HAWAIIAN ELECTRIC CO INC
Form 10-K
February 19, 2013

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, 2012

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 900 Richards Street, Honolulu, Hawaii 96813 Telephone (808) 543-5662	**99-0208097**
1-4955	**HAWAIIAN ELECTRIC COMPANY, INC.**, a Hawaii corporation 900 Richards Street, Honolulu, Hawaii 96813 Telephone (808) 543-7771	**99-0040500**

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

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

of HECO Capital Trust III

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 the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Hawaiian Electric Industries Inc. Yes _X_ No __ Hawaiian Electric Company, Inc. Yes __ No _X_

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Hawaiian Electric Industries Inc. Yes __ No _X_ Hawaiian Electric Company, Inc. Yes __ No _X_

Indicate by check mark whether the registrant (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.

Hawaiian Electric Industries Inc. Yes _X_ No __ Hawaiian Electric Company, Inc. Yes _X_ No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Hawaiian Electric Industries Inc. Yes _X_ No __ Hawaiian Electric Company, Inc. Yes _X_ No __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405 of this chapter) 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. [ ]

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

Hawaiian Electric Industries Inc.	Large accelerated filer _X_	Hawaiian Electric Company, Inc.	Large accelerated filer __
	Accelerated filer __		Accelerated filer __
	Non-accelerated filer __		Non-accelerated filer _X_

(Do not check if a smaller reporting company)	(Do not check if a smaller reporting company)
Smaller reporting company __	Smaller reporting company __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Hawaiian Electric Industries Inc. Yes __ No _X_ Hawaiian Electric Company, Inc. 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, 2012	Number of shares of common stock outstanding of the registrants as of June 30, 2012	February 7, 2013
Hawaiian Electric Industries, Inc. (HEI)	$2,767,100,181	97,023,148	98,101,019
		(Without par value)	(Without par value)
Hawaiian Electric Company, Inc. (HECO)	None	14,233,723	14,665,264
		($6 2/3 par value)	($6 2/3 par value)

DOCUMENTS INCORPORATED BY REFERENCE

HECO s Exhibit 99.2, consisting of:

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

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

HECO s Consolidated Selected Financial Data Part II

HECO s Consolidated 2012 Financial Statements Parts I, II, III and IV

HECO s Exhibit 99.3, consisting of:

HECO s Directors, Executive Officers and Corporate Governance Part III

HECO s Executive Compensation Part III

HECO s Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Part III

HECO s Certain Relationships and Related Transactions, and Director Independence Part III

HECO s Principal Accounting Fees and Services Part III

Selected sections of Proxy Statement of HEI for the 2013 Annual Meeting of Shareholders to be filed Part III

This combined Form 10-K represents separate filings by Hawaiian Electric Industries, Inc. and Hawaiian Electric Company, Inc. Information contained herein relating to any individual registrant is filed by each registrant on its own

behalf. HECO makes no representations as to any information not relating to it or its subsidiaries.

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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
ABO	Accumulated benefit obligations
AES Hawaii	AES Hawaii, Inc.
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income (loss)
AOS	Adequacy of supply
APBO	Accumulated postretirement benefit obligation
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of American Savings Holdings, Inc.
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ASHI	American Savings Holdings, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
BIF	Bank Insurance Fund
Btu	British thermal unit
CAA	Clean Air Act
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CESP	Clean Energy Scenario Planning
Chevron	Chevron Products Company, a fuel oil supplier
CHP	Combined heat and power
CIP	Campbell Industrial Park
CIS	Customer Information System
Company	When used in Hawaiian Electric Industries, Inc. sections, Company refers to Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation, Hawaiian Electric Company, Inc. and its subsidiaries (listed under HECO); American Savings Holdings, Inc. and its subsidiary, American Savings Bank, F.S.B.; HEI Properties, Inc.; 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.). When used in Hawaiian Electric Company, Inc. sections, 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
CT-1	Combustion turbine No. 1
D&O	Decision and order
DBF	State of Hawaii Department of Budget and Finance
DG	Distributed generation
DOD	Department of Defense federal
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOH	Department of Health of the State of Hawaii
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
ECAC	Energy cost adjustment clause
EIP	2010 Executive Incentive Plan, as amended
Energy Agreement	Agreement dated October 20, 2008 and signed by the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and HECO, for itself

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

GLOSSARY OF TERMS *(continued)*

Terms	Definitions
ERL	Environmental Response Law of the State of Hawaii
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
federal	U.S. Government
FERC	Federal Energy Regulatory Commission
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FICO	Financing Corporation
FNMA	Federal National Mortgage Association
FRB	Federal Reserve Board
GAAP	U.S. generally accepted accounting principles
GHG	Greenhouse gas
GNMA	Government National Mortgage Association
Gramm Act	Gramm-Leach-Bliley Act of 1999
HCEI	Hawaii Clean Energy Initiative
HC&S	Hawaiian Commercial & Sugar Company, a division of A&B-Hawaii, Inc.
HECO	Hawaiian Electric Company, Inc., an electric utility subsidiary of Hawaiian Electric Industries, Inc. and parent company of Hawaii Electric Light Company, Inc., Maui Electric Company, Limited, HECO Capital Trust III (unconsolidated subsidiary), Renewable Hawaii, Inc. and Uluwehiokama Biofuels Corp.
HECO s Consolidated Financial Statements	Hawaiian Electric Company, Inc. s Consolidated Financial Statements, which are incorporated into Parts I, II, III and IV of this Form 10-K by reference to HECO Exhibit 99.2
HECO s MD&A	Hawaiian Electric Company, Inc. s Management s Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated into Part I, Item 1 and Part II, Item 7 of this Form 10-K by reference to HECO Exhibit 99.2
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., American Savings Holdings, Inc., HEI Properties, Inc., Hawaiian Electric Industries Capital Trust II, Hawaiian Electric Industries Capital Trust III and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.).
HEI 2013 Proxy Statement	Selected sections of Hawaiian Electric Industries, Inc. s 2013 Proxy Statement to be filed after the date of this Form 10-K, which are incorporated into this Form 10-K by reference
HEI s Consolidated Financial Statements	Hawaiian Electric Industries, Inc. s Consolidated Financial Statements, including notes, in Item 8 of this Form 10-K
HEI s MD&A	Hawaiian Electric Industries, Inc. s Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K
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
IRR	Interest rate risk
Kalaeloa	Kalaeloa Partners, L.P.
kV	Kilovolt
KWH	Kilowatthour

LSFO	Low sulfur fuel oil
LTIP	Long-term incentive plan

GLOSSARY OF TERMS *(continued)*

Terms	Definitions
MBtu	Million British thermal unit
MD&A	Management s Discussion and Analysis of Financial Condition and Results of Operations
MECO	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
Moody s	Moody s Investors Service s
MSFO	Medium sulfur fuel oil
MW	Megawatt/s (as applicable)
NA	Not applicable
NAAQS	National Ambient Air Quality Standard
NM	Not meaningful
NPBC	Net periodic benefits costs
NQSO	Nonqualified stock options
O&M	Operation and maintenance
OCC	Office of the Comptroller of the Currency
OPA	Federal Oil Pollution Act of 1990
OPEB	Postretirement benefits other than pensions
OTS	Office of Thrift Supervision, Department of Treasury
OTTI	Other-than-temporary impairment
PBO	Projected benefit obligation
PCB	Polychlorinated biphenyls
PECS	Pacific Energy Conservation Services, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
PGV	Puna Geothermal Venture
PPA	Power purchase agreement
PPAC	Purchased power adjustment clause
PSD	Prevention of Significant Deterioration
PUC	Public Utilities Commission of the State of Hawaii
PURPA	Public Utility Regulatory Policies Act of 1978
QF	Qualifying Facility under the Public Utility Regulatory Policies Act of 1978
QTL	Qualified Thrift Lender
RAM	Revenue adjustment mechanism
RBA	Revenue balancing account
RCRA	Resource Conservation and Recovery Act of 1976
REG	Renewable Energy Group Marketing & Logistics Group LLC
Registrant	Each of Hawaiian Electric Industries, Inc. and Hawaiian Electric Company, Inc.
RHI	Renewable Hawaii, Inc., a wholly owned subsidiary of Hawaiian Electric Company, Inc.
ROACE	Return on average common equity
RORB	Return on rate base
RPS	Renewable portfolio standards
S&P	Standard & Poor s
SAIF	Savings Association Insurance Fund
SAR	Stock appreciation right
SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference to HECO Exhibit 99.2 or HECO Exhibit 99.3 as if fully set forth herein (or means refer to the referenced section in this document or the referenced exhibit or other document)
SOIP	1987 Stock Option and Incentive Plan, as amended
ST	Steam turbine
state	State of Hawaii
Tesoro	Tesoro Hawaii Corporation dba BHP Petroleum Americas Refining Inc., a fuel oil supplier
TOOTS	The Old Oahu Tug Service, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
UBC	Uluwehiokama Biofuels Corp., a non-regulated subsidiary of Hawaiian Electric Company, Inc.

UST	Underground storage tank
VIE	Variable interest entity

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 or possible future actions are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and the accuracy of assumptions concerning HEI and its subsidiaries (collectively, the Company), the performance of the industries in which they do business and economic and market factors, among other things. These forward-looking statements are not guarantees of future performance.

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

- international, national and local economic conditions, including the state of the Hawaii tourism, defense and construction industries, the strength or weakness of the Hawaii and continental U.S. real estate markets (including the fair value and/or the actual performance of collateral underlying loans held by American Savings Bank, F.S.B. (ASB), which could result in higher loan loss provisions and write-offs), decisions concerning the extent of the presence of the federal government and military in Hawaii, the implications and potential impacts of U.S. and foreign capital and credit market conditions and federal, state and international responses to those conditions, and the potential impacts of global developments (including global economic conditions and uncertainties, unrest, conflict and the overthrow of governmental regimes in North Africa and the Middle East, terrorist acts, the war on terrorism, continuing U.S. presence in Afghanistan and potential conflict or crisis with North Korea or Iran);

- weather and natural disasters (e.g., hurricanes, earthquakes, tsunamis, lightning strikes and the potential effects of global warming, such as more severe storms and rising sea levels), including their impact on Company operations and the economy;

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

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

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

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

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

- increasing competition in the banking industry (e.g., increased price competition for deposits, or an outflow of deposits to alternative investments, which may have an adverse impact on ASB s cost of funds);

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

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

- 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 continued availability to the electric utilities of other cost recovery mechanisms, including the purchased power adjustment clauses (PPACs), revenue adjustment mechanisms (RAMs) and pension and postretirement benefits other than pensions (OPEB) tracking mechanisms, and the continued decoupling of revenues from sales;

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

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

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

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

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

- cyber security risks and the potential for cyber incidents, including potential incidents at HEI, ASB and HECO and their subsidiaries (including at ASB branches and at the electric utility plants) and incidents at data processing centers they use, to the extent not prevented by intrusion detection and prevention systems, anti-virus software, firewalls and other general information technology controls;

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

- decisions by the PUC in rate cases and other proceedings (including the risks of delays in the timing of decisions, adverse changes in final decisions from interim decisions and the disallowance of project costs as a result of adverse regulatory audit reports or otherwise);

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

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

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

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

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

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

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

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

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

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

- the risks of suffering losses and incurring liabilities that are uninsured (e.g., damages to the utilities transmission and distribution system and losses from business interruption) or underinsured (e.g., losses not covered as a result of insurance deductibles or other exclusions or exceeding policy limits); and

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

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

PART I

ITEM 1. BUSINESS

HEI Consolidated

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

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

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

ASB, acquired by HEI in 1988, is one of the largest financial institutions in the State of Hawaii with assets of $5.0 billion as of December 31, 2012.

HEIPI, whose predecessor company was formed in February 1998, holds venture capital investments with a carrying value of $0.5 million as of December 31, 2012.

TOOTS administers certain employee and retiree-related benefit programs and monitors matters related to its predecessor s former maritime freight transportation operations.

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

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, and except to the extent, specifically incorporated herein by reference. HEI and HECO currently make available free of charge through this website their annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports (since 1994) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. HEI and HECO intend to continue to use HEI s website as a means of disclosing additional information. Such disclosures will be included on HEI s website in the Investor Relations section. Accordingly, investors should routinely monitor such portions of HEI s website, in addition to following HEI s, HECO s and ASB s press releases, SEC filings and public conference calls and webcasts. Investors may also wish to refer to the PUC website at dms.puc.hawaii.gov/dms in order to review documents filed with and issued by the PUC. No information at the PUC website is incorporated herein by reference.

Commitments and contingencies. See HEI Consolidated Liquidity and capital resources Selected contractual obligations and commitments in HEI s MD&A, HECO s Commitments and contingencies below and Note 4 of HEI s Notes to Consolidated Financial Statements.

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). The 2005 Act requires holding companies and their subsidiaries to grant the Federal Energy Regulatory Commission (FERC) access to books and records relating to FERC s jurisdictional rates. FERC granted HEI and HECO a waiver from its record retention, accounting and reporting requirements, effective May 2006.

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

HEI and ASHI are subject to Federal Reserve Board (FRB) registration, supervision and reporting requirements as savings and loan holding companies. As a result of the enactment of the Dodd-Frank Act, supervision and regulation of HEI and ASHI, as thrift holding companies, moved to the FRB, and supervision and regulation of ASB, as a federally chartered savings bank, moved to the Office of the Comptroller of the Currency (OCC) in July 2011. In the event the OCC has reasonable cause to believe that any activity of HEI or ASHI constitutes a serious risk to the financial safety, soundness or stability of ASB, the OCC is authorized to impose certain restrictions on HEI, ASHI and/or any of their subsidiaries. Possible restrictions include precluding or limiting: (i) the payment of dividends by ASB; (ii) transactions between ASB, HEI or ASHI, and their subsidiaries or affiliates; and (iii) any activities of ASB that might expose ASB to the liabilities of HEI and/or ASHI and their other affiliates. See Restrictions on dividends and other distributions below.

Bank 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 unitary savings and loan holding company relationship among HEI, ASHI and ASB is grandfathered under the Gramm-Leach-Bliley Act of 1999 (Gramm Act) so that HEI and its subsidiaries will be able to continue to engage in their current activities so long as 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 2012; however, the failure of ASB to satisfy the QTL test in the future could result in a need for HEI to divest ASB. HEI is also affected by provisions of the Dodd-Frank Act relating to corporate governance and executive compensation, including provisions requiring shareholder say on pay and say on pay frequency votes, mandating additional disclosures concerning executive compensation and compensation consultants and advisors, further restricting proxy voting by brokers in the absence of instructions and permitting the SEC to adopt rules in its discretion requiring public companies under specified conditions to include shareholder nominees in management s proxy solicitation materials. See Bank Legislation and regulation in HEI s MD&A for a discussion of the effects of the Dodd-Frank Act on HEI and ASB.

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

The abilities of certain of HEI s subsidiaries to pay dividends or make other distributions to HEI are subject to contractual and regulatory restrictions. Under the PUC Agreement, in the event that the consolidated common stock equity of the electric utility subsidiaries falls below 35% of the total capitalization of the electric utilities (including the current maturities of long-term debt, but excluding short-term borrowings), the electric utility subsidiaries would, absent PUC approval, be restricted in their payment of cash dividends to 80% of the earnings available for the payment of dividends in the current fiscal year and preceding five years, less the amount of dividends paid during that period. The PUC Agreement also provides that the foregoing dividend restriction shall not be construed as relinquishing any right the PUC may have to review the dividend policies of the electric utility subsidiaries. As of December 31, 2012, 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, 2012, HECO and its subsidiaries had common stock equity of $1.5 billion of which approximately $637 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 prior approval by the OCC and FRB. Also see Note 13 to HEI s Consolidated Financial Statements.

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

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

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

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

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

December 31	2012	2011	2010	2009	2008

HEI	42	40	34	34	41
HECO and its subsidiaries	2,658	2,518	2,317	2,297	2,203
ASB and its subsidiaries	1,170	1,096	1,075	1,119	1,313
Other subsidiaries				3	3
	3,870	3,654	3,426	3,453	3,560

The employees of HEI and its direct and indirect subsidiaries, other than the electric utilities, are not covered by any collective bargaining agreement. A substantial number of employees of HECO and its subsidiaries are covered by collective bargaining agreements. See Collective bargaining agreements in Note 3 of HEI s Consolidated Financial Statements.

Properties. HEI leases office space from nonaffiliated lessors in downtown Honolulu under leases that expire in March 2016 and December 2017. Until April 2012, HEI subleased office space in a downtown Honolulu building leased by HECO. See the discussions under Electric Utility and Bank below for a description of properties owned by HEI subsidiaries.

Electric utility

HECO and subsidiaries and service areas. HECO, HELCO and MECO are regulated operating electric public utilities engaged in the production, purchase, transmission, distribution and sale of electricity on the islands of Oahu; Hawaii; and Maui, Lanai and Molokai, respectively. HECO acquired MECO in 1968 and HELCO in 1970. In 2012, the electric utilities revenues and net income amounted to approximately 92% and 72%, respectively, of HEI s consolidated revenues and net income, compared to approximately 92% and 72% in 2011, and approximately 89% and 67% in 2010, respectively.

The islands of Oahu, Hawaii, Maui, Lanai and Molokai have a combined population estimated at 1.3 million, or approximately 95% of the total population of the State of Hawaii, and comprise a service area of 5,815 square miles. The principal communities served include Honolulu (on Oahu), Hilo and Kona (on Hawaii) and Wailuku and Kahului (on Maui). The service areas also include numerous suburban communities, resorts, U.S. Armed Forces installations and agricultural operations. The state has granted HECO, HELCO and MECO nonexclusive franchises, which authorize the utilities to construct, operate and maintain facilities over and under public streets and sidewalks. Each of these franchises will continue in effect for an indefinite period of time until forfeited, altered, amended or repealed.

Sales of electricity.

Years ended December 31	2012		2011		2010	
(dollars in thousands)	Customer accounts*	Electric sales revenues	Customer accounts*	Electric sales revenues	Customer accounts*	Electric sales revenues
HECO	297,529	$2,216,675	296,800	$2,103,859	296,422	$1,645,328
HELCO	81,792	439,249	81,199	443,189	80,695	371,746
MECO	68,922	436,836	68,230	417,451	67,739	343,562
	448,243	$3,092,760	446,229	$2,964,499	444,856	$2,360,636

* As of December 31.

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

Significant customers. HECO and its subsidiaries derived approximately 11%, 11% and 10% of their operating revenues in 2012, 2011 and 2010, respectively, from the sale of electricity to various federal government agencies.

Under the Energy Policy Act of 2005, the Energy Independence and Security Act of 2007 and/or executive orders: (1) federal agencies must establish energy conservation goals for federally funded programs, (2) goals were set to reduce federal agencies energy consumption by 3% per year up to 30% by fiscal year 2015 relative to fiscal year 2003, and (3) renewable energy goals were established for electricity consumed by federal agencies. HECO continues to work with various federal agencies to implement measures that will help them achieve their energy reduction and renewable energy objectives.

Energy Agreement, energy efficiency and decoupling. On October 20, 2008, the Governor, the Hawaii Department of Business Economic Development and Tourism, the Consumer Advocate and the utilities entered into an Energy Agreement pursuant to which they agreed to undertake a number of initiatives to help accomplish the objectives of the Hawaii Clean Energy Initiative (HCEI) established under a memorandum of understanding between the State of Hawaii and U.S. Department of Energy. The primary objective of the HCEI and Energy Agreement is to reduce Hawaii s dependence on imported fuels through substantial increases in the use of renewable energy and implementation of new programs intended to secure greater energy efficiency and conservation. See Note 3 of HEI s Consolidated Financial Statements. One of the initiatives under the Energy Agreement was advanced when, in 2009, the state legislature enacted Act 155, which gave the PUC the authority to establish an Energy Efficiency Portfolio Standard (EEPS) goal of 4,300 GWH of electricity use reductions by 2030. The PUC issued a decision and order (D&O) on January 3, 2012 approving a framework for EEPS that set 2008 as the initial base year for evaluation and linearly allocated the 2030 goal to interim incremental reduction goals of 1,375 GWH by 2015 and 975 GWH by each of the years 2020, 2025 and 2030.

These goals may be revised through goal evaluations scheduled every five years or as the result of recommendations by an EEPS technical working group (TWG) for consideration by the PUC. The interim and final reduction goals will be allocated among contributing entities by the EEPS TWG. The PUC may establish penalties in the future. Another of the initiatives was advanced when the PUC approved the implementation of revenue decoupling for the utilities under which they are allowed to recover PUC-approved revenue requirements that are not based on the amount of electricity sold. Both the EEPS and the implementation of revenue decoupling could have an impact on sales. However, neither HEI nor HECO management can predict with certainty the impact of these or other governmental mandates, the HCEI or the Energy Agreement on HEI s or HECO s future results of operations, financial condition or liquidity.

Selected consolidated electric utility operating statistics.

Years ended December 31	2012	2011	2010	2009	2008
KWH sales (millions)					
Residential	2,582.0	2,769.7	2,830.0	2,893.3	2,924.7
Commercial	3,074.4	3,203.8	3,185.0	3,221.7	3,326.3
Large light and power	3,499.8	3,503.4	3,512.8	3,524.5	3,632.9
Other	49.8	50.0	50.8	50.2	52.3
	9,206.0	9,526.9	9,578.6	9,689.7	9,936.2
KWH net generated and purchased (millions)					
Net generated	5,601.7	6,022.2	6,053.6	6,117.6	6,261.8
Purchased	4,093.2	4,009.7	4,062.8	4,119.8	4,248.2
	9,694.9	10,031.9	10,116.4	10,237.4	10,510.0
Losses and system uses (%)	4.8	4.8	5.1	5.1	5.2
Energy supply (December 31)					
Net generating capability MW1	1,787	1,787	1,785	1,815	1,687
Firm purchased capability MW	545	540	540	532	540
	2,332	2,327	2,325	2,347	2,227
Net peak demand MW2	1,535	1,530	1,562	1,618	1,590
Btu per net KWH generated	10,533	10,609	10,617	10,753	10,700
Average fuel oil cost per Mbtu (cents)	2,210.4	1,986.7	1,404.8	1,026.4	1,840.0
Customer accounts (December 31)					
Residential	392,025	390,133	388,307	385,886	383,042
Commercial	54,005	53,904	54,374	54,527	55,243
Large light and power	577	567	548	558	543
Other	1,636	1,625	1,627	1,613	1,583
	448,243	446,229	444,856	442,584	440,411
Electric revenues (thousands)					
Residential	$ 952,159	$ 946,653	$ 781,467	$ 690,656	$ 935,061
Commercial	1,060,983	1,024,725	814,109	694,087	973,048
Large light and power	1,062,226	976,949	752,056	623,159	921,321
Other	17,392	16,172	13,004	10,721	15,069
	$3,092,760	$2,964,499	$2,360,636	$2,018,623	$2,844,499
Average revenue per KWH sold (cents)	33.60	31.12	24.65	20.83	28.63
Residential	36.88	34.18	27.61	23.87	31.97
Commercial	34.51	31.99	25.56	21.54	29.25

Large light and power	30.35	27.89	21.41	17.68	25.36
Other	34.93	32.37	25.63	21.36	28.81
Residential statistics					
Average annual use per customer account (KWH)	6,596	7,117	7,317	7,523	7,640
Average annual revenue per customer account	$2,432	$2,433	$2,021	$1,796	$2,443
Average number of customer accounts	391,437	389,160	386,767	384,600	382,821

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

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

Generation statistics. The following table contains certain generation statistics as of, and for the year ended, December 31, 2012. 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, 2012[1]						
Conventional oil-fired steam units	1,106.8	63.8	35.9			1,206.5
Diesel		30.8	96.8	10.1	9.6	147.3
Combustion turbines (peaking units)	214.8					214.8
Other combustion turbines		46.3			2.2	48.5
Combined-cycle unit		56.2	113.6			169.8
Firm contract power[2]	434.0	94.6	16.0			544.6
	1,755.6	291.7	262.3	10.1	11.8	2,331.5
Net peak demand (MW)	1,141.0	189.3	194.8	4.6	5.5	1,535.2[3]
Reserve margin	58.1%	54.1%	34.6%	120.0%	115.4%	56.0%
Annual load factor	73.1%	70.6%	67.7%	64.7%	68.6%	72.1%
KWH net generated and purchased (millions)	7,311.0	1,170.4	1,154.4	26.1	33.0	9,694.9

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: 34.6 MW (Puna Geothermal Venture, geothermal) and 60 MW (Hamakua Energy Partners, L.P., oil-fired); MECO: 16 MW (Hawaiian Commercial & Sugar Company, primarily bagasse-fired).

3 Noncoincident and nonintegrated.

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

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

Nonutility generation. The Company has supported state and federal energy policies which encourage the development of renewable energy sources that reduce the use of fuel oil as well as the development of qualifying facilities. The Company s renewable energy sources and potential sources range from wind, solar, photovoltaic, geothermal, wave and hydroelectric power to energy produced by the burning of bagasse (sugarcane waste), municipal waste and other biofuels.

The rate schedules of the electric utilities contain ECACs and purchased power adjustment clauses (PPACs) that allow them to recover purchase power expenses. The PUC approved the PPACs for HECO, HELCO and MECO in March 2011, February 2012 and May 2012, respectively.

In addition to the firm capacity PPAs described below, the electric utilities also purchase energy on an as-available basis directly from nonutility generators and through its Feed-In Tariff programs. The electric utilities also receive renewable energy from customers under its Net Energy Metering programs.

The PUC has allowed rate recovery for the firm capacity and purchased energy costs for the electric utilities approved firm capacity and as-available energy PPAs.

HECO firm capacity PPAs. HECO currently has three major PPAs that provide a total of 434 MW of firm capacity, representing 25% of HECO s total net generating and firm purchased capacity on Oahu as of December 31, 2012. In March 1988, HECO entered into a PPA with AES Barbers Point, Inc. (now known as AES Hawaii, Inc. (AES Hawaii)), a Hawaii-based, indirect subsidiary of The AES Corporation. The agreement with AES Hawaii, as amended, provides that, for a period of 30 years beginning September 1992, HECO will purchase 180 megawatts (MW) of firm capacity. The AES Hawaii 180 MW coal-fired cogeneration plant utilizes a clean coal technology and is designed to sell sufficient steam to be a Qualifying Facility (QF) under the Public Utility Regulatory Policies Act of 1978 (PURPA). In August 2012, HECO filed an application with the PUC seeking a declaratory order that HECO is exempt from the rules under the PUC s Competitive Bidding Framework, or in the alternative that HECO be granted a waiver from the rules, to negotiate an amendment to the PPA to purchase 186 MW of firm capacity, extend the PPA term until September 2032, and amend the energy pricing formula in the PPA. The PUC has not yet issued a declaratory order, but HECO has begun preliminary discussions with AES Hawaii.

In October 1988, HECO entered into an agreement with Kalaeloa Partners, L.P. (Kalaeloa), a limited partnership, which, through affiliates, contracted to design, build, operate and maintain a QF. The agreement with Kalaeloa, as amended, provided that HECO would purchase 180 MW of firm capacity for a period of 25 years beginning in May 1991 and terminating in May 2016. 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. Following two additional amendments, effective in 2005, Kalaeloa currently supplies HECO with 208 MW of firm capacity. In January 2011, HECO initiated renegotiation of the agreement with Kalaeloa (exempt from the rules under the PUC s Competitive Bidding Framework).

HECO also entered into a PPA in March 1986 and a firm capacity amendment in April 1991 (the original PPA) with the City and County of Honolulu with respect to a refuse-fired plant (HPower). Under the amended PPA, the HPower facility currently supplies HECO with 46 MW of firm capacity. In May 2012, HECO entered into an amended and restated PPA with the City and County of Honolulu to purchase a total of 73 MW of firm capacity (including the current 46 MW) from the expanded HPower facility for a term of 20 years from the commercial operation date, which will occur once certain conditions precedent and further requirements have been satisfied. The PPA was approved by the PUC in January 2013.

HELCO and MECO firm capacity PPAs. As of December 31, 2012, HELCO has PPAs for 98 MW (of which 94.6 MW are currently available) and MECO has a PPA for 16 MW (including 4 MW of system protection) of firm capacity.

HELCO has a 35-year PPA with Puna Geothermal Venture (PGV) for 30 MW of firm capacity from its geothermal steam facility, which will expire on December 31, 2027. In February 2011, HELCO and PGV amended the current PPA for the pricing on a portion of the energy payments and entered into a new PPA for HELCO to acquire an additional 8 MW of firm, dispatchable capacity from the facility. Both the amendment and the new PPA were approved by the PUC on December 30, 2011. PGV s expansion became commercially operational in March 2012 for a total facility capacity of 34.6 MW.

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

MECO has a PPA with Hawaiian Commercial & Sugar Company (HC&S) for 16 MW of firm capacity. The HC&S generating units primarily burn bagasse (sugar cane waste) along with secondary fuels of diesel oil or coal. The PPA runs through December 31, 2014, and from year to year thereafter, subject to termination by either party on or after December 31, 2014, with two years prior written notice, except that the parties have agreed that notice of termination on December 31, 2014 may be given on or before June 30, 2013.

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

HECO s steam generating units burn LSFO. HECO s combustion turbine peaking units burn diesel fuel (diesel) and B99 grade biodiesel (biodiesel). HECO s CIP CT-1 is being operated exclusively on biodiesel. A HECO steam unit has successfully completed a co-firing project to test burn mixtures of LSFO and biofuel.

MECO s and HELCO s steam generating units burn medium sulfur fuel oil (MSFO) and HELCO s and MECO s Maui combustion turbine generating units burn diesel. HELCO s and MECO s Maui, Molokai and Lanai diesel engine generating units burn ultra-low-sulfur diesel and biodiesel. A MECO diesel generating unit has successfully completed a biodiesel test fire project.

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

The following table sets forth the average cost of fuel oil used by HECO, HELCO and MECO to generate electricity in the years 2012, 2011 and 2010:

	HECO		HELCO		MECO		Consolidated	
	$/Barrel	¢/MBtu	$/Barrel	¢/MBtu	$/Barrel	¢/MBtu	$/Barrel	¢/MBtu
2012	139.14	2,195.5	129.27	2,112.5	138.60	2,327.4	138.09	2,210.4
2011	122.94	1,949.6	118.09	1,934.1	129.58	2,178.3	123.63	1,986.7
2010	85.49	1,352.1	89.33	1,460.4	95.17	1,595.8	87.62	1,404.8

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

	HECO		HELCO		MECO	
	LSFO	Diesel/Biodiesel	MSFO	Diesel	MSFO	Diesel/Biodiesel
2012	99%	1%	59%	41%	22%	78%
2011	99	1	56	44	22	78
2010	99	1	58	42	24	76

In general, MSFO is the least costly fuel, biodiesel and diesel are the most expensive fuels and the price of LSFO falls in-between on a per-barrel basis. In 2012, prices of all petroleum fuels trended higher through the spring, peaked in early summer and then moved gradually lower through the remainder of the year. Though prices ended 2012 slightly lower than at the end of the previous year, on average the prices of LSFO, MSFO and diesel were higher in 2012 as a whole, increasing by approximately 8%, 7% and 4%, respectively. The per-unit price of biodiesel exhibited a trend similar to petroleum fuels but peaked in late summer 2012, before falling steadily through the end of the year. The average price for 2012 was approximately comparable to the prior year after the retroactive application of the $1 per gallon federal blenders credit enacted in early 2013.

In December 2000, HELCO and MECO executed contracts of private carriage with Hawaiian Interisland Towing, Inc. (HITI) for the employment of a double-hull tank barge for the shipment of MSFO and diesel supplies from their fuel suppliers facilities on Oahu to storage locations on the islands of Hawaii and Maui, respectively, commencing January 1, 2002. The contracts have been extended through December 31, 2016. In July 2011, the carriage contracts were assigned to Kirby Corporation (Kirby), which provides refined petroleum and other products for marine transportation, distribution and logistics services in the U.S. domestic marine transportation industry.

Kirby 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, Kirby is generally contractually obligated to indemnify HELCO and/or MECO for resulting clean-up costs, fines and damages. Kirby maintains liability insurance coverage for an amount in excess of $1 billion for oil spill related damage. 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 Kirby and its insurance carrier do not cover.

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

The utilities estimate that 73% of the net energy they generate or purchase will come from fossil fuel in 2013. HECO generally maintains an average system fuel inventory level equivalent to 47 days of forward consumption. HELCO and MECO generally maintain an average system fuel inventory level equivalent to approximately one month s supply of both MSFO and diesel. The PPAs with AES Hawaii and HEP require that they maintain certain minimum fuel inventory levels.

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

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

See Electric utility Most recent rate proceedings, Electric utility Certain factors that may affect future results and financial condition Regulation of electric utility rates and Electric utility Material estimates and critical accounting policies Revenues in HEI s MD&A and Interim increases and Major projects under Commitmen and contingencies in Note 3 of HEI s Consolidated Financial Statements.

Public Utilities Commission and Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs of the State of Hawaii. Hermina M. Morita is the Chairman of the PUC (for a term that will expire in June 2014) and was formerly a State Representative. The other commissioners are Michael E. Champley (for a term that will expire in June 2016), who previously was a senior energy consultant and a senior executive with DTE Energy, and Lorraine H. Akiba (for a term that will expire in June 2018), an attorney in private practice who previously served as the Director of the State Department of Labor and Industrial Relations.

The Executive Director of the Division of Consumer Advocacy is Jeffrey T. Ono, an attorney previously in private practice.

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

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

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

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

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

Regulation. The PUC regulates the rates, issuance of securities, accounting and certain other aspects of the operations of HECO and its electric utility subsidiaries. See the previous discussion under Rates and the discussions under Electric utility Results of operations Most recent rate proceedings 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 results of operations, financial condition or liquidity.

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

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

Certain transactions between HEI s electric public utility subsidiaries (HECO, HELCO and MECO) and HEI and affiliated interests (as defined by statute) are subject to regulation by the PUC. All contracts 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 payments under the contract for rate-making purposes. In rate-making proceedings, a utility must also prove the reasonableness of payments made to affiliated interests under any affiliated contract of $300,000 or more by clear and convincing evidence.

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

HECO and its electric utility subsidiaries are not subject to regulation by the FERC 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 FERC to order electric utilities to interconnect with qualifying cogenerators and small power producers, and to wheel power to other electric utilities. Title I of PURPA, which relates to retail regulatory policies for electric utilities, and Title VII of the Energy Policy Act of 1992, which addresses transmission access, also apply to HECO and its electric utility subsidiaries. HECO and its electric utility subsidiaries are also required to file various operational reports with the FERC.

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

See also HEI Regulation above.

Environmental regulation. HECO, HELCO and MECO, like other utilities, are subject to periodic inspections by federal, state and, in some cases, local environmental regulatory agencies, including agencies responsible for the regulation of water quality, air quality, hazardous and other waste, and hazardous materials. These inspections may result in the identification of items needing corrective or other action. 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 of HEI s Consolidated Financial Statements, which are incorporated herein by reference), the Company believes that each subsidiary has appropriately responded to environmental conditions requiring action and that, as a result of such actions, such environmental conditions will not have a material adverse effect on the Company or HECO.

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

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

In 2012 and 2013 to date, HECO, HELCO and MECO did not experience any significant petroleum releases. The Company believes that each subsidiary s costs of responding to petroleum releases to date will not have a material adverse effect on the respective subsidiary or the Company.

EPA regulations under OPA also require certain facilities that use or store petroleum to prepare and implement SPCC Plans in order to prevent releases of petroleum to navigable waters of the U.S. The determination of whether SPCC Plan requirements are applicable to a facility depends on the amount of petroleum stored at the facility and whether a release of petroleum could reach waters of the U.S. The HECO, HELCO, and MECO facilities that are subject to SPCC Plan requirements, including most power plants, base yards, and certain substations, are in compliance with SPCC Plan requirements.

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

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

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

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

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

The TSCA regulations specify procedures for the handling and disposal of polychlorinated biphenyls (PCB), a compound found in some transformer and capacitor dielectric fluids. The TSCA regulations also apply to responses to releases of PCB to the environment. HECO, HELCO and MECO have instituted procedures to monitor compliance with these regulations and have implemented a program to identify and replace PCB transformers and capacitors in their systems. Management believes that all HECO, HELCO and MECO facilities are currently in compliance with PCB regulations. In April 2010, the EPA issued an Advance Notice of Proposed Rule Making announcing its intent to reassess PCB regulations.

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

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

Research and development. HECO and its subsidiaries expensed approximately $4.0 million, $4.3 million and $4.0 million in 2012, 2011 and 2010, respectively, for research and development (R&D). In 2012, 2011 and 2010, the electric utilities contributions to the Electric Power Research Institute accounted for approximately half of the R&D expenses. There were also utility expenditures in 2012, 2011 and 2010 related to new technologies, biofuels, energy storage, demand response, seawater cooling traveling screens, electric and hybrid plug in vehicles and other renewables (e.g., wind and solar power integration and solar resource evaluation).

Additional information. 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.

Properties.

HECO owns and operates four generating plants on the island of Oahu at Honolulu, Waiau, Kahe and Campbell Industrial Park (CIP). These plants have an aggregate net generating capability of 1,321.6 MW as of December 31, 2012. The four plants are situated on HECO-owned land having a combined area of 535 acres and three parcels of land totaling 5.5 acres under leases expiring between June 30, 2016 and December 31, 2018, with options to extend to June 30, 2026. In addition, HECO owns a total of 132 acres of land on which substations, transformer vaults, distribution baseyards and the Kalaeloa cogeneration facility are located.

HECO owns buildings and approximately 11.6 acres of land located in Honolulu which house its operating, engineering and information services departments and a warehousing center. It also leases an office building and certain office space in Honolulu. The lease for the office building expires in November 2021, with an option to extend through November 2024. Leases for certain office and warehouse spaces expire on various dates from August 31, 2013 through July 31, 2025 with options to extend to various dates through July 31, 2030.

HECO owns land at CIP used to situate central fuel storage facilities adjacent to its CIP combustion turbine No. 1 (CT-1) generating unit facility with an aggregate usable capacity of 954,036 barrels of fuel, which land is included in the power plant acreage above. HECO also has fuel storage facilities at each of its plant sites with a combined usable capacity of 869,093 barrels, as well as underground fuel pipelines that transport fuel from HECO s central fuel storage at CIP to fuel storage facilities at HECO s generating stations at Waiau and Kahe. HECO also owns a fuel storage facility at Iwilei, which receives fuel trucked from the central storage facility, with a combined usable capacity of 76,735 barrels, and an under-ground pipeline that transports fuel from that site to its Honolulu generating station.

HELCO owns and operates five generating plants on the island of Hawaii, two at Hilo and one at each of Waimea, Keahole and Puna, along with distributed generators at substation sites. These plants have an aggregate net generating capability of 197.1 MW as of December 31, 2012 (excluding several small run-of-river hydro units). 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 usable storage capacity of 51,500 barrels of bunker oil and 81,802 barrels of diesel. There are an additional 19,200 barrels of diesel and 22,770 barrels of bunker oil storage capacity for HELCO-owned fuel off-site at Chevron Products Company (Chevron)-owned terminalling facilities. HELCO pays a storage fee to Chevron and has no other interest in the property, tanks or other infrastructure situated on Chevron s property. HELCO also owns 6 acres of land in Kona, which is used for a baseyard, and one acre of land in Hilo, which houses its accounting, customer services and administrative offices. HELCO also leases 3.7 acres of land for its baseyard in Hilo under a lease expiring in 2030. In addition, HELCO owns a total of approximately 100 acres of land, and leases a total of approximately 8.5 acres of land, on which hydro facilities, substations and switching stations, microwave facilities, and transmission lines are located. The deeds to the sites located in Hilo contain certain restrictions, but the restrictions do not materially interfere with the use of the sites for public utility purposes.

MECO owns and operates two generating plants on the island of Maui, at Kahului and Maalaea, with an aggregate net generating capability of 246.3 MW as of December 31, 2012. 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 81,272 barrels of bunker oil, and 94,586 barrels of diesel. MECO owns two 1 MW stand-by diesel generators and a 6,000 gallon fuel storage tank located in Hana. MECO owns 65.7 acres of undeveloped land at Waena. Most of this Waena land is used for agricultural purposes by the former landowner under an amended license agreement, which is effective on a month-to-month basis, but terminable by either party upon 30 days written notice until the area is required for development by MECO for utility purposes, or until July 31, 2013, whichever occurs first.

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

MECO also owns and operates smaller distribution systems, generation systems (with an aggregate net capability of 21.9 MW as of December 31, 2012) and fuel storage facilities on the islands of Lanai and Molokai, primarily on land owned by MECO.

Other properties. The utilities own overhead transmission and distribution lines, underground cables, poles (some jointly) and metal high voltage 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.

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, 2012, ASB was one of the largest financial institutions in the State of Hawaii based on total assets of $5.0 billion and deposits of $4.2 billion. In 2012, ASB s revenues and net income amounted to approximately 8% and 42% of HEI s consolidated revenues and net income, respectively, compared to approximately 8% and 43% in 2011 and approximately 11% and 51% in 2010, respectively.

At the time of HEI s acquisition of ASB in 1988, HEI agreed with the OTS predecessor regulatory agency that ASB s regulatory capital would be maintained at a level of at least 6% of ASB s total liabilities, or at such greater amount as may be required from time to time by regulation. Under the agreement, HEI s obligation to contribute additional capital to ensure that ASB would have the capital level required by the OTS was limited to a maximum aggregate amount of approximately $65.1 million. As of December 31, 2012, as a result of certain HEI contributions of capital to ASB, HEI s maximum obligation under the agreement to contribute additional capital has been reduced to approximately $28.3 million. ASB is subject to OCC regulations on dividends and other distributions and ASB must receive a letter of non-objection from the OCC and FRB before it can declare and pay a dividend to HEI.

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

Years ended December 31	2012	2011	2010
Common equity to assets ratio			
Average common equity divided by average total assets	10.14%	10.24%	10.34%
Return on assets			
Net income for common stock divided by average total assets	1.18	1.23	1.20
Return on common equity			
Net income for common stock divided by average common equity	11.68	11.99	11.62
Tangible efficiency ratio			
Total noninterest expense, less amortization of intangibles, divided by net interest income and noninterest income	59	57	56

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

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

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

(in thousands)	2012 vs. 2011			2011 vs. 2010		
Increase (decrease) due to	Rate	Volume	Total	Rate	Volume	Total
Income from earning assets						
Other investments	$	$ (73)	$ (73)	$ (23)	$ (256)	$ (279)
Available-for-sale investment and mortgage-related securities	(375)	(298)	(673)	(1,794)	1,695	(99)
Loans						
Residential 1-4 family	(4,351)	(6,501)	(10,852)	(4,260)	(9,933)	(14,193)
Commercial real estate	(1,941)	2,417	476	(131)	1,400	1,269
Home equity line of credit	(947)	3,118	2,171	(1,633)	3,000	1,367
Residential land	255	(1,137)	(882)	(89)	(1,603)	(1,692)
Commercial loans	(4,077)	3,570	(507)	(3,701)	5,507	1,806
Consumer loans	(390)	1,556	1,166	262	474	736
Total loans	(11,451)	3,023	(8,428)	(9,552)	(1,155)	(10,707)
Total increase (decrease) in net interest income from earning assets	(11,826)	2,652	(9,174)	(11,369)	284	(11,085)
Expense from costing liabilities						
Savings	687	(59)	628	578	(72)	506
Interest-bearing checking	77	(4)	73	160	(15)	145
Money market	220	111	331	298	(64)	234
Time certificates	724	804	1,528	2,638	2,190	4,828
Advances from Federal Home Loan Bank	(241)	618	377	(7)	20	13
Securities sold under agreements to repurchase	203	37	240	73	81	154
Total increase (decrease) in net interest income from costing liabilities	1,670	1,507	3,177	3,740	2,140	5,880
Total increase (decrease) in net interest income	$(10,156)	$ 4,159	$ (5,997)	$ (7,629)	$ 2,424	$ (5,205)

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

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

Lending activities.

General. The following table sets forth the composition of ASB s loans receivable held for investment:

December 31	2012		2011		2010		2009		2008
(dollars in thousands)	Balance	% of total	Balance	% of total	Balance	% of total	Balance	% of total	Balance