HAWAIIAN ELECTRIC CO INC
Form 10-K
February 27, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

OR

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

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

1-4955 **HAWAIIAN ELECTRIC COMPANY, INC., a Hawaii corporation** **99-0040500**

900 Richards Street, Honolulu, Hawaii 96813

Telephone (808) 543-7771

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

Registrant	Title of each class	Name of each exchange on which registered
Hawaiian Electric Industries, Inc.	**Common Stock, Without Par Value**	**New York Stock Exchange**
Hawaiian Electric Company, Inc.	**Guarantee with respect to 6.50% Cumulative Quarterly Income Preferred Securities Series 2004 (QUIPS[SM])**	**New York Stock Exchange**

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

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

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

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

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

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

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

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

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

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Indicate by check mark whether Registrant Hawaiian Electric Industries, Inc. is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether Registrant Hawaiian Electric Company, Inc. is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x (Do not check if a smaller reporting company) Smaller reporting company ¨

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

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

	Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrants as of June 30, 2008	Number of shares of common stock outstanding of the registrants as of June 30, 2008	February 20, 2009
Hawaiian Electric Industries, Inc. (HEI)	$2,093,306,733	84,646,451 (Without par value)	90,608,364 (Without par value)
Hawaiian Electric Company, Inc. (HECO)	None	12,805,843 ($6 2/3 par value)	12,805,843 ($6 2/3 par value)

DOCUMENTS INCORPORATED BY REFERENCE

HEI s Annual Report to Shareholders (Selected Sections) for the fiscal year ended December 31, 2008 Parts I, II, III and IV

HECO s Consolidated Selected Financial Data Part II

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

HECO s Quantitative and Qualitative Disclosures about Market Risk Part II

HECO s Consolidated 2008 Financial Statements Parts I, II, III and IV

Selected sections of Proxy Statement of HEI for the 2009 Annual Meeting of Shareholders to be filed Part III

This combined Form 10-K represents separate filings by Hawaiian Electric Industries, Inc. and Hawaiian Electric Company, Inc. Information contained herein relating to any individual registrant is filed by each registrant on its own behalf. Neither registrant makes any representations as to the information relating to the other registrant.

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GLOSSARY OF TERMS

Defined below are certain terms used in this report:

Terms	Definitions
2005 Act	Public Utility Holding Company Act of 2005
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of HEI Diversified, Inc. and parent company of American Savings Investment Services Corp. (and its subsidiary since March 15, 2001, Bishop Insurance Agency of Hawaii, Inc.). Former subsidiaries include American Savings Mortgage Co., Inc. (dissolved in July 2003), ASB Service Corporation (dissolved in January 2004), ASB Realty Corporation (dissolved in May 2005) and AdCommunications, Inc. (dissolved in May 2007).
BIF	Bank Insurance Fund
Btu	British thermal unit
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
Chevron	Chevron Products Company, a fuel oil supplier
CHP	Combined heat and power
Company	When used in Hawaiian Electric Industries, Inc. sections, the Company refers to Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation, Hawaiian Electric Company, Inc. and its subsidiaries (listed under HECO); HEI Diversified, Inc. and its subsidiary, American Savings Bank, F.S.B. and its subsidiaries (listed under ASB); Pacific Energy Conservation Services, Inc.; HEI Properties, Inc.; HEI Investments, Inc. (in dissolution); Hawaiian Electric Industries Capital Trust II and Hawaiian Electric Industries Capital Trust III (inactive financing entities); and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.). Former subsidiaries of HEI (other than former subsidiaries of HECO and ASB and former subsidiaries of HEI sold or dissolved prior to 2004) include Hycap Management, Inc. (dissolution completed in 2007); Hawaiian Electric Industries Capital Trust I (dissolved and terminated in 2004)*, HEI Preferred Funding, LP (dissolved and terminated in 2004)*, Malama Pacific Corp. (discontinued operations, dissolved in June 2004), and HEI Power Corp. (discontinued operations, dissolved in 2006) and its dissolved subsidiaries. (*unconsolidated subsidiaries as of January 1, 2004).
	When used in Hawaiian Electric Company, Inc. sections, the Company refers to Hawaiian Electric Company, Inc. and its direct subsidiaries.
Consumer Advocate	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii
D&O	Decision and order
DG	Distributed generation
DOD	Department of Defense federal
DOH	Department of Health of the State of Hawaii
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
ECAC	Energy cost adjustment clause
EITF	Emerging Issues Task Force
Energy Agreement	Agreement dated October 20, 2008 and signed by the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and HECO, for itself and on behalf of its electric utility subsidiaries committing to actions to develop renewable energy and reduce dependence on fossil fuels in support of the HCEI
EPA	U.S. Environmental Protection Agency
ERL	Environmental Response Law of the State of Hawaii

Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
federal	U.S. Government
FERC	Federal Energy Regulatory Commission
FHLB	Federal Home Loan Bank

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GLOSSARY OF TERMS *(continued)*

Terms	Definitions
FHLMC	Federal Home Loan Mortgage Corporation
FICO	Financing Corporation
FIN	Financial Accounting Standards Board Interpretation No.
FNMA	Federal National Mortgage Association
GAAP	U. S. generally accepted accounting principles
GHG	Greenhouse gas
GNMA	Government National Mortgage Association
HCEI	Hawaii Clean Energy Initiative
HC&S	Hawaiian Commercial & Sugar Company, a division of A&B-Hawaii, Inc.
HECO	Hawaiian Electric Company, Inc., an electric utility subsidiary of Hawaiian Electric Industries, Inc. and parent company of Hawaii Electric Light Company, Inc., Maui Electric Company, Limited, Renewable Hawaii, Inc., Uluwehiokama Biofuels Corp. and HECO Capital Trust III. Former subsidiaries include HECO Capital Trust I (dissolved and terminated in 2004)* and HECO Capital Trust II (dissolved and terminated in 2004)*. (*unconsolidated subsidiaries as of January 1, 2004)
HECO s Consolidated Financial Statements	Hawaiian Electric Company, Inc. s Consolidated Financial Statements, which is incorporated by reference into Parts I, II, III and IV of this Form 10-K to HECO Exhibit 99 to HECO s Current Report on Form 8-K dated February 19, 2009
HECO s MD&A	Hawaiian Electric Company, Inc. s Management s Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated into Part II, Item 7 of this Form 10-K by reference to HECO Exhibit 99 to HECO s Current Report on Form 8-K dated February 19, 2009
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., HEI Diversified, Inc., Pacific Energy Conservation Services, Inc., HEI Properties, Inc., HEI Investments, Inc. (in dissolution), Hawaiian Electric Industries Capital Trust II, Hawaiian Electric Industries Capital Trust III and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.). Former subsidiaries are listed under Company.
HEI s Annual Report	Selected sections of Hawaiian Electric Industries, Inc. s 2008 Annual Report to Shareholders, which are incorporated into various parts of this Form 10-K by reference to HEI Exhibit 13 to HEI s Current Report on Form 8-K dated February 19, 2009
HEI s Consolidated Financial Statements	Hawaiian Electric Industries, Inc. s Consolidated Financial Statements, which are incorporated into Part II, Item 8 of this Form 10-K by reference to HEI Exhibit 13 to HEI s Current Report on Form 8-K dated February 19, 2009
HEI s MD&A	Hawaiian Electric Industries, Inc. s Management s Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated into Part II, Item 7 of this Form 10-K by reference to HEI Exhibit 13 to HEI s Current Report on Form 8-K dated February 19, 2009
HEI 2009 Proxy Statement	Selected sections of Hawaiian Electric Industries, Inc. s 2009 Proxy Statement to be filed, which are incorporated into this Form 10-K by reference
HEIDI	HEI Diversified, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
HEIII	HEI Investments, Inc. (formerly HEI Investment Corp.) (in dissolution), a direct subsidiary of Hawaiian Electric Industries, Inc. since January 2007 and formerly a wholly-owned subsidiary of HEI Power Corp.
HEIPI	HEI Properties, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HELCO	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
HEP	Hamakua Energy Partners, L.P., formerly known as Encogen Hawaii, L.P.
HITI	Hawaiian Interisland Towing, Inc.
HTB	Hawaiian Tug & Barge Corp. On November 10, 1999, HTB sold substantially all of its operating assets and the stock of Young Brothers, Limited, and changed its name to The Old Oahu Tug Services, Inc.

IPP	Independent power producer
IRP	Integrated resource plan
Kalaeloa	Kalaeloa Partners, L.P.

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GLOSSARY OF TERMS *(continued)*

Terms	Definitions
kV	kilovolt
KWH	Kilowatthour
LSFO	Low sulfur fuel oil
MBtu	Million British thermal unit
MD&A	Management s Discussion and Analysis of Financial Condition and Results of Operations
MECO	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
MSFO	Medium sulfur fuel oil
MW	Megawatt/s (as applicable)
NA	Not applicable
NM	Not meaningful
OPA	Federal Oil Pollution Act of 1990
OTS	Office of Thrift Supervision, Department of Treasury
PCB	Polychlorinated biphenyls
PECS	Pacific Energy Conservation Services, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
PGV	Puna Geothermal Venture
PPA	Power purchase agreement
PUC	Public Utilities Commission of the State of Hawaii
PURPA	Public Utility Regulatory Policies Act of 1978
QF	Qualifying Facility under the Public Utility Regulatory Policies Act of 1978
QTL	Qualified Thrift Lender
RCRA	Resource Conservation and Recovery Act of 1976
Registrant	Each of Hawaiian Electric Industries, Inc. and Hawaiian Electric Company, Inc.
RHI	Renewable Hawaii, Inc., a wholly owned subsidiary of Hawaiian Electric Company, Inc.
ROACE	Return on average common equity
RPS	Renewable portfolio standards
SAIF	Savings Association Insurance Fund
SARs	Stock appreciation rights
SEC	Securities and Exchange Commission
See	Means the referenced material from HEI Exhibit 13 and/or HECO Exhibit 99 to HEI s and HECO s Current Report on Form 8-K dated February 19, 2009 is incorporated by reference as if fully set forth herein (or means refer to the section in this document or the referenced document)
SFAS	Statement of Financial Accounting Standards
SOIP	1987 Stock Option and Incentive Plan, as amended
ST	Steam turbine
state	State of Hawaii
Tesoro	Tesoro Hawaii Corporation dba BHP Petroleum Americas Refining Inc., a fuel oil supplier
TOOTS	The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.), a wholly-owned subsidiary of Hawaiian Electric Industries, Inc. On November 10, 1999, HTB sold the stock of YB and substantially all of HTB s operating assets and changed its name.
UBC	Uluwehiokama Biofuels Corp., a newly formed, non-regulated subsidiary of Hawaiian Electric Company, Inc.
UST	Underground storage tank
YB	Young Brothers, Limited, which was sold on November 10, 1999, was formerly a wholly-owned subsidiary of Hawaiian Tug & Barge Corp.

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Forward-Looking Statements

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

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

- the effects of international, national and local economic conditions, including the state of the Hawaii tourist and construction industries, the strength or weakness of the Hawaii and continental U.S. real estate markets (including the fair value and/or the actual performance of collateral underlying loans and mortgage-related securities held by American Savings Bank, F.S.B. (ASB)), decisions concerning the extent of the presence of the federal government and military in Hawaii, and the implications and potential impacts of current capital and credit market conditions and federal and state responses to those conditions, such as the Emergency Economic Stabilization Act of 2008 (plan for a $700 billion bailout of the financial industry) and American Economic Recovery and Reinvestment Act of 2009 (economic stimulus package);

- the effects of weather and natural disasters, such as hurricanes, earthquakes, tsunamis, lightning strikes and the potential effects of global warming;

- global developments, including the effects of terrorist acts, the war on terrorism, continuing U.S. presence in Iraq and Afghanistan, potential conflict or crisis with North Korea and in the Middle East, Iran s nuclear activities and potential avian flu pandemic;

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

- the ability of the Company to access credit markets to obtain commercial paper and other short-term and long-term debt financing and to access capital markets to issue preferred stock or hybrid securities (the electric utilities) and common stock (HEI) under volatile and challenging market conditions;

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

- changes in laws, regulations, market conditions and other factors that result in changes in assumptions used to calculate retirement benefits costs and funding requirements and the fair value of ASB used to test goodwill for impairment;

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

the effects of the implementation of the Energy Agreement with the State of Hawaii and Consumer Advocate (Energy Agreement) setting forth the goals and objectives of a Hawaii Clean Energy Initiative (HCEI), the fulfillment by the utilities of their commitments under the Energy Agreement and revenue decoupling;

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

increased risk to generation reliability as generation peak reserve margins on Oahu continue to be strained;

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

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

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

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

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

federal, state, county and international governmental and regulatory actions, such as changes in laws, rules and regulations applicable to HEI, HECO, ASB and their subsidiaries (including changes in taxation, regulatory changes resulting from the HCEI, environmental laws and regulations, the potential regulation of greenhouse gas emissions (GHG) and governmental fees and assessments); decisions by the Public Utilities Commission of the State of Hawaii (PUC) in rate cases (including decisions on ECACs) and other proceedings and by other agencies and courts on land use, environmental and other permitting issues (such as required corrective actions, restrictions and penalties that may arise, for example with respect to environmental conditions or renewable portfolio standards (RPS)); enforcement actions by the Office of Thrift Supervision (OTS) and other governmental authorities (such as consent orders, required corrective actions, restrictions and penalties that may arise, for example, with respect to compliance deficiencies under the Bank Secrecy Act or other regulatory requirements or with respect to capital adequacy);

- increasing operation and maintenance expenses and investment in infrastructure for the electric utilities, resulting in the need for more frequent rate cases, and increasing noninterest expenses at ASB;

- the risks associated with the geographic concentration of HEI s businesses;

- the effects of changes in accounting principles applicable to HEI, HECO, ASB and their subsidiaries, including the adoption of International Financial Reporting Standards or new accounting principles, continued regulatory accounting under Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation, and the possible effects of applying Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46R, Consolidation of Variable Interest Entities, and Emerging Issues Task Force (EITF) Issue No. 01-8, Determining Whether an Arrangement Contains a Lease, to PPAs with IPPs;

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

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

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

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

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

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

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

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

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PART I

ITEM 1. BUSINESS

HEI

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

HECO and its operating utility subsidiaries, Hawaii Electric Light Company, Inc. (HELCO) and Maui Electric Company, Limited (MECO), are regulated electric public utilities. HECO also owns all the common securities of HECO Capital Trust III (Delaware statutory trust), which was formed to effect the issuance of $50 million of cumulative quarterly income preferred securities in 2004, for the benefit of HECO, HELCO and MECO. In December 2002, HECO formed a subsidiary, Renewable Hawaii, Inc., to invest in renewable energy projects. In September 2007, HECO formed another subsidiary, Uluwehiokama Biofuels Corp. (UBC), to invest in a biodiesel refining plant to be built on the island of Maui.

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

ASB, acquired in 1988, is one of the largest financial institutions in the State of Hawaii with assets of $5.4 billion as of December 31, 2008.

HEIPI, whose predecessor company was formed in February 1998, holds venture capital investments (in companies based in Hawaii and the U.S. mainland) with a carrying value of $1.5 million as of December 31, 2008.

HEI Investment Corp. (HEIIC), incorporated in May 1984 primarily to make passive investments in corporate securities and other long-term investments, changed its name to HEI Investments, Inc. (HEIII) in January 2000. HEIII is not an investment company regulated under the Investment Company Act of 1940. HEIII s long-term investments previously consisted primarily of investments in leveraged leases, the last of which was sold in November 2007. HEIII has filed articles of dissolution and is winding up its affairs.

PECS was formed in 1994 and currently is a contract services company providing limited support services in Hawaii.

In November 1999, Hawaiian Tug & Barge Corp. (HTB) sold substantially all of its operating assets and the stock of YB for a nominal gain, changed its name to TOOTS and ceased maritime freight transportation operations. TOOTS currently administers certain employee and retiree-related benefits programs and monitors matters related to its former operations and the operations of its former subsidiary.

For additional information about the Company, see HEI s MD&A, HEI s Quantitative and Qualitative Disclosures about Market Risk and HEI s Consolidated Financial Statements, which are incorporated by reference into Part II of this Form 10-K.

The Company s website address is www.hei.com. The information on the Company s website is not incorporated by reference in this annual report on Form 10-K unless specifically incorporated herein by reference. HEI and HECO currently make available free of charge through this website their annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports (since 1994) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

Recent developments and updates (to information incorporated by reference into this Form 10-K from HEI s and HECO s MD&As and HEI s and HECO s Consolidated Financial Statements in HEI Exhibit 13 and HECO Exhibit 99 to the Company s Current Report on Form 8-K dated February 19, 2009) are included in the discussions below, including HEI Securities ratings, Electric utility Regulation Environmental regulation Air quality controls and Bank Regulation Capital Purchase Program.

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Regulation

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

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

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

OTS regulations generally prohibit savings and loan holding companies and their nonthrift subsidiaries from engaging in activities other than those which are specifically enumerated in the regulations. However, the OTS regulations provide for an exemption which is available to HEI and HEIDI if ASB satisfies the qualified thrift lender (QTL) test discussed under Bank Regulation Qualified thrift lender test. ASB met the QTL test at all times during 2008; however, the failure of ASB to satisfy the QTL test in the future could result in a need to divest ASB. If such divestiture were to be required, federal law limits the type of entities eligible to acquire ASB.

HEI and HEIDI are prohibited, directly or indirectly, or through one or more subsidiaries, from (i) acquiring control of, or acquiring by merger or purchase of assets of another insured institution or holding company without prior written OTS approval; (ii) acquiring more than 5% of the voting shares of another savings association or savings and loan holding company which is not a subsidiary; or (iii) acquiring or retaining control of a savings association not insured by the Federal Deposit Insurance Corporation (FDIC).

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

The abilities of certain of HEI s subsidiaries to pay dividends or make other distributions to HEI are subject to contractual and regulatory restrictions. Under the PUC Agreement, in the event that the consolidated common stock equity of the electric utility subsidiaries falls below 35% of total electric utility capitalization (including the current maturities of long-term debt, but excluding short-term borrowings), the electric utility subsidiaries would, absent PUC approval, be restricted in their payment of cash dividends to 80% of the earnings available for the payment of dividends in the current fiscal year and preceding five years, less the amount of dividends paid during that period. The PUC Agreement also provides that the foregoing dividend restriction shall not be construed as relinquishing any right the PUC may have to review the dividend policies of the electric utility subsidiaries. As of December 31, 2008, the consolidated common stock equity of HEI s electric utility subsidiaries was 56% of their total capitalization (as calculated for purposes of the PUC Agreement). As of December 31, 2008, HECO and its subsidiaries had common stock equity of $1.2 billion of which approximately $506 million was not available for transfer to HEI without regulatory approval.

The ability of ASB to make capital distributions to HEI and other affiliates is restricted under federal law. Subject to a limited exception for stock redemptions that do not result in any decrease in ASB s capital and would improve ASB s financial condition, ASB is prohibited from declaring any dividends, making any other capital distributions, or paying a management fee to a controlling person if, following the distribution or payment, ASB would be deemed to be undercapitalized, significantly undercapitalized or critically undercapitalized. See Bank Regulation Prompt corrective action. All capital distributions are subject to a prior indication of no objection by the OTS. Also see Note 12 to HEI s Consolidated Financial Statements.

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

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

Under the terms of the agreement for the sale of YB, HEI and TOOTS had certain environmental obligations arising from conditions existing prior to the sale of YB, including potential obligations regarding petroleum releases in the Honolulu Harbor area. In 2003, TOOTS paid $250,000 to fund response activities related to the Honolulu Harbor area as a one-time cash-out payment in lieu of continuing with further response activities.

Securities ratings

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

Revenue bonds are issued by the Department of Budget and Finance of the State of Hawaii for the benefit of HECO and its subsidiaries, but the source of their repayment are the unsecured obligations of HECO and its subsidiaries under loan agreements and notes issued to the Department, including HECO s guarantees of its subsidiaries obligations. The payment of principal and interest due on all revenue bonds currently outstanding are insured either by Ambac Assurance Corporation, Financial Guaranty Insurance Company, MBIA Insurance Corporation or Syncora Guarantee Inc. (formerly XL Capital Assurance Inc.). See the discussion of the downgrades of the ratings of these insurers under Electric Utility Liquidity and capital resources in HEI s MD&A. Following MBIA Insurance Corporation s announced restructuring, the revenue bonds issued for HECO and its subsidiaries and insured by MBIA Insurance Corporation have been reinsured by MBIA Insurance Corp. of Illinois (MBIA Illinois), whose financial strength rating by S&P is AA- compared to a rating of BBB+ for MBIA Insurance Corporation. Moody s has announced it will assign ratings to the reinsured municipal securities based on the higher of its insurance financial strength rating of MBIA Illinois or the published underlying rating. The insurance financial strength rating of MBIA Illinois by Moody s is Baa1, which is the same as Moody s issuer rating for HECO.

Employees

As of December 31, 2008, 2007, 2006, 2005 and 2004 the Company had full-time employees as follows:

December 31	2008	2007	2006	2005	2004
HEI	41	42	41	42	45
HECO and its subsidiaries	2,203	2,145	2,085	2,066	2,013
ASB and its subsidiaries	1,313	1,330	1,318	1,272	1,291
Other subsidiaries	3	3	3	3	5
	3,560	3,520	3,447	3,383	3,354

The employees of HEI and its direct and indirect subsidiaries, other than the electric utilities, are not covered by any collective bargaining agreement. Of the 2,203 full time employees of HECO and its subsidiaries as of December 31, 2008, 57% were covered by collective bargaining agreements. See the discussion of Collective bargaining agreements in Note 3 to HEI s Consolidated Financial Statements.

Properties

HEI leases office space from nonaffiliated lessors in downtown Honolulu under leases that expire in May 2011. HEI also subleases office space in a downtown Honolulu building leased by HECO under a lease that expires in November 2021, with an option to extend to November 2024.

Electric utility

HECO and subsidiaries and service areas

HECO, HELCO and MECO are regulated operating electric public utilities engaged in the production, purchase, transmission, distribution and sale of electricity on the islands of Oahu; Hawaii; and Maui, Lanai and Molokai, respectively. HECO acquired MECO in 1968 and HELCO in 1970. In 2008, the electric utilities revenues and net income amounted to approximately 89% and 102%, respectively, of HEI s consolidated revenues and net income, compared to approximately 83% and 62% in 2007 and approximately 84% and 69% in 2006, respectively.

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

For additional information about HECO, see HECO s MD&A, HECO s Quantitative and Qualitative Disclosures about Market Risk and HECO s Consolidated Financial Statements, which are incorporated by reference into Part II of this Form 10-K.

Sales of electricity

The following table sets forth the number of electric customer accounts as of December 31, 2008, 2007 and 2006 and electric sales revenues by company for each of the years then ended:

Years ended December 31	**2008**		**2007**		**2006**	
(dollars in thousands)	**Customer accounts***	**Electric sales revenues**	**Customer accounts***	**Electric sales revenues**	**Customer accounts***	**Electric sales revenues**
HECO	293,740	$ 1,948,243	294,591	$ 1,380,726	292,988	$ 1,361,566
HELCO	79,606	445,214	78,983	360,684	76,417	338,786
MECO	67,065	451,042	66,323	349,138	64,937	343,916
	440,411	$ 2,844,499	439,897	$ 2,090,548	434,342	$ 2,044,268

* As of December 31.

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

Significant customers. HECO and its subsidiaries derived approximately 10% in 2008, 9% in 2007 and 10% in 2006 of their operating revenues from the sale of electricity to various federal government agencies.

Under a new Basic Ordering Agreement (BOA) with the federal Department of Defense (DOD) entered into in 2007, which expires in 2012, and earlier BOAs and other agreements, HECO has completed energy conservation and other projects for federal agencies over the years, although the number of projects completed has decreased through the years.

Executive Order 13123, adopted in 1994, mandated that each federal agency develop and implement a program to reduce energy consumption by 35% by the year 2010 to the extent that these measures are cost

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effective. The 35% reduction was measured relative to the agency s 1985 energy use. The Energy Policy Act of 2005 further mandated that federal buildings reduce energy consumption by up to 20% by fiscal year 2015 relative to base fiscal year 2003 consumption to the extent that these measures are cost effective. The Act also establishes energy conservation goals at the state level for federally funded programs; stricter conservation measures for a variety of large energy consuming products; tax credits for energy efficient homes, solar energy, fuel cells and microturbine power plants; and includes other energy-related provisions. HECO continues to work with various federal agencies to implement DSM programs that will help them achieve their energy reduction objectives. Neither HEI nor HECO management can predict with certainty the impact of federal mandates on HEI s or HECO s future financial condition, results of operations or liquidity.

Selected consolidated electric utility operating statistics

Years ended December 31,	**2008**	**2007**	**2006**	**2005**	**2004**
KWH sales (millions)					
Residential	2,924.7	3,035.5	3,022.2	3,008.0	3,000.6
Commercial	3,326.3	3,340.6	3,313.3	3,288.5	3,247.3
Large light and power	3,632.9	3,690.2	3,728.8	3,742.0	3,762.6
Other	52.3	51.8	51.5	51.4	52.8
	9,936.2	10,118.1	10,115.8	10,089.9	10,063.3
KWH net generated and purchased (millions)					
Net generated	6,261.8	6,478.6	6,610.8	6,485.3	6,572.5
Purchased	4,248.2	4,228.0	4,094.4	4,167.5	4,066.5
	10,510.0	10,706.6	10,705.2	10,652.8	10,639.0
Losses and system uses (%)	5.2	5.3	5.3	5.1	5.2
Energy supply (December 31)					
Net generating capability MW	1,687	1,685	1,669	1,644	1,642
Firm purchased capability MW	540	538	535	540	529
	2,227	2,223	2,204	2,184	2,171
Net peak demand MW[1]	1,590	1,635	1,685	1,641	1,694
Btu per net KWH generated	10,700	10,807	10,848	10,873	10,767
Average fuel oil cost per Mbtu (cents)	1,840.0	1,108.2	1,094.1	908.6	684.3
Customer accounts (December 31)					
Residential	383,042	381,964	376,783	372,638	366,217
Commercial	55,243	55,869	55,493	54,647	53,854
Large light and power	543	554	567	559	555
Other	1,583	1,510	1,499	1,472	1,420
	440,411	439,897	434,342	429,316	422,046
Electric revenues (thousands)					
Residential	$ 935,061	$ 713,241	$ 690,425	$ 607,031	$ 527,970
Commercial	973,048	714,218	695,247	611,403	522,230
Large light and power	921,321	652,298	648,066	569,016	483,737
Other	15,069	10,791	10,530	9,200	8,148
	$ 2,844,499	$ 2,090,548	$ 2,044,268	$ 1,796,650	$ 1,542,085
Average revenue per KWH sold (cents)	28.63	20.66	20.21	17.81	15.32

Residential	31.97	23.50	22.85	20.18	17.60
Commercial	29.25	21.38	20.98	18.59	16.08
Large light and power	25.36	17.68	17.38	15.21	12.86
Other	28.81	20.81	20.44	17.92	15.44
Residential statistics					
Average annual use per customer account (KWH)	7,640	7,996	8,056	8,141	8,239
Average annual revenue per customer account	$ 2,443	$ 1,879	$ 1,840	$ 1,643	$ 1,450
Average number of customer accounts	382,821	379,621	375,143	369,495	364,225

[1] Sum of the net peak demands on all islands served, noncoincident and nonintegrated.

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Generation statistics

The following table contains certain generation statistics as of, and for the year ended, December 31, 2008. The net generating and firm purchased capability available for operation at any given time may be more or less than shown because of capability restrictions or temporary outages for inspection, maintenance, repairs or unforeseen circumstances.

	Island of Oahu-HECO	Island of Hawaii-HELCO	Island of Maui-MECO	Island of Lanai-MECO	Island of Molokai-MECO	Total
Net generating and firm purchased capability (MW) as of December 31, 2008[1]						
Conventional oil-fired steam units	1,106.8	62.2	35.9			1,204.9
Diesel	29.5	30.8	96.8	9.3	9.6	176.0
Combustion turbines (peaking units)	101.8					101.8
Other combustion turbines		88.9			2.2	91.1
Combined-cycle unit			113.6			113.6
Firm contract power[2]	434.0	90.0	16.0			540.0
	1,672.1	271.9	262.3	9.3	11.8	2,227.4
Net peak demand (MW)	1,186.0	198.2	194.4	5.2	5.9	1,589.7[3]
Reserve margin	46.3%	37.2%	34.9%	78.8%	100.0%	44.5%
Annual load factor	76.3%	71.5%	73.0%	66.7%	70.9%	75.3%
KWH net generated and purchased (millions)	7,950.6	1,244.8	1,247.4	30.4	36.8	10,510.0

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

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

3 Noncoincident and nonintegrated.

Generating reliability and reserve margin

HECO serves the island of Oahu and HELCO serves the island of Hawaii. MECO has three separate electrical systems one each on the islands of Maui, Molokai and Lanai. HECO, HELCO and MECO have isolated electrical systems that are not interconnected to each other or to any other electrical grid and, thus, each maintains a higher level of reserve generation than is typically carried by interconnected mainland U.S. utilities, which are able to share reserve capacity. These higher levels of reserve margins are required to meet peak electric demands, to provide for scheduled maintenance of generating units (including the units operated by IPPs relied upon for firm capacity) and to allow for the forced outage of the largest generating unit in the system. Although the planning for, and installation of, adequate levels of reserve generation have contributed to the achievement of generally high levels of system reliability, HECO is below preferred levels of total firm generating capacity and has made several public calls for energy conservation when reserves were especially narrow. See Integrated resource planning, requirements for additional generating capacity and adequacy of supply in HEI s MD&A under Electric utility.

Integrated resource planning and clean energy scenario planning

The PUC issued an order in 1992 requiring the energy utilities in Hawaii to develop integrated resource plans (IRPs), which may be approved, rejected or modified by the PUC. The goal of integrated resource planning is the identification of demand- and supply-side resources and the

integration of these resources for meeting near- and long-term consumer energy needs in an efficient and reliable manner at the lowest reasonable cost. In November 2008, the parties to the Energy Agreement filed requests with the PUC to move from the IRP process to a new Clean Energy Scenario Planning (CESP) process intended to be used to determine future investments in transmission, distribution and generation that will be necessary to facilitate high levels of renewable energy production. In November and December 2008, the PUC closed the utilities IRP dockets and directed them to suspend all activities pursuant to the IRP framework to allow for resources to be diverted to the development of CESP frameworks. See Integrated resource planning, requirements for additional generating capacity and adequacy of supply in HEI s MD&A under Electric utility.

Nonutility generation

The Company has supported state and federal energy policies which encourage the development of renewable energy sources that reduce the use of fuel oil. The Company s renewable energy sources range from wind, geothermal and hydroelectric power, to energy produced by the burning of bagasse (sugarcane waste) and municipal waste.

HECO PPAs. HECO currently has three major PPAs. In March 1988, HECO entered into a PPA with AES Barbers Point, Inc. (now known as AES Hawaii, Inc. (AES Hawaii)), a Hawaii-based, indirect subsidiary of The AES Corporation. The agreement with AES Hawaii, as amended, provides that, for a period of 30 years beginning September 1992, HECO will purchase 180 megawatts (MW) of firm capacity. The AES Hawaii 180 MW coal-fired cogeneration plant utilizes a clean coal technology and is designed to sell sufficient steam to be a Qualifying Facility (QF) under the Public Utility Regulatory Policies Act of 1978 (PURPA). On December 28, 2007, AES Hawaii filed an application with the FERC for a limited waiver of FERC s operating standard for a qualifying cogeneration facility for 2007, because it determined that it will be unable to meet the QF operating standard for 2007. Under the PPA between HECO and AES Hawaii, any change in QF status does not affect either HECO s or AES Hawaii s obligations. In 2003, HECO consented to AES Hawaii s proposed refinancing and received consideration for its consent, primarily in the form of a PPA amendment that reduced the cost of firm capacity retroactive to June 1, 2003, which benefit is being passed on to ratepayers through a reduction in rates. AES Hawaii also granted HECO an option, subject to certain conditions, to acquire an interest in portions of the AES Hawaii facility site that are not needed for the existing plant operations, and which potentially could be used for the development of another coal-fired facility.

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

HECO also entered into a PPA in March 1986 and a firm capacity amendment in April 1991 with the City and County of Honolulu with respect to a refuse-fired plant (HPower). The HPower facility currently supplies HECO with 46 MW of firm capacity. Under the amendment, HECO will purchase firm capacity until mid-2015.

HECO purchases energy on an as-available basis from two nonutility generators, which are qualifying cogeneration facilities at two oil refineries, Chevron USA, Inc. (10 MW) and Tesoro Hawaii Corporation (19 MW). Both contracts continue unless either party wants to terminate with 90 days notice. In addition, HECO has a contract to purchase as-available energy from Hoku Solar s photovoltaic facility (up to 300 kWdc) to be located on the roof of HECO s Archer Substation and expects to purchase energy by June 2009.

The PUC has allowed rate recovery for the purchased energy costs related to HECO s as-available energy PPAs and for the firm capacity and purchased energy costs related to HECO s three major PPAs that provide a total of 434 MW of firm capacity, representing 26% of HECO s total net generating and firm purchased capacity on Oahu as of December 31, 2008.

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HELCO and MECO PPAs. As of December 31, 2008, HELCO has PPAs for 90 MW and MECO has PPAs for 16 MW (includes 4 MW of system protection) of firm capacity, which PPAs have been approved by the PUC.

HELCO has a 35-year PPA with Puna Geothermal Venture (PGV) for 30 MW of firm capacity from its geothermal steam facility expiring on December 31, 2027.

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

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

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

Fuel oil usage and supply

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

HECO s steam power plants burn LSFO. HECO s combustion turbine peaking units burn No. 2 diesel fuel (diesel). MECO s and HELCO s steam power plants burn medium sulfur fuel oil (MSFO) and their combustion turbine and diesel engine generating units burn diesel.

In March and April of 2004, HECO executed 10-year extensions of the existing contracts, commencing January 1, 2005, for the purchase of LSFO with Chevron Products Company (Chevron) and Tesoro Hawaii Corporation (Tesoro) with no material changes in the primary commercial arrangements including volumes and pricing formulas. HECO pays market-related prices for fuel supplies purchased under these agreements. In December 2004, HECO executed long-term contracts with Chevron for the continued use of certain Chevron fuel distribution facilities and for the operation and maintenance of certain HECO fuel distribution facilities.

In March and April of 2004, HECO, HELCO and MECO executed 10-year extensions of existing contracts with Chevron and Tesoro, commencing January 1, 2005, for the purchase of diesel and MSFO, including the use of certain petroleum storage and distribution facilities, with no material changes in the primary commercial arrangements including volumes and pricing formulas. The electric utilities pay market-related prices for diesel and MSFO supplied under these agreements.

The diesel supplies acquired by the Lanai Division of MECO are purchased under the provisions of a contract with a local petroleum wholesaler, Lanai Oil Co., Inc., which provides for automatic one-year term extensions unless terminated by either party with 180 days notice.

See the fuel oil commitments information set forth in the Fuel contracts section in Note 3 to HEI s Consolidated Financial Statements.

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The following table sets forth the average cost of fuel oil used by HECO, HELCO and MECO to generate electricity in the years 2008, 2007 and 2006:

	HECO		HELCO		MECO		Consolidated	
	$/Barrel	**¢/MBtu**	**$/Barrel**	**¢/MBtu**	**$/Barrel**	**¢/MBtu**	**$/Barrel**	**¢/MBtu**
2008	110.89	1,763.0	108.89	1,758.8	132.25	2,216.2	114.50	1,840.0
2007	64.13	1,017.4	70.24	1,135.9	89.31	1,496.8	69.08	1,108.2
2006	63.33	1,004.9	70.21	1,138.7	85.46	1,431.9	68.13	1,094.1

The average per-unit cost of fuel oil consumed to generate electricity for HECO, HELCO and MECO reflects a different volume mix of fuel types and grades. In 2008, 99% of HECO s generation fuel consumption consisted of LSFO. The balance of HECO s fuel consumption was diesel. Diesel made up approximately 25% of HELCO s and 76% of MECO s fuel consumption. MSFO made up the remainder of the fuel consumption of HELCO and MECO. During 2008, the prices of LSFO, MSFO and diesel rose with crude oil prices, peaked in the August-September period, and gradually fell to end the year below the January 2008 level. In 2007, over 98% of HECO s generation fuel consumption consisted of LSFO. The balance of HECO s fuel consumption was diesel. Diesel made up approximately 26% of HELCO s and 76% of MECO s fuel consumption. MSFO made up the remainder of the fuel consumption of HELCO and MECO. In 2006, over 99% of HECO s generation fuel consumption consisted of LSFO. The balance of HECO s fuel consumption was diesel. Diesel made up approximately 30% of HELCO s and 75% of MECO s fuel consumption. MSFO made up the remainder of the fuel consumption of HELCO and MECO. In general, MSFO is the least costly fuel, diesel is the most expensive fuel and the price of LSFO falls between the two on a per-barrel basis. During 2006, the prices of LSFO, MSFO and diesel rose with crude oil prices during the first half of the year, peaked in the May-June period and gradually fell in the year s second half to end relatively close to the January 2006 level.

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

HITI never takes title to the fuel oil or diesel fuel, but does have custody and control while the fuel is in transit from Oahu. If there were an oil spill in transit, HITI is generally contractually obligated to indemnify HELCO and/or MECO for resulting clean-up costs, fines and damages. HITI has liability insurance coverage for oil spill related damage of $1 billion. State law provides a cap of $700 million on liability for releases of heavy fuel oil transported interisland by tank barge. In the event of a release, HELCO and/or MECO may be responsible for any clean-up, damages, and/or fines that HITI or its insurance carrier does not cover.

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

The Company estimates that 76% of the net energy generated and purchased by HECO and its subsidiaries in 2009 will be generated from the burning of oil. HECO generally maintains an average system fuel inventory level equivalent to 35 days of forward consumption. HELCO and MECO generally maintain an average system fuel inventory level equivalent to approximately one month s supply of both MSFO and diesel. The PPAs with AES Hawaii and HEP require that they maintain certain minimum fuel inventory levels.

Rates

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

All rate schedules of HECO and its subsidiaries contain ECACs as described previously. Under current law and practices, specific and separate PUC approval is not required for each rate change pursuant to automatic rate adjustment clauses previously approved by the PUC. All other rate increases require the prior approval of the PUC after public and contested case hearings. PURPA requires the PUC to periodically review the ECACs of electric and gas utilities in the state, and such clauses, as well as the rates charged by the utilities generally, are subject to change. Further, Act 162 may impact the ECACs. See Act 162 discussion in Energy cost adjustment clauses in Note 3 to HEI s Consolidated Financial Statements.

See Electric utility Results of operations Most recent rate requests, Electric utility Certain factors that may affect future results and financial condition Regulation of electric utility rates and Electric utility Material estimates and critical accounting policies Revenues in HEI s MD&A and Energy cost adjustment clauses in Note 3 to HEI s Consolidated Financial Statements.

Public Utilities Commission and Division of Consumer Advocacy of the State of Hawaii

Serving as Chairman of the PUC is Carlito P. Caliboso (whose term expires in June 2010), an attorney previously in private practice. Also serving as commissioners are: (1) John E. Cole (whose term expires in June 2012), who previously served as the Executive Director of the Division of Consumer Advocacy and, prior to holding that position, served as a member of the Governor of the State of Hawaii s Policy Team, and (2) Leslie Kondo (whose term expires in June 2014), an attorney previously in private practice and who previously served as the Director of the State of Hawaii Office of Information Practices.

Serving as Executive Director of the Division of Consumer Advocacy is Catherine P. Awakuni, an attorney formerly with the PUC staff.

Competition

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

Electric and magnetic fields

Research on potential adverse health effects from exposure to electric and magnetic fields (EMF) continues. To date, no definite relationship between EMF and health risks has been clearly demonstrated. In 1996, the National Academy of Sciences examined more than 500 studies and stated that the current body of evidence does not show that exposure to EMFs presents a human-health hazard. An extensive study released in 1997 by the National Cancer Institute and the Children s Cancer Group found no evidence of increased risk for childhood leukemia from EMF. In 1999, the National Institute of Environmental Health Sciences (NIEHS) Director s Report concluded that while EMF could not be found to be entirely safe, the evidence of a health risk was weak and did not warrant aggressive regulatory actions. In 2002, the NIEHS further stated that for most health outcomes, there is no evidence that EMF exposures have adverse effects, and also that there is some evidence from epidemiology studies that exposure to power-frequency EMF is associated with an increased risk for childhood leukemia. In the same brochure, the NIEHS further concluded that this association is difficult to interpret in the absence of reproducible laboratory evidence or a scientific explanation that links magnetic fields with childhood leukaemia. In 2007, the World Health Organization issued a fact sheet stating that the evidence related to childhood leukemia is not strong enough to be considered causal. Regarding studies of a number of other health effects including childhood cancers, cancers in adults, developmental disorders and neurobehavioral effects, among others, the World Health Organization s fact sheet concluded that scientific evidence supporting an association between ELF (extremely low frequency) magnetic field exposure and all of these health effects is much weaker than for childhood leukemia.

While EMF has not been established as a cause of any health condition by any national or international agency, EMF remains the subject of ongoing studies and evaluations. EMF has been classified as a possible human carcinogen by more than one public health organization. In 2004, the U.K. National Radiological Protection Board published a report that supported a precautionary approach and recommended adoption of guidelines for limiting exposure to EMF. In the U.S., there are no federal standards limiting occupational or residential exposure to 60-Hz EMF.

The implications of the foregoing reports have not yet been determined. However, HECO and its subsidiaries are monitoring the research and continue to participate in utility industry funded studies on EMF and, where technically feasible and economically reasonable, continue to pursue a policy of prudent avoidance, in the design and installation of new transmission and distribution facilities. Management cannot predict the impact, if any, the EMF issue may have on HECO, HELCO and MECO in the future.

Global warming

The Company shares the concerns of many regarding the potential effects of global warming and the human contributions to the phenomenon, including burning of fossil fuels for electricity production, transportation, manufacturing, agricultural activities and deforestation. Recognizing that effectively addressing global warming requires commitment by the private sector, all levels of government, and the public, the Company is committed to taking direct action to mitigate greenhouse gas (GHG) emissions from its operations.

In July 2007, Act 234 of the 2007 Hawaii State Legislature became law and requires a statewide reduction of GHG emissions by January 1, 2020 to levels at or below the statewide GHG emission levels in 1990. It also establishes a task force (including HECO and its subsidiaries), which is charged with preparing a work plan and regulatory approach for implementing the maximum practically and technically feasible and cost-effective reductions in greenhouse gas emissions from sources or categories of sources of greenhouse gases to achieve 1990 statewide GHG emission levels. HECO and its subsidiaries have been tracking carbon dioxide emissions, the primary greenhouse gas emitted by fossil fuel combustion for electricity production, since 1996 and reporting them to the federal Department of Energy. HECO and its subsidiaries have taken and continue to identify opportunities to take direct action to reduce such emissions from their operations, including, but not limited to, creating a DSM program that fosters energy efficiency, using renewable resources for energy production and purchasing power from IPPs generated by renewable resources, committing to burn renewable biodiesel in HECO s next unit, and using biodiesel for startup and shutdown of selected MECO generation units. HECO seeks to identify and support viable technology for electricity production that will increase energy efficiency and reduce or eliminate GHG emissions. Implementation of actions included in the Energy Agreement under the Hawaii Clean Energy Initiative can further help achieve reduction or elimination of GHG emissions.

Legislation

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

Commitments and contingencies

See HEI Consolidated Selected contractual obligations and commitments and Electric utility Certain factors that may affect future results and financial condition Other regulatory and permitting contingencies in HEI s MD&A, Item 1A. Risk Factors, and Note 3 to HEI s Consolidated Financial Statements for a discussion of important commitments and contingencies, including (but not limited to) fuel contracts, PPAs, interim increases, HCEI, ECACs, major projects and the Honolulu Harbor environmental investigation and response.

Regulation

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

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

The PUC has ordered the electric utility subsidiaries to develop plans for the integration of demand- and supply-side resources available to meet consumer energy needs efficiently, reliably and at the lowest reasonable cost. See Integrated resource planning, requirements for additional generating capacity and adequacy of supply in HEI s MD&A under Electric utility.

In 1996, the PUC issued an order instituting a proceeding to identify and examine the issues surrounding electric competition and to determine the impact of competition on the electric utility infrastructure in Hawaii. In October 2003, the PUC closed the competition proceeding and opened investigative proceedings on two specific issues (competitive bidding and DG) to move toward a more competitive electric industry environment under cost-

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based regulation. For a discussion of the decision and orders issued by the PUC in the competitive bidding and DG proceedings, see Electric utility Certain factors that may affect future results and financial condition Competition in HEI s MD&A.

Certain transactions between HEI s electric public utility subsidiaries (HECO, HELCO and MECO) and HEI and affiliated interests are subject to regulation by the PUC. All contracts (including summaries of unwritten agreements) made on or after July 1, 1988 of $300,000 or more in a calendar year for management, supervisory, construction, engineering, accounting, legal, financial and similar services and for the sale, lease or transfer of property between a public utility and affiliated interests must be filed with the PUC to be effective, and the PUC may issue cease and desist orders if such contracts are not filed. All such affiliated contracts for capital expenditures (except for real property) must be accompanied by comparative price quotations from two nonaffiliates, unless the quotations cannot be obtained without substantial expense. Moreover, all transfers of $300,000 or more of real property between a public utility and affiliated interests require the prior approval of the PUC and proof that the transfer is in the best interest of the public utility and its customers. If the PUC, in its discretion, determines that an affiliated contract is unreasonable or otherwise contrary to the public interest, the utility must either revise the contract or risk disallowance of the payments for ratemaking purposes. In ratemaking proceedings, a utility must also prove the reasonableness of payments made to affiliated interests under any affiliated contract of $300,000 or more by clear and convincing evidence. An affiliated interest is defined by statute and includes officers and directors of a public utility, every person owning or holding, directly or indirectly, 10% or more of the voting securities of a public utility, and corporations which have in common with a public utility more than one-third of the directors of that public utility.

In January 1993, to address community concerns expressed at the time, HECO proposed that the PUC initiate a review of the relationship between HEI and HECO and the effects of that relationship on the operations of HECO. The PUC opened a docket and initiated such a review and in May 1994, the PUC selected a consultant. The consultant s 1995 report concluded that on balance, diversification has not hurt electric ratepayers. Other major findings were that (1) no utility assets have been used to fund HEI s nonutility investments or operations, (2) management processes within the electric utilities operate without interference from HEI and (3) HECO s access to capital did not suffer as a result of HEI s involvement in nonutility activities and that diversification did not permanently raise or lower the cost of capital incorporated into the rates paid by HECO s utility customers. In December 1996, the PUC issued an order that adopted the report in its entirety, ordered HECO to continue to provide the PUC with status reports on its compliance with the PUC agreement (pursuant to which HEI became the holding company of HECO) and closed the investigation and proceeding. In the order, the PUC also stated that it adopted the recommendation of the DOD that HECO, HELCO and MECO present a comprehensive analysis of the impact that the holding company structure and investments in nonutility subsidiaries have on a case-by-case basis on the cost of capital to each utility in future rate cases and remove such effects from the cost of capital. The PUC has accepted, in subsequent rate cases, the presentations made by HECO, HELCO and MECO that there was no such impact in those cases.

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

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

See also HEI Regulation above.

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

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

For a discussion of section 316(b) of the federal Clean Water Act, related U.S. Environmental Protection Agency (EPA) rules and their possible application to the electric utilities, see Environmental regulation in Note 3 to HEI s Consolidated Financial Statements.

The Federal Oil Pollution Act of 1990 (OPA) governs actual or threatened oil releases in navigable U.S. waters (inland waters and up to three miles offshore) and waters of the U.S. exclusive economic zone (up to 200 miles to sea from the shoreline). In the event of an oil release into navigable U.S. waters, OPA establishes strict and joint and several liability for responsible parties for 1) oil removal costs incurred by the federal government or the state, and 2) damages to natural resources and real or personal property. Responsible parties include vessel owners and operators of on-shore facilities. OPA imposes fines and jail terms ranging in severity depending on how the release was caused. OPA also requires that responsible parties submit certificates of financial responsibility sufficient to meet the responsible party s maximum limited liability.

During 2008 and up through February 10, 2009, HECO, HELCO and MECO did not experience any significant petroleum releases. Except as otherwise disclosed herein, the Company believes that each subsidiary s costs of responding to petroleum releases to date will not have a material adverse effect on the respective subsidiary or the Company.

EPA regulations under OPA also require certain facilities that store petroleum to prepare and implement SPCC Plans in order to prevent releases of petroleum to navigable waters of the U.S. HECO, HELCO and MECO facilities subject to the SPCC program are in compliance with these requirements. In July 2002, the EPA amended the SPCC regulations to include facilities, such as substations, that use (as opposed to store) petroleum products. HECO, HELCO and MECO have determined that the amended SPCC program applies to a number of their substations. Since 2002, the EPA issued several extensions of the compliance dates for the amended regulations. In 2008, the EPA issued an extension requiring existing facilities that started operation prior to August 16, 2002 must maintain or amend, and implement SPCC plans by July 1, 2009. In mid-January 2009, the EPA again extended the compliance date until November 20, 2009. Regulated facilities that started operations after August 16, 2002 were also required to prepare and implement an SPCC Plan by November 20, 2009. On January 20, 2009, however, President Obama s Chief of Staff issued a memorandum entitled Regulatory Review, which delayed the effective dates of then pending regulations for 60 days. The EPA then withdrew the regulation extending SPCC compliance deadlines. Accordingly, it appears that the compliance deadline remains July 1, 2009, unless it is again extended. HECO, HELCO and MECO are developing and implementing SPCC plans for all facilities that are subject to the amended SPCC requirements.

Air quality controls. The generating stations of the utility subsidiaries operate under air pollution control permits issued by the Department of Health of the State of Hawaii (DOH) and, in a limited number of cases, by the EPA. The entire electric utility industry has been affected by the 1990 amendments to the Clean Air Act (CAA), changes to the National Ambient Air Quality Standard (NAAQS) for ozone, and adoption of a NAAQS for fine particulate matter.

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Effective March 29, 2005, the EPA delisted coal-fired and oil-fired utility boilers (electric generating units or EGUs) from regulation under Section 112 of the CAA (the Delisting Rule). On the same date, the EPA issued a rule designed to control mercury emissions from coal-fired EGUs. The preamble to the mercury control rule stated that the EPA would not require control of nickel emissions from oil-fired EGUs. Subsequently, on October 21, 2005, the EPA issued a notice that it would reconsider the Delisting Rule. On May 31, 2006, the EPA confirmed the Delisting Rule, thereby confirming that the EPA was not requiring control of nickel emissions from the electric utilities oil-fired EGUs.

In February 2008, the federal Circuit Court of Appeals for the District of Columbia vacated the EPA s Delisting Rule, which had removed coal- and oil-fired EGUs from the list of sources requiring control under Section 112 of the Clean Air Act. The EPA s request for a rehearing was denied.

In October 2008, the EPA petitioned the U.S. Supreme Court to review the decision of the Circuit Court of Appeals for the District of Columbia vacating the EPA s Delisting Rule. Also, an industry group sought review of the Delisting Rule decision. On February 6, 2009, the EPA filed a motion with the Supreme Court to dismiss its petition for review. In the motion, the EPA indicated that it would begin rulemaking to establish Maximum Achievable Control Technology (MACT) standards for EGUs. On February 23, 2009, the U.S. Supreme Court dismissed the petitions filed by the EPA and industry group requesting review of the decision vacating the EPA s Delisting Rule.

The EPA is required to develop MACT standards for oil-fired EGU hazardous air pollutant emissions, including nickel compounds. Depending on the MACT standards developed, costs to comply with the standards could be significant. The Company is currently evaluating its options regarding potential MACT standards for applicable HECO steam units, but will need to review the standards adopted by the EPA before determining its ultimate response and course of action.

For a discussion of the July 1999 Regional Haze Rule amendments, see Environmental regulation in Note 3 to HEI s Consolidated Financial Statements.

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

Hazardous waste and toxic substances controls. The operations of the electric utility and former freight transportation subsidiaries of HEI are subject to EPA regulations that implement provisions of the Resource Conservation and Recovery Act (RCRA), the Superfund Amendments and Reauthorization Act (SARA) and the Toxic Substances Control Act. In 2001, the DOH obtained primacy to operate state-authorized RCRA (hazardous waste) programs.

Both federal and state RCRA provisions identify certain wastes as hazardous and set forth measures that must be taken in the handling, storage, treatment, disposal and transportation of these wastes. Some wastes generated at steam electric generating stations possess characteristics that subject them to RCRA regulations. Since October 1986, all HECO generating stations have operated RCRA-exempt wastewater treatment units to treat potentially regulated wastes from occasional boiler waterside and fireside cleaning operations. Steam generating stations at MECO and HELCO also operate similar RCRA-exempt wastewater management systems.

The EPA issued a final regulatory determination on May 22, 2000, concluding that fossil fuel combustion wastes do not warrant regulation as hazardous under RCRA. This determination allows for more flexibility in waste management strategies. The electric utilities waste characterization programs continue to demonstrate the adequacy of the existing treatment systems. Waste recharacterization studies indicate that treatment facility waste streams are nonhazardous.

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

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

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The Toxic Substances Control Act (TSCA) regulations specify procedures for the handling and disposal of polychlorinated biphenyls (PCB), a compound found in some transformer and capacitor dielectric fluids. The TSCA regulations also apply to responses to releases of PCB to the environment. HECO, HELCO and MECO have instituted procedures to monitor compliance with these regulations. In addition, HECO and its subsidiaries have implemented a program to identify and replace PCB transformers and capacitors in their systems. Management believes that all HECO, HELCO and MECO facilities are currently in compliance with PCB regulations.

Hawaii s Environmental Response Law, as amended (ERL), governs releases of hazardous substances, including oil, to the environment in areas within the state s jurisdiction. Responsible parties under the ERL are jointly, severally and strictly liable for a release of a hazardous substance. Responsible parties include owners or operators of a facility where a hazardous substance comes to be located and any person who at the time of disposal of the hazardous substance owned or operated any facility at which such hazardous substance was disposed. The DOH issued final rules (the State Contingency Plan) implementing the ERL in August 1995.

HECO is currently one of many parties involved in an ongoing investigation and remediation of releases of petroleum to the subsurface in the Honolulu Harbor area. (See Note 3 to HEI s Consolidated Financial Statements.)

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

Research and development

HECO and its subsidiaries expensed approximately $4.0 million, $4.0 million and $1.8 million in 2008, 2007 and 2006, respectively, for research and development (R&D). In 2008 and 2007, the electric utilities contributions to the Electric Power Research Institute (EPRI) accounted for approximately half of the R&D expenses. In 2006, HELCO made contributions of $0.3 million to the EPRI and HECO and MECO did not make any contributions. There were also utility expenditures in 2008, 2007 and 2006 related to new technologies, customer use and pricing (e.g., peak pricing and tiered rates base on usage), biofuels and other renewables (e.g., wind power).

Properties

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

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

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

HECO owns and operates three generating plants on the island of Oahu at Honolulu, Waiau and Kahe. These plants, along with distributed generators (at three substation sites, at HECO s Kalaeloa pole yard and at HECO s Iwilei tank farm), have an aggregate net generating capability of 1,238.1 MW as of December 31, 2008. The three plants are situated on HECO-owned land having a combined area of 535 acres and one 3-acre parcel of land under a lease expiring December 31, 2018. In addition, HECO owns a total of 138 acres of land on which substations, transformer vaults, distribution baseyards and the Kalaeloa cogeneration facility are located.

HECO owns overhead transmission lines, overhead distribution lines, underground cables, poles (fully owned or jointly owned) and steel or aluminum high voltage transmission towers. The transmission system operates at 46 kV and 138 kV. The total capacity of HECO s transmission and distribution substations was 6,815,500 kilovoltamperes as of December 31, 2008.

HECO owns buildings and approximately 11.5 acres of land located in Honolulu which houses its operating, engineering and information services departments and a warehousing center. It also leases an office building and certain office spaces in Honolulu. The lease for the office building expires in November 2021, with an option to

extend through November 2024. The leases for certain office spaces expire on various dates from October 31, 2009 through November 30, 2017 with options to extend to various dates through January 31, 2020.

HECO owns 19.2 acres of land at Campbell Industrial Park used to situate fuel oil storage facilities with a combined capacity of 1,002,000 barrels. HECO also owns fuel oil tanks at each of its plant sites with a total maximum usable capacity of 816,000 barrels and underground fuel pipelines that transport fuel from HECO s tank farm at Campbell Industrial Park to HECO s power plants at Waiau and Kahe. HECO also owns a fuel storage facility at its Iwilei site with a maximum usable capacity of 77,218 barrels, and an underground pipeline that transports fuel from that site to its Honolulu power plant.

HELCO owns and operates five generating plants on the island of Hawaii, two at Hilo and one at each of Waimea, Kona and Puna, along with distributed generators at substation sites. These plants have an aggregate net generating capability of 181.9 MW as of December 31, 2008 (excluding a small run-of-river hydro unit and a small windfarm). The plants are situated on HELCO-owned land having a combined area of approximately 44 acres. The distributed generators are located within HELCO-owned substation sites having a combined area of approximately 4 acres. HELCO also owns fuel storage facilities at these sites with a total maximum usable capacity of 76,041 barrels of bunker oil, and 48,812 barrels of diesel. HELCO also owns 6 acres of land in Kona, which is used for a baseyard, and one acre of land in Hilo, which houses its accounting, customer services and administrative offices. HELCO also leases 4 acres of land for its baseyard in Hilo under a lease expiring in 2030. In addition, HELCO owns a total of approximately 99 acres of land, and leases a total of approximately 9 acres of land, on which hydro facilities, substations and switching stations, microwave facilities, and transmission lines are located. The deeds to the sites located in Hilo contain certain restrictions, but the restrictions do not materially interfere with the use of the sites for public utility purposes. HELCO occupies 78 acres of land (located in Kamuela on the island of Hawaii) for the Lalamilo windfarm (with an aggregate net capability of 0.3 MW as of December 31, 2008), pursuant to a long-term agreement with the Water Commission of the County of Hawaii expiring in 2010.

MECO owns and operates two generating plants on the island of Maui, at Kahului and Maalaea, with an aggregate net generating capability of 244.3 MW as of December 31, 2008. The plants are situated on MECO-owned land having a combined area of 28.6 acres. MECO also owns fuel oil storage facilities at these sites with a total maximum usable capacity of 176,355 barrels. MECO owns two 1 MW stand-by diesel generators and a 6,000 gallon fuel storage tank located in Hana. MECO owns 65.7 acres of undeveloped land at Waena. Prior to September 12, 2007, the Waena land was used for agricultural purposes by the former landowner under a license agreement dated November 19, 1996. On September 12, 2007, the parties executed an amendment, which terminated the license with respect to a portion of the property measuring approximately 15 acres which has been identified as the site for a proposed biofuel plant. The September 12, 2007 amendment extended the term of the license for the remainder of the parcel on a month to month basis, terminable by either party upon thirty days written notice until the area is required for development by MECO for utility purposes, or until July 31, 2009, whichever occurs first.

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

MECO also owns and operates smaller distribution systems, generation systems (with an aggregate net capability of 21.1 MW as of December 31, 2008) and fuel storage facilities on the islands of Lanai and Molokai, primarily on land owned by MECO.

Bank

General

ASB was granted a federal savings bank charter in January 1987. Prior to that time, ASB had operated since 1925 as the Hawaii division of American Savings & Loan Association of Salt Lake City, Utah. As of December 31, 2008, ASB was one of the largest financial institutions in the State of Hawaii based on total assets of $5.4 billion and deposits of $4.2 billion. In 2008, ASB s revenues and net income amounted to approximately 11% and 20%, respectively, of HEI s consolidated revenues and net income, compared to approximately 17% and 63% in 2007 and approximately 17% and 52% in 2006, respectively.

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At the time of HEI s acquisition of ASB in 1988, HEI agreed with the OTS predecessor regulatory agency that ASB s regulatory capital would be maintained at a level of at least 6% of ASB s total liabilities, or at such greater amount as may be required from time to time by regulation. Under the agreement, HEI s obligation to contribute additional capital to insure that ASB would have a capital level required by the OTS was limited to a maximum aggregate amount of approximately $65.1 million. As of December 31, 2008, as a result of certain HEI contributions of capital to ASB, HEI s maximum obligation to contribute additional capital has been reduced to approximately $28.3 million. ASB is subject to OTS regulations on dividends and other distributions applicable to financial institutions and ASB must receive a letter of non-objection from the OTS before it can declare and pay a dividend to HEI.

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

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

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

Years ended December 31	**2008**	**2007**	**2006**
Common equity to assets ratio			
Average common equity divided by average total assets	9.20%	8.30%	8.15%
Return on assets			
Net income for common stock divided by average total assets	0.29	0.78	0.82
Return on common equity			
Net income for common stock divided by average common equity	3.17	9.39	10.06
Tangible efficiency ratio			
Total noninterest expense, less amortization of intangibles, divided by net interest income and noninterest income	85	66	65

All of the foregoing ratios and returns for 2008 were affected in 2008 by ASB s restructuring of its balance sheet in June 2008.

ASB s tangible efficiency ratio the cost of earning $1 of revenue increased from 65% in 2006 to 85% in 2008 primarily due to charges to noninterest income and noninterest expenses in 2008 as a result of the restructuring of its balance sheet.

Consolidated average balance sheet

See Average balance sheet and net interest margin in HEI s MD&A.

In 2008, average investment and mortgage-related securities decreased by $1.1 billion primarily due to the restructuring of ASB s balance sheet which included the sale of mortgage-related securities and agency notes. In 2007, average investment and mortgage-related securities decreased by $180.9 million primarily due to the use of proceeds from repayments in the portfolio to fund loans.

In 2008, average loans receivable increased by $249.3 million, or 6.4%, over 2007 average loans receivable. The growth in the loan portfolio was due to growth in home equity lines of credit, continued growth in commercial market loans and residential loans purchased. The average residential mortgage portfolio balance grew by

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$158.4 million, or 5.5%, over 2007. The average commercial loan portfolio balance increased by $66.6 million, or 14.3%, due to higher originations. The average home equity line of credit loan portfolio balance grew by $42.0 million, or 21.9%, due to higher originations. The average commercial real estate loan portfolio balance was $13.4 million, or 4.2%, lower than 2007 primarily due to repayments of construction loans. Average consumer loan balances also decreased by $2.6 million, or 3.3%, over 2007. Average deposit balances decreased in 2008 by $183.5 million, as the downward trend in interest rates made it difficult to retain interest-bearing deposits. Average other borrowings decreased in 2008 by $531.8 million due to the early extinguishment of other borrowings in the balance sheet restructuring.

In 2007, average loans receivable increased by $206.0 million, or 5.6%, over 2006 average loans receivable. The average residential mortgage portfolio balance grew by $172.9 million, or 6.3%, over 2006 primarily due to the continued strength of the Hawaii economy and the stability of the Hawaii real estate market and loan purchases. See Economic conditions in HEI s MD&A for a discussion of the Hawaii housing market. The average commercial loan portfolio balance was $20.4 million, or 4.6%, higher than 2006 due to higher originations. The average commercial real estate and consumer loan portfolios grew by $6.8 million and $6.1 million, respectively, over 2006. Average deposit balances decreased by $97.6 million compared to 2006 as competitive factors and the level of short-term interest rates have made it difficult to retain deposits. Average other borrowings increased by $99.0 million over 2006 to replace the decrease in deposit balances.

Asset/liability management

See HEI s Quantitative and Qualitative Disclosures about Market Risk.

Interest income and interest expense

See Results of operations Bank in HEI s MD&A for a table of average balances, interest and dividend income, interest expense and weighted-average yields earned and rates paid for certain categories of earning assets and costing liabilities for the years ended December 31, 2008, 2007 and 2006.

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

(in thousands)		**2008 vs. 2007**			**2007 vs. 2006**	
Increase (decrease) due to	**Rate**	**Volume**	**Total**	**Rate**	**Volume**	**Total**
Income from earning assets						
Investment and mortgage-related securities	$ (44,058)	$ (2,204)	$ (46,262)	$ 2,559	$ (8,249)	$ (5,690)
Loans receivable, net	15,466	(13,849)	1,617	1,101	12,882	13,983
	(28,592)	(16,053)	(44,645)	3,660	4,633	8,293
Expense from costing liabilities						
Deposit liabilities	6,655	13,741	20,396	(6,148)	(2,117)	(8,265)
Other borrowings	20,252	13,826	34,078	(1,123)	(4,414)	(5,537)
	26,907	27,567	54,474	(7,271)	(6,531)	(13,802)
Net interest income	$ (1,685)	$ 11,514	$ 9,829	$ (3,611)	$ (1,898)	$ (5,509)

Noninterest income

In addition to net interest income, ASB has various sources of noninterest income, including fee income from credit and debit cards and fee income from deposit liabilities and other financial products and services. Noninterest income totaled approximately $46.1 million in 2008, $68.4 million in 2007 and $59.6 million in 2006. The decrease in noninterest income was primarily due to the loss on sale of securities from the balance sheet restructuring ($19.3 million) and an other-than-temporary impairment charge on two mortgage-related securities ($7.8 million). The increases in noninterest income for 2007 were due to higher fee income on deposit liabilities and other financial services, partially offset by lower income from the sale of investment and insurance products.

Lending activities

General. Loans and mortgage-related securities of $4.8 billion represented 88.4% of total assets as of December 31, 2008, compared to $6.2 billion, or 90.1%, and $6.0 billion, or 88.1%, as of December 31, 2007 and 2006, respectively. The decrease in the loans and mortgage-related securities balance was primarily due to the sale

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of mortgage-related securities in the balance sheet restructuring. See the discussion of Balance sheet restructure in Note 4 to HEI s Consolidated Financial Statements. ASB s loan portfolio consists primarily of conventional residential mortgage loans.

The following table sets forth the composition of ASB s loan and mortgage-related securities portfolio as of the dates indicated:

December 31	**2008**		**2007**		**2006**		**2005**		**2004**	
(dollars in thousands)	**Balance**	**% of total**	**Balance**	**% of total**	**Balance**	**% of total**	**Balance**	**% of total**	**Balance**	**% of total**
Real estate loans [1]										
Conventional (1-4 unit residential)	$ 2,958,442	61.6	$ 3,065,115	49.6	$ 2,697,421	45.0	$ 2,617,194	42.4	$ 2,464,133	39.9
Commercial	260,806	5.4	276,703	4.5	264,459	4.4	229,430	3.7	226,699	3.6
Construction and development	152,446	3.2	137,451	2.2	260,870	4.3	241,311	3.9	202,466	3.3
	3,371,694	70.2	3,479,269	56.3	3,222,750	53.7	3,087,935	50.0	2,893,298	46.8
Less: Deferred fees and discounts	(23,002)	(0.5)	(24,570)	(0.4)	(21,153)	(0.4)	(21,484)	(0.3)	(20,701)	(0.3)
Undisbursed loan funds	(64,189)	(1.3)	(71,272)	(1.2)	(117,094)	(1.9)	(140,271)	(2.3)	(132,208)	(2.1)
Allowance for loan losses	(10,254)	(0.2)	(8,581)	(0.1)	(13,693)	(0.2)	(16,212)	(0.3)	(15,663)	(0.3)
Total real estate loans, net	3,274,249	68.2	3,374,846	54.6	3,070,810	51.2	2,909,968	47.1	2,724,726	44.1
Other loans										
Commercial	597,233	12.4	471,576	7.6	453,151	7.5	412,816	6.7	310,999	5.0
Consumer and other	362,386	7.5	278,080	4.5	275,047	4.6	259,048	4.2	232,189	3.8
	959,619	19.9	749,656	12.1	728,198	12.1	671,864	10.9	543,188	8.8
Less: Deferred fees and discounts	(1,832)		(1,679)	(0.1)	(880)		(613)		(526)	
Undisbursed loan funds					(132)		(2)		(3)	
Allowance for loan losses	(25,544)	(0.5)	(21,630)	(0.3)	(17,535)	(0.3)	(14,383)	(0.2)	(18,194)	(0.3)
Total other loans, net	932,243	19.4	726,347	11.7	709,651	11.8	656,866	10.7	524,465	8.5
Mortgage-related securities, net	597,717	12.4	2,080,744	33.7	2,218,103	37.0	2,604,920	42.2	2,928,507	47.4
Total loans and mortgage-related securities, net	$ 4,804,209	100.0	$ 6,181,937	100.0	$ 5,998,564	100.0	$ 6,171,754	100.0	$ 6,177,698	100.0

[1] Includes renegotiated loans.

The following table summarizes ASB s loan portfolio as of December 31, 2008 and 2007, excluding loans held for sale and undisbursed commercial real estate construction and development loan funds, based upon contractually scheduled principal payments and expected prepayments allocated to the indicated maturity categories:

December 31	**2008**				**2007**			
	In	**After 1 year**			**In 1**	**After 1 year**		
Due	**1 year or less**	**through 5 years**	**After 5 years**	**Total**	**year or less**	**through 5 years**	**After 5 years**	**Total**

(in millions)

Residential loans - Fixed	$ 1,136	$ 1,286	$ 461	$ 2,883	$ 698	$ 1,293	$ 1,018	$ 3,009
Residential loans - Adjustable	72	35	3	110	79	54	4	137
	1,208	1,321	464	2,993	777	1,347	1,022	3,146
Commercial real estate loans - Fixed	21	57	81	159	16	42	72	130
Commercial real estate loans - Adjustable	69	66	21	156	75	49	33	157
	90	123	102	315	91	91	105	287
Consumer loans Fixed	7	13	4	24	7	11	5	23
Consumer loans Adjustable	45	104	171	320	51	124	68	243
	52	117	175	344	58	135	73	266
Commercial loans Fixed	135	213	46	394	95	149	47	291
Commercial loans Adjustable	122	77	4	203	132	49		181
	257	290	50	597	227	198	47	472
Total loans - Fixed	1,299	1,569	592	3,460	816	1,495	1,142	3,453
Total loans - Adjustable	308	282	199	789	337	276	105	718
	$ 1,607	$ 1,851	$ 791	$ 4,249	$ 1,153	$ 1,771	$ 1,247	$ 4,171

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

Origination, purchase and sale of loans. Generally, residential and commercial real estate loans originated by ASB are secured by real estate located in Hawaii. For additional information, including information concerning the geographic distribution of ASB s mortgage-related securities portfolio and the geographic concentration of credit risk, see Note 13 to HEI s Consolidated Financial Statements. The demand for loans is primarily dependent on the Hawaii real estate market, business conditions, interest rates and loan refinancing activity.

Residential mortgage lending. ASB s general policy is to require private mortgage insurance when the loan-to-value ratio of the property exceeds 80% of the lower of the appraised value or purchase price at origination. For nonowner-occupied residential properties, the loan-to-value ratio may not exceed 90% of the lower of the appraised value or purchase price at origination.

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

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

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

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

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

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

Loan portfolio risk elements. When a borrower fails to make a required payment on a loan and does not cure the delinquency promptly, the loan is classified as delinquent. If delinquencies are not cured promptly, ASB normally commences a collection action, including foreclosure proceedings in the case of secured loans. In a foreclosure action, the property securing the delinquent debt is sold at a public auction in which ASB may participate as a bidder to protect its interest. If ASB is the successful bidder, the property is classified as real estate owned until it is sold. As of December 31, 2008, ASB had $1.5 million of real estate acquired in settlement of loans. ASB did not hold any real estate acquired in settlement of loans as of December 31, 2007 and 2006.

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In addition to delinquent loans, other significant lending risk elements include: (1) loans which accrue interest and are 90 days or more past due as to principal or interest, (2) loans accounted for on a nonaccrual basis (nonaccrual loans), and (3) loans on which various concessions are made with respect to interest rate, maturity, or other terms due to the inability of the borrower to service the obligation under the original terms of the agreement (renegotiated loans). ASB had no loans that were 90 days or more past due on which interest was being accrued as of the dates presented in the table below. The following table sets forth certain information with respect to nonaccrual and renegotiated loans as of the dates indicated:

December 31 (dollars in thousands)	2008	2007	2006	2005	2004
Nonaccrual loans					
Real estate					
One-to-four unit residential	$ 15,446	$ 1,116	$ 907	$ 1,394	$ 2,240
Commercial					235
Total real estate	15,446	1,116	907	1,394	2,475
Consumer	1,282	806	346	377	411
Commercial	2,766	1,273	1,144	598	3,510
Total nonaccrual loans	$ 19,494	$ 3,195	$ 2,397	$ 2,369	$ 6,396
Nonaccrual loans to total net loans	0.5%	0.1%	0.1%	0.1%	0.2%
Renegotiated loans not included above					
Real estate					
One-to-four unit residential	$ 4,038	$ 2,536	$ 2,540	$ 731	$ 1,243
Commercial			3,274	3,446	3,653
Commercial	4,612	571	467	790	427
Total renegotiated loans	$ 8,650	$ 3,107	$ 6,281	$ 4,967	$ 5,323
Nonaccrual and renegotiated loans to total net loans	0.7%	0.2%	0.2%	0.2%	0.4%

ASB realized $1.0 million, $0.2 million and $0.1 million of interest income on nonaccrual loans in 2008, 2007 and 2006, respectively. If these loans would have earned interest in accordance with their original contractual terms ASB would have realized $0.7 million, $0.1 million and $0.4 million in 2008, 2007 and 2006, respectively.

In 2005, the decrease in nonaccrual loans of $4.0 million was primarily due to a $2.9 million payoff of a commercial loan and lower delinquencies in residential loans. In 2006, nonaccrual loans of $2.4 million approximated 2005 nonaccrual loans as a reduction in nonaccrual residential loans due to lower delinquencies was offset by higher amount of commercial loans on nonaccrual status. In 2007, nonaccrual loans increased by $0.8 million when compared to 2006 due to higher delinquencies in the residential and consumer loan portfolios. In 2008, nonaccrual loans increased by $16.3 million due to higher residential loan delinquencies and the reclassification of certain commercial loans due to their weakening credit quality.

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

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

(dollars in thousands)	**2008**	**2007**	**2006**	**2005**	**2004**
Allowance for loan losses, January 1	$ 30,211	$ 31,228	$ 30,595	$ 33,857	$ 44,285
Provision (reversal of allowance) for loan losses	10,334	5,700	1,400	(3,100)	(8,400)
Charge-offs					
Residential real estate loans	333				40
Consumer loans	1,846	1,423	1,119	1,558	1,790
Commercial loans	3,447	6,301	766	456	2,479
Total charge-offs	5,626	7,724	1,885	2,014	4,309
Recoveries					
Residential real estate loans	46	68	200	459	346
Commercial real estate loans					562
Consumer loans	548	316	436	525	549
Commercial loans	285	623	482	868	824
Total recoveries	879	1,007	1,118	1,852	2,281
Allowance for loan losses, December 31	$ 35,798	$ 30,211	$ 31,228	$ 30,595	$ 33,857
Ratio of allowance for loan losses, December 31, to average loans outstanding	0.86%	0.77%	0.84%	0.89%	1.07%
Ratio of provision for loan losses during the year to average loans outstanding	0.25%	0.15%	0.04%	NM	NM
Ratio of net charge-offs during the year to average loans outstanding	0.11%	0.17%	0.02%	<0.01%	0.06%

NM Not meaningful.

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

December 31	**2008**		**2007**		**2006**		**2005**		**2004**	
(dollars in thousands)	**Balance**	**% of total**	**Balance**	**% of total**	**Balance**	**% of total**	**Balance**	**% of total**	**Balance**	**% of total**
Residential real estate	$ 6,074	69.5%	$ 4,243	74.5%	$ 5,682	70.6%	$ 8,613	72.1%	$ 10,137	74.4%
Commercial real estate	3,977	8.3	4,243	7.8	7,922	11.0	7,450	10.0	5,355	9.7
Consumer	2,957	8.4	2,746	6.6	3,623	6.9	3,111	6.9	4,008	6.8
Commercial	22,066	13.8	18,640	11.1	13,801	11.5	11,139	11.0	13,986	9.1
Unallocated	724	NA	339	NA	200	NA	282	NA	371	NA
	$ 35,798	100.0%	$ 30,211	100.0%	$ 31,228	100.0%	$ 30,595	100.0%	$ 33,857	100.0%

NA Not applicable.

In 2008, ASB s allowance for loan losses increased by $5.6 million from 2007 as a result of higher residential loan delinquencies, the reclassification of certain commercial loans due to their weakening credit quality and an increase in the loan portfolio. ASB had good credit quality in 2008 despite the weakening economy and slowing real estate market. Although new home purchase and home resale transaction volumes in Hawaii have fallen off, the Hawaii real estate market has not experienced the same level of decline in values seen in many U.S. mainland markets. However, the slowdown in the economy, both nationally and locally, has caused increased levels of financial stress on the part of ASB s customers, resulting in higher levels of loan delinquencies and losses. As a result, ASB s 2008 provision for loan losses was $10.3 million, following several years of historically low loan losses and loan loss allowances. The consensus outlook for the Hawaii economy is for the rate of growth to slow dramatically in 2009. Continued financial stress on ASB s customers or falling home prices may result in higher levels of loan delinquencies and losses.

In 2007, ASB s allowance for loan losses decreased by $1.0 million when compared to 2006, primarily due to the charge-off of loans to one commercial borrower. ASB s asset quality remained high due to the strength of the Hawaii economy and stability of the Hawaii real estate market, resulting in lower historical loss ratios and release of

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reserves for residential real estate and consumer loans. The decrease in allowance for loan losses for commercial real estate loans was due the release of reserves on construction loans that have been repaid. The increase in allowance for loan losses for commercial loans was due to loan growth and the reclassification of certain commercial loans. A provision for loan losses of $5.7 million was recorded in 2007, primarily due to specific reserves for the one commercial borrower and the reclassified commercial loans that continue to be current on loan payments but have identified weaknesses. Management does not believe that the adverse development of the loans to the one commercial borrower or the reclassification of certain commercial loans is reflective of a negative trend in the overall credit quality of the loan portfolio.

In 2006, ASB s allowance for loan losses increased by $0.6 million, compared to a decrease of $3.3 million in 2005. Continued strength in real estate and business conditions in 2006 resulted in low net charge-offs and lower historical loss ratios, which enabled ASB to largely offset the provision for loan losses as a result of loan growth with the release of reserves on existing loans. ASB recorded a provision for loan losses of $1.4 million in 2006 for the same commercial borrower.

In 2005, ASB s allowance for loan losses decreased by $3.3 million compared to a decrease of $10.4 million in 2004. Continued strength in real estate and business conditions in 2005 resulted in lower historical loss ratios and lower net charge-offs as a result of lower delinquencies which enabled ASB to record a reversal of allowance for loan losses of $3.1 million.

Investment activities

Currently, ASB s investment portfolio consists of mortgage-related securities, stock of the FHLB of Seattle and federal agency obligations. ASB owns private-issue mortgage-related securities as well as mortgage-related securities issued by the Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA). See Balance sheet restructure in Note 4 to HEI s Consolidated Financial Statements for a discussion of mortgage-related security sales. See Net interest margin and other factors in HEI s MD&A for a discussion of private issue mortgage-related securities ratings. The weighted-average yield on investments during 2008, 2007 and 2006 was 4.31%, 4.44% and 4.36%, respectively. ASB did not maintain a portfolio of securities held for trading during 2008, 2007 or 2006.

As of December 31, 2008, 2007 and 2006, ASB s investment in stock of FHLB of Seattle amounted to $97.8 million. The amount that ASB is required to invest in FHLB stock is determined by regulatory requirements and ASB s investment is in excess of that requirement. See FHLB of Seattle dividends in HEI s MD&A for a discussion of dividends on ASB s investment in FHLB of Seattle Stock and recent events that have adversely affected those dividends. Also, see Regulation Federal Home Loan Bank System below.

ASB does not have material exposure to securities backed by subprime mortgages. See Bank Results of operations Net interest margin and other factors in HEI s MD&A for a discussion of securities deemed to be other than temporarily impaired at December 31, 2008. Also, see Investment and mortgage-related securities in Note 4 to HEI s Consolidated Financial Statements for a discussion of four mortgage-related securities in the securities portfolio with material unrealized losses that were determined to not be other than temporarily impaired.

The following table summarizes ASB s investment portfolio (excluding stock of the FHLB of Seattle, which has no contractual maturity), as of December 31, 2008, based upon contractually scheduled principal payments and expected prepayments allocated to the indicated maturity categories:

Due (dollars in millions)	In 1 year or less	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Federal agency obligations	$ 108	$ 142	$ 44	$ 5	$ 299
FNMA, FHLMC and GNMA	297	61	1		359
Private issue	60				60
	$ 465	$ 203	$ 45	$ 5	$ 718
Weighted average yield	5.83%	5.67%	4.10%	4.20%	

Note: ASB does not currently invest in tax exempt obligations.

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Deposits and other sources of funds

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

Deposits. ASB s deposits are obtained primarily from residents of Hawaii. Net deposit inflow or outflow, measured as the year-over-year difference in year-end deposits was an outflow of $167 million in 2008 compared to $228 million in 2007 and an inflow of $18 million in 2006.

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

Years ended December 31		**2008**			**2007**			**2006**	
(dollars in thousands)	**Average balance**	**% of total deposits**	**Weighted average rate %**	**Average balance**	**% of total deposits**	**Weighted average rate %**	**Average balance**	**% of total deposits**	**Weighted average rate %**
Savings	$ 1,415,588	33.2%	0.61%	$ 1,469,497	33.1%	0.76%	$ 1,609,070	35.4%	0.83%
Checking	1,196,555	28.1	0.13	1,149,271	25.8	0.13	1,155,687	25.5	0.09
Money market	168,518	4.0	1.06	189,817	4.3	2.16	226,837	5.0	1.69
Certificate	1,478,624	34.7	3.35	1,634,156	36.8	3.98	1,548,698	34.1	3.58
Total deposits	$ 4,259,285	100.0%	1.44%	$ 4,442,741	100.0%	1.84%	$ 4,540,292	100.0%	1.62%

As of December 31, 2008, ASB had $407.3 million in certificate accounts of $100,000 or more, maturing as follows:

(in thousands)	**Amount**
Three months or less	$ 132,087
Greater than three months through six months	78,681
Greater than six months through twelve months	151,272
Greater than twelve months	45,229
	$ 407,269

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

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

Other borrowings. ASB may obtain advances from the FHLB of Seattle provided certain standards related to creditworthiness have been met. Advances are secured by a blanket pledge of certain notes held by ASB and the mortgages securing them. To the extent that advances exceed the amount of mortgage loan collateral pledged to the FHLB of Seattle, the excess must be covered by qualified marketable securities held under the control of and at the FHLB of Seattle or at an approved third party custodian. FHLB advances generally are available to meet seasonal and other withdrawals of deposit accounts, to expand lending and to assist in the effort to improve asset and liability management. FHLB advances are made pursuant to several different credit programs offered from time to time by the FHLB of Seattle.

As of December 31, 2008, 2007 and 2006, advances from the FHLB amounted to $0.4 billion, $1.0 billion and $0.7 billion, respectively. The weighted-average rates on the advances from the FHLB outstanding as of December 31, 2008, 2007 and 2006 were 2.52%, 4.90% and 4.92%, respectively. The maximum amount outstanding at any month-end during 2008, 2007 and 2006 was $1.0 billion, $1.0 billion and $0.9 billion,

respectively. Advances from the FHLB averaged $0.7 billion during 2008, $0.8 billion during 2007 and $0.8 billion during 2006 and the approximate weighted-average rate on the advances was 4.28%, 4.92% and 4.75%, respectively.

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

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

December 31 (dollars in thousands)	2008	2007	2006
Advances from the FHLB	$ 439,550	$ 1,046,000	$ 730,000
Securities sold under agreements to repurchase	241,423	764,669	838,585
Total other borrowings	$ 680,973	$ 1,810,669	$ 1,568,585
Weighted-average rate	2.29%	4.49%	4.55%

The decrease in total other borrowings in 2008 was primarily due to the early extinguishment of other borrowings in the balance sheet restructuring. See Balance sheet restructure in Note 4 to HEI s Consolidated Financial Statements.

Competition

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

Competition for deposits comes primarily from other savings institutions, commercial banks, credit unions, money market and mutual funds and other investment alternatives. As of December 31, 2008, there were 9 FDIC-insured financial institutions, of which 2 were thrifts and 7 were commercial banks, and numerous credit unions in Hawaii. Additional competition for deposits comes from various types of corporate and government borrowers, including insurance companies. Competition for origination of first mortgage loans comes primarily from mortgage banking and brokerage firms, commercial banks, other savings institutions, insurance companies and real estate investment trusts.

Regulation

ASB, a federally chartered savings bank, and its holding companies are subject to the regulatory supervision of the OTS and, in certain respects, the FDIC. See HEI Regulation above and Bank Certain factors that may affect future results and financial condition Regulation in HEI s MD&A. In addition, ASB must comply with Federal Reserve Board (FRB) reserve requirements.

Deposit insurance coverage. The Federal Deposit Insurance Act, as amended, and regulations promulgated by the FDIC, govern insurance coverage of deposit amounts. Congress has temporarily increased FDIC deposit insurance from $100,000 to $250,000 per depositor through December 31, 2009. Generally, the amount of all deposits held by a depositor in the same capacity (even if held in separate accounts) is aggregated for purposes of applying the insurance limit

Among the major reforms in the last few years to the deposit insurance system were the merger of the BIF and the SAIF; indexing the deposit insurance to inflation beginning in 2010 and every five years thereafter; and authorizing the FDIC to assess risk-based premiums. Under the new FDIC rules assessing risk-based premiums, which became effective on January 1, 2007, ASB is classified in Risk Category I, the lowest risk group. Based upon its component ratings under the Uniform Financial Institutions Ratings System (i.e., the CAMELS rating system) and five financial ratios specified in the new FDIC rules, ASB s assessment rate for 2008 was 5.4 basis points, which resulted in an assessment amount of approximately $2.3 million, compared to an assessment rate of 5 basis points and an assessment amount of $2.2 million in 2007. Also as a result of the federal deposit insurance reform, certain financial institutions were entitled to a one-time assessment credit, which may be used to offset annual deposit insurance assessments (not including FICO assessments) for up to 90% of a financial institution s assessment. In 2008, ASB used all of its remaining one-time credit of $0.8 million to offset a portion of its assessment.

A new interim rate schedule took effect January 1, 2009; these rates will apply to the June 30, 2009 debit (payment based upon the March 31, 2009 data). The annual rates in basis points for Risk Category I range from 12

to 14. Furthermore, there are new proposed rate schedules to take effect beginning April 1, 2009. These rates will apply to the September 30, 2009 debit (payment based on June 30, 2009 data) and beyond. The total base assessment rate for Risk Category I range from 8 to 21. FICO will continue to impose an assessment on deposits to service the interest on FICO bond obligations. ASB s annual FICO assessment is 1.14 cents per $100 of deposits as of December 31, 2008.

Federal thrift charter. See Bank Certain factors that may affect future results and financial condition Regulation Federal Thrift Charter in HEI s MD&A.

Legislation. The Gramm-Leach-Bliley Act of 1998 (the Gramm Act) and implementing regulations imposed on financial institutions an obligation to protect the security and confidentiality of its customers nonpublic personal information. The Gramm Act also requires public disclosure of certain agreements entered into by insured depository institutions and their affiliates in fulfillment of the Community Reinvestment Act of 1977, and the filing of an annual report with the appropriate regulatory agencies.

On November 2, 2007, final rules adopted by the Federal Reserve Board, in coordination with the SEC, became effective implementing the Gramm Act s exemptions for financial institutions from the definition of broker in the Securities and Exchange Act of 1934, which rules address issues arising out of networking arrangements whereby a financial institution refers its customers to a broker-dealer for securities services and employees of the financial institution are permitted to receive from the broker-dealer a nominal fee for such referrals. ASB has a networking arrangement with UVEST Financial Services.

The International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the 2001 Act), which is part of the USA Patriot Act, imposes on financial institutions a wide variety of additional obligations with respect to such matters as collecting information, monitoring relationships and reporting suspicious activities. The 2001 Act also requires financial institutions to establish anti-money laundering programs and, with respect to correspondent and private banking accounts of non-U.S. persons, to implement appropriate due diligence policies to detect money laundering activities carried out through such accounts. In January 2008, the OTS issued a consent order requiring, among other things, various actions by ASB to strengthen its Bank Secrecy Act and Anti-Money Laundering Program and its Compliance Management Program and assessing a civil money penalty of $37,730 related to non-compliance with certain flood insurance laws and regulations. On December 11, 2008, the OTS terminated the order finding that ASB satisfactorily complied with the order.

The Fair and Accurate Credit Transactions Act of 2003 (the FACT Act) amended the Fair Credit Reporting Act of 1978 to enhance the ability of consumers to combat identity theft, to increase the accuracy of consumer reports, to allow consumers to exercise greater control of the type and number of solicitations they receive, and to restrict the use and distribution of sensitive medical information.

The agencies have implemented provisions of the FACT Act to, among other things, (i) require each financial institution, including thrifts, to develop, implement and maintain, as part of its existing information security program, appropriate measures to properly dispose of consumer information such as that derived from consumer reports, (ii) require each financial institution, including thrifts, to develop and implement a written identity theft prevention program and (iii) prohibit the use of information received from an affiliate to solicit a consumer for marketing purposes unless the consumer is given notice and a reasonable opportunity to opt out and a reasonable and simple method to do so.

Noteworthy OTS Issuances. During Spring and Summer 2007, the federal financial institution regulatory agencies, including the OTS, issued statements encouraging financial institutions to pursue reasonable workout arrangements with residential mortgage borrowers. In August 2008, the OTS issued its guidance on home equity lines of credit calling for the maintenance of effective risk management systems and compliance with OTS real estate lending standards rule and related guidance. In November 2008, the OTS issued an Interagency Statement on Meeting the Needs of Creditworthy Borrowers. Among the main topics were lending to creditworthy borrowers, strengthening capital, working with mortgage borrowers, and structuring compensation. ASB will continue to monitor these regulatory developments.

Capital requirements. The OTS has set three capital standards for thrifts, each of which must be no less stringent than those applicable to national banks. As of December 31, 2008, ASB was in compliance with all of the minimum standards with a core capital ratio of 8.5% (compared to a 4.0% requirement), a tangible capital ratio of 8.5%

(compared to a 1.5% requirement) and total risk-based capital ratio of 12.8% (based on risk-based capital of $494.7 million, $184.5 million in excess of the 8.0% requirement).

The OTS requires that thrifts with a composite rating of 1 under the Uniform Financial Institution Rating System (i.e., CAMELS rating system) must maintain core capital in an amount equal to at least 3% of adjusted total assets. All other institutions must maintain a minimum core capital of 4% of adjusted total assets, and higher capital ratios may be required if warranted by particular circumstances. As of December 31, 2008, ASB met the applicable minimum core capital requirement.

Beginning January 1, 2002, certain OTS regulations went into effect with respect to the regulatory capital treatment of recourse obligations, residual interests, direct credit substitutes and asset- and mortgage-backed securities. These regulations have had a slight positive impact on ASB s risk-based capital.

Current OTS risk-based capital requirements are based on an internationally agreed-upon framework for capital measurement (the 1988 Accord) that was developed by the Basel Committee on Banking Supervision (BCBS). Beginning in April 2003, BCBS released for comment a series of proposed revisions to the 1988 Accord, culminating in a comprehensive release in June 2006. (These revisions are collectively referred to as Basel II .) In September 2006, following more than three years of consultation with U.S. financial institutions on the implementation of Basel II, the federal financial institution regulatory agencies, including the OTS, issued two notices of proposed rulemaking to change U.S. risk-based capital requirements in light of Basel II. The first such notice dealt with proposed changes to capital requirements for credit and operational risks, and final rules were issued on December 7, 2007, with an effective date of April 1, 2008. These changes are mandatory for financial institutions with consolidated total assets of $250 billion or more or consolidated total on-balance-sheet foreign exposure of $10 billion or more. The second of the September 2006 notices of proposed rulemaking concerned changes to capital requirements for market risk. Unlike the currently existing market risk rules, the proposed new rules would apply to thrifts. The new market risk rules would be mandatory for financial institutions with consolidated trading activity (in, for example, foreign exchange and commodity positions, as well as traded credit products such as credit default swaps and transfer of collateralized debt obligations) equal to at least 10% of total assets or $1 billion. As of December 7, 2007, the federal financial institution regulatory agencies expected to release these final rules dealing with capital requirements for market risk in the near future. On July 15, 2008, the federal financial institution regulatory agencies released a Supervisory Guidance regarding the supervisory review process for capital adequacy provided in Basel II. This guidance outlines the agencies standards for banks to (i) satisfy the qualification requirements provided in the advanced approaches final rule; (ii) address the limitations of minimum risk-based capital requirements for credit and operational risk; (iii) ensure its ability to assess its own capital adequacy; and (iv) develop and use better techniques to identify and measure risk.

The review of U.S. risk-based capital requirements given impetus by Basel II resulted in the agencies issuance in December 2006 of a notice of proposed rulemaking (referred to by the agencies as the Basel IA NPR) addressing the risk-based capital requirements for credit and operational risk of those financial institutions, such as ASB, that will not come within the scope of the new Basel II rules. The Basel IA NPR would give financial institutions not subject to Basel II the option of using existing risk-based capital rules for credit and operational risk or applying the rules proposed in the Basel IA NPR. However, in July 2007 the agencies announced their intention to replace the Basel IA NPR with a new notice of proposed rulemaking. The agencies reaffirmed this intention in December 2007 and indicated that their objective was to issue final rules for financial institutions not subject to Basel II by 2009. In July 2008, the OTS director approved for public comment the option of adopting a less complex alternate for calculating risk-based capital requirements under the international Basel II capital accord. ASB will continue to monitor these regulatory developments.

Affiliate transactions. Significant restrictions apply to certain transactions between ASB and its affiliates, including HEI and its direct and indirect subsidiaries. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 significantly altered both the scope and substance of such limitations on transactions with affiliates and provided for thrift affiliate rules similar to, but more restrictive than, those applicable to banks. On December 12, 2002, the OTS issued an interim final rule which applies Regulation W of the FRB to thrifts with modifications appropriate to the greater restrictions under which thrifts operate. Most of these greater restrictions were carried over into the OTS final rule, which became effective November 6, 2003. For example, ASB is prohibited from making any loan or other extension of credit to an entity affiliated with ASB unless the affiliate is engaged

exclusively in activities which the FRB has determined to be permissible for bank holding companies. There are also various other restrictions which apply to certain transactions between ASB and certain executive officers, directors and insiders of ASB. ASB is also barred from making a purchase of or any investment in securities issued by an affiliate, other than with respect to shares of a subsidiary of ASB.

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

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

Liquidity. OTS regulations require ASB to maintain sufficient liquidity to ensure safe and sound operations. ASB s principal sources of liquidity are customer deposits, borrowings, the maturity and repayment of portfolio loans and securities and the sale of loans into secondary market channels. ASB s principal sources of borrowings are advances from the FHLB and securities sold under agreements to repurchase from broker/dealers. ASB is approved by the FHLB to borrow up to 35% of assets to the extent it provides qualifying collateral and holds sufficient FHLB stock. As of December 31, 2008, ASB s unused FHLB borrowing capacity was approximately $1.5 billion. ASB utilizes growth in deposits, advances from the FHLB and securities sold under agreements to repurchase to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans and make investments. As of December 31, 2008, ASB had loan commitments, undisbursed loan funds and unused lines and letters of credit of $1.2 billion. Management believes ASB s current sources of funds will enable it to meet these obligations while maintaining liquidity at satisfactory levels.

Supervision. Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) made a number of reforms addressing the safety and soundness of the deposit insurance system, supervision of domestic and foreign depository institutions and improvement of accounting standards. FDICIA also limited deposit insurance coverage, implemented changes in consumer protection laws and called for least-cost resolution and prompt corrective action with regard to troubled institutions.

Pursuant to FDICIA, the federal banking agencies promulgated regulations which apply to the operations of ASB and its holding companies. Such regulations address, for example, standards for safety and soundness, real estate lending, accounting and reporting, transactions with affiliates, and loans to insiders.

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

A savings association that is undercapitalized or significantly undercapitalized is subject to additional mandatory supervisory actions and a number of discretionary actions if the OTS determines that any of the actions is necessary to resolve the problems of the association at the least possible long-term cost to the Deposit Insurance Fund. A savings association that is critically undercapitalized must be placed in conservatorship or receivership within 90 days, unless the OTS and the FDIC concur that other action would be more appropriate. As of December 31, 2008, ASB was well-capitalized.

Interest rates. FDIC regulations restrict the ability of financial institutions that are undercapitalized to offer interest rates on deposits that are significantly higher than the rates offered by competing institutions. As of December 31, 2008, ASB was well capitalized and thus not subject to these interest rate restrictions.

Qualified thrift lender test. In order to satisfy the QTL test, a thrift must maintain 65% of its assets in qualified thrift investments on a monthly average basis in 9 out of the previous 12 months. Failure to satisfy the QTL test would subject ASB to various penalties, including limitations on its activities, and would also bring into operation restrictions on the activities that may be engaged in by HEI, HEIDI and their other subsidiaries, which could effectively result in the required divestiture of ASB. At all times during 2008, ASB was in compliance with the QTL test. As of December 31, 2008, 82% of ASB s portfolio assets were qualified thrift investments. See HEI Consolidated Regulation.

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

As mandated by the Gramm Act, the Federal Housing Finance Board (Board) regulations require each FHLB to maintain a minimum total capital leverage ratio of 5% of total assets and include risk-based capital standards requiring each FHLB to maintain permanent capital in an amount sufficient to meet credit risk and market risk. In June 2001, the FHLB of Seattle formulated a capital plan to meet these new minimum capital standards, which plan was approved by the Board. The capital plan requires ASB to own capital stock in the FHLB of Seattle in an amount equal to the total of 4% of the FHLB of Seattle s advances to ASB plus the greater of (i) 5% of the outstanding balance of loans sold to the FHLB of Seattle by ASB or (ii) 0.5% of ASB s mortgage loans and pass through securities. As of December 31, 2008, ASB was required under the capital plan to own capital stock in the FHLB of Seattle in the amount of $20 million and owned capital stock in the amount of $98 million, or $78 million in excess of the requirement. Under the capital plan, stock in the FHLB of Seattle can be required to be redeemed at the option of ASB, but the FHLB of Seattle may require up to a 5-year notice of redemption. This 5-year notice period has an adverse but immaterial effect on ASB s liquidity. See FHLB of Seattle dividends in HEI s MD&A section for recent developments regarding the FHLB of Seattle.

Community Reinvestment. The Community Reinvestment Act (CRA) requires banks and thrifts help meet the credit needs of their communities, including low- and moderate-income areas, consistent with safe and sound lending practices. The OTS will consider ASB s CRA record in evaluating an application for a new deposit facility, including the establishment of a branch, the relocation of a branch or office, or the acquisition of an interest in another bank or thrift. ASB currently holds an outstanding CRA rating.

Other laws. ASB is subject to federal and state consumer protection laws which affect lending activities, such as the Truth-in-Lending Law, the Truth-in-Savings Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act and several federal and state financial privacy acts. ASB is also subject to federal laws regulating certain of its lending practices, such as the Flood Disaster Protection Act, and requiring reports to regulators of certain customer transactions, such as the Currency and Foreign Transactions Reporting Act. These laws may provide for substantial penalties in the event of noncompliance. ASB believes that its lending activities are currently in compliance with these laws and regulations.

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Capital Purchase Program. A voluntary Capital Purchase Program (CPP) was announced on October 14, 2008 to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. Under the CPP, the U.S. Treasury (Treasury) will purchase non-voting senior preferred securities from qualifying U.S.-controlled banks and thrifts and bank and thrift holding companies. Financial institutions participating in the program must adopt the Treasury s standards for executive compensation and corporate governance, for the period during which the Treasury holds equity issued under the program. ASB initially applied to participate in the program in order to evaluate whether to participate in the program. After fully reviewing the program, ASB withdrew its application.

Environmental regulation. ASB may be subject to the provisions of Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and regulations promulgated thereunder. CERCLA imposes liability for environmental cleanup costs on certain categories of responsible parties, including the current owner and operator of a facility and prior owners or operators who owned or operated the facility at the time the hazardous substances were released or disposed. CERCLA exempts persons whose ownership in a facility is held primarily to protect a security interest, provided that they do not participate in the management of the facility. Although there may be some risk of liability for ASB for environmental cleanup costs in the event ASB forecloses on, and becomes the owner of, property with environmental problems, the Company believes the risk is not as great for ASB as it may be for other depository institutions that have a larger portfolio of commercial loans.

Properties

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

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

	Number of branches		
December 31, 2008	**Owned**	**Leased**	**Total**
Oahu	8	35	43
Maui	3	5	8
Kauai	3	2	5
Hawaii	2	4	6
Molokai		1	1
	16	47	63

As of December 31, 2008, the net book value of branches and office facilities is approximately $46 million. Of this amount, $32 million represents the net book value of the land and improvements for the branches and office facilities owned by ASB and $14 million represents the net book value of ASB s leasehold improvements. The leases expire on various dates through November 2036, but many of the leases have extension provisions.

As of December 31, 2008, ASB owned 225 automated teller machines.

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ITEM 1A. RISK FACTORS

For additional information for certain risk factors enumerated below and other risks of the Company and its operations, see Forward-Looking Statements above and HEI s MD&A, HEI s Quantitative and Qualitative Disclosures about Market Risk, HEI s Consolidated Financial Statements, HECO s MD&A and HECO s Consolidated Financial Statements, which are incorporated herein by reference to HEI Exhibit 13 and HECO Exhibit 99 to the Company s Current Report on Form 8-K dated February 19, 2009.

Holding Company and Company-Wide Risks

HEI is a holding company that derives its income from its operating subsidiaries and depends on the ability of those subsidiaries to pay dividends or make other distributions to HEI and on its own ability to raise capital.

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

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

- the provisions of an HEI agreement entered into with federal bank regulators in connection with its acquisition of its bank subsidiary, ASB, which require HEI to contribute additional capital to ASB (up to a maximum amount of additional capital of $28.3 million as of December 31, 2008) upon request of the regulators in order to maintain ASB s regulatory capital at the level required by regulation;

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

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

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

The Company is subject to risks associated with the Hawaii economy, volatile U.S. capital markets and changes in the interest rate and credit market environment that have and/or could result in higher retirement benefit plan funding requirements, declines in electric utility kilowatthour sales, declines in ASB s interest rate margins and investment values, higher delinquencies and charge-offs in ASB s loan portfolio and restrictions on the ability of HEI or its subsidiaries to borrow money or issue securities.

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

The current turmoil in the financial markets and declines in the national and global economies are having a negative effect on the Hawaii economy. Declines in the Hawaii, U.S. and Asian economies, have led to declines in KWH sales in 2008 (2008 sales decline of 1.8% from 2007) an increase in uncollected billings of HECO and its subsidiaries, higher delinquencies in ASB s loan portfolio and other adverse effects on HEI s businesses. A similar downward trend is expected in 2009, which is expected to adversely impact the utilities (with 2009 KWH sales expected to decrease by 1.0% from 2008), the bank s and consolidated HEI s 2009 results of operations. Given the current recessionary economic conditions

and the associated uncertainty of U.S. and global financial markets, the

Company s and consolidated HECO s earnings may decline and ratings may be threatened. If S&P or Moody s were to downgrade HEI s or HECO s long-term debt ratings because of these adverse effects, or if future events were to adversely affect the availability of capital to the Company, HEI s and HECO s ability to borrow and raise capital could be constrained and their future borrowing costs would likely increase with resulting reductions in HEI s consolidated net income in future periods. Further, if HEI s or HECO s commercial paper ratings were to be downgraded, HEI and HECO might not be able to sell commercial paper and might be required to draw on more expensive bank lines of credit or to defer capital or other expenditures.

Changes in the U.S. capital markets can also have significant effects on the Company. For example, pension funding requirements are affected by the market performance of the assets in the master pension trust maintained for pension plans, and by the discount rate used to estimate the service and interest cost components of net periodic pension cost and value obligations. The electric utilities pension tracking mechanisms help moderate pension expense; however, the recent significant decline in the value of the Company s defined benefit pension plan assets, in addition to continuing challenging market conditions in the beginning of 2009, has resulted in a substantial gap between the projected benefit obligations under the plans and the value of plan assets, resulting in sizable increases in expected funding requirements absent legislative or regulatory relief. However, potential laws and regulations may provide funding relief in the near term.

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

Interest rate risk also represents a market risk factor affecting the fair value of ASB s investment securities. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of those instruments. In addition, changes in credit spreads also impact the fair values of those instruments. In 2008, the credit markets experienced significant disruptions, liquidity on many financial instruments declined and residential mortgage delinquencies and defaults increased. These disruptions negatively impacted the fair value of ASB s investment portfolio in 2008 and continued volatility in the financial markets could further impact the fair value of this portfolio, which will have an adverse impact on ASB s and HEI s financial condition.

Pressure from the national economic slowdown and declines in the national housing market represents a risk factor impacting certain securities in ASB s investment portfolio. Principal and interest on mortgage-related securities issued by FNMA, FHLMC and GNMA are guaranteed by the issuer, and the securities carry implied AAA ratings. Private-issue mortgage-related securities carry a risk of loss due to delinquencies, foreclosures, and losses in the mortgage loans collateralizing the securities. As a result of the continued deterioration in the national housing market, the rating agencies downgraded the ratings on a significant number of mortgage-related securities in the fourth quarter of 2008, including several mortgage-related securities held in ASB s portfolio. Five private-issue mortgage-related securities in ASB s portfolio were downgraded to below investment grade ratings. Additionally, ASB determined the impairment on two private-issue mortgage-related securities to be other than temporary, adjusted the carrying values to market value, and recognized a noncash impairment charge of $7.8 million in the fourth quarter of 2008. Should market conditions and performance of the underlying mortgage assets continue to deteriorate, ASB could recognize other-than-temporary impairment charges on additional mortgage-related securities, and those charges could be material.

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HEI and HECO and their subsidiaries may incur higher retirement benefits expenses and have and will likely continue to recognize substantial liabilities for retirement benefits.

Retirement benefits expenses and cash funding requirements could increase in future years depending on numerous factors, including the performance of the U.S. equity markets, trends in interest rates and health care costs, plan amendments, new laws relating to pension funding and changes in accounting principles. Retirement benefits expenses based on net periodic pension and other postretirement benefit costs have been an allowable expense for rate-making, and higher retirement benefits expenses, along with other factors, may affect each electric utilities need to request a rate increase.

The Company is subject to the risks associated with the geographic concentration of its businesses and lack of interconnections that could result in service interruptions at the electric utilities or higher default rates on loans held by ASB.

The business of HECO and its electric utility subsidiaries is concentrated on the individual islands they serve in the State of Hawaii. Their operations are more vulnerable to service interruptions than are many U.S. mainland utilities because none of the systems of HECO and its subsidiaries are interconnected with the systems on the other islands they serve. Because of this lack of interconnections, it is necessary to maintain higher generation reserve margins than are typical for U.S. mainland utilities to help ensure reliable service. The peak reserve margins on Oahu are currently below desirable levels and this condition will likely continue and be exacerbated by projected load growth until additional generation is brought on line, which is not expected until 2009. Service interruptions, including in particular extended interruptions that could result from a natural disaster or terrorist activity, could adversely impact the KWH sales of some or all of the electric utility subsidiaries. For example, in December 2008, an island-wide outage (likely the result of a severe air-to-ground lightning storm) occurred on the island of Oahu that resulted in a loss of electric service to HECO customers ranging from approximately 7 to 20 hours.

Substantially all of ASB s consumer loan customers are Hawaii residents. A significant portion of the commercial loan customers are located in Hawaii. Substantially all of the real estate underlying ASB s residential and commercial real estate loans are located in Hawaii. These assets may be subject to a greater risk of default than other comparable assets held by financial institutions with other geographic concentrations in the event of adverse economic, political or business developments or natural disasters affecting Hawaii and the ability of ASB s customers to make payments of principal and interest on their loans.

Increasing competition and technological advances could cause HEI s businesses to lose customers or render their operations obsolete.

The banking industry in Hawaii, and certain aspects of the electric utility industry, are competitive. The success of HEI s subsidiaries in meeting competition will continue to have a direct impact on HEI s consolidated financial performance. For example:

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

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

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

HEI s businesses could suffer losses that are uninsured due to a lack of insurance coverage or limitations on the insurance coverage the Company does have.

In the ordinary course of business, HEI and its subsidiaries purchase insurance coverages (e.g., property and liability coverages) to protect against loss of, or damage to, their properties and against claims made by third-parties and employees for property damage or personal injuries. However, the protection provided by such insurance is limited in significant respects and, in some instances, there is no coverage. Certain of the insurance has substantial deductibles or has limits on the maximum amounts that may be recovered. For example, the electric utilities overhead and underground transmission and distribution systems (with the exception of substation buildings and contents) have a replacement value roughly estimated at $4 billion and are not insured against loss or damage because the amount of transmission and distribution system insurance available is limited and the premiums are cost prohibitive. Similarly, the electric utilities have no business interruption insurance as the premiums for such insurance would be cost prohibitive, particularly since the utilities are not interconnected to other systems. If a hurricane or other uninsured catastrophic natural disaster were to occur, and if the PUC were not to allow the affected electric utilities to recover from ratepayers restoration costs and revenues lost from business interruption, the lost revenues and repair expenses could result in a significant decrease in HEI s consolidated net income or in significant net losses for the affected periods.

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

Increased federal and state environmental regulation will require an increasing commitment of resources and funds and could result in construction delays or penalties and fines for non-compliance.

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

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

Adverse tax rulings or developments could result in significant increases in tax payments and/or expense.

Governmental taxing authorities could challenge a tax return position taken by HEI or its subsidiaries and, if the taxing authorities prevail, HEI s consolidated tax payments and/or expense, including applicable penalties and interest, could increase significantly. Further, the ability of HEI and its subsidiaries to generate capital gains and utilize capital loss carryforwards on future tax returns could impact future earnings.

The Company could be subject to the risk of uninsured losses in excess of its accruals for litigation matters.

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

Changes in accounting principles and estimates could affect the reported amounts of the Company s assets and liabilities or revenues and expenses.

HEI s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Changes in these principles, such as the changes related to the accounting for retirement benefits in SFAS No. 158, or the Company s application of existing accounting principles could materially affect HEI s or the electric utilities consolidated financial position and/or results of operations. Further, in preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change include the amounts reported for investment and mortgage-related securities; property, plant and equipment; pension and other postretirement benefit obligations; contingencies and litigation; income taxes; regulatory assets and liabilities; electric utility revenues; variable interest entities; and allowance for loan losses.

In accordance with SFAS No. 71, Accounting for the Effects of Certain Types of Regulation, HECO and its subsidiaries financial statements reflect assets and costs based on cost-based rate-making regulations. Continued accounting in this manner requires that certain criteria relating to the recoverability of such costs through rates be met. If events or circumstances should change so that the criteria are no longer satisfied, the electric utilities regulatory assets (amounting to $531 million as of December 31, 2008) may need to be charged to expense, which could result in significant reductions in the electric utilities net income, and the electric utilities regulatory liabilities (amounting to $289 million as of December 31, 2008) may need to be refunded to ratepayers.

Changes in accounting principles can also impact HEI s consolidated financial statements. For example, if a PPA falls within the scope of FASB FIN No. 46 (FIN 46R), Consolidation of Variable Interest Entities and results in the consolidation of the IPP in HECO s consolidated financial statements, the consolidation could have a material effect on HECO s consolidated financial statements, including the recognition of a significant amount of assets and liabilities, and, if such a consolidated IPP were operating at a loss and had insufficient equity, the potential recognition of such losses. Also, if a PPA falls within the scope of EITF Issue No. 01-8, Determining Whether an Arrangement Contains a Lease and results in the classification of the agreement as a capital lease, a material effect on HEI s consolidated balance sheet may result, including the recognition of significant capital assets and lease obligations.

Electric Utility Risks

Actions of the PUC are outside the control of the electric utility subsidiaries and could result in inadequate or untimely rate relief, in rate reductions or refunds or in unanticipated delays, expenses or writedowns in connection with the construction of new projects.

The rates the electric utilities are allowed to charge for their services and the timeliness of permitted rate increases are among the most important items influencing the electric utilities financial condition, results of operations and liquidity. The PUC has broad discretion over the rates that the electric utilities charge their customers. The electric utilities currently have rate cases pending before the PUC. Further, the trend of increased operation and maintenance expenses, which management expects will continue, increased plant-in-service and other factors are likely to result in the electric utilities seeking rate relief more often than in the past. Any adverse decision by the PUC concerning the level or method of determining electric utility rates, the items and amounts that may be included in rate base, the returns on equity or rate base found to be reasonable, the potential consequences of exceeding or not meeting such returns, or any prolonged delay in rendering a decision in a rate or other

proceeding, could have a material adverse effect on HECO s consolidated financial condition, results of operations and liquidity.

The electric utilities could be required to refund to their customers, with interest, revenues received under interim rate orders in their rate case proceedings (HECO s 2007 test year rate case, HELCO s 2006 test year rate case and MECO s 2007 test year rate case), IRP cost recovery dockets and other proceedings, if and to the extent they exceed the amounts allowed in final orders. As of December 31, 2008, the electric utilities had recognized an aggregate of $145 million of such revenues with respect to interim orders.

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

Energy cost adjustment clauses. The rate schedules of each of HEI s electric utilities include ECACs under which electric rates charged to customers are automatically adjusted for changes in the weighted-average price paid for fuel oil and certain components of purchased power, and the relative amounts of company-generated power and purchased power. In 2004 PUC decisions approving the electric utilities fuel supply contracts, the PUC affirmed the electric utilities right to include in their respective ECACs the stated costs incurred pursuant to their respective new fuel supply contracts, to the extent that these costs are not included in their respective base rates, and restated its intention to examine the need for continued use of ECACs in rate cases.

On June 2, 2006, the Governor of Hawaii signed into law Act 162, which provides that any automatic fuel rate adjustment clause requested by a public utility in an application filed with the PUC shall be designed, as determined in the PUC s discretion, to (1) fairly share the risk of fuel cost changes between the public utility and its customers, (2) provide the public utility with sufficient incentive to reasonably manage or lower its fuel costs and encourage greater use of renewable energy, (3) allow the public utility to mitigate the risk of sudden or frequent fuel cost changes that cannot otherwise reasonably be mitigated through other commercially available means, such as through fuel hedging contracts, (4) preserve, to the extent reasonably possible, the public utility s financial integrity, and (5) minimize, to the extent reasonably possible, the public utility s need to apply for frequent applications for general rate increases to account for the changes to its fuel costs. While the PUC already reviewed the automatic fuel rate adjustment clause in rate cases, Act 162 required that these five specific factors be addressed in the record.

Management cannot predict the ultimate effect of the required Act 162 analysis on the continuation of the utilities existing ECACs, but the Energy Agreement confirms the intent of the parties that the existing ECACs will continue, subject to periodic review by the PUC. The Energy Agreement also provides that as part of the review, the PUC may examine whether there are renewable energy projects from which the utilities should have, but did not, purchase energy or whether alternative fuel purchase strategies were appropriately used or not used. Any change in the ECAC could have a material adverse affect on the electric utilities.

Electric utility operations are significantly influenced by weather conditions.

The electric utilities results of operations can be affected by changes in the weather. Weather conditions, particularly temperature and humidity, directly influence the demand for electricity. In addition, severe weather and natural disasters such as hurricanes, earthquakes, tsunamis and lightning storms, can cause outages and property damage and require the utilities to incur significant additional expenses that may not be recoverable.

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Electric utility operations depend heavily on third party suppliers of fuel oil and purchased power.

The electric utilities rely on fuel oil suppliers and shippers and independent power producers to deliver fuel oil and power, respectively, in accordance with contractual agreements. Approximately 77% of the net energy generated or purchased by the electric utilities in 2008 was generated from the burning of oil, and purchases of power by the electric utilities provided about 40% of their total net energy generated and purchased for the same period. Failure or delay by oil suppliers and shippers to provide fuel pursuant to existing contracts, or failure by a major IPP to deliver the firm capacity anticipated in its PPA, could disrupt the ability of the electric utilities to deliver electricity and require the electric utilities to incur additional expenses to meet the needs of their customers that may not be recoverable. In addition, as these contractual agreements end, the electric utilities may not be able to purchase fuel and power on terms equivalent to the current contractual agreements.

Electric utility generating facilities are subject to operational risks that could result in unscheduled plant outages, unanticipated and/or increased operation and maintenance expenses and increased power purchase costs.

Operation of electric generating facilities involves certain risks which can adversely affect energy output and efficiency levels. Included among these risks are facility shutdowns or power interruptions due to insufficient generation or a breakdown or failure of equipment or processes or interruptions in fuel supply, inability to negotiate satisfactory collective bargaining agreements when existing agreements expire or other labor disputes, inability to comply with regulatory or permit requirements, disruptions in delivery of electricity, operator error and catastrophic events such as earthquakes, tsunamis, hurricanes, fires, explosions, floods or other similar occurrences affecting the electric utilities generating facilities or transmission and distribution systems. For example, as a result of load growth on Oahu and other factors, there currently is an increased risk to generation reliability. Generation peak reserve margins are lower than considered desirable in light of circumstances. Existing units are running harder, resulting in more frequent and more extensive maintenance, at times requiring temporary shut downs of these units. HECO has taken a number of steps to mitigate the risk of outages, including securing additional purchased power, adding distributed generation at some substations and encouraging energy conservation. The costs of supplying energy to meet high demand and maintenance costs required to sustain high availability of aging generation units have been increasing and the trend of cost increases is not likely to ease.

The electric utilities may be adversely affected by new legislation.

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

Renewable Portfolio Standards (RPS) law. The 2004 Hawaii Legislature amended an existing RPS law to require electric utilities to meet a RPS of 8% of KWH sales by December 31, 2005, 10% by December 31, 2010, 15% by December 31, 2015, and 20% by December 31, 2020. These standards may be met by the electric utilities on an aggregated basis and were met in 2005 when they attained a RPS of 11.7%. As part of the Energy Agreement, the utilities agreed to a revised RPS of 25% by December 31, 2020 and 40% by December 31, 2030. The utilities are committed to achieving these goals; however, due to risks such as potential delays in IPPs being able to deliver contracted renewable energy (see risks under Forward-looking Statements on pages v and vi), it is possible the electric utilities may not attain the required renewable percentages in the future, and management cannot predict the future consequences of failure to do so (including potential penalties to be assessed by the PUC). On December 19, 2008, the PUC approved a penalty of $20 for every MWh that an electric utility is deficient under Hawaii s RPS law. The PUC noted, however, that this penalty may be reduced, in the PUC s discretion, due to events or circumstances that are outside an electric utility s reasonable control, to the extent the event or circumstance could not be reasonably foreseen and ameliorated, as described in the RPS law and in the RPS Framework. In addition, the PUC ordered that the utilities will be prohibited from recovering any RPS penalty costs through rates.

DSM programs. In 2006, the PUC was given the authority, if it deems appropriate, to redirect all or a portion of the funds currently collected by the utilities and included in their revenues through the current utility DSM surcharge into a Public Benefits Fund, for the purpose of supporting customer DSM programs approved by the PUC. The contract start date for the third party administrator is scheduled for late February 2009.

Non-fossil fuel purchased power contracts. In 2006, a law was passed that requires the PUC, in connection with its determination of just and reasonable rates in purchased power contracts, to establish a methodology that removes or significantly reduces any linkage between the price paid for non-fossil-fuel-generated electricity under future power purchase contracts and the price of fossil fuel, in order to allow utility customers to receive the potential cost savings from non-fossil fuel generation.

Net energy metering. Hawaii has a net energy metering law, which requires that electric utilities offer net energy metering to eligible customer generators (i.e., a customer generator may be a net user or supplier of energy and will make payment to or receive credit from the electric utility accordingly). In the Energy Agreement, the parties agreed to seek to remove system-wide caps on net energy metering. Instead, they plan to seek to limit DG interconnections on a per circuit basis and to replace net energy metering with an appropriate feed-in tariff and new net metered installations that incorporate time-of-use metering equipment for future full scale implementation of time-of-use metering and sale of excess energy.

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

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

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

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

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

The utilities have agreed in the Energy Agreement to test the use of biofuels in their generating units and, if economically feasible, to convert them to the use of biofuels.

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

The electric utilities may be subject to increased operational challenges and its results of operations, financial condition and liquidity may be adversely impacted in meeting the commitments and objectives of the HCEI Energy Agreement.

On October 20, 2008, the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the State of Hawaii Department of Commerce and Consumer Affairs and the electric utilities (collectively, the parties), signed an Energy Agreement setting forth the goals and objectives of a Hawaii Clean Energy Initiative (HCEI) and the related commitments of the parties. The Energy Agreement provides that the parties pursue a wide range of actions with the purpose of decreasing the State of Hawaii s dependence on imported fossil fuels through substantial increases in the use of renewable energy and implementation of new programs intended to secure greater energy efficiency and

conservation. For a detailed discussion of certain of the electric utilities commitments contained in the Energy Agreement, see Hawaii Clean Energy Initiative in Note 3 of HEI s Notes to Consolidated Financial Statements.

The far-reaching nature of the Energy Agreement, including the extent of renewable energy commitments and the proposal to implement a new regulatory model which would decouple revenues from sales, present new increased risks to the Company. Among such risks are: (1) the dependence on third party suppliers of renewable purchased energy, which if the utilities are unsuccessful in negotiating purchased power agreements with such IPPs or if a major IPP fails to deliver the anticipated capacity in its purchased power agreement, could impact the utilities achievement of its commitments under the Energy Agreement and/or the utilities ability to deliver reliable service; (2) delays in acquiring or unavailability of non-fossil fuel supplies for renewable generation; (3) the impact of intermittent power to the electrical grid and reliability of service if appropriate supporting infrastructure is not installed or does not operate effectively; (4) the likelihood that the utilities may need to make substantial investments in related infrastructure, which could result in increased borrowings and, therefore, materially impact the financial condition and liquidity of the utilities; and (5) the commitment to support a variety of initiatives, which, if approved by the PUC, may have a material impact on the results of operations and financial condition of the utilities depending on their design and implementation. These programs include, but are not limited to, decoupling revenues from sales; implementing feed-in tariffs to encourage development of renewable energy; removing the system-wide caps on net energy metering (but limiting distributed generation interconnections on a per-circuit basis to no more than 15% of peak circuit demand); and developing an Energy Efficiency Portfolio Standard. Management cannot predict the ultimate impact or outcome of the implementation of these or other HCEI programs on the results of operations, financial condition and liquidity of the electric utilities.

Bank Risks

Fluctuations in interest rates could result in lower net interest income, impair ASB s ability to originate new loans or impair the ability of ASB s adjustable-rate borrowers to make increased payments.

Interest rate risk is a significant risk of ASB s operations. ASB s net interest income consists primarily of interest income received on fixed-rate and adjustable-rate loans, mortgage-related securities and investments and interest expense consisting primarily of interest paid on deposits and other borrowings. Interest rate risk arises when earning assets mature or when their interest rates change in a time frame different from that of the costing liabilities. Changes in market interest rates, including changes in the relationship between short-term and long-term market interest rates or between different interest rate indices, can impact ASB s net interest margin. Although ASB pursues an asset-liability management strategy designed to mitigate its risk from changes in market interest rates, unfavorable movements in interest rates could result in lower net interest income. In 2008 and 2007, ASB faced a challenging interest rate environment that has pressured its net interest margin. Competitive factors and the level of interest rates have made it difficult to retain deposits and control funding costs and have held down asset yields, putting downward pressure on net interest margin. As the Federal Reserve cut the Federal Funds Rate seven times in 2008, the potential for compression of ASB s margin will continue to be a concern.

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

ASB s operations are affected by many disparate factors, some of which are beyond its control, that could result in lower net interest income or decreased demand for its products and services.

ASB s results of operations depend primarily on the level of interest income generated by ASB s earning assets in excess of the interest expense on its costing liabilities and the supply of and demand for its products and services (i.e., loans and deposits). ASB s net income may also be adversely affected by various other factors, such as:

- local and other economic and political conditions that could result in declines in employment and real estate values, which in turn could adversely affect the ability of borrowers to make loan payments and the ability of ASB to recover the full amounts owing to it under defaulted loans;

- the ability of borrowers to obtain insurance and the ability of ASB to place insurance where borrowers fail to do so, particularly in the event of catastrophic damage to collateral securing loans made by ASB;

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

- changes in ASB s loan or investment portfolio credit profiles and asset quality, which may increase or decrease the required level of allowance for loan losses or required other-than-temporary writedowns;

- technological disruptions affecting ASB s operations or financial or operational difficulties experienced by an outside vendor on whom ASB relies to provide key components of its business operations, such as business processing, network access or internet connections;

- public opinion about ASB and financial institutions in general, which, if negative, could impact the public s trust and confidence in ASB and adversely affect ASB s ability to attract and retain customers and expose ASB to adverse legal and regulatory consequences;

- increases in operating costs, inflation and other factors, that exceed increases in ASB s net interest, fee and other income;

- the ability of ASB to maintain or increase the level of deposits, ASB s lowest costing funds; and

- the ability of ASB to operate successfully as a full-service community bank and to contain costs.

Banking and related regulations could result in significant restrictions being imposed on ASB s business.

ASB is subject to examination and comprehensive regulation by the Department of Treasury, the OTS and the Federal Deposit Insurance Corporation, and is subject to reserve requirements established by the Board of Governors of the Federal Reserve System. As ASB s primary regulator, the OTS regularly conducts examinations to assess the safety and soundness of ASB s operations and activities and ASB s compliance with applicable banking laws and regulations. Because ASB is an indirect subsidiary of HEI, federal regulatory authorities have the right to examine HEI and its activities.

Under certain circumstances, including any determination that ASB s relationship with HEI results in an unsafe and unsound banking practice, these regulatory authorities have the authority to restrict the ability of ASB to transfer assets and to make distributions to its stockholders (including payment of dividends to HEI), or they could seek to require HEI to sever its relationship with or divest its ownership of ASB. Payment by ASB of dividends to HEI may also be restricted by the OTS under its prompt corrective action regulations or its capital distribution regulations if ASB s capital position deteriorates. In order to maintain its status as a QTL, ASB is required to maintain at least 65% of its assets in qualified thrift investments. Savings associations that fail to maintain QTL status are subject to various penalties, including limitations on their activities. In ASB s case, the activities of HEI and HEI s other subsidiaries would also be subject to restrictions, and a failure or inability to comply with those restrictions could effectively result in the required divestiture of ASB. In the event of a required divestiture, federal law substantially limits the entities that could acquire ASB.

A large percentage of ASB s loans and securities are collateralized by real estate, and an adverse change in the real estate market may result in losses and adversely affect the Company s profitability.

As of December 31, 2008 approximately 84% of ASB s loan portfolio was comprised of loans primarily collateralized by real estate, primarily concentrated in the State of Hawaii. ASB s financial results may be adversely affected by changes in prevailing economic conditions, either nationally or in the state of Hawaii, including decreases in real estate values, adverse employment conditions, the monetary and fiscal policies of the federal and state government and other significant external events. A deterioration of the economic environment in Hawaii, including a material decline in the real estate market, further declines in home resales, or a material external shock, may significantly impair the value of ASB s collateral and ASB s ability to sell the collateral upon foreclosure. In the event of a default, amounts received upon sale of the collateral may be insufficient to recover outstanding principal and interest. Adverse changes in the economy may also have a negative effect on the ability of borrowers to make timely repayments of their loans. In addition, if poor economic conditions result in decreased demand for real estate loans, ASB s profits may decrease if alternative investments earn less income than real estate loans.

ASB s mortgage-related securities portfolio comprises 91% of the total investment portfolio. These securities are issued by both U.S. Government agencies and private issuers, and are collateralized by residential real estate loans originated throughout the U.S. Securities issued by government agencies have little, if any, credit risk since they are guaranteed by an agency of the U.S. Government. Privately-issued securities are structured to contain various levels of protection against losses incurred in the underlying pool of residential real estate loans. A sustained, severe downturn in the national residential real estate market could result in an increased level of foreclosures and

losses in the loans supporting these securities, which could have a negative impact on the credit quality of these securities and could have a material adverse impact on ASB s earnings. In 2008, ASB recorded a $4.7 million net charge for other-than-temporary impairments of securities.

ASB s strategy to expand its commercial and commercial real estate lending activities may result in higher service costs and greater credit risk than residential lending activities due to the unique characteristics of these markets.

ASB has been aggressively pursuing a strategy that includes expanding its commercial and commercial real estate lines of business. These types of loans generally entail higher underwriting and other service costs and present greater credit risks than traditional residential mortgages.

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

Commercial real estate properties tend to be unique and are more difficult to value than residential real estate properties. Commercial real estate loans may not be fully amortizing, meaning that they may have a significant principal balance or balloon payment due at maturity. In addition, commercial real estate properties, particularly industrial and warehouse properties, are generally subject to relatively greater environmental risks than noncommercial properties and to the corresponding burdens and costs of compliance with environmental laws and regulations. Also, there may be costs and delays involved in enforcing rights of a property owner against tenants in default under the terms of leases with respect to commercial properties. For example, tenants may seek the protection of bankruptcy laws, which could result in termination of such tenant s lease.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

HEI has not received, prior to July 4, 2008, written comments from the SEC staff regarding its periodic or current reports under the Securities Exchange Act of 1934, which remain unresolved.

HECO has not received, prior to July 4, 2008, written comments from the SEC staff regarding its periodic or current reports under the Securities Exchange Act of 1934, which remain unresolved.

ITEM 2. PROPERTIES

HEI and HECO:

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

ITEM 3. LEGAL PROCEEDINGS

HEI and HECO:

The descriptions of legal proceedings (including judicial proceedings and proceedings before the PUC and environmental and other administrative agencies) in Item 1. Business, HEI s MD&A and in the notes to HEI s Consolidated Financial Statements are incorporated by reference in this Item 3. Certain HEI subsidiaries (including HECO and its subsidiaries and ASB) are also involved in ordinary routine PUC proceedings, environmental proceedings and litigation incidental to their respective businesses.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

HEI and HECO:

During the fourth quarter of 2008, no matters were submitted to a vote of security holders of the Registrants.

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EXECUTIVE OFFICERS OF THE REGISTRANT (HEI)

The following persons are, or may be deemed to be, executive officers of HEI. Their ages are given as of February 20, 2009, their years of company service are given as of December 31, 2008 and their business experience is given for the past five years. Officers are appointed to serve until the meeting of the HEI Board of Directors (HEI Board) after the next Annual Meeting of Shareholders (which is scheduled for May 5, 2009) and/or until their successors have been appointed and qualified (or until their earlier resignation or removal). Company service includes service with an HEI subsidiary.

HEI Executive Officers	Business experience for past five years
Constance H. Lau, age 56 (Company service: 24 years)	
President and Chief Executive Officer	5/06 to date
Chairman of the Board, HECO	5/06 to date
Chairman of the Board, ASB	5/06 to date
Chief Executive Officer, ASB	6/01 to date
President, ASB	6/01 to 1/08
Director, HEI	6/01 to 12/04, 5/06 to date
James A. Ajello, age 55	
Senior Financial Vice President, Treasurer and Chief Financial Officer	1/09 to date
Prior to joining HEI, served as Senior Vice President-Business Development from 8/06 to 1/09 and Senior Vice President and General Manager of Commercial & Industrial Marketing from 1/04 to 8/06 of Reliant Energy, Inc. and as President of Reliant Energy Solutions LLC from 8/00 to 1/04.	
Chester A. Richardson, age 60 (Company service: 1 year)	
Senior Vice President General Counsel and Chief Administrative Officer	12/08 to date
Vice President General Counsel	8/07 to 12/08
Prior to joining HEI, served as Deputy General Counsel of Alliant Energy Corp. from 9/03 to 7/07.	
Curtis Y. Harada, age 53 (Company service: 19 years)	
Vice President, Controller and Chief Accounting Officer	1/09 to date
Vice President, Controller and Chief Accounting Officer, and Acting Financial Vice President, Treasurer and Chief Financial Officer	12/08 to 1/09
Controller and Acting Financial Vice President, Treasurer and Chief Financial Officer	2/08 to 12/08
Controller	1/91 to 1/08
Richard M. Rosenblum, age 58	
President and Chief Executive Officer, HECO	1/09 to date
Director, HECO	2/09 to date
Prior to joining HECO, served as Southern California Edison s Senior Vice President of Generation, and Chief Nuclear Officer from 11/05 until his retirement in 5/08, as Senior Vice President, Generation from 9/05 to 11/05, and as Senior Vice President, Transmission and Distribution from 2/98 to 9/05.	
Timothy K. Schools, age 39 (Company service: 1 year)	
President, ASB	2/08 to date
Senior Executive Vice President, Chief Operating Officer, ASB	7/07 to 1/08
Prior to joining ASB, served as Chief Financial Officer from 11/05 to 4/07 and Chief Risk Officer from 10/04 to 11/05 of The South Financial Group, Inc., and as Director of Investor Relations and Strategic Planning from 12/01 to 10/04 of National Commerce Financial Corp.	

T. Michael May, former President and Chief Executive Officer of HECO, retired from HECO on December 31, 2008. Richard M. Rosenblum joined HECO as President and Chief Executive Officer on January 1, 2009 and became a Director of HECO on February 23, 2009. James A. Ajello joined HEI as Senior Financial Vice President,

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Treasurer and Chief Financial Officer on January 26, 2009. HEI s executive officers are also officers and/or directors of one or more of HEI s subsidiaries. Mr. Rosenblum and Mr. Schools are not officers of HEI, but they are deemed to be executive officers of HEI for purposes of this Item under the definition of executive officer in Rule 3b-7 of the SEC s General Rules and Regulations under the Securities Exchange Act of 1934.

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

PART II

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

HEI:

Certain of the information required by this item is incorporated herein by reference to Note 12, Regulatory restrictions on net assets, and Note 15, Quarterly information (unaudited), to HEI s Consolidated Financial Statements and Selected Financial Data in HEI Exhibit 13 to the Company s Current Report on Form 8-K dated February 19, 2009, and Item 12. Equity compensation plan information of this Form 10-K. Certain restrictions on dividends and other distributions of HEI are described in this report under Item 1. Business HEI Regulation Restrictions on dividends and other distributions and that description is incorporated herein by reference. HEI s common stock is traded on the New York Stock Exchange and the total number of holders of record of HEI common stock as of February 20, 2009, was 10,771.

In 2008, HEI issued an aggregate of 31,600 shares of unregistered common stock pursuant to the HEI 1990 Nonemployee Director Stock Plan, as amended and restated effective May 6, 2008 (the HEI Nonemployee Director Plan). Under the HEI Nonemployee Director Plan, each HEI nonemployee director receives, in addition to an annual cash retainer, an annual stock grant of 1,800 shares of HEI common stock (2,000 shares for the first time grant to a new HEI director) and each nonemployee subsidiary director who is not also an HEI nonemployee director receives an annual stock grant of 1,000 shares of HEI common stock (1,000 shares for the first time grant to a new subsidiary director). The HEI Nonemployee Director Plan is currently the only plan for nonemployee directors and provides for annual stock grants and annual cash retainers for nonemployee directors of HEI and its subsidiaries.

In 2007, HEI issued an aggregate of 32,600 shares of unregistered common stock pursuant to the HEI Nonemployee Director Plan. In 2006, HEI issued an aggregate of 27,600 shares of unregistered common stock pursuant to the HEI 1990 Nonemployee Director Plan, as amended and restated effective May 2, 2006.

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

HECO:

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

The dividends declared and paid on HECO s common stock for the quarters ended September 30, 2007, December 31, 2007 and March 31, 2008 were $13,508,000, $13,576,000 and $14,089,000, respectively. No dividends were declared or paid on HECO s common stock for the quarters ended March 31, 2007, June 30, 2007, June 30, 2008, September 30, 2008 and December 31, 2008 because HECO was strengthening its capital structure by retaining earnings. Also, see Liquidity and capital resources in HEI s MD&A.

See the discussion of regulatory restrictions on distributions in Note 12 to HEI s Consolidated Financial Statements, which are incorporated herein by reference, and the discussion of Restrictions on dividends and other distributions under HEI Regulation in Item 1. Business.

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ITEM 6. SELECTED FINANCIAL DATA
HEI:

The information required by this item is incorporated herein by reference to page 4 of HEI s Annual Report.

HECO:

The information required by this item is incorporated herein by reference to Selected Financial Data on page 4 of HECO Exhibit 99 to HECO s Current Report on Form 8-K dated February 19, 2009.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
The information required by this item is set forth in HEI s MD&A, incorporated herein by reference to pages 5 to 59 of HEI s Annual Report.

HECO:

The information required by this item is set forth in HECO s MD&A, incorporated herein by reference to page 3 of HECO Exhibit 99 to HECO s Current Report on Form 8-K dated February 19, 2009.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
HEI:

The information required by this item is set forth in HEI s Quantitative and Qualitative Disclosures about Market Risk, incorporated herein by reference to pages 59 to 62 of HEI s Annual Report.

HECO:

The information required by this item is set forth in HECO s Quantitative and Qualitative Disclosures about Market Risk, incorporated herein by reference to page 3 of HECO Exhibit 99 to HECO s Current Report on Form 8-K dated February 19, 2009.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
HEI:

The information required by this item is incorporated herein by reference to pages 66 to 124 of HEI s Annual Report.

HECO:

The information required by this item is incorporated herein by reference to pages 7 to 52 of HECO Exhibit 99 to HECO s Current Report on Form 8-K dated February 19, 2009.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
HEI and HECO:

None

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ITEM 9A. CONTROLS AND PROCEDURES
HEI:

Changes in Internal Control over Financial Reporting

During the fourth quarter of 2008, there was no change in internal control over financial reporting identified in connection with management s evaluation of the effectiveness of the Company s internal control over financial reporting as of December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Constance H. Lau, HEI Chief Executive Officer, and James A. Ajello, HEI Chief Financial Officer, have evaluated the disclosure controls and procedures of HEI as of December 31, 2008. Based on their evaluations, as of December 31, 2008, they have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective in ensuring that information required to be disclosed by HEI in reports HEI files or submits under the Securities Exchange Act of 1934:

(1) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and

(2) is accumulated and communicated to HEI management, including HEI s principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

The Annual Report of Management on Internal Control Over Financial Reporting and Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting required by this item are incorporated herein by reference to pages 64 and 65, respectively, of HEI s Annual Report.

HECO:

Changes in Internal Control over Financial Reporting

During the fourth quarter of 2008, there was no change in internal control over financial reporting identified in connection with management s evaluation of the effectiveness of HECO s internal control over financial reporting as of December 31, 2008 that has materially affected, or is reasonably likely to materially affect, HECO s internal control over financial reporting.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Richard M. Rosenblum, HECO Chief Executive Officer, and Tayne S. Y. Sekimura, HECO Chief Financial Officer, have evaluated the disclosure controls and procedures of HECO as of December 31, 2008. Based on their evaluations, as of December 31, 2008, they have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective in ensuring that information required to be disclosed by HECO in reports HECO files or submits under the Securities Exchange Act of 1934:

(1) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and

(2) is accumulated and communicated to HECO management, including HECO s principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

The Annual Report of Management on Internal Control Over Financial Reporting and Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting required by this item are incorporated herein by reference to pages 5 and 6, respectively, of HECO Exhibit 99 to HECO s Current Report on Form 8-K dated February 19, 2009.

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ITEM 9B. OTHER INFORMATION
HEI and HECO:

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
HEI:

Information for this item concerning the executive officers of HEI is set forth at the end of Item 4 of this report. Information on the current HEI directors and their business experience and directorships is incorporated herein by reference to the sections relating to director nominees and continuing directors in the HEI 2009 Proxy Statement. The information on the HEI Audit Committee and the HEI Board s determination of the HEI Audit Committee s financial experts and their names are incorporated herein by reference to the section relating to Committees of the Board and the relevant information in the Audit Committee Report in the HEI 2009 Proxy Statement. No other portion of the Audit Committee Report is incorporated herein by reference.

Family relationships; director arrangements

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

Code of Conduct

The HEI Board adopted a revised Corporate Code of Conduct, effective June 30, 2008, which includes code of ethics applicable to, among others, the Chief Executive Officer, senior financial officers and senior accounting officers of HEI, a copy of which may be viewed under Corporate Governance on HEI s website at www.hei.com. HEI elects to disclose the information required by Form 8-K, Item 5.05, Amendments to the Registrant s Code of Ethics, or Waiver of a Provision of the Code of Ethics, through this website and such information will remain available on this website for at least a 12-month period.

Section 16(a) beneficial ownership reporting compliance

Information required to be reported under this caption is incorporated herein by reference to the section relating to stock ownership in the HEI 2009 Proxy Statement.

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HECO:

Executive officers

The following persons are, or may be deemed to be, executive officers of HECO. Their ages are given as of February 20, 2009, their years of company service are given as of December 31, 2008 and their business experience is given for the past five years. Executive officers are appointed to serve until the meeting of the HECO Board of Directors (HECO Board) after the next HECO Annual Meeting (or written consent of sole shareholder, which is expected in May 2009) and/or until their respective successors have been appointed and qualified (or until their earlier resignation or removal). Company service includes service with HECO affiliates.

HECO Executive Officers	Business experience for past five years
Richard M. Rosenblum, age 58	
HECO President and Chief Executive Officer	1/09 to date
Director, HECO	2/09 to date
Prior to joining HECO, served as Southern California Edison s Senior Vice President of Generation, and Chief Nuclear Officer from 11/05 until his retirement in 5/08, as Senior Vice President, Generation from 9/05 to 11/05, and as Senior Vice President, Transmission and Distribution from 2/98 to 9/05.	
Robert A. Alm, age 57 (Company service: 7 years) [1]	
Executive Vice President Public Affairs	2/08 to date
Senior Vice President Public Affairs	7/01 to 1/08
[1] Effective March 2, 2009, Mr. Alm will be promoted to Executive Vice President.	
Amy E. Ejercito, age 50 (Company service: 20 years)	
Vice President Corporate Excellence	1/05 to date