10 to 16 months, which began in July 1993. During the harvest, Hamakua has agreed to supply HELCO with 8 MW of firm capacity under an amendment to HELCO's existing power purchase agreement. PGV, an independent geothermal power producer which had experienced substantial delays in commencing commercial operations, passed an acceptance test in June 1993 and is now considered to be a firm capacity source for 25 MW. HCPC, which provides 18 MW of firm capacity, has announced that it will discontinue harvesting sugar cane in the second half of 1994, but has stated that it intends to continue generating power using coal supplemented by biomass materials and diesel fuel oil.

HECO power outage. On April 9, 1991, HECO experienced a power outage that affected all customers on the island of Oahu. 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 further hearings are expected at a later time. The parties to the investigation (HECO, Consumer Advocate and United States Department of Defense) agreed that HECO should retain an independent consultant to investigate the cause of the 1991 outage. The PUC approved HECO's retention of Power Technologies, Inc. (PTI). PTI's report, with more than 100 recommendations, was submitted to the PUC in August 1993 and HECO filed its comments on the PTI recommendations with the PUC in November 1993. Management cannot predict the timing and outcome of any decision and order to be issued by the PUC with respect to the outages or with respect to the recommendations made by PTI.

HECO's PUC-approved tariff rule states that HECO "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 [HECO'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 received approximately 2,900 customer claims which totaled approximately \$7 million. Of the 2,900 claims,

approximately 1,450 are for property damage. As of December 31, 1993, HECO had settled approximately 542 of these property damage claims, had settlement offers outstanding with respect to approximately 119 more of these claims and anticipates making settlement offers with respect to the remaining property claims upon receipt and review of appropriate supporting documentation. The settlement offers are being made for purposes of settlement and compromise only, and without any admission by HECO of liability for the outage. Not covered in the settlement offers and requests for documentation are approximately 1,450 claims involving alleged personal injury or economic losses, such as lost profits.

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. The lawsuit was dismissed without prejudice in March 1993 and subsequently refiled by the plaintiffs. HECO has 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. Discovery proceedings have been initiated. No trial date has been set.

A reserve equal to the deductible limits with respect to HECO's insurance coverage has been recorded with respect to claims arising out of the April 1991 outage. 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 on 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 approximately 20 subsequent incidents of rolling blackouts and service interruptions resulting from insufficient generation margin, further evidentiary hearings were held in July 1992. With the input from an independent consultant and the parties to the proceedings, 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 in October 1992 to see whether any adjustments are appropriate.

HELCO's generation margin has improved with the addition of a 20-MW combustion turbine in August 1992, PGV's commencement of commercial operations and Hamakua's temporary return to commercial operation (see "Power purchase agreements" herein). HELCO is proceeding with plans to install 2 20-MW combustion turbines in 1995, followed by an 18-MW heat steam recovery generator in 1997, at which time these units will be converted to a combined-cycle unit, subject in each case to obtaining necessary permits. In the opinion of management, the PUC's adjustment, if any, resulting from the reliability investigation will not have a material adverse effect upon HECO's consolidated financial condition or results of operations.

Change in accounting estimate. In September 1991, HECO and its subsidiaries revised the method of estimating unbilled kilowatthour sales and revenues. The revised method results 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.

Management services fees. HEI charges to HECO and its subsidiaries for general management, administrative and support services totaled \$2.3 million, \$5.6 million and \$5.1 million in 1993, 1992 and 1991, respectively.

SAVINGS BANK SUBSIDIARY

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

Income statement data

<i>Years ended December 31</i>	<i>1993</i>	<i>1992</i>	<i>1991</i>
<i>(in thousands)</i>			
Interest income	\$ 188,619	\$ 192,644	\$ 189,072
Interest expense	92,701	114,748	124,840
Net interest income	95,918	77,896	64,232
Provision for losses	(779)	(1,494)	(641)
Other income	11,115	10,351	9,704
Operating, administrative and general expenses	(62,137)	(53,915)	(48,080)
Operating income	44,117	32,838	25,215
Income taxes	18,835	13,280	10,224
Net income	\$ 25,282	\$ 19,558	\$ 14,991

*Balance sheet data**December 31*

1993

1992

*(in thousands)***Assets**

Cash and equivalents	\$ 77,610	\$ 117,937
Investment securities	68,599	58,524
Mortgage-backed securities	630,156	709,891
Loans receivable, net	1,735,098	1,462,888
Other	57,358	61,451
Goodwill and other intangibles	49,664	51,003
	\$ 2,618,485	\$ 2,461,694

Liabilities and equity

Deposit liabilities	\$ 2,091,583	\$ 2,032,869
Securities sold under agreements to repurchase	—	27,223
Advances from Federal Home Loan Bank	289,674	194,099
Other	52,717	35,504
	2,433,974	2,289,695
Common stock equity	184,511	171,999
	\$ 2,618,485	\$ 2,461,694

*Cash flow data**Years ended December 31*

1993

1992

1991

*(in thousands)***Cash flows from operating activities**

Net income	\$ 25,282	\$ 19,558	\$ 14,991
Adjustments to reconcile net income to net cash provided by operating activities			
Decrease in accounts receivable	1,283	1,461	3,421
Increase in other securities held for trading	(22,359)	(9,161)	(13,876)
Increase in accounts payable	6,736	237	2,003
Other	9,371	(1,360)	7,405
Net cash provided by operating activities	20,313	10,735	13,947
Cash flows from investing activities			
Loans receivable originated and purchased	(557,009)	(585,292)	(379,445)
Principal repayments on loans receivable	288,932	268,672	164,848
Proceeds from sale of loans receivable	633	5,208	6,271
Mortgage-backed securities purchased	(190,517)	(216,289)	(169,276)
Principal repayments on mortgage-backed securities	269,816	307,364	162,269
Proceeds from sale of mortgage-backed securities	—	—	29,543
Proceeds from maturity of investment securities	15,000	12,000	19,924
Other	(2,014)	(4,822)	(19,995)
Net cash used in investing activities	(175,159)	(213,159)	(185,861)
Cash flows from financing activities			
Net increase in deposit liabilities	58,714	417,508	104,070
Proceeds from securities sold under agreements to repurchase	—	43,000	235,307
Repurchase of securities sold under agreements to repurchase	(27,000)	(145,200)	(242,876)
Proceeds from advances from Federal Home Loan Bank	194,692	32,900	178,860
Principal payments on advances from Federal Home Loan Bank	(99,117)	(97,400)	(126,000)
Other	(12,770)	14,390	(21,347)
Net cash provided by financing activities	114,519	265,198	128,014
Net increase (decrease) in cash and equivalents	(40,327)	62,774	(43,900)
Cash and equivalents, beginning of year	117,937	55,163	99,063
Cash and equivalents, end of year	\$ 77,610	\$ 117,937	\$ 55,163

Mortgage-backed securities. The weighted average interest rate of mortgage-backed securities at December 31, 1993 and 1992 was 6.65% and 7.60%, respectively.

Mortgage-backed securities with a carrying value of approximately \$469 million and \$331 million at December 31, 1993 and 1992, respectively, were pledged as collateral to secure public funds, deposits with the Federal Reserve Bank of San Francisco and advances from the Federal Home Loan Bank of Seattle. At December 31, 1993, there were no mortgage-backed securities sold under agreements to repurchase. At December 31, 1992, mortgage-backed securities sold under agreements to repurchase had a carrying value of \$33 million.

Loans receivable. Loans receivable consisted of the following:

December 31	1993	1992
<i>(in thousands)</i>		
Real estate loans		
Conventional	\$ 1,584,218	\$ 1,294,769
Construction and development	26,526	33,123
Troubled debt restructurings	3,397	8,945
	1,614,141	1,336,837
Loans secured by savings deposits	15,015	15,013
Consumer loans	129,961	134,943
Commercial loans	24,494	21,830
	1,783,611	1,508,623
Undisbursed loans in process	(16,315)	(20,008)
Deferred fees and discounts, including net purchase accounting discounts	(26,884)	(20,570)
Allowance for loan losses	(5,314)	(5,157)
	\$ 1,735,098	\$ 1,462,888

At December 31, 1993 and 1992, the weighted average interest rate for loans receivable was 7.63% and 8.47%, respectively.

Nonaccrual and renegotiated loans were \$8 million and \$14 million at December 31, 1993 and 1992, respectively.

ASB services real estate loans (\$178 million, \$311 million and \$487 million at December 31, 1993, 1992 and 1991, 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 \$83 million are not reflected on the balance sheet as of December 31, 1993. Of such commitments, \$22 million were for variable-rate mortgage loans and \$61 million were for fixed-rate mortgage loans.

Allowance for loan losses. For the years ended December 31, 1993, 1992 and 1991, net charge-offs amounted to \$0.6 million, \$0.2 million and \$0.2 million, respectively. The ratio of net charge-offs to average loans outstanding was 0.04%, 0.01%, and 0.02% for the years ended December 31, 1993, 1992 and 1991, respectively.

Real estate acquired in settlement of loans. At December 31, 1993 and 1992, ASB had real estate acquired in settlement of loans of \$0.2 million and \$1.9 million, respectively.

Deposit liabilities. Deposit liabilities consisted of the following:

December 31	1993		1992	
	Weighted average rate	Amount	Weighted average rate	Amount
<i>(dollars in thousands)</i>				
Commercial checking	—%	\$ 17,405	—%	\$ 19,060
Interest-bearing checking	2.42	255,838	3.25	278,366
Passbook	3.48	1,211,330	3.97	969,222
Money market	3.11	106,362	3.65	131,774
Term certificates	4.40	500,648	4.93	634,447
	3.52%	\$ 2,091,583	4.11%	\$ 2,032,869

At December 31, 1993 and 1992, deposit accounts of \$100,000 or more totaled \$438 million and \$465 million, respectively.

The approximate scheduled maturities of term certificates outstanding at December 31, 1993 were \$321 million in 1994, \$77 million in 1995, \$40 million in 1996, \$5 million in 1997, \$15 million in 1998 and \$43 million in subsequent years.

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

Years ended December 31	1993		1992		1991	
(in thousands)						
Interest-bearing checking	\$	6,679	\$	9,982	\$	8,575
Passbook		42,021		34,645		20,266
Money market		3,758		6,447		9,845
Term certificates		25,193		43,265		60,356
	\$	77,651	\$	94,339	\$	99,042

Securities sold under agreements to repurchase. At December 31, 1993, there are no securities sold under agreements to repurchase. 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' accounts at the Federal Reserve System. At December 31, 1992, the \$33 million carrying value of securities underlying the agreements remained in ASB's asset accounts. The obligation to repurchase securities sold is reflected as a liability in the consolidated balance sheets. At December 31, 1992, approximately \$27 million of agreements to repurchase identical securities were outstanding. At December 31, 1992, the weighted average interest rate on securities sold under agreements to repurchase was 3.34% and the weighted average remaining days to maturity were 270 days. Securities sold under agreements to repurchase averaged \$20 million, \$66 million and \$124 million during 1993, 1992 and 1991, respectively, and the maximum amount outstanding at any month-end during 1993, 1992 and 1991 was \$27 million, \$125 million and \$136 million, respectively.

Advances from Federal Home Loan Bank. Advances from the Federal Home Loan Bank (FHLB), secured by mortgage-backed securities and stock in the FHLB, are summarized as follows:

December 31	1993		1992	
	Weighted average rate	Amount	Weighted average rate	Amount
(dollars in thousands)				
Due in				
1993	—%	\$ —	8.57%	\$ 21,917
1994	6.40	73,000	6.94	62,000
1995	8.33	16,822	8.33	16,822
1996	7.23	58,360	7.48	52,860
1997	5.99	73,800	6.95	40,500
1998	4.96	36,392	—	—
Thereafter	4.98	31,300	—	—
	6.24%	\$ 289,674	7.39%	\$ 194,099

As a member of the FHLB system, 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, 1993, ASB was in compliance with all of the minimum capital requirements.

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, under-capitalized, significantly under-capitalized and critically under-capitalized), 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%. As of December 31, 1993, ASB believes that based on OTS capital standards it would have been classified as "well-capitalized."

Management services fees. In the second quarter of 1992, HEI changed its method of billing corporate-level expenses to ASB such that only certain direct charges, rather than fully-allocated costs, were 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 which were allocated to the segment, but were not billed. Also, because of the change in the intercompany billing practice, net income of ASB shown 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. In 1993 and 1991, corporate-level expenses allocated to the savings bank segment did not differ from the amount billed to ASB, and operating income for the savings bank segment did not differ from the operating income reported in the separate financial statements of ASB. For segment reporting purposes, HEI expenses allocated to the savings bank segment for general management, administrative and support services totaled \$0.8 million, \$2.0 million and \$1.7 million for 1993, 1992 and 1991, respectively.

6. REAL ESTATE SUBSIDIARY

At December 31, 1993 and 1992, MPC and its subsidiaries' total real estate project inventory, equity investment in real estate joint ventures and loans to unconsolidated joint ventures or joint venture partners amounted to \$49 million and \$41 million, 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. Upon closing of the purchase, Ainalani was dissolved. The amount of consideration for the transfer, which was not material to the Company's financial condition, was determined by an arbitration process which ended on March 31, 1993 and was based primarily on the net present value of MDT's partnership interest in Ainalani as of June 30, 1992. 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.

In 1990, Malama Development Corp. (MDC) acquired a 50% general partnership interest in Baldwin*Malama, a partnership with Baldwin Pacific Properties, Inc. (BPPI). In May 1993, Baldwin*Malama was reorganized as a limited partnership in which MDC became the sole general partner and BPPI the sole limited partner. Beginning in May 1993, in conjunction with the dissolution of the general partnership and formation of the limited partnership, MDC consolidated the accounts of Baldwin*Malama. Previously, MDC accounted for its investment in Baldwin*Malama under the equity method.

Related party transactions. Two of MPC subsidiaries' joint ventures involve partnerships in which a director of HEI has significant interests. Another director of HEI had a significant interest in MDT, MMO's former partner in Ainalani. Palailai Associates, one of MMO's joint ventures, involves a corporate partner, Palailai Holdings, Inc., in which the family of an HEI officer has a significant interest. Investments in joint ventures with related parties aggregated \$15 million and \$21 million as of December 31, 1993 and 1992, respectively.

Commitments and contingencies. At December 31, 1993, MPC or its subsidiaries were directly liable for \$11.5 million of outstanding construction loans and had additional construction loan facilities of \$5.8 million. In addition, at December 31, 1993, MPC or its subsidiaries had issued (i) guaranties under which they were jointly and severally contingently liable with their joint venture partners for \$2.1 million of outstanding construction loans and (ii) payment guaranties under which MPC or its subsidiaries were severally contingently liable for \$4.6 million of outstanding construction loans and \$4.7 million of additional undrawn construction loan facilities. In total, at December 31, 1993, MPC or its subsidiaries were liable or contingently liable for \$18.2 million of outstanding construction loans and \$10.5 million in undrawn construction loan facilities. At December 31, 1993, HEI had agreed with the lenders of construction loans and loan facilities, of which approximately \$10.5 million was undrawn and \$16.1 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. 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.

Marketable securities consisted of the following:

December 31	1993		1992	
	Carrying value	Estimated market value	Carrying value	Estimated market value
<i>(in thousands)</i>				
Savings bank				
Mortgage-backed and other debt securities	\$ 675,552	\$ 687,166	\$ 748,221	\$ 765,732
Stock in Federal Home Loan Bank of Seattle	23,203	23,203	20,194	20,194
	\$ 698,755	\$ 710,369	\$ 768,415	\$ 785,926

ASB has private-issue mortgage-backed securities and mortgage-backed securities purchased from the Federal Home Loan Mortgage Corporation (FHLMC), Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA). The amortized cost and estimated market values of ASB's mortgage-backed and other debt securities were as follows:

December 31	1993				1992			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value
<i>(in thousands)</i>								
Mortgage-backed securities held for investment								
Private-issue	\$465,373	\$ 4,339	\$(1,440)	\$468,272	\$491,566	\$ 4,090	\$(1,472)	\$494,184
FHLMC	117,803	8,024	—	125,827	182,670	12,378	—	195,048
GNMA	42,539	906	(629)	42,816	22,488	1,030	(106)	23,412
FNMA	4,441	414	—	4,855	13,167	1,100	—	14,267
U.S. government and federal agencies securities held for investment	—	—	—	—	15,293	491	—	15,784
Other securities held for trading	45,396	—	—	45,396	23,037	—	—	23,037
	\$675,552	\$13,683	\$(2,069)	\$687,166	\$748,221	\$19,089	\$(1,578)	\$765,732

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.

ASB did not sell mortgage-backed securities held for investment in 1993 and 1992. Proceeds from the sale of a mortgage-backed security held for investment were approximately \$30 million for 1991. The proceeds from the 1991 sale approximated the carrying value of the mortgage-backed security. ASB did not sell other debt securities held for investment during 1993, 1992 and 1991.

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

December 31	1993	1992
<i>(in thousands)</i>		
Leveraged leases (see Note 8)	\$ 53,115	\$ 51,202
Real estate joint venture interests	17,494	24,796
Other	6,497	5,976
	\$ 77,106	\$ 81,974

Realized gains and losses from the sale and writedown of other investments were not material in 1993, 1992 and 1991.

8. INVESTMENT IN LEVERAGED LEASES

HEHC 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 HEHC at the end of the last renewal term if not purchased by the lessees.

HEHC also has a 25% interest in a leveraged lease agreement entered into in 1985 under which 60% of an 818-MW 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.

In 1993, HEHC refinanced approximately \$13 million of nonrecourse debt supporting one of the leveraged leases, reducing the interest rate from 16.75% to 8.68%. As a result of the refinancing, 1993 net income increased by \$1.1 million and an additional \$7.5 million of net income from the leveraged lease will be recognized over the remaining life of the lease.

The Omnibus Budget Reconciliation Act of 1993, which raised the maximum corporate income tax rate by 1% effective January 1, 1993, caused a reduction in 1993 net income from leveraged leases of \$0.5 million.

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

<i>December 31</i>	<i>1993</i>	<i>1992</i>
<i>(in thousands)</i>		
Rentals receivable, net of principal and interest on nonrecourse debt	\$ 62,225	\$ 49,055
Estimated residual value of leased assets	35,268	35,268
Less unearned income	(44,378)	(33,121)
Investment in leveraged leases	53,115	51,202
Less deferred taxes arising from leveraged leases	(45,418)	(44,928)
	<u>\$ 7,697</u>	<u>\$ 6,274</u>

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

<i>December 31</i>	<i>1993</i>	<i>1992</i>
<i>(in thousands)</i>		
Land	\$ 33,103	\$ 35,646
Plant and equipment	2,058,201	1,858,150
Construction in progress	129,875	109,116
	2,221,179	2,002,912
Less—accumulated depreciation	(678,190)	(615,084)
	<u>\$ 1,542,989</u>	<u>\$ 1,387,828</u>

10. REGULATORY ASSETS

Regulatory assets at December 31, 1993 and 1992 include the following deferred costs:

<i>December 31</i>	<i>1993</i>	<i>1992</i>
<i>(in thousands)</i>		
Postretirement benefits other than pensions	\$ 19,210	\$ —
Income taxes	16,297	—
Preliminary plant costs on suspended project	6,577	—
Vacation earned, but not yet taken	5,494	—
Unamortized debt expense on retired issuances	5,435	4,983
Integrated resource planning costs	4,661	1,730
Other	4,403	955
	<u>\$ 62,077</u>	<u>\$ 7,668</u>

In 1994, HECO intends to apply to the PUC for recovery of the preliminary plant costs on a suspended project.

11. SHORT-TERM BORROWINGS

Short-term borrowings at December 31, 1993 and 1992 consisted of commercial paper and bank loans.

HEI maintained bank lines of credit which totaled \$50 million and \$30 million at December 31, 1993 and 1992, respectively. HECO maintained bank lines of credit which totaled \$108 million and \$135 million at December 31, 1993 and 1992, respectively. As of January 1, 1994, HECO maintained bank lines of credits which totaled \$85 million. The HEI and HECO lines of credit support the issuance of commercial paper. There were no borrowings under any line of credit during 1993 and 1992.

12. LONG-TERM DEBT

Long-term debt consisted of the following:

<i>December 31</i>	<i>1993</i>	<i>1992</i>
<i>(dollars in thousands)</i>		
First mortgage bonds		
4.45-5.75%, due in various years through 1997	\$ 24,000	\$ 40,000
6.875-7.875%, due in various years through 2003	22,000	22,850
8.20-9.875%, due in various years through 2016	43,000	73,000
10.75%, due 2005	5,000	5,000
	94,000	140,850
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	60,000
5.45% series 1993, due 2023	100,000	—
	378,900	278,900
Less funds on deposit with trustees	(56,205)	(44,993)
Less unamortized discount	(1,986)	—
	320,709	233,907
Promissory notes		
4.85-5.83%, due in various years through 1998	70,000	1,500
6.262-7.59%, due in various years through 2003	113,000	83,640
8.20-9.9%, due in various years through 2011	100,100	122,500
Other	27	78
	283,127	207,718
	\$ 697,836	\$ 582,475

The first mortgage bonds are secured by separate 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 December 1993, HECO and its subsidiaries issued \$70 million of medium-term notes bearing interest at rates ranging from 4.85% to 5.83% and with maturities varying between December 1995 through December 1998.

In June 1993, HEI issued \$37 million of medium-term notes bearing interest at rates ranging from 6.39% to 7.09% and with maturities varying between June 1999 through June 2003.

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 1993 and 1992, \$100 million and \$60 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, 1993, the aggregate payments of principal required on long-term debt during the next five years and thereafter are \$76 million in 1994, \$23 million in 1995, \$68 million in 1996, \$65 million in 1997, \$52 million in 1998 and \$414 million thereafter.

13. COMMON STOCK

Changes to common stock were as follows:

	1993		1992		1991	
	Shares	Common stock	Shares	Common stock	Shares	Common stock
<i>(in thousands)</i>						
Balance, beginning of year	24,762	\$ 409,257	23,867	\$ 376,783	21,918	\$ 310,257
Issuance of common stock						
Public offering	2,000	74,500	—	—	1,200	41,250
Dividend reinvestment and stock purchase plan	758	28,013	703	27,102	652	22,476
HEI retirement savings and other plans	155	5,637	192	6,822	97	3,145
Expenses and other	—	(2,697)	—	(1,450)	—	(345)
Balance, end of year	27,675	\$ 514,710	24,762	\$ 409,257	23,867	\$ 376,783

At December 31, 1993, the Company had reserved a total of 2,359,000 shares of common stock for issuance under the Hawaiian Electric Industries Retirement Savings Plan, the Dividend Reinvestment and Stock Purchase Plan, and the 1987 Stock Option and Incentive Plan.

14. INTEREST EXPENSE

Interest expense, including amounts capitalized as allowance for borrowed funds used during construction and excluding interest on nonrecourse debt on leveraged leases, consisted of the following:

<i>Years ended December 31</i>	1993	1992	1991
<i>(in thousands)</i>			
Interest expense			
Savings bank	\$ 92,701	\$ 114,606	\$ 124,532
Electric utility	35,287	33,011	33,248
Other	17,905	14,130	10,273
	\$ 145,893	\$ 161,747	\$ 168,053

15. INCOME TAXES

In February 1992, the 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 deferred tax assets or liabilities are realized or settled.

Effective January 1, 1993, the Company adopted SFAS No. 109. The resulting change in the method of accounting for income taxes had no material effect on net income for the year ended December 31, 1993 primarily due to the regulated nature of the electric utility subsidiaries and YB. For these PUC regulated subsidiaries, the net increase in deferred income taxes arising from the adoption of SFAS No. 109 is recoverable.

through future rates and has been recorded as a regulatory asset. Under SFAS No. 109, additional income tax expense of \$1.8 million resulted from the 1% increase in the maximum corporate income tax rate enacted by the Omnibus Budget Reconciliation Act of 1993.

Total income tax expense (benefit) was allocated as follows:

<i>Years ended December 31</i>	<i>1993</i>	<i>1992</i>	<i>1991</i>
<i>(in thousands)</i>			
Continuing operations	\$ 47,086	\$ 29,529	\$ 32,333
Discontinued operations	(7,982)	(50,623)	(2,414)
	\$ 39,104	\$ (21,094)	\$ 29,919

The components of income taxes attributable to income from continuing operations were as follows:

<i>Years ended December 31</i>	<i>1993</i>	<i>1992</i>	<i>1991</i>
<i>(in thousands)</i>			
Federal			
Current	\$ 40,537	\$ 32,425	\$ 21,950
Deferred	(152)	(7,085)	5,942
Deferred tax credits, net	50	(1,777)	(1,771)
	40,435	23,563	26,121
State			
Current	3,385	1,634	2,927
Deferred	(475)	(332)	1,467
Deferred tax credits, net	3,741	4,664	1,818
	6,651	5,966	6,212
	\$ 47,086	\$ 29,529	\$ 32,333

Under Accounting Principles Board Opinion No. 11, the sources of timing differences in the recognition of revenues and expenses for tax and financial reporting purposes related to the 1992 and 1991 provisions for deferred income taxes were as follows:

<i>Years ended December 31</i>	<i>1992</i>	<i>1991</i>
<i>(in thousands)</i>		
Excess of tax depreciation over book straight-line depreciation rates	\$ 2,977	\$ 3,218
Excess tax deductions from leveraged leases	2,099	2,676
Excess of tax pension deduction over book expense	(47)	2,984
Interest capitalized for tax purposes	(3,347)	(1,967)
Gain on sale of land deferred for book purposes	(4,737)	—
Contributions in aid of construction and customer advances, net	(6,095)	(2,773)
Other	1,733	3,271
	\$ (7,417)	\$ 7,409

A reconciliation of the amount of income taxes attributable to income from continuing operations computed at the federal statutory rate to the amount provided in the Company's consolidated statements of income is as follows:

Years ended December 31	1993	1992	1991
<i>(in thousands)</i>			
Federal statutory income tax rate	35%	34%	34%
Amount at the federal statutory income tax rate	\$ 38,070	\$ 31,023	\$ 29,904
State income taxes, net of effect on federal income taxes	4,323	3,938	4,100
Preferred stock dividends of electric utility subsidiaries	2,281	2,281	2,342
Difference between book and tax straight-line depreciation for which no deferred taxes were provided	—	3,015	2,676
Amortization of contributions in aid of construction	—	(1,658)	(1,476)
Amortization of utility deferred income taxes in excess of current rates	—	(1,675)	(1,537)
Amortization of deferred tax credits	—	(1,776)	(1,787)
Allowance for funds used during construction	—	(2,375)	(1,403)
Utilization of capital loss carryforwards	—	(3,317)	(481)
Other, net	2,412	73	(5)
	\$ 47,086	\$ 29,529	\$ 32,333

For financial reporting purposes, the Company has not recognized any benefit for the operating losses of HIG, its discontinued insurance subsidiary, in excess of the Company's tax basis in HIG.

Deferred tax assets and deferred tax liabilities were comprised of the following:

	December 31, 1993
<i>(in thousands)</i>	
Deferred tax assets	
Property, plant and equipment	\$ 6,133
Contributions in aid of construction and customer advances	44,932
Other	25,435
	76,500
Deferred tax liabilities	
Property, plant and equipment	162,671
Leveraged leases	45,418
Regulatory asset	6,237
Other	29,324
	243,650
Discontinued operations	1,179
	244,829
Net deferred tax liability	\$ 168,329

There was no valuation allowance provided for deferred tax assets as of December 31, 1993.

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

Years ended December 31	1993	1992	1991
<i>(in thousands)</i>			
Interest (including interest paid by savings bank, but excluding interest paid on nonrecourse debt on leveraged leases)	\$ 142,138	\$ 158,553	\$ 169,092
Income taxes	\$ 5,641	\$ 29,162	\$ 28,810

In 1993, 1992 and 1991, cash paid for interest on nonrecourse debt on leveraged leases amounted to \$10 million, \$11 million and \$11 million, respectively.

Supplemental disclosures of noncash activities. Common stock dividends reinvested by shareholders in HEI common stock in noncash transactions amounted to \$17 million, \$15 million and \$14 million in 1993, 1992 and 1991, respectively.

Effective in 1993, HECO recognized the estimated fair value of noncash contributions in aid of construction received in 1993 and prior years, which increased both plant and contributions in aid of construction by \$26 million.

The allowance for equity funds used during construction, which was capitalized as part of the cost of electric utility plant, amounted to \$7 million, \$7 million and \$4 million in 1993, 1992 and 1991, respectively.

As described in Note 6, on August 17, 1992, MMC, a wholly owned subsidiary of MPC, acquired MDT's 50% interest in Ainalani, a joint venture between MMC and MDT. Upon closing of the purchase, Ainalani was dissolved. As of December 31, 1992, MMC had made no payment to MDT for MDT's 50% interest in Ainalani. In 1993, the payment to MDT, which was not material to the Company's financial condition, was primarily reflected as an increase in other investments in the consolidated statements of cash flows for the year ended December 31, 1993. Prior to the acquisition of MDT's interest in Ainalani, MMC accounted for its investment in Ainalani under the equity method. Subsequent to the acquisition, MMC 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.

17. 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.

Only nonqualified stock options have been granted to date. For these options, 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 and one day from the date of grant in the case of nonqualified stock options.

Nonqualified stock option transactions were as follows:

	1993	1992	1991
Options outstanding, beginning of year	359,000	227,500	152,500
Granted	123,000	209,000	98,500
Exercised	(18,542)	(75,625)	(20,500)
Canceled	—	(1,875)	(3,000)
Options outstanding, end of year	463,458	359,000	227,500
Options exercisable, December 31	235,458	189,625	92,750
Price range for options			
Exercised			
High	\$ 36	\$ 36	\$ 33
Low	30	27	27
Outstanding, December 31			
High	41	41	36
Low	30	30	27

18. RETIREMENT BENEFITS

Pensions. 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	1993	1992
<i>(in thousands)</i>		
Accumulated benefit obligation		
Vested	\$ 293,627	\$ 241,834
Nonvested	43,543	30,774
	<u>\$ 337,170</u>	<u>\$ 272,608</u>
Projected benefit obligation	\$ 432,435	\$ 336,617
Plan assets at fair value, primarily equity securities and fixed income investments	410,369	351,589
Projected benefit obligation in excess of (less than) plan assets	22,066	(14,972)
Unrecognized prior service cost	(2,401)	(2,666)
Unrecognized net gain	4,958	44,542
Unrecognized net transition obligation	(22,259)	(24,657)
Adjustment required to recognize minimum liability	1,985	1,162
Accrued pension liability	<u>\$ 4,349</u>	<u>\$ 3,409</u>

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:

Years ended December 31	1993	1992	1991
<i>(in thousands)</i>			
Service cost—benefits earned during the period	\$ 11,423	\$ 10,358	\$ 9,518
Interest cost on projected benefit obligation	27,350	27,401	24,741
Actual return on plan assets	(56,710)	(14,050)	(73,139)
Amortization and deferral, net	35,607	(5,721)	55,043
	<u>\$ 17,670</u>	<u>\$ 17,988</u>	<u>\$ 16,163</u>

Of these net periodic pension costs, \$12 million, \$12 million and \$11 million were expensed in 1993, 1992 and 1991, respectively, and the remaining amounts were charged primarily to electric utility plant and plant-related accounts.

For all pension plans, as of December 31, 1993 and 1992, the discount rate assumed in determining the actuarial present value of the projected benefit obligation was 7.0% and 8.5%, respectively. For 1993, 1992 and 1991, 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.

Postretirement benefits other than pensions. The Company provides various postretirement benefits other than pensions to eligible employees upon retirement. Health and life insurance benefits are provided to eligible employees of HEI, HECO and its subsidiaries, and YB upon their retirement. Medical, dental and vision benefits are provided to eligible employees of HEI and HECO and its subsidiaries upon their retirement, with contributions by retirees toward costs based on their years of service and retirement date. Medical and vision benefits are provided to eligible bargaining unit employees of YB upon their retirement at no cost. Employees are eligible for these benefits if, upon retirement, they participate in one of the Company's defined benefit pension plans. Currently, no funding has been provided for these benefits. Through December 31, 1992, the cost of postretirement benefits other than pensions had not been recognized until paid (i.e., the pay-as-you-go method). Accordingly, no provision had been made for future benefits to existing or retired employees. Payments for postretirement benefits other than pensions amounted to \$3 million in 1992 and 1991.

Effective January 1, 1993, the Company adopted 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 postretirement benefits other than pensions to that employee and the employee's beneficiaries and covered dependents. The transition obligation is being recognized on a delayed basis over 20 years.

In February 1992, the PUC opened a generic docket to determine whether SFAS No. 106 should be adopted for rate-making purposes. On July 15, 1993, the PUC issued an interim decision and order in the generic docket, amending an earlier interim decision and order to state that it is probable that its final decision will allow, for rate-making purposes, the full costs of postretirement benefits other than pensions calculated on the basis of SFAS No. 106. Upon request of HECO and its subsidiaries, on January 11, 1994, the PUC issued another interim decision and order which stated that it has "determined that it will allow each utility to calculate, for ratemaking purposes, the full costs of postretirement benefits other than pensions on an accrual basis, rather than the current pay-as-you-go basis." The PUC further stated that it has not yet decided whether to adopt SFAS No. 106 in its entirety or with modifications, but it reaffirmed that "(1) it is probable that the final decision and order in these dockets will allow, for ratemaking purposes, the full costs of postretirement benefits other than pensions calculated on the basis of SFAS [No.] 106; and (2) it is probable that the difference between the costs of postretirement benefits other than pensions determined under SFAS [No.] 106 and the current pay-as-you-go method from January 1, 1993, through the effective date of the postretirement benefits step increases ... will be recovered ratably through future rates over a period not extending beyond 2013."

Based upon these interim decisions and orders, HECO and its subsidiaries and YB recognized regulatory assets and deferred for financial reporting purposes the difference between the costs of postretirement benefits other than pensions determined under SFAS No. 106 and such costs under the pay-as-you-go method. The regulatory assets totaled approximately \$19.2 million as of December 31, 1993.

If the PUC in its final decision and order does not fully adopt SFAS No. 106 for rate-making purposes and if under current accounting guidelines it is concluded that recognition of a regulatory asset with respect to the difference between the accrual and the pay-as-you-go methods would be inappropriate, then the net earnings of the Company would be adversely affected by SFAS No. 106 in 1994 and future years. Management cannot predict with certainty when the final decision in this docket will be rendered.

The accrued liability for postretirement benefits other than pensions was as follows:

December 31, 1993

(in thousands)

Accumulated postretirement benefit obligation	
Retirees	\$ 61,498
Fully eligible active plan participants	33,08
Other active plan participants	53,760
	148,344
Unrecognized net loss	(880)
Unrecognized net transition obligation	(127,940)
Accrued liability recognized in the balance sheet	\$ 19,524

As of December 31, 1993, the assumed discount rate and rate of increase in future compensation levels used to measure the accumulated postretirement benefit obligation were 7.0% and 5.0%, respectively.

Net periodic postretirement benefit cost included the following components:

Year ended December 31

1993

(in thousands)

Service cost	\$ 5,712
Interest cost	11,216
Net amortization and deferral	6,733
	\$ 23,661

Of the net periodic postretirement benefit cost, \$3 million was expensed in 1993, and the remaining amount was charged primarily to regulatory assets, electric utility plant and plant-related accounts.

As of December 31, 1993, the assumed health care trend rates for 1994 and future years were as follows: medical, 7.0%; dental, 5.5%; and vision, 4.5%.

A 1% increase in the trend rate for health care costs would have increased the accumulated postretirement benefit obligation as of December 31, 1993 by approximately \$25 million and the service and interest costs for 1993 by approximately \$3 million.

19. REGULATORY RESTRICTIONS ON NET ASSETS

At December 31, 1993, net assets (assets less liabilities) of approximately \$498 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 nor its ability to pay dividends on its common stock.

20. 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, 1993, ASB's private-issue mortgage-backed securities represented whole or participating interests in pools of first mortgage loans collateralized by real estate in the continental United States, and approximately 81% of the portfolio was collateralized by real estate in California. ASB's management has concluded, based on internal reviews of its private-issue mortgage-backed securities, that any impairment in the value of its mortgage-backed securities portfolio resulting from the consequences of the earthquake that occurred on January 17, 1994 near Los Angeles, California is not likely to have a material effect on the Company's financial condition or results of operations. At December 31, 1993, substantially all private-issue mortgage-backed securities were rated investment grade by various securities rating agencies.

21. 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.

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 ASB for debt of the same or similar remaining maturities.

Preferred stock of electric utility subsidiaries subject to mandatory redemption. There are no quoted market prices for the electric utility subsidiaries' preferred stocks. Fair value is estimated based on quoted market prices for similar issues of preferred stock.

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

December 31	1993		1992	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
<i>(in thousands)</i>				
Financial assets				
Cash and equivalents	\$ 116,260	\$ 116,260	\$ 156,754	\$ 156,754
Loans receivable, net	1,735,098	1,801,044	1,462,888	1,504,930
Marketable securities	698,755	710,369	768,415	785,926
Other investments for which it is not practicable to estimate fair value ¹	6,497	N/A	5,976	N/A
Financial liabilities				
Deposit liabilities	2,091,583	2,095,850	2,032,869	2,038,552
Short-term borrowings	40,416	40,416	160,211	160,211
Securities sold under agreements to repurchase	—	—	27,223	27,272
Advances from Federal Home Loan Bank	289,674	301,537	194,099	205,154
Long-term debt, net	697,836	722,347	582,475	589,142
Preferred stock of electric utility subsidiaries subject to mandatory redemption	46,730	49,583	48,920	51,437
Off-balance sheet				
Commitments to extend credit ²				
Financial guarantees written ³				

1 At December 31, 1993 and 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 had a carrying value of \$5.5 million and \$5.0 million as of December 31, 1993 and 1992, respectively. At December 31, 1992, the total assets reported by this company were \$54 million and the common stockholders' equity was \$53 million. For 1992, revenues were \$1.2 million and net loss was \$1.3 million.

2 At December 31, 1993 and 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, 1993 and 1992, MPC or its subsidiaries had issued guarantees of construction loans as described in Note 0. These guarantees relate to borrowings from third parties which bear interest at rates ranging from prime plus 1.0% to prime plus 1.5%. It is not practicable to estimate the fair value of these guarantees.

N/A Not available.

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, real estate developments, leveraged leases, property, plant and equipment, regulatory assets, 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.

Selected quarterly information was as follows:

1993	Quarter ended				Year ended
	March 31	June 30	Sept. 30	Dec. 31	Dec. 31
<i>(in thousands, except per share amounts)</i>					
Revenues	\$ 279,348	\$ 281,645	\$ 299,486	\$ 281,691	\$ 1,142,170
Operating income	28,331	43,919	40,458	44,930	157,638
Net income (loss)					
Continuing operations	\$ 9,292	\$ 18,977	\$ 16,088	\$ 17,327	\$ 61,684
Discontinued operations	1,800	—	—	(14,825)	(13,025)
	\$ 11,092	\$ 18,977	\$ 16,088	\$ 2,502	\$ 48,659
Earnings (loss) per common share ¹					
Continuing operations	\$ 0.38	\$ 0.76	\$ 0.61	\$ 0.63	\$ 2.38
Discontinued operations	0.07	—	—	(0.54)	(0.50)
	\$ 0.45	\$ 0.76	\$ 0.61	\$ 0.09	\$ 1.88
Dividends per common share	\$ 0.57	\$ 0.57	\$ 0.57	\$ 0.58	\$ 2.29
Market price per common share ²					
High	38.88	38.50	38.63	38.75	38.88
Low	35.38	31.00	37.25	34.25	31.00
1992					
<i>(in thousands, except per share amounts)</i>					
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	\$ 0.56	\$ 0.56	\$ 0.56	\$ 0.57	\$ 2.25
Market price per common share ²					
High	37.13	39.88	44.63	42.00	44.63
Low	35.13	36.13	39.50	34.75	34.75

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

² Market prices shown are as reported on the NYSE Composite Tape. The common stock of HEI is traded on the New York and Pacific Stock Exchanges under the symbol HE.

DIRECTORS

Committees of the Board of Directors

- ⁽¹⁾ *Executive:*
Thurston Twigg-Smith, Chairman
- ⁽²⁾ *Audit:*
Diane J. Plottz, Chairman
- ⁽³⁾ *Compensation:*
Edwin L. Carter, Chairman
- ⁽⁴⁾ *Nominating:*
Richard Henderson, Chairman

Robert F. Clarke, 51 ⁽¹⁾
President and
Chief Executive Officer
Hawaiian Electric Industries, Inc.
1989

Edwin L. Carter, 68 ^(1,3)
Retired President and
Chief Executive Officer
Bishop Trust Company, Ltd.
(financial services)
1985

John D. Field, 68 ⁽²⁾
Retired Vice President-
Regulatory Affairs
GTE Service Corporation
(telecommunications services)
1986

Richard Henderson, 65 ^(1,3,4)
President
HSC, Inc.
(real estate investment and
development)
1981

Ben F. Kaito, 67 ^(1,2,4)
Of Counsel
Kaito & Ishida
(private law firm)
1981

Victor Hao Li, S.J.D., 52 ⁽²⁾
Co-chairman
Asia Pacific Consulting Group
(international business consultant)
1988

Bill D. Mills, 42 ⁽³⁾
Chairman of the Board and
Chief Executive Officer
Bill Mills Development and
Investment Company, Inc.
(real estate development)
1988

A. Maurice Myers, 53 ⁽³⁾
President and
Chief Operating Officer
America West Airlines, Inc.
(commercial air
transportation services)
1991

Ruth M. Ono, Ph.D., 58 ⁽²⁾
Vice President
The Queen's Health Systems
(hospital and health care services)
1987

Diane J. Plottz, 58 ^(1,2)
General Partner
Mideast and China
Trading Company
(real estate development)
1987

Oswald K. Stender, 62 ⁽³⁾
Trustee
Kamehameha Schools/Bishop Estate
(charitable trust)
1993

Kelvin H. Taketa, 30 ⁽²⁾
Vice President and
Director-Pacific Region
The Nature Conservancy
(international conservation
non-profit)
1993

Thurston Twigg-Smith, 72 ^(1,4)
President and
Chief Executive Officer
Persis Corporation
(newspaper publishing)
1981

Jeffrey N. Watanabe, 51 ^(1,3)
Senior Partner
Watanabe, Ing and Kawashima
(private law firm)
1987

Harwood D. Williamson, 62
Group Vice President-
Utility Companies
Hawaiian Electric Industries, Inc.
1985

Subsidiary Outside Directors

Jorge G. Camara, M.D., 43
Camara Eye Clinic
(ophthalmology)
American Savings Bank
1991

Joseph W. Hartley, Jr., 60
President and
Chief Executive Officer
Maui Land & Pineapple Company, Inc.
(resort and commercial development,
agriculture)
Maui Electric Company
1993

Richard T. Ishida, 58
Attorney at law
Goodsill Anderson Quinn & Stifel
(private law firm)
Hawaiian Electric Light Company
1984

Mildred D. Kosaki, 60
Specialist in education research
Hawaiian Electric Company
1973

Sanford J. Langa, 64
Attorney at law
(private law firm)
Maui Electric Company
1961

B. Martin Luna, 55
Partner
Carlsmith, Ball, Wichman, Murray,
Case, Mulkai and Ichiki
(private law firm)
Maui Electric Company
1979

Denzil W. Rose, 68
Retired President and
General Manager
Hawaii Motors
(automobile dealership)
Hawaiian Electric Light Company
1960

Anne M. Takabuki, 37
Vice President-
Finance and Administration
Wailea Resort Company, Ltd.
(resort and commercial development)
Maui Electric Company
1993

Donald K. Yamada, 62
President
Yamada Diversified Corporation
(construction and trucking services)
Hawaiian Electric Light Company
1985

Paul C. Yuen, Ph.D., 65
Senior Vice President
University of Hawaii
(higher education)
Hawaiian Electric Company
1993

*Year denotes year of appointment or
election to the Board of Directors*

OFFICERS

*Hawaiian Electric
Industries, Inc.*

Robert F. Clarke
President and
Chief Executive Officer
1987

Charles F. Wall, 54
Vice President and
Corporate Information Officer
1990

Harwood D. Williamson
Group Vice President-Utility
Companies
1956

Andrew I. T. Chang, 54
Vice President-Government
Relations
1985

Edward J. Blackburn, 63
Group Vice President-Diversified
Companies
1987

Constance H. Lau, 41
Treasurer
1984

Robert F. Mougeot, 51
Financial Vice President and
Chief Financial Officer
1988

Curtis Y. Harada, 38
Controller
1989

Peter C. Lewis, 59
Vice President-Administration
1968

Betty Ann M. Splinter, 48
Secretary
1974

Molly M. Egged, 43
Assistant Secretary
1983

Subsidiary Presidents

Harwood D. Williamson
Hawaiian Electric Company

Robert F. Mougeot
HEI Investment Corp.

Thomas J. Jezierny, 40
Maui Electric Company
1970

Glenn K. Y. Hong, 40
Hawaiian Tug & Barge Corp.
and Young Brothers, Ltd.
1989

Warren H. W. Lee, 40
Hawaii Electric Light Company
1972

Robert G. Diffley, 52
Malama Pacific Corp.
1992

Wayne K. Minami, 51
American Savings Bank, F.S.B.
1987

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

Continental Stock Transfer & Trust Company
2 Broadway
New York, New York 10004
Telephone: 212-509-4000
Facsimile: 212-509-5150

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

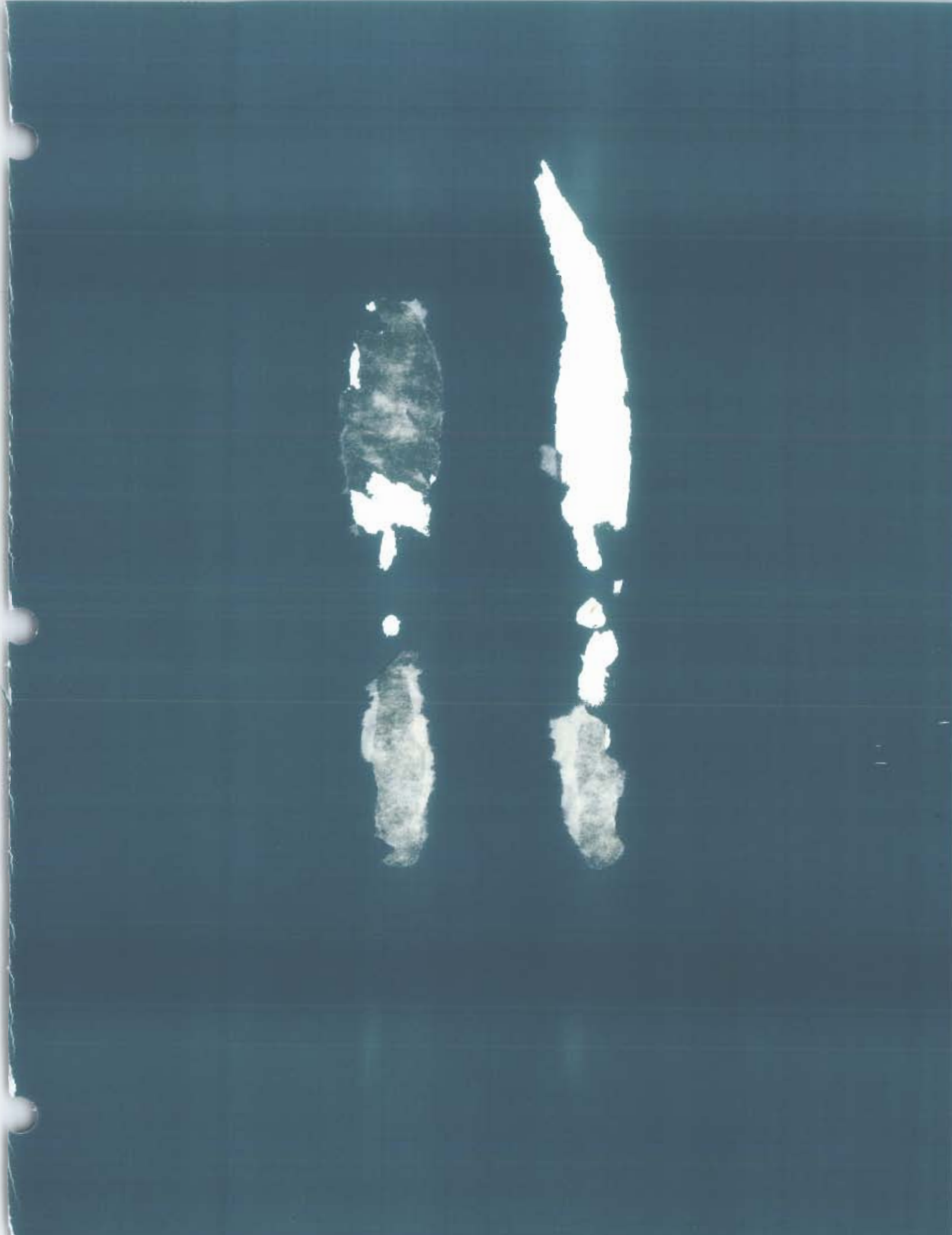
Annual Meeting

Tuesday, April 19, 1994, 9:30 a.m.
Pacific Ballroom
Ilikai Hotel
1777 Ala Moana Boulevard
Honolulu, Hawaii 96815

Independent Auditors

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







Hawaiian

Electric

Industries, Inc.

Corporate Headquarters
900 Richards Street
Honolulu, Hawaii 96813