

HAWAIIAN ELECTRIC INDUSTRIES INC  
Form 10-Q  
November 06, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-Q

✓ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014  
OR

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

Exact Name of Registrant as Specified in Its Charter	Commission File Number	I.R.S. Employer Identification No.
HAWAIIAN ELECTRIC INDUSTRIES, INC. and Principal Subsidiary HAWAIIAN ELECTRIC COMPANY, INC. State of Hawaii (State or other jurisdiction of incorporation or organization)	1-8503	99-0208097
	1-4955	99-0040500

Hawaiian Electric Industries, Inc. – 1001 Bishop Street, Suite 2900, Honolulu, Hawaii 96813  
Hawaiian Electric Company, Inc. – 900 Richards Street, Honolulu, Hawaii 96813  
(Address of principal executive offices and zip code)

Hawaiian Electric Industries, Inc. – (808) 543-5662  
Hawaiian Electric Company, Inc. – (808) 543-7771  
(Registrant’s telephone number, including area code)

Not applicable  
(Former name, former address and former fiscal year, if changed since last report)

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 o                      Hawaiian Electric Company, Inc. Yes x No o

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 o                      Hawaiian Electric Company, Inc. Yes x No o

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 o No x                      Hawaiian Electric Company, Inc. Yes o No x

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

Hawaiian Electric  
Company, Inc.

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date.

Class of Common Stock	Outstanding October 31, 2014
Hawaiian Electric Industries, Inc. (Without Par Value)	102,562,464 Shares
Hawaiian Electric Company, Inc. (\$6-2/3 Par Value)	15,429,105 Shares (not publicly traded)

Hawaiian Electric Industries, Inc. (HEI) is the sole holder of Hawaiian Electric Company, Inc. (Hawaiian Electric) common stock.

This combined Form 10-Q is separately filed by HEI and Hawaiian Electric. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. No registrant makes any representation as to information relating to the other registrant, except that information relating to Hawaiian Electric is also attributed to HEI.

Hawaiian Electric Industries, Inc. and Subsidiaries  
Hawaiian Electric Company, Inc. and Subsidiaries  
Form 10-Q—Quarter ended September 30, 2014

TABLE OF CONTENTS

Page No.

ii Glossary of Terms

iv Forward-Looking Statements

PART I. FINANCIAL INFORMATION

1 Item 1. Financial Statements

Hawaiian Electric Industries, Inc. and Subsidiaries

1 Consolidated Statements of Income -  
three and nine months ended September 30, 2014 and 2013

2 Consolidated Statements of Comprehensive Income -  
three and nine months ended September 30, 2014 and 2013

3 Consolidated Balance Sheets - September 30, 2014 and December 31, 2013

4 Consolidated Statements of Changes in Shareholders' Equity -  
nine months ended September 30, 2014 and 2013

5 Consolidated Statements of Cash Flows -  
nine months ended September 30, 2014 and 2013

Hawaiian Electric Company, Inc. and Subsidiaries

6 Consolidated Statements of Income -  
three and nine months ended September 30, 2014 and 2013

6 Consolidated Statements of Comprehensive Income -  
three and nine months ended September 30, 2014 and 2013

7 Consolidated Balance Sheets - September 30, 2014 and December 31, 2013

8 Consolidated Statements of Changes in Common Stock Equity -  
nine months ended September 30, 2014 and 2013

9 Consolidated Statements of Cash Flows -  
nine months ended September 30, 2014 and 2013

10 Notes to Consolidated Financial Statements

58 Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

58 HEI consolidated

63 Electric Utilities

74 Bank

82 Item 3. Quantitative and Qualitative Disclosures About Market Risk

83 Item 4. Controls and Procedures

PART II. OTHER INFORMATION

84 Item 1. Legal Proceedings

84 Item 1A. Risk Factors

84 Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

84 Item 5. Other Information

85 Item 6. Exhibits

86 Signatures



Hawaiian Electric Industries, Inc. and Subsidiaries  
 Hawaiian Electric Company, Inc. and Subsidiaries  
 Form 10-Q—Quarter ended September 30, 2014

GLOSSARY OF TERMS

Terms	Definitions
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income/(loss)
ARO	Asset retirement obligation
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of American Savings Holdings, Inc.
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.
ASU	Accounting Standards Update
CIP CT-1	Campbell Industrial Park 110 MW combustion turbine No. 1
CIS	Customer Information System
Company	Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation, Hawaiian Electric Company, Inc. and its subsidiaries (listed under Hawaiian Electric); 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.).
Consumer Advocate	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii
DBEDT	State of Hawaii Department of Business, Economic Development and Tourism
D&O	Decision and order
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DOH	Department of Health of the State of Hawaii
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
ECAC	Energy cost adjustment clauses
EIP	2010 Equity and Incentive Plan, as amended and restated
EGU	Electrical generating unit
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 Hawaiian Electric, 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	Environmental Protection Agency — federal
EPS	Earnings per share
ERISA	Employee Retirement Income Security Act of 1974, as amended
EVE	Economic value of equity
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
federal	U.S. Government
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association

FRB

Federal Reserve Board

ii

---

## GLOSSARY OF TERMS, continued

Terms	Definitions
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse gas
GNMA	Government National Mortgage Association
HCEI	Hawaii Clean Energy Initiative
Hawaiian Electric	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 financing subsidiary), Renewable Hawaii, Inc. and Uluwehiokama Biofuels Corp.
Hawaii Electric Light	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
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.)
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HELOC	Home equity line of credit
Hpower	City and County of Honolulu with respect to a power purchase agreement for a refuse-fired plant
IPP	Independent power producer
IRP	Integrated resource planning
Kalaeloa	Kalaeloa Partners, L.P.
kW	Kilowatt
KWH	Kilowatthour
LTIP	Long-term incentive plan
LGD	Loss given default
Maui Electric	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
MW	Megawatt/s (as applicable)
NII	Net interest income
O&M	Other operation and maintenance
OCC	Office of the Comptroller of the Currency
OPEB	Postretirement benefits other than pensions
PPA	Power purchase agreement
PPAC	Purchased power adjustment clause
PUC	Public Utilities Commission of the State of Hawaii
PV	Photovoltaic
RAM	Revenue adjustment mechanism
RBA	Revenue balancing account
RFP	Request for proposals
ROACE	Return on average common equity
RORB	Return on average rate base
RPS	Renewable portfolio standard
SAR	Stock appreciation right
SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference
TDR	Troubled debt restructuring
Trust III	HECO Capital Trust III
Utilities	Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited

VIE Variable interest entity

iii

---



## FORWARD-LOOKING STATEMENTS

This report and other presentations made by Hawaiian Electric Industries, Inc. (HEI) and Hawaiian Electric Company, Inc. (Hawaiian Electric) 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, ongoing conflicts in North Africa and the Middle East, terrorist acts, potential conflict or crisis with North Korea or Iran, developments in the Ukraine and potential pandemics);

- the effects of future actions or inaction of the U.S. government or related agencies, including those related to the U.S. debt ceiling and monetary policy;
- weather and natural disasters (e.g., hurricanes, earthquakes, tsunamis, lightning strikes, lava flows and the potential effects of climate change, such as more severe storms and rising sea levels), including their impact on the Company's and Utilities' 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 and the Utilities to access the credit and capital markets (e.g., to obtain commercial paper and other short-term and long-term debt financing, including lines of credit, and, in the case of HEI, to issue 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), and the fulfillment by the Utilities of their commitments under the Energy Agreement (given the Public Utilities Commission of the State of Hawaii (PUC) approvals needed; the PUC's potential delay in considering (and potential disapproval of actual or proposed) HCEI-related costs; reliance by the Utilities on outside parties such as the state, independent power producers (IPPs) and developers; potential changes in political support for the HCEI; and uncertainties surrounding wind power, proposed undersea cables, biofuels, environmental assessments and the impacts of implementation of the HCEI on future costs of electricity);
- the ability of the Utilities to develop, implement and recover the costs of implementing the Utilities' action plans and business model changes that are being developed in response to the four orders that the PUC issued in April 2014, in which the PUC: directed the Utilities to develop, among other things, Power Supply Improvement Plans, a Demand

Response Portfolio Plan and a Distributed Generation Interconnection Plan; described the PUC's inclinations on the future of Hawaii's electric utilities and the vision, business strategies and regulatory policy changes required to align the Utilities' business model with customer interests and the state's public policy goals; and emphasized the need to "leap ahead" of other states in creating a 21st century generation system and modern transmission and distribution grids; 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, delivery of adequate fuel by suppliers 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 to mitigate the effects of declining kilowatt-hour 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 growing risk that energy production from renewable generating resources may be curtailed and the interconnection of additional resources will be constrained as more generating resources are added to the Utilities' electric systems and as customers reduce their energy usage;

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

the ability of the Utilities to negotiate, periodically, favorable agreements for significant resources such as fuel supply contracts and collective bargaining agreements;

new technological developments that could affect the operations and prospects of HEI and ASB or their competitors;

new technological developments, such as the commercial development of energy storage and microgrids, that could affect the operations of the Utilities;

cyber security risks and the potential for cyber incidents, including potential incidents at HEI, ASB and the Utilities (including at ASB branches and 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 existing, new and changes in laws, rules and regulations applicable to HEI, the Utilities and ASB (including changes in taxation, increases in capital requirements, regulatory policy changes, environmental laws and regulations (including resulting compliance costs and risks of fines and penalties and/or liabilities), 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);

developments in laws, regulations, and policies governing protections for historic, archaeological, and cultural sites, and plant and animal species and habitats, as well as developments in the implementation and enforcement of such laws, regulations, and policies;

discovery of conditions that may be attributable to historical chemical releases, including any necessary investigation and remediation, and any associated enforcement, litigation, or regulatory oversight;

- 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, 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 (OCC), 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);

the ability of the Utilities 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, the Utilities and ASB, including the adoption of 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 Hawaiian Electric 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 provision for loan losses, 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, the Utilities and ASB;
- 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 and in other reports (e.g., "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K) previously and subsequently filed by HEI and/or Hawaiian Electric 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, Hawaiian Electric, 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.

v

---

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Hawaiian Electric Industries, Inc. and Subsidiaries  
Consolidated Statements of Income (unaudited)

(in thousands, except per share amounts)	Three months ended		Nine months ended	
	September 30		September 30	
	2014	2013	2014	2013
Revenues				
Electric utility	\$803,565	\$764,054	\$2,262,056	\$2,210,020
Bank	63,536	65,058	187,771	195,841
Other	(5	) 56	(325	) 106
Total revenues	867,096	829,168	2,449,502	2,405,967
Expenses				
Electric utility	727,409	694,201	2,045,166	2,030,071
Bank	43,964	42,223	129,528	126,550
Other	4,621	4,706	13,125	12,276
Total expenses	775,994	741,130	2,187,819	2,168,897
Operating income (loss)				
Electric utility	76,156	69,853	216,890	179,949
Bank	19,572	22,835	58,243	69,291
Other	(4,626	) (4,650	) (13,450	) (12,170
Total operating income	91,102	88,038	261,683	237,070
Interest expense, net—other than on deposit liabilities and other bank borrowings	(19,170	) (19,043	) (58,648	) (56,216
Allowance for borrowed funds used during construction	740	498	1,877	1,626
Allowance for equity funds used during construction	1,937	1,255	4,933	4,030
Income before income taxes	74,609	70,748	209,845	186,510
Income taxes	26,323	22,041	73,265	62,590
Net income	48,286	48,707	136,580	123,920
Preferred stock dividends of subsidiaries	471	471	1,417	1,417
Net income for common stock	\$47,815	\$48,236	\$135,163	\$122,503
Basic earnings per common share	\$0.47	\$0.49	\$1.33	\$1.24
Diluted earnings per common share	\$0.46	\$0.48	\$1.32	\$1.23
Dividends per common share	\$0.31	\$0.31	\$0.93	\$0.93
Weighted-average number of common shares outstanding	102,416	99,204	101,768	98,670
Net effect of potentially dilutive shares	610	614	710	620
Adjusted weighted-average shares	103,026	99,818	102,478	99,290

The accompanying notes are an integral part of these consolidated financial statements.

Hawaiian Electric Industries, Inc. and Subsidiaries  
 Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)	Three months ended		Nine months ended		
	September 30		September 30		
	2014	2013	2014	2013	
Net income for common stock	\$47,815	\$48,236	\$135,163	\$122,503	
Other comprehensive income (loss), net of taxes:					
Net unrealized gains (losses) on securities:					
Net unrealized gains (losses) on securities arising during the period, net of (taxes) tax benefits of \$1,094, \$1,049, (\$2,249) and \$7,081 for the respective periods	(1,657	) (1,589	) 3,406	(10,724	)
Less: reclassification adjustment for net realized gains included in net income, net of taxes of nil, nil, \$1,132 and \$488 for the respective periods	—	—	(1,715	) (738	)
Derivatives qualified as cash flow hedges:					
Less: reclassification adjustment to net income, net of tax benefits of \$37, \$37, \$112 and \$112 for the respective periods	59	59	177	177	
Retirement benefit plans:					
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of \$1,900, \$3,697, \$5,438 and \$11,173 for the respective periods	2,829	5,789	8,515	17,490	
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of \$1,619, \$3,284, \$4,858 and \$9,852 for the respective periods	(2,542	) (5,156	) (7,627	) (15,468	)
Other comprehensive income (loss), net of taxes	(1,311	) (897	) 2,756	(9,263	)
Comprehensive income attributable to Hawaiian Electric Industries, Inc.	\$46,504	\$47,339	\$137,919	\$113,240	

The accompanying notes are an integral part of these consolidated financial statements.

Hawaiian Electric Industries, Inc. and Subsidiaries  
Consolidated Balance Sheets (unaudited)

(dollars in thousands)	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	\$ 192,555	\$ 220,036
Accounts receivable and unbilled revenues, net	365,728	346,785
Available-for-sale investment and mortgage-related securities	531,603	529,007
Investment in stock of Federal Home Loan Bank of Seattle	75,063	92,546
Loans receivable held for investment, net	4,291,960	4,110,113
Loans held for sale, at lower of cost or fair value	2,328	5,302
Property, plant and equipment, net of accumulated depreciation of \$2,241,677 and \$2,192,422 at the respective dates	4,048,106	3,865,514
Regulatory assets	575,712	575,924
Other	505,226	512,627
Goodwill	82,190	82,190
Total assets	\$ 10,670,471	\$ 10,340,044
Liabilities and shareholders' equity		
Liabilities		
Accounts payable	\$ 177,495	\$ 212,331
Interest and dividends payable	26,051	26,716
Deposit liabilities	4,533,797	4,372,477
Short-term borrowings—other than bank	150,576	105,482
Other bank borrowings	263,204	244,514
Long-term debt, net—other than bank	1,517,946	1,492,945
Deferred income taxes	585,432	529,260
Regulatory liabilities	357,090	349,299
Contributions in aid of construction	448,811	432,894
Defined benefit pension and other postretirement benefit plans liability	274,909	288,539
Other	499,459	524,224
Total liabilities	8,834,770	8,578,681
Preferred stock of subsidiaries - not subject to mandatory redemption	34,293	34,293
Commitments and contingencies (Notes 3 and 4)		
Shareholders' equity		
Preferred stock, no par value, authorized 10,000,000 shares; issued: none	—	—
Common stock, no par value, authorized 200,000,000 shares; issued and outstanding: 102,562,464 shares and 101,259,800 shares at the respective dates	1,519,256	1,488,126
Retained earnings	296,146	255,694
Accumulated other comprehensive loss, net of tax benefits	(13,994	) (16,750 )
Total shareholders' equity	1,801,408	1,727,070
Total liabilities and shareholders' equity	\$ 10,670,471	\$ 10,340,044

The accompanying notes are an integral part of these consolidated financial statements.

Hawaiian Electric Industries, Inc. and Subsidiaries  
 Consolidated Statements of Changes in Shareholders' Equity (unaudited)

(in thousands, except per share amounts)	Common stock		Retained	Accumulated other comprehensive	Total
	Shares	Amount	Earnings	income (loss)	
Balance, December 31, 2013	101,260	\$ 1,488,126	\$255,694	\$ (16,750 )	\$1,727,070
Net income for common stock	—	—	135,163	—	135,163
Other comprehensive income, net of taxes	—	—	—	2,756	2,756
Issuance of common stock, net	1,302	31,130	—	—	31,130
Common stock dividends (\$0.93 per share)	—	—	(94,711 )	—	(94,711 )
Balance, September 30, 2014	102,562	\$ 1,519,256	\$296,146	\$ (13,994 )	\$1,801,408
Balance, December 31, 2012	97,928	\$ 1,403,484	\$216,804	\$ (26,423 )	\$1,593,865
Net income for common stock	—	—	122,503	—	122,503
Other comprehensive loss, net of tax benefits	—	—	—	(9,263 )	(9,263 )
Issuance of common stock, net	1,614	40,099	—	—	40,099
Common stock dividends (\$0.93 per share)	—	—	(91,739 )	—	(91,739 )
Balance, September 30, 2013	99,542	\$ 1,443,583	\$247,568	\$ (35,686 )	\$1,655,465

The accompanying notes are an integral part of these consolidated financial statements.



Hawaiian Electric Industries, Inc. and Subsidiaries		
Consolidated Statements of Cash Flows (unaudited)		
Nine months ended September 30	2014	2013
(in thousands)		
Cash flows from operating activities		
Net income	\$ 136,580	\$ 123,920
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	129,574	120,355
Other amortization	5,454	2,352
Provision for loan losses	3,566	953
Loans receivable originated and purchased, held for sale	(102,523)	(199,772)
Proceeds from sale of loans receivable, held for sale	106,918	223,221
Gain on sale of credit card portfolio	—	(2,251)
Increase in deferred income taxes	48,900	60,580
Excess tax benefits from share-based payment arrangements	(271)	(469)
Allowance for equity funds used during construction	(4,933)	(4,030)
Change in cash overdraft	(1,038)	—
Changes in assets and liabilities		
Decrease (increase) in accounts receivable and unbilled revenues, net	(18,943)	12,740
Decrease in fuel oil stock	15,784	24,332
Increase in regulatory assets	(17,531)	(53,314)
Decrease in accounts, interest and dividends payable	(75,812)	(21,708)
Change in prepaid and accrued income taxes and utility revenue taxes	(2,044)	(19,212)
Decrease in defined benefit pension and other postretirement benefit plans liability	(2,594)	(509)
Change in other assets and liabilities	(47,677)	(20,462)
Net cash provided by operating activities	173,410	246,726
Cash flows from investing activities		
Available-for-sale investment and mortgage-related securities purchased	(130,578)	(39,721)
Principal repayments on available-for-sale investment and mortgage-related securities	52,678	84,487
Proceeds from sale of available-for-sale investment securities	79,564	71,367
Redemption of stock from Federal Home Loan Bank of Seattle	17,482	2,609
Net increase in loans held for investment	(184,766)	(293,996)
Proceeds from sale of real estate acquired in settlement of loans	2,930	8,777
Capital expenditures	(236,003)	(247,392)
Contributions in aid of construction	21,740	23,633
Proceeds from sale of credit card portfolio	—	26,386
Other	(39)	426
Net cash used in investing activities	(376,992)	(363,424)
Cash flows from financing activities		
Net increase in deposit liabilities	161,320	80,926
Net increase in short-term borrowings with original maturities of three months or less	45,094	47,648
Net decrease in retail repurchase agreements	(6,306)	(6,314)
Proceeds from other bank borrowings	90,000	120,000
Repayments of other bank borrowings	(65,000)	(70,000)
Proceeds from issuance of long-term debt	125,000	50,000
Repayment of long-term debt	(100,000)	(50,000)
Excess tax benefits from share-based payment arrangements	271	469
Net proceeds from issuance of common stock	26,910	18,383
Common stock dividends	(94,674)	(73,584)

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Preferred stock dividends of subsidiaries	(1,417	) (1,417	)
Other	(5,097	) (4,033	)
Net cash provided by financing activities	176,101	112,078	
Net decrease in cash and cash equivalents	(27,481	) (4,620	)
Cash and cash equivalents, beginning of period	220,036	219,662	
Cash and cash equivalents, end of period	\$ 192,555	\$ 215,042	

The accompanying notes are an integral part of these consolidated financial statements.

5

---

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Hawaiian Electric Company, Inc. and Subsidiaries  
Consolidated Statements of Income (unaudited)

(in thousands)	Three months ended		Nine months ended	
	September 30		September 30	
	2014	2013	2014	2013
Revenues	\$803,565	\$764,054	\$2,262,056	\$2,210,020
Expenses				
Fuel oil	309,432	283,360	865,989	877,738
Purchased power	192,882	194,861	546,121	526,669
Other operation and maintenance	108,313	104,513	295,483	300,723
Depreciation	41,594	38,995	124,790	115,865
Taxes, other than income taxes	75,188	72,472	212,783	209,076
Total expenses	727,409	694,201	2,045,166	2,030,071
Operating income	76,156	69,853	216,890	179,949
Allowance for equity funds used during construction	1,937	1,255	4,933	4,030
Interest expense and other charges, net	(16,414 )	(15,033 )	(48,989 )	(43,960 )
Allowance for borrowed funds used during construction	740	498	1,877	1,626
Income before income taxes	62,419	56,573	174,711	141,645
Income taxes	23,042	18,258	64,686	49,210
Net income	39,377	38,315	110,025	92,435
Preferred stock dividends of subsidiaries	228	228	686	686
Net income attributable to Hawaiian Electric	39,149	38,087	109,339	91,749
Preferred stock dividends of Hawaiian Electric	270	270	810	810
Net income for common stock	\$38,879	\$37,817	\$108,529	\$90,939

HEI owns all of the common stock of Hawaiian Electric. Therefore, per share data with respect to shares of common stock of Hawaiian Electric are not meaningful.

The accompanying notes are an integral part of these consolidated financial statements.

Hawaiian Electric Company, Inc. and Subsidiaries  
Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)	Three months ended		Nine months ended	
	September 30		September 30	
	2014	2013	2014	2013
Net income for common stock	\$38,879	\$37,817	\$108,529	\$90,939
Other comprehensive income, net of taxes:				
Retirement benefit plans:				
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of \$1,626, \$3,295, \$4,878 and \$9,885 for the respective periods	2,552	5,173	7,659	15,520
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of \$1,619, \$3,284, \$4,858 and \$9,852 for the respective periods	(2,542 )	(5,156 )	(7,627 )	(15,468 )
Other comprehensive income, net of taxes	10	17	32	52
Comprehensive income attributable to Hawaiian Electric Company, Inc.	\$38,889	\$37,834	\$108,561	\$90,991

The accompanying notes are an integral part of these consolidated financial statements.

6

---

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Hawaiian Electric Company, Inc. and Subsidiaries  
Consolidated Balance Sheets (unaudited)

(dollars in thousands, except par value)	September 30, 2014	December 31, 2013
Assets		
Property, plant and equipment		
Utility property, plant and equipment		
Land	\$ 52,344	\$51,883
Plant and equipment	5,902,397	5,701,875
Less accumulated depreciation	(2,167,545 )	(2,111,229 )
Construction in progress	179,190	143,233
Utility property, plant and equipment, net	3,966,386	3,785,762
Nonutility property, plant and equipment, less accumulated depreciation of \$1,229 and \$1,223 at respective dates	6,561	6,567
Total property, plant and equipment, net	3,972,947	3,792,329
Current assets		
Cash and cash equivalents	18,387	62,825
Customer accounts receivable, net	189,733	175,448
Accrued unbilled revenues, net	143,153	144,124
Other accounts receivable, net	19,508	14,062
Fuel oil stock, at average cost	118,303	134,087
Materials and supplies, at average cost	60,639	59,044
Prepayments and other	50,270	52,857
Regulatory assets	54,700	69,738
Total current assets	654,693	712,185
Other long-term assets		
Regulatory assets	521,012	506,186
Unamortized debt expense	8,619	9,003
Other	67,891	67,426
Total other long-term assets	597,522	582,615
Total assets	\$ 5,225,162	\$5,087,129
Capitalization and liabilities		
Capitalization		
Common stock (\$6 2/3 par value, authorized 50,000,000 shares; outstanding 15,429,105 shares)	\$ 102,880	\$102,880
Premium on capital stock	541,447	541,452
Retained earnings	990,784	948,624
Accumulated other comprehensive income, net of income taxes-retirement benefit plans	640	608
Common stock equity	1,635,751	1,593,564
Cumulative preferred stock — not subject to mandatory redemption	34,293	34,293
Long-term debt, net	1,206,546	1,206,545
Total capitalization	2,876,590	2,834,402
Commitments and contingencies (Note 3)		
Current liabilities		
Current portion of long-term debt	11,400	11,400
Short-term borrowings from non-affiliates	84,987	—
Accounts payable	151,978	189,559
Interest and preferred dividends payable	24,401	21,652

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Taxes accrued	236,481	249,445
Regulatory liabilities	528	1,916
Other	62,400	63,881
Total current liabilities	572,175	537,853
Deferred credits and other liabilities		
Deferred income taxes	565,499	507,161
Regulatory liabilities	356,562	347,383
Unamortized tax credits	79,268	73,539
Defined benefit pension and other postretirement benefit plans liability	248,338	262,162
Other	77,919	91,735
Total deferred credits and other liabilities	1,327,586	1,281,980
Contributions in aid of construction	448,811	432,894
Total capitalization and liabilities	\$ 5,225,162	\$5,087,129

The accompanying notes are an integral part of these consolidated financial statements.

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidated Statements of Changes in Common Stock Equity (unaudited)

(in thousands)	Common stock		Premium	Retained	Accumulated	Total
	Shares	Amount	on capital stock	earnings	other comprehensive income (loss)	
Balance, December 31, 2013	15,429	\$ 102,880	\$ 541,452	\$ 948,624	\$ 608	\$ 1,593,564
Net income for common stock	—	—	—	108,529	—	108,529
Other comprehensive income, net of taxes	—	—	—	—	32	32
Common stock dividends	—	—	—	(66,369 )	—	(66,369 )
Common stock issuance expenses	—	—	(5 )	—	—	(5 )
Balance, September 30, 2014	15,429	\$ 102,880	\$ 541,447	\$ 990,784	\$ 640	\$ 1,635,751
Balance, December 31, 2012	14,665	\$ 97,788	\$ 468,045	\$ 907,273	\$ (970 )	\$ 1,472,136
Net income for common stock	—	—	—	90,939	—	90,939
Other comprehensive income, net of taxes	—	—	—	—	52	52
Common stock dividends	—	—	—	(61,183 )	—	(61,183 )
Balance, September 30, 2013	14,665	\$ 97,788	\$ 468,045	\$ 937,029	\$ (918 )	\$ 1,501,944

The accompanying notes are an integral part of these consolidated financial statements.

Hawaiian Electric Company, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows (unaudited)

Nine months ended September 30 (in thousands)	2014	2013
Cash flows from operating activities		
Net income	\$ 110,025	\$ 92,435
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	124,790	115,865
Other amortization	4,662	2,470
Increase in deferred income taxes	67,392	48,014
Change in tax credits, net	5,816	4,510
Allowance for equity funds used during construction	(4,933 )	(4,030 )
Change in cash overdraft	(1,038 )	—
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	(19,731 )	42,077
Decrease (increase) in accrued unbilled revenues	971	(5,603 )
Decrease in fuel oil stock	15,784	24,332
Increase in materials and supplies	(1,595 )	(8,349 )
Increase in regulatory assets	(17,531 )	(53,314 )
Decrease in accounts payable	(77,893 )	(22,974 )
Change in prepaid and accrued income taxes and utility revenue taxes	(18,075 )	(15,416 )
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	(748 )	1,488
Change in other assets and liabilities	(41,629 )	(10,195 )
Net cash provided by operating activities	146,267	211,310
Cash flows from investing activities		
Capital expenditures	(229,105 )	(237,869 )
Contributions in aid of construction	21,740	23,633
Other	—	427
Net cash used in investing activities	(207,365 )	(213,809 )
Cash flows from financing activities		
Common stock dividends	(66,369 )	(61,183 )
Preferred stock dividends of Hawaiian Electric and subsidiaries	(1,496 )	(1,496 )
Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	84,987	73,246
Other	(462 )	(42 )
Net cash provided by financing activities	16,660	10,525
Net increase (decrease) in cash and cash equivalents	(44,438 )	8,026
Cash and cash equivalents, beginning of period	62,825	17,159
Cash and cash equivalents, end of period	\$ 18,387	\$ 25,185

The accompanying notes are an integral part of these consolidated financial statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1 · Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim financial information, the instructions to SEC Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited consolidated financial statements and the following notes should be read in conjunction with the audited consolidated financial statements and the notes thereto in HEI's and Hawaiian Electric's Form 10-K for the year ended December 31, 2013.

In the opinion of HEI's and Hawaiian Electric's management, the accompanying unaudited consolidated financial statements contain all material adjustments required by GAAP to fairly state the Company's and Hawaiian Electric's financial position as of September 30, 2014 and December 31, 2013, the results of its operations for the three and nine months ended September 30, 2014 and 2013, and its cash flows for the nine months ended September 30, 2014 and 2013. All such adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q or other referenced material. Results of operations for interim periods are not necessarily indicative of results for the full year. Reclassifications and revisions. In the fourth quarter of 2013, Hawaiian Electric changed its consolidated statements of income for 2013 and prior comparative periods from a utility presentation to a commercial company presentation, under which all operating revenues and expenses (including non-regulated revenues and expenses) are included in the determination of operating income. Additionally, income tax expense, which was previously included partially in operating expenses and partially in other income (deductions), is now entirely presented directly above net income in income taxes and includes income taxes related to non-regulated revenues and expenses.

In making the change to a commercial company presentation, the Company discovered that interest on the Utilities' uncollected revenue balancing accounts and the income tax gross-up adjustment for allowance for funds used during construction (AFUDC)-equity were incorrectly included in HEI consolidated revenues and is revising its previously filed quarterly Consolidated Statements of Income for 2013 to move the amounts to "Interest expense, net-other than on deposit liabilities and other bank borrowings" and income taxes, respectively. The Company and the Utilities have also revised their property, plant and equipment as of December 31, 2013 to correct for an error that excluded Hawaiian Electric consolidated non-utility property plant and equipment amounts.

The table below illustrates the effects of the revisions on the previously filed financial statements:

(in thousands)	As previously filed	As revised	Difference
HEI consolidated			
Consolidated Statements of Income			
Three months ended September 30, 2013			
Revenues	\$831,229	\$829,168	\$(2,061 )
Operating income	90,099	88,038	(2,061 )
Interest expense, net—other than on deposit liabilities and other bank borrowings	(20,304 )	(19,043 )	1,261
Income before income taxes	71,548	70,748	(800 )
Income taxes	22,841	22,041	(800 )
Nine months ended September 30, 2013			
Revenues	2,412,023	2,405,967	(6,056 )
Operating income	243,126	237,070	(6,056 )
Interest expense, net—other than on deposit liabilities and other bank borrowings	(59,705 )	(56,216 )	3,489
Income before income taxes	189,077	186,510	(2,567 )
Income taxes	65,157	62,590	(2,567 )
Consolidated Balance Sheets			
December 31, 2013			
Property, plant and equipment, net of accumulated depreciation	3,858,947	3,865,514	6,567
Accumulated depreciation	(2,191,199 )	(2,192,422)	(1,223 )
Other assets	519,194	512,627	(6,567 )
Hawaiian Electric consolidated			
Consolidated Balance Sheets			
December 31, 2013			
Other assets	73,993	67,426	(6,567 )

The reclassifications and revisions made to prior periods' financial statements for the three and nine months ended September 30, 2013 and as of December 31, 2013 to conform to the presentation for the three and nine months ended, and as of, September 30, 2014 did not affect previously reported net income and cash flows and were not considered material to previously filed financial statements.

Out-of period income tax benefit. In the third quarter of 2013, the Company recorded a \$3.1 million (including \$2.7 million related to the Utilities) out-of-period income tax benefit, resulting primarily from the reversal of deferred tax liabilities due to errors in the amount of book over tax basis differences in plant and equipment. Management concluded that this out-of-period adjustment was not material to either the current or any prior period financial statements.

## 2 · Segment financial information

(in thousands)	Electric utility	Bank	Other	Total
Three months ended September 30, 2014				
Revenues from external customers	\$803,559	\$63,536	\$1	\$867,096
Intersegment revenues (eliminations)	6	—	(6	) —
Revenues	803,565	63,536	(5	) 867,096
Income (loss) before income taxes	62,419	19,572	(7,382	) 74,609
Income taxes (benefit)	23,042	6,312	(3,031	) 26,323
Net income (loss)	39,377	13,260	(4,351	) 48,286
Preferred stock dividends of subsidiaries	498	—	(27	) 471
Net income (loss) for common stock	38,879	13,260	(4,324	) 47,815
Nine months ended September 30, 2014				
Revenues from external customers	\$2,262,038	\$187,771	\$(307	) \$2,449,502
Intersegment revenues (eliminations)	18	—	(18	) —
Revenues	2,262,056	187,771	(325	) 2,449,502
Income (loss) before income taxes	174,711	58,244	(23,110	) 209,845
Income taxes (benefit)	64,686	18,769	(10,190	) 73,265
Net income (loss)	110,025	39,475	(12,920	) 136,580
Preferred stock dividends of subsidiaries	1,496	—	(79	) 1,417
Net income (loss) for common stock	108,529	39,475	(12,841	) 135,163
Assets (at September 30, 2014)	5,225,162	5,442,336	2,973	10,670,471
Three months ended September 30, 2013				
Revenues from external customers	\$764,048	\$65,058	\$62	\$829,168
Intersegment revenues (eliminations)	6	—	(6	) —
Revenues	764,054	65,058	56	829,168
Income (loss) before income taxes	56,573	22,808	(8,633	) 70,748
Income taxes (benefit)	18,258	7,532	(3,749	) 22,041
Net income (loss)	38,315	15,276	(4,884	) 48,707
Preferred stock dividends of subsidiaries	498	—	(27	) 471
Net income (loss) for common stock	37,817	15,276	(4,857	) 48,236
Nine months ended September 30, 2013				
Revenues from external customers	\$2,210,002	\$195,841	\$124	\$2,405,967
Intersegment revenues (eliminations)	18	—	(18	) —
Revenues	2,210,020	195,841	106	2,405,967
Income (loss) before income taxes	141,645	69,265	(24,400	) 186,510
Income taxes (benefit)	49,210	23,915	(10,535	) 62,590
Net income (loss)	92,435	45,350	(13,865	) 123,920
Preferred stock dividends of subsidiaries	1,496	—	(79	) 1,417
Net income (loss) for common stock	90,939	45,350	(13,786	) 122,503
Assets (at December 31, 2013)	5,087,129	5,243,824	9,091	10,340,044

Intercompany electricity sales of the Utilities to the bank and “other” segments are not eliminated because those segments would need to purchase electricity from another source if it were not provided by the Utilities, the profit on such sales is nominal and the elimination of electric sales revenues and expenses could distort segment operating income and net income for common stock.

Bank fees that ASB charges the Utilities and “other” segments are not eliminated because those segments would pay fees to another financial institution if they were to bank with another institution, the profit on such fees is nominal and the elimination of bank fee income and expenses could distort segment operating income and net income for common stock.

### 3 · Electric utility segment

Revenue taxes. The Utilities' revenues include amounts for the recovery of various Hawaii state revenue taxes. Revenue taxes are generally recorded as an expense in the period the related revenues are recognized. However, the Utilities' revenue tax payments to the taxing authorities in the period are based on the prior year's billed revenues (in the case of public service company taxes and PUC fees) or on the current year's cash collections from electric sales (in the case of franchise taxes). The Utilities included in the third quarters of 2014 and 2013 and the nine months ended September 30, 2014 and 2013 approximately \$74 million, \$69 million, \$203 million and \$198 million, respectively, of revenue taxes in "revenues" and in "taxes, other than income taxes" expense.

Recent tax developments. In September 2013, the Internal Revenue Service (IRS) issued final regulations addressing the acquisition, production and improvement of tangible property, which were effective January 1, 2014. Management does not expect the impact of these new regulations will be material to the Utilities' financial statements since specific guidance on network (i.e., transmission and distribution) assets and generation property had already been received. The IRS also recently issued guidance addressing the disposition of property and providing an election for retroactive disposition of certain property. The Company will be reviewing the impact of this guidance, but does not expect it to have a material effect on the financial statements.

The Utilities adopted the safe harbor guidelines with respect to network assets in 2011 and in June 2013, the IRS released a revenue procedure relating to deductions for repairs of generation property, which provides some guidance (that is elective) for taxpayers that own steam or electric generation property. This guidance defines the relevant components of generation property to be used in determining whether such component expenditures should be deducted as repairs or capitalized and depreciated by taxpayers. The revenue procedure also provides an extrapolation methodology that could be used by taxpayers in determining deductions for prior years' repairs without going back to the specific documentation of those years. The guidance does not provide specific methods for determining the repairs amount. Management intends to adopt this guidance through an election in its 2014 tax return, which is expected to result in slightly improved cash flows.

In the second quarter of 2014, the Utilities received IRS approval for a change in the method of accounting for revenues recorded to the Utilities' revenue balancing accounts (RBAs) (from an accrual basis to a billed basis) for income tax purposes, effective January 1, 2014. HEI has included the effects of this change in its estimated income tax payments for 2014. This change will result in improved cash flows by deferring the payment of income taxes on the RBA revenues recognized until the revenues are billed but will reduce the interest to be accrued on the RBA balance as proposed by the Consumer Advocate.

#### Unconsolidated variable interest entities.

HECO Capital Trust III. HECO Capital Trust III (Trust III) was created and exists for the exclusive purposes of (i) issuing in March 2004 2,000,000 6.50% Cumulative Quarterly Income Preferred Securities, Series 2004 (2004 Trust Preferred Securities) (\$50 million aggregate liquidation preference) to the public and trust common securities (\$1.5 million aggregate liquidation preference) to Hawaiian Electric, (ii) investing the proceeds of these trust securities in 2004 Debentures issued by Hawaiian Electric in the principal amount of \$31.5 million and issued by Hawaii Electric Light and Maui Electric each in the principal amount of \$10 million, (iii) making distributions on these trust securities and (iv) engaging in only those other activities necessary or incidental thereto. The 2004 Trust Preferred Securities are mandatorily redeemable at the maturity of the underlying debt on March 18, 2034, which maturity may be extended to no later than March 18, 2053; and are currently redeemable at the issuer's option without premium. The 2004 Debentures, together with the obligations of the Utilities under an expense agreement and Hawaiian Electric's obligations under its trust guarantee and its guarantee of the obligations of Hawaii Electric Light and Maui Electric under their respective debentures, are the sole assets of Trust III. Taken together, Hawaiian Electric's obligations under the Hawaiian Electric debentures, the Hawaiian Electric indenture, the subsidiary guarantees, the trust agreement, the expense agreement and trust guarantee provide, in the aggregate, a full, irrevocable and unconditional guarantee of payments of amounts due on the Trust Preferred Securities. Trust III has at

all times been an unconsolidated subsidiary of Hawaiian Electric. Since Hawaiian Electric, as the holder of 100% of the trust common securities, does not absorb the majority of the variability of Trust III, Hawaiian Electric is not the primary beneficiary and does not consolidate Trust III in accordance with accounting rules on the consolidation of VIEs. Trust III's balance sheets as of September 30, 2014 and December 31, 2013 each consisted of \$51.5 million of 2004 Debentures; \$50.0 million of 2004 Trust Preferred Securities; and \$1.5 million of trust common securities. Trust III's income statements for the nine months ended September 30, 2014 and 2013 each consisted of \$2.5 million of interest income received from the 2004 Debentures; \$2.4 million of distributions to holders of the Trust Preferred Securities; and \$0.1 million of common dividends on the trust common securities to Hawaiian Electric. As long as the 2004 Trust Preferred Securities are outstanding, Hawaiian Electric is not entitled to receive any funds from Trust III other than pro-rata distributions, subject to certain subordination provisions, on the trust common securities. In the event of a default by Hawaiian Electric in the performance of its obligations under the 2004 Debentures or under its Guarantees, or in the event any of the Utilities elect to defer payment of interest on any of their respective 2004 Debentures,

then Hawaiian Electric will be subject to a number of restrictions, including a prohibition on the payment of dividends on its common stock.

Power purchase agreements. As of September 30, 2014, the Utilities had six purchase power agreements (PPAs) for firm capacity and several other PPAs with variable generation independent power producers (IPPs) and Schedule Q providers (i.e., customers with cogeneration and/or small power production facilities with a capacity of 100 kilowatts (kW) or less who buy power from or sell power to the Utilities), none of which are currently required to be consolidated as VIEs. The PPAs with AES Hawaii, Inc. (AES Hawaii), Kalaeloa Partners, L.P. (Kalaeloa), Hamakua Energy Partners, L.P. (HEP) and Hpower comprise approximately 90% of IPP contractual firm capacity available to the Utilities. Purchases from all IPPs were as follows:

	Three months ended September		Nine months ended September	
	30		30	
(in millions)	2014	2013	2014	2013
AES Hawaii	\$38	\$38	\$107	\$98
Kalaeloa	73	80	214	223
HEP	16	15	36	36
Hpower	18	17	50	44
Other IPPs	48	45	139	126
Total IPPs	\$193	\$195	\$546	\$527

Some of the IPPs provided sufficient information for Hawaiian Electric to determine that the IPP was not a VIE, or was either a “business” or “governmental organization,” and thus excluded from the scope of accounting standards for VIEs. Other IPPs, including the three largest, declined to provide the information necessary for Hawaiian Electric to determine the applicability of accounting standards for VIEs.

Since 2004, Hawaiian Electric has continued its efforts to obtain from the IPPs the information necessary to make the determinations required under accounting standards for VIEs. In each year from 2005 to 2013, the Utilities sent letters to the identified IPPs requesting the required information. All of these IPPs declined to provide the necessary information, except that Kalaeloa later agreed to provide the information pursuant to the amendments to its PPA (see below) and an entity owning a wind farm provided information as required under its PPA. Management has concluded that the consolidation of two entities owning wind farms was not required as Hawaii Electric Light and Maui Electric do not have variable interests in the entities because the PPAs do not require them to absorb any variability of the entities. If the requested information is ultimately received from the remaining IPPs, a possible outcome of future analyses of such information is the consolidation of one or more of such IPPs in the Consolidated Financial Statements. The consolidation of any significant IPP could have a material effect on the 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. If the Utilities determine they are required to consolidate the financial statements of such an IPP and the consolidation has a material effect, the Utilities would retrospectively apply accounting standards for VIEs.

Kalaeloa Partners, L.P. In October 1988, Hawaiian Electric entered into a PPA with Kalaeloa, subsequently approved by the PUC, which provided that Hawaiian Electric would purchase 180 megawatts (MW) of firm capacity for a period of 25 years beginning in May 1991. In October 2004, Hawaiian Electric and Kalaeloa entered into amendments to the PPA, subsequently approved by the PUC, which together effectively increased the firm capacity from 180 MW to 208 MW. The energy payments that Hawaiian Electric makes to Kalaeloa include: (1) a fuel component, with a fuel price adjustment based on the cost of low sulfur fuel oil, (2) a fuel additive component, with an adjustment based on changes in the Gross National Product Implicit Price Deflator, and (3) a non-fuel component, with an adjustment based on changes in the Gross National Product Implicit Price Deflator. The capacity payments that Hawaiian Electric makes to Kalaeloa are fixed in accordance with the PPA. Kalaeloa also has a steam delivery cogeneration contract with another customer, the term of which coincides with the PPA. The facility has been certified by the Federal Energy Regulatory Commission as a Qualifying Facility under the Public Utility Regulatory Policies Act of 1978.

Pursuant to the current accounting standards for VIEs, Hawaiian Electric is deemed to have a variable interest in Kalaeloa by reason of the provisions of Hawaiian Electric's PPA with Kalaeloa. However, management has concluded that Hawaiian Electric is not the primary beneficiary of Kalaeloa because Hawaiian Electric does not have the power to direct the activities that most significantly impact Kalaeloa's economic performance nor the obligation to absorb Kalaeloa's expected losses, if any, that could potentially be significant to Kalaeloa. Thus, Hawaiian Electric has not consolidated Kalaeloa in its consolidated financial statements. A significant factor affecting the level of expected losses Hawaiian Electric could potentially absorb is the fact that Hawaiian Electric's exposure to fuel price variability is limited to the remaining term of the PPA as compared to the facility's remaining useful life. Although Hawaiian Electric absorbs fuel price variability for the remaining term of the PPA, the PPA does not currently expose Hawaiian Electric to losses as the fuel and fuel related energy payments under the PPA have



been approved by the PUC for recovery from customers through base electric rates and through Hawaiian Electric's ECAC to the extent the fuel and fuel related energy payments are not included in base energy rates. As of September 30, 2014, Hawaiian Electric's accounts payable to Kalaeloa amounted to \$16 million.

Commitments and contingencies.

Environmental regulation. The Utilities are subject to environmental laws and regulations that regulate the operation of existing facilities, the construction and operation of new facilities and the proper cleanup and disposal of hazardous waste and toxic substances. In recent years, legislative, regulatory and governmental activities related to the environment, including proposals and rulemaking under the Clean Air Act and Clean Water Act (CWA), have increased significantly and management anticipates that such activity will continue.

On August 14, 2014, the Environmental Protection Agency (EPA) published in the Federal Register the final regulations required by section 316(b) of the CWA designed to protect aquatic organisms from adverse impacts associated with existing power plant cooling water intake structures. The regulations were effective October 14, 2014 and apply to the cooling water systems for the steam generating units at Hawaiian Electric's power plants on the island of Oahu. The regulations prescribe a process, including a number of required site-specific studies, for states to develop facility-specific entrainment and impingement controls to be incorporated in the facility's National Pollutant Discharge Elimination System permit. In the case of Hawaiian Electric's power plants, there are a number of studies that have yet to be completed before Hawaiian Electric and the Department of Health of the State of Hawaii (DOH) can determine what entrainment or impingement controls, if any, might be appropriate.

On February 16, 2012, the Federal Register published the EPA's final rule establishing the EPA's National Emission Standards for Hazardous Air Pollutants for fossil-fuel fired steam electrical generating units (EGUs). The final rule, known as the Mercury and Air Toxics Standards (MATS), applies to the 14 EGUs at Hawaiian Electric's power plants. MATS establishes the Maximum Achievable Control Technology standards for the control of hazardous air pollutants emissions from new and existing EGUs. Based on a review of the final rule and the benefits and costs of alternative compliance strategies, Hawaiian Electric has selected a MATS compliance strategy based on switching to lower emission fuels. The use of lower emission fuels will provide for MATS compliance at lower overall costs and avoid the reduction in operational flexibility imposed by emissions control equipment. Hawaiian Electric requested and received a one-year extension, resulting in a MATS compliance date of April 16, 2016. Hawaiian Electric also has pending with the EPA a Petition for Reconsideration and Stay dated April 16, 2012, and a Request for Expedited Consideration dated August 14, 2013. The submittals ask the EPA to revise an emissions standard for non-continental oil-fired EGUs on the grounds that the promulgated standard was incorrectly derived. The Petition and Request submittals to the EPA included additional data to demonstrate that the existing standard is erroneous. Hawaiian Electric has been in contact with the EPA regarding the status of its Petition, but has not been given a time frame for an EPA decision or action.

On February 6, 2013, the EPA issued a guidance document titled "Next Steps for Area Designations and Implementation of the Sulfur Dioxide National Ambient Air Quality Standard," which outlines a process that will provide the states additional flexibility and time for their development of one-hour sulfur dioxide (SO<sub>2</sub>) National Ambient Air Quality Standard (NAAQS) implementation plans. In May 2014, the EPA published a proposed data requirements rule for states to characterize their air quality in relation to the one-hour SO<sub>2</sub> NAAQS. Under the proposed rule, the EPA expects to designate areas as attaining, or not attaining, the one-hour SO<sub>2</sub> NAAQS in December 2017 or December 2020, depending on whether the area was characterized through modeling or monitoring. Hawaiian Electric will work with the DOH in implementing the one-hour SO<sub>2</sub> NAAQS and in developing cost-effective strategies for NAAQS compliance, if needed.

Depending upon the specific measures required for compliance with the CWA 316(b) regulations and MATS, and the rules and guidance developed for compliance with the more stringent NAAQS, the Utilities may be required to incur material capital expenditures and other compliance costs, but such amounts and their timing are not determinable at this time. Additionally, the combined effects of these regulatory initiatives may result in a decision to retire or deactivate certain generating units earlier than anticipated.

Hawaiian Electric, Hawaii Electric Light and Maui Electric, like other utilities, periodically encounter petroleum or other chemical releases into the environment associated with current or previous operations and report and take action

on these releases when and as required by applicable law and regulations. The Utilities believe the costs of responding to such releases identified to date will not have a material adverse effect, individually or in the aggregate, on Hawaiian Electric's consolidated results of operations, financial condition or liquidity.

Potential Clean Air Act Enforcement. On July 1, 2013, Hawaii Electric Light and Maui Electric received a letter from the U.S. Department of Justice (DOJ) asserting potential violations of the Prevention of Significant Deterioration (PSD)

and Title V requirements of the Clean Air Act involving the Hill and Kahului Power Plants. The EPA referred the matter to the DOJ for enforcement based on Hawaii Electric Light's and Maui Electric's responses to information requests in 2010 and 2012. The letter expresses an interest in resolving the matter without the issuance of a notice of violation. The parties had preliminary discussions in February 2014, and are continuing to negotiate toward a resolution of the DOJ's claims. As part of the ongoing negotiations, the DOJ proposed in November 2014 entering into a consent decree pursuant to which the Utilities would install certain pollution controls and pay a penalty. The Utilities are currently reviewing the proposal, but are unable to estimate the amount or effect of a consent decree, if any, at this time.

Former Molokai Electric Company generation site. In 1989, Maui Electric acquired by merger Molokai Electric Company. Molokai Electric Company had sold its former generation site (Site) in 1983, but continued to operate at the Site under a lease until 1985. The EPA has since performed Brownfield assessments of the Site that identified environmental impacts in the subsurface. Although Maui Electric never operated at the Site and operations there had stopped four years before the merger, in discussions with the EPA and the DOH, Maui Electric agreed to undertake additional investigations at the Site and an adjacent parcel that Molokai Electric Company had used for equipment storage (the Adjacent Parcel) to determine the extent of impacts of subsurface contaminants. A 2011 assessment by a Maui Electric contractor of the Adjacent Parcel identified environmental impacts, including elevated polychlorinated biphenyls (PCBs) in the subsurface soils. In cooperation with the DOH and EPA, Maui Electric is further investigating the Site and the Adjacent Parcel to determine the extent of impacts of PCBs, residual fuel oils, and other subsurface contaminants. In March 2012, Maui Electric accrued an additional \$3.1 million (reserve balance of \$3.6 million as of September 30, 2014) for the additional investigation and estimated cleanup costs at the Site and the Adjacent Parcel; however, final costs of remediation will depend on the results of continued investigation. Maui Electric received DOH and EPA comments on a draft site investigation plan for site characterization in the fourth quarter of 2013.

Management concluded that these comments did not require a change to the reserve balance. The site investigation plan is currently being revised and the final site investigation plan will be submitted to the DOH and EPA in the fourth quarter of 2014.

Pearl Harbor sediment study. The U.S. Navy is conducting a feasibility study for the remediation of contaminated sediment in Pearl Harbor. In the course of its study, the Navy identified elevated levels of PCBs in the sediment offshore from the Waiiau Power Plant. The results of the Navy's study to date, including sampling data and possible remediation approaches, are undergoing further federal review. Hawaiian Electric is also reviewing the study to determine the scope of investigation necessary to identify the potential source of contamination and develop appropriate remedial actions.

In July 2014, the Navy notified Hawaiian Electric of the Navy's determination that Hawaiian Electric is responsible for cleanup of the area offshore of the Waiiau Power Plant. The Navy has also requested that Hawaiian Electric reimburse the costs incurred by the Navy to date to investigate the area, and is asking Hawaiian Electric to engage in negotiations regarding the financing and undertaking of future response actions. The extent of the contamination, the appropriate remedial measures to address it, and Hawaiian Electric's potential responsibility for any associated costs have not yet been determined.

Global climate change and greenhouse gas emissions reduction. National and international concern about climate change and the contribution of greenhouse gas (GHG) emissions (including carbon dioxide emissions from the combustion of fossil fuels) to climate change have led to action by the State and to federal legislative and regulatory proposals to reduce GHG emissions.

In July 2007, Act 234, which requires a statewide reduction of GHG emissions by January 1, 2020 to levels at or below the statewide GHG emission levels in 1990, became law in Hawaii. On June 20, 2014, the Governor signed the final regulations required to implement Act 234 and the regulations went into effect on June 30, 2014. In general, the regulations will require affected sources that have the potential to emit GHGs in excess of established thresholds to reduce GHG emissions by 16% below 2010 emission levels by 2020. The regulations will also assess affected sources an annual fee based on tons per year of GHG emissions commencing on the effective date of the regulations, estimated to be approximately \$0.5 million annually for the Utilities. The DOH GHG regulations also track the federal "Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule" (GHG Tailoring Rule, see below)

and would create new thresholds for GHG emissions from new and existing stationary source facilities.

Several approaches (e.g., “cap and trade”) to GHG emission reduction have been either introduced or discussed in the U.S. Congress; however, no federal legislation has yet been enacted.

On September 22, 2009, the EPA issued its Final Mandatory Reporting of Greenhouse Gases Rule, which requires that sources emitting GHGs above certain threshold levels monitor and report GHG emissions. The Utilities have submitted the required reports for 2010 through 2013 to the EPA. In December 2009, the EPA made the finding that motor vehicle GHG emissions endanger public health or welfare. Since then, the EPA has also issued rules that begin to address GHG emissions from stationary sources, like the Utilities’ EGUs.

In June 2010, the EPA issued its GHG Tailoring Rule covering the permitting of new or modified stationary sources that have the potential to emit GHGs in greater quantities than the thresholds set forth in the rule, under the Prevention of Significant Deterioration program. On June 23, 2014, the U.S. Supreme Court issued a decision that invalidated the GHG Tailoring Rule, to the extent it regulated sources based solely on their GHG emissions. It also invalidated the GHG emissions threshold for regulation. The current status of the GHG Tailoring Rule, and any further regulatory action the EPA may take in light of this recent decision, are uncertain.

On January 8, 2014, the EPA published in the Federal Register its new proposal for New Source Performance Standards for GHG from new generating units. The proposed rule on GHG from new EGUs does not apply to oil-fired combustion turbines or diesel engine generators, and is not otherwise expected to have significant impacts on the Utilities.

On June 18, 2014, the EPA published in the Federal Register its proposed rule for GHG emissions from existing power plants. The rule sets interim and final state-wide, state-specific emission performance goals, expressed as lb CO<sub>2</sub>/MWh, that would apply to the state's affected sources. The interim goal would apply as an average over the period 2020 through 2029, with the final goal to be met by 2030. On the same date, the EPA also published a separate rule for modified and reconstructed power plants. The EPA's plan is to issue the final rules no later than June 1, 2015. Hawaiian Electric is still evaluating the proposed rules for GHG emissions from existing, modified, and reconstructed sources, and how they might relate to the recently issued State GHG rules. Hawaiian Electric will participate in the federal GHG rulemaking process, and in the implementation of the State GHG rules, to try to reconcile federal GHG regulation, state GHG regulation, and any action the EPA may take as a result of the recent U.S. Supreme Court opinion, to facilitate clear and cost-effective compliance. The Utilities will continue to evaluate the impact of proposed GHG rules and regulations as they develop. Final regulations may impose significant compliance costs, and may require reductions in fossil fuel use and the addition of renewable energy resources in excess of the requirements of the RPS law.

While the timing, extent and ultimate effects of climate change cannot be determined with any certainty, climate change is predicted to result in sea level rise, which could potentially impact coastal and other low-lying areas (where much of the Utilities' electric infrastructure is sited), and could cause erosion of beaches, saltwater intrusion into aquifers and surface ecosystems, higher water tables and increased flooding and storm damage due to heavy rainfall. The effects of climate change on the weather (for example, floods or hurricanes), sea levels, and water availability and quality have the potential to materially adversely affect the results of operations, financial condition and liquidity of the Utilities. For example, severe weather could cause significant harm to the Utilities' physical facilities.

The Utilities have taken, and continue to identify opportunities to take, direct action to reduce GHG emissions from their operations, including, but not limited to, supporting DSM programs that foster energy efficiency, using renewable resources for energy production and purchasing power from IPPs generated by renewable resources, burning renewable biodiesel in Hawaiian Electric's Campbell Industrial Park combustion turbine No. 1 (CIP CT-1), using biodiesel for startup and shutdown of selected Maui Electric generating units, and testing biofuel blends in other Hawaiian Electric and Maui Electric generating units. The Utilities are also working with the State of Hawaii and other entities to pursue the use of liquefied natural gas as a cleaner and lower cost fuel to replace, at least in part, the petroleum oil that would otherwise be used. Management is unable to evaluate the ultimate impact on the Utilities' operations of eventual comprehensive GHG regulation. However, management believes that the various initiatives it is undertaking will provide a sound basis for managing the Utilities' carbon footprint and meeting GHG reduction goals that will ultimately emerge.

Asset retirement obligations. Asset retirement obligations (AROs) represent legal obligations associated with the retirement of certain tangible long-lived assets, are measured as the present value of the projected costs for the future retirement of specific assets and are recognized in the period in which the liability is incurred if a reasonable estimate of fair value can be made. The Utilities' recognition of AROs have no impact on their earnings. The cost of the AROs is recovered over the life of the asset through depreciation. AROs recognized by the Utilities relate to obligations to retire plant and equipment, including removal of asbestos and other hazardous materials.

Hawaiian Electric has recorded estimated AROs related to removing retired generating units at its Honolulu and Waiiau power plants. These removal projects are ongoing, with significant activity and expenditures occurring in

2014. Both removal projects are expected to continue through 2015.

17

---

Changes to the ARO liability included in “Other liabilities” on Hawaiian Electric’s balance sheet were as follows:

(in thousands)	Nine months ended September 30	
	2014	2013
Balance, beginning of period	\$43,106	\$48,431
Accretion expense	816	833
Liabilities incurred	—	—
Liabilities settled	(11,338	) (1,165
Revisions in estimated cash flows	—	(916
Balance, end of period	\$32,584	\$47,183

Decoupling. In 2010, the PUC issued an order approving decoupling, which was implemented by Hawaiian Electric on March 1, 2011, by Hawaii Electric Light on April 9, 2012 and by Maui Electric on May 4, 2012. Decoupling is a regulatory model that is intended to facilitate meeting the State of Hawaii’s goals to transition to a clean energy economy and achieve an aggressive renewable portfolio standard. The decoupling model implemented in Hawaii delinks revenues from sales and includes annual revenue adjustments for certain other operation and maintenance (O&M) expenses and rate base changes. The decoupling mechanism has three components: (1) a sales decoupling component via a revenue balancing account (RBA), (2) a revenue escalation component via a revenue adjustment mechanism (RAM) and (3) an earnings sharing mechanism, which would provide for a reduction of revenues between rate cases in the event the utility exceeds the return on average common equity (ROACE) allowed in its most recent rate case. Decoupling provides for more timely cost recovery and earning on investments. The implementation of decoupling has resulted in an improvement in the Utilities’ under-earning situation that has existed over the last several years.

On May 31, 2013, as provided for in its original order issued in 2010 approving decoupling and citing three years of implementation experience for Hawaiian Electric, the PUC opened an investigative docket to review whether the decoupling mechanisms are functioning as intended, are fair to the Utilities and their ratepayers, and are in the public interest. The PUC affirmed its support for the continuation of the sales decoupling (RBA) mechanism and stated its interest in evaluating the RAM to ensure it provides the appropriate balance of risks, costs, incentives and performance requirements, as well as administrative efficiency, and whether the current interest rate applied to the outstanding RBA balance is reasonable. The Utilities and the Consumer Advocate were named as parties to this proceeding and filed a joint statement of position that any material changes to the current decoupling mechanism should be made prospectively after 2016, unless the Utilities and the Consumer Advocate mutually agree to the change in this proceeding. The PUC granted several parties’ motions to intervene. In October 2013, the PUC issued orders that bifurcated the proceeding (Schedule A and Schedule B) and identified issues and procedural schedules for both Schedules.

Schedule A issues include:

- for the RBA, the reasonableness of the interest rate related to the carrying charge of the outstanding RBA balance and whether there should be a risk sharing adjustment to the RBA;
- for the RAM, whether it is reasonable to true up all actual prior year baseline projects, which are those capital projects less than \$2.5 million, at year end or implement alternative methods to calculate the RAM rate base;
- whether a risk sharing mechanism should be incorporated into the RBA;
- whether performance metrics should be determined and reported; and
- whether other factors should be considered if potential changes to existing RBA and RAM provisions are required.

Schedule B issues include:

- whether performance metrics and incentives (rewards or penalties) should be implemented to control costs and encourage the Utilities to make necessary or appropriate changes to strategic and action plans;
- whether the allocation of risk as a result of the decoupling mechanism is fairly reflected in the cost of capital allowed in rates;
- changes or alternatives to the existing RAM; and
- changes to ratemaking procedures to improve efficiency and/or effectiveness.

Oral arguments on Schedule A issues were held in January 2014. On February 7, 2014, the PUC issued a decision and order (D&O) on the Schedule A issues, which made certain modifications to the decoupling mechanism. Specifically, the D&O requires:

An adjustment to the Rate Base RAM Adjustment to include 90% of the amount of the current RAM Period Rate Base RAM Adjustment that exceeds the Rate Base RAM Adjustment from the prior year, to be effective with the Utilities' 2014 decoupling filing.



Effective March 1, 2014, the interest rate to be applied on the outstanding RBA balances to be the short term debt rate used in each Utilities last rate case (ranging from 1.25% to 3.25%), instead of the 6% that had been previously approved.

The D&O required the Utilities to immediately investigate the possibility of deferring the payment of income taxes on the accrued amounts of decoupling revenue, and to report the results with recommendations to the PUC. The PUC reserved the right to determine in the next decoupling and rate case filings whether each Utilities' allowed income taxes should be adjusted for this change. The Utilities updated the PUC on their progress in investigating the tax treatment of the revenues included in the RBA balances and provided information to the PUC concerning the application to the IRS for an accounting methods change to recognize RBA revenues for tax purposes when amounts are billed. On April 28, 2014, the Utilities received approval for this change from the IRS, effective January 1, 2014. This change will reduce the amount of interest to be accrued on the RBA balance as proposed by the Consumer Advocate (see "Recent tax developments" above).

As required, the Utilities developed websites to present certain Schedule A performance metrics and proposed additional performance metrics. These metrics are all currently being reviewed by the PUC and, if approved, will be available to the public.

The Schedule A issues on whether it is reasonable to automatically include all actual prior year capital expenditures on baseline projects in the Rate Base RAM and whether a risk sharing mechanism should be incorporated into the RBA, particularly with respect to the PUC's concerns regarding maintaining and enhancing the Utilities' incentives to control costs and appropriately allocating risk and compensation for risk, will be addressed in the Schedule B proceedings.

On May 20, 2014, the Utilities and other parties filed their respective initial statements of position for the Schedule B issues in this proceeding. Specifically, the Utilities concluded that (1) the existing RAM provision can be modified to address concerns stated by the PUC regarding the review of baseline capital projects and the growth in plant additions, and (2) targeted incentives can be crafted to incentivize the activities identified by the PUC.

On September 15, 2014, the Utilities and other parties filed their respective reply statements of position for the Schedule B issues in this proceeding. Specifically, the Utilities concluded that (1) the existing RAM provision can be modified to address PUC concerns regarding the review of baseline capital projects, and to provide more incentives for the Utilities to control capital expenditure costs while aggressively moving forward with their plans, (2) if the RAM is to be replaced, the Utilities can support transition to a new appropriately designed incentive-based regulatory (IBR) model, (3) developing an IBR mechanism and process consistent with the objectives in the Utilities' approved plans will also take reasonable time; thus, it would be more reasonable to target 2017 to begin implementation of any new IBR mechanism and decoupling should be retained in the meantime and (4) the Utilities would support the development of performance metrics to be implemented as part of a new IBR mechanism.

The Utilities and other parties participated in panel hearings on Schedule B issues in late October 2014.

Management cannot predict the outcome of the proceedings or the ultimate impact of the proceedings on the results of operation of the Utilities.

April 2014 regulatory orders. In April 2014, the PUC issued four orders that collectively address certain key policy, resource planning and operational issues for the Utilities. The four orders are as follows:

Integrated Resource Planning. The PUC did not accept the Utilities' Integrated Resource Plan and Action Plans submission, and, in lieu of an approved plan, has commenced other initiatives to enable resource planning. The PUC also terminated the Utilities' integrated resource planning (IRP) cycle, including the filing of a mid-cycle evaluation report, and formally concluded the IRP advisory group. The PUC directed each of Hawaiian Electric and Maui Electric to file within 120 days its respective Power Supply Improvement Plans (PSIPs), and the PSIPs were filed in August 2014. The PUC also provided its inclinations on the future of Hawaii's electric utilities in an exhibit to the order. The exhibit provides the PUC's perspectives on the vision, business strategies and regulatory policy changes required to align the Utilities' business model with customers' interests and the state's public policy goals.

Reliability Standards Working Group. The PUC ordered the Utilities (and in some cases the Kauai Island Utility Cooperative (KIUC)) to take timely actions intended to lower energy costs, improve system reliability and address emerging challenges to integrate additional renewable energy. In addition to the PSIPs mentioned above, the PUC

ordered certain filing requirements which include the following:

• Distributed Generation Interconnection Plan to be filed within 120 days. The Utilities' Plan was filed in August 2014.

Plan to implement an on-going distribution circuit monitoring program to measure real-time voltage and other power quality parameters to be filed within 60 days. The plan shall achieve full implementation of the distribution circuit monitoring program within 180 days. The Utilities' Plan was filed in June 2014.

Action Plan for improving efficiencies in the interconnection requirements studies to be filed within 30 days. The Utilities' Plan was filed in May 2014.

The Utilities are to file monthly reports providing details about interconnection requirements studies.

Proposal to implement an integrated interconnection queue for each distribution circuit for each island grid to be filed within 120 days. The Utilities' integrated interconnection queue plan was filed in August 2014.

The PUC also stated it would be opening new dockets to address (1) reliability standards, (2) the technical, economic and policy issues associated with distributed energy resources and (3) the Hawaii electricity reliability administrator, which is a third party position which the legislature has authorized the PUC to create by contract to provide support for the PUC in developing and periodically updating local grid reliability standards and procedures and interconnection requirements and overseeing grid access and operation.

Policy Statement and Order Regarding Demand Response Programs. The PUC provided guidance concerning the objectives and goals for demand response programs, and ordered the Utilities to develop within 90 days an integrated Demand Response Portfolio Plan that will enhance system operations and reduce costs to customers. The Utilities' Plan was filed in July 2014. In August 2014, the PUC invited public comment on the Utilities' Plan. The Utilities submitted a status update in October 2014.

Maui Electric Company 2012 Test Year Rate Case. The PUC acknowledged the extensive analyses provided by Maui Electric in its System Improvement and Curtailment Reduction Plan filed in September 2013. The PUC stated that it is encouraged by the changes in Maui Electric's operations that have led to a significant reduction in the curtailment of renewables, but stated that Maui Electric has not set forth a clearly defined path that addresses integration and curtailment of additional renewables. The PUC directed Maui Electric to present a PSIP within 120 days to address present and future system operations so as to not only reduce curtailment, but to optimize the operation of its system for its customers' benefit. The Maui Electric PSIP was filed in August 2014, and will be reviewed by the PUC in a new docket along with the Hawaiian Electric and Hawaii Electric Light PSIPs.

Review of PSIPs. Collectively, the PUC's April 2014 resource planning orders confirm the energy policy and operational priorities that will guide the Utilities' strategies and plans going forward.

PSIPs for Hawaiian Electric, Maui Electric and Hawaii Electric Light (updating its Power Supply Plan filed in April 2014) were filed in August 2014. The PSIPs each include a tactical plan to transform how electric utility services will be offered to meet customer needs and produce higher levels of renewable energy. Each plan contains a diversified mix of technologies, including significant distributed and utility scale renewable resources, that is expected to result, on a consolidated basis, in over 65% of the Utilities' energy being produced from renewable resources by 2030. Under these plans, the Utilities will support sustainable growth of rooftop solar, expand use of energy storage systems, empower customers by developing smart grids, offer new products and services to customers (e.g., community solar, microgrids and voluntary "demand response" programs), switch from high-priced oil to lower cost liquefied natural gas, retire higher-cost, less efficient existing oil-based steam generators, and lower full service residential customer bills in real dollars.

The PSIPs will be reviewed by the PUC in a new docket, and a number of parties have moved to intervene in the proceeding. In September 2014, the PUC invited the public to comment on the PSIPs. In October 2014, the Utilities filed responses to information requests on the PSIPs from the PUC.

Management cannot predict the outcome of the proceedings to review the Plans submitted in response to the PUC's April 2014 resource planning orders, or the ultimate impact of the proceedings on the results of operations of the Utilities.

Liquefied natural gas. In August 2014, Hawaiian Electric entered into a 15-year agreement with Fortis BC Energy Inc. (Fortis) for liquefaction capacity for liquefied natural gas (LNG) under tariffed rates approved by the British Columbia Utilities Commission. The agreement, which is subject to Hawaii PUC approval, other regulatory approvals and permits, and other conditions precedent before it becomes effective, provides for LNG liquefaction capacity

purchases of 800,000 tonnes per year for the first five years, 700,000 tonnes per year for the next five years, and 600,000 tonnes per year for the last five years. Fortis must also obtain regulatory and other approvals for the agreement to become effective. The Fortis agreement is assignable and can be assigned to the selected bidder in the Utilities' request for proposal (RFP) for the supply of containerized LNG and will help ensure that liquefaction capacity is available at pricing that management believes will lower customer bills.

Fuel oil contracts. On August 27, 2014, Chevron Products Company, a division of Chevron U.S.A. Inc. (Chevron), and Hawaiian Electric entered into a first amendment (Amendment) to the Low Sulfur Fuel Oil Supply (LSFO) Contract, which

terminates on December 31, 2016 and may automatically renew for annual terms thereafter unless earlier terminated by either party. The Amendment reduces the price of fuel above certain volumes, allows for increases in the volume of fuel, and modifies the specification of certain petroleum products supplied under the contract. In addition, Chevron agreed to supply a blend of LSFO and ultra-low sulfur diesel as soon as January 2016 (for supply through the end of the contract term, December 31, 2016) to help Hawaiian Electric meet more stringent EPA air emission requirements known as Mercury and Air Toxics Standards. The Amendment is subject to approval of the PUC, and can be terminated if approval is not received by April 15, 2015.

On August 27, 2014, Chevron and the Utilities entered into a third amendment to the Inter-Island Industrial Fuel Oil and Diesel Fuel Supply Contract, which amendment extended the term of the contract through December 31, 2016 and may automatically renew for an annual term thereafter unless earlier terminated by either party.

On August 28, 2014, Hawaiian Electric provided notice to Hawaiian Independent Energy LLC (HIE) that it will not renew the LSFO contract that was assigned to HIE from Tesoro Hawaii Corporation. The term of the contract is through December 31, 2014, and renews automatically unless terminated by either party.

Consolidating financial information. Hawaiian Electric is not required to provide separate financial statements or other disclosures concerning Hawaii Electric Light and Maui Electric to holders of the 2004 Debentures issued by Hawaii Electric Light and Maui Electric to Trust III since all of their voting capital stock is owned, and their obligations with respect to these securities have been fully and unconditionally guaranteed, on a subordinated basis, by Hawaiian Electric. Consolidating information is provided below for Hawaiian Electric and each of its subsidiaries for the periods ended and as of the dates indicated.

Hawaiian Electric also unconditionally guarantees Hawaii Electric Light's and Maui Electric's obligations (a) to the State of Hawaii for the repayment of principal and interest on Special Purpose Revenue Bonds issued for the benefit of Hawaii Electric Light and Maui Electric, (b) under their respective private placement note agreements and the Hawaii Electric Light notes and Maui Electric notes issued thereunder and (c) relating to the trust preferred securities of Trust III. Hawaiian Electric is also obligated, after the satisfaction of its obligations on its own preferred stock, to make dividend, redemption and liquidation payments on Hawaii Electric Light's and Maui Electric's preferred stock if the respective subsidiary is unable to make such payments.

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Income (unaudited)  
 Three months ended September 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	\$579,777	111,154	112,656	—	(22 )	\$ 803,565
Expenses						
Fuel oil	229,068	29,555	50,809	—	—	309,432
Purchased power	142,121	34,166	16,595	—	—	192,882
Other operation and maintenance	71,584	19,837	16,892	—	—	108,313
Depreciation	27,302	8,975	5,317	—	—	41,594
Taxes, other than income taxes	54,412	10,607	10,169	—	—	75,188
Total expenses	524,487	103,140	99,782	—	—	727,409
Operating income	55,290	8,014	12,874	—	(22 )	76,156
Allowance for equity funds used during construction	1,668	142	127	—	—	1,937
Equity in earnings of subsidiaries	9,800	—	—	—	(9,800 )	—
Interest expense and other charges, net	(11,196 )	(2,811 )	(2,429 )	—	22	(16,414 )
Allowance for borrowed funds used during construction	634	54	52	—	—	740
Income before income taxes	56,196	5,399	10,624	—	(9,800 )	62,419
Income taxes	17,047	1,965	4,030	—	—	23,042
Net income	39,149	3,434	6,594	—	(9,800 )	39,377
Preferred stock dividends of subsidiaries	—	133	95	—	—	228
Net income attributable to Hawaiian Electric	39,149	3,301	6,499	—	(9,800 )	39,149
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income for common stock	\$38,879	3,301	6,499	—	(9,800 )	\$ 38,879

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Comprehensive Income (unaudited)  
 Three months ended September 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	\$38,879	3,301	6,499	—	(9,800 )	\$ 38,879
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	2,552	317	272	—	(589 )	2,552
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(2,542 )	(319 )	(272 )	—	591	(2,542 )
	10	(2 )	—	—	2	10

Other comprehensive income (loss), net of taxes

Comprehensive income attributable to common shareholder	\$38,889	3,299	6,499	—	(9,798	)	\$ 38,889
---	----------	-------	-------	---	--------	---	-----------

23

---



Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Hawaiian Electric Company, Inc. and Subsidiaries  
Consolidating Statement of Income (unaudited)  
Three months ended September 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	\$547,434	107,957	108,699	—	(36 )	\$ 764,054
Expenses						
Fuel oil	206,478	27,615	49,267	—	—	283,360
Purchased power	143,280	34,480	17,101	—	—	194,861
Other operation and maintenance	71,498	16,793	16,221	1	—	104,513
Depreciation	25,442	8,547	5,006	—	—	38,995
Taxes, other than income taxes	51,781	10,457	10,234	—	—	72,472
Total expenses	498,479	97,892	97,829	1	—	694,201
Operating income (loss)	48,955	10,065	10,870	(1 )	(36 )	69,853
Allowance for equity funds used during construction	914	222	119	—	—	1,255
Equity in earnings of subsidiaries	10,794	—	—	—	(10,794 )	—
Interest expense and other charges, net	(9,883 )	(2,920 )	(2,266 )	—	36	(15,033 )
Allowance for borrowed funds used during construction	358	91	49	—	—	498
Income (loss) before income taxes	51,138	7,458	8,772	(1 )	(10,794 )	56,573
Income taxes	13,051	1,881	3,326	—	—	18,258
Net income (loss)	38,087	5,577	5,446	(1 )	(10,794 )	38,315
Preferred stock dividends of subsidiaries	—	133	95	—	—	228
Net income (loss) attributable to Hawaiian Electric	38,087	5,444	5,351	(1 )	(10,794 )	38,087
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income (loss) for common stock	\$37,817	5,444	5,351	(1 )	(10,794 )	\$ 37,817

Hawaiian Electric Company, Inc. and Subsidiaries  
Consolidating Statement of Comprehensive Income (Loss) (unaudited)  
Three months ended September 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income (loss) for common stock	\$37,817	5,444	5,351	(1 )	(10,794 )	\$ 37,817
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	5,173	720	639	—	(1,359 )	5,173
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(5,156 )	(721 )	(639 )	—	1,360	(5,156 )
	17	(1 )	—	—	1	17

Other comprehensive income (loss), net of taxes

Comprehensive income (loss) attributable to common shareholder	\$37,834	5,443	5,351	(1	)	(10,793	)	\$ 37,834
--	----------	-------	-------	----	---	---------	---	-----------

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Income (unaudited)  
 Nine months ended September 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	\$1,623,223	319,629	319,265	—	(61 )	\$2,262,056
Expenses						
Fuel oil	628,164	92,234	145,591	—	—	865,989
Purchased power	406,895	91,827	47,399	—	—	546,121
Other operation and maintenance	199,091	48,701	47,691	—	—	295,483
Depreciation	81,903	26,926	15,961	—	—	124,790
Taxes, other than income taxes	152,545	30,127	30,111	—	—	212,783
Total expenses	1,468,598	289,815	286,753	—	—	2,045,166
Operating income	154,625	29,814	32,512	—	(61 )	216,890
Allowance for equity funds used during construction	4,557	328	48	—	—	4,933
Equity in earnings of subsidiaries	28,576	—	—	—	(28,576 )	—
Interest expense and other charges, net	(33,236 )	(8,411 )	(7,403 )	—	61	(48,989 )
Allowance for borrowed funds used during construction	1,728	126	23	—	—	1,877
Income before income taxes	156,250	21,857	25,180	—	(28,576 )	174,711
Income taxes	46,911	8,149	9,626	—	—	64,686
Net income	109,339	13,708	15,554	—	(28,576 )	110,025
Preferred stock dividends of subsidiaries	—	400	286	—	—	686
Net income attributable to Hawaiian Electric	109,339	13,308	15,268	—	(28,576 )	109,339
Preferred stock dividends of Hawaiian Electric	810	—	—	—	—	810
Net income for common stock	\$108,529	13,308	15,268	—	(28,576 )	\$108,529

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Comprehensive Income (unaudited)  
 Nine months ended September 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	\$108,529	13,308	15,268	—	(28,576 )	\$108,529
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	7,659	953	817	—	(1,770 )	7,659
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(7,627 )	(955 )	(817 )	—	1,772	(7,627 )
	32	(2 )	—	—	2	32

Other comprehensive income (loss), net of taxes

Comprehensive income attributable to common shareholder	\$ 108,561	13,306	15,268	—	(28,574	)	\$ 108,561
---	------------	--------	--------	---	---------	---	------------

25

---

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Hawaiian Electric Company, Inc. and Subsidiaries  
Consolidating Statement of Income (unaudited)  
Nine months ended September 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	\$1,576,068	320,330	313,725	—	(103 )	\$2,210,020
Expenses						
Fuel oil	631,824	94,120	151,794	—	—	877,738
Purchased power	389,706	93,880	43,083	—	—	526,669
Other operation and maintenance	212,474	46,158	42,089	2	—	300,723
Depreciation	75,150	25,641	15,074	—	—	115,865
Taxes, other than income taxes	149,282	30,113	29,681	—	—	209,076
Total expenses	1,458,436	289,912	281,721	2	—	2,030,071
Operating income (loss)	117,632	30,418	32,004	(2 )	(103 )	179,949
Allowance for equity funds used during construction	3,144	552	334	—	—	4,030
Equity in earnings of subsidiaries	30,446	—	—	—	(30,446 )	—
Interest expense and other charges, net	(28,723 )	(8,566 )	(6,774 )	—	103	(43,960 )
Allowance for borrowed funds used during construction	1,268	226	132	—	—	1,626
Income (loss) before income taxes	123,767	22,630	25,696	(2 )	(30,446 )	141,645
Income taxes	32,018	7,486	9,706	—	—	49,210
Net income (loss)	91,749	15,144	15,990	(2 )	(30,446 )	92,435
Preferred stock dividends of subsidiaries	—	400	286	—	—	686
Net income (loss) attributable to Hawaiian Electric	91,749	14,744	15,704	(2 )	(30,446 )	91,749
Preferred stock dividends of Hawaiian Electric	810	—	—	—	—	810
Net income (loss) for common stock	\$90,939	14,744	15,704	(2 )	(30,446 )	\$90,939

Hawaiian Electric Company, Inc. and Subsidiaries  
Consolidating Statement of Comprehensive Income (Loss) (unaudited)  
Nine months ended September 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income (loss) for common stock	\$90,939	14,744	15,704	(2 )	(30,446 )	\$90,939
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	15,520	2,160	1,918	—	(4,078 )	15,520
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(15,468 )	(2,162 )	(1,918 )	—	4,080	(15,468 )

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Other comprehensive income (loss), net of taxes	52	(2	)	—	—	2	52
Comprehensive income (loss) attributable to common shareholder	\$90,991	14,742	15,704	(2	)	(30,444	) \$ 90,991

26

---

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Balance Sheet (unaudited)  
 September 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consoli- dating adjustments	Hawaiian Electric Consolidated
<b>Assets</b>						
<b>Property, plant and equipment</b>						
<b>Utility property, plant and equipment</b>						
Land	\$43,816	5,464	3,064	—	—	\$ 52,344
Plant and equipment	3,700,063	1,165,542	1,036,792	—	—	5,902,397
Less accumulated depreciation	(1,245,695 )	(472,044 )	(449,806 )	—	—	(2,167,545 )
Construction in progress	149,115	13,267	16,808	—	—	179,190
Utility property, plant and equipment, net	2,647,299	712,229	606,858	—	—	3,966,386
Nonutility property, plant and equipment, less accumulated depreciation	4,948	82	1,531	—	—	6,561
Total property, plant and equipment, net	2,652,247	712,311	608,389	—	—	3,972,947
Investment in wholly owned subsidiaries, at equity	532,766	—	—	—	(532,766 )	—
<b>Current assets</b>						
Cash and cash equivalents	14,856	809	2,621	101	—	18,387
Advances to affiliates	11,800	—	—	—	(11,800 )	—
Customer accounts receivable, net	132,809	31,023	25,901	—	—	189,733
Accrued unbilled revenues, net	108,306	16,474	18,373	—	—	143,153
Other accounts receivable, net	22,386	6,044	3,070	—	(11,992 )	19,508
Fuel oil stock, at average cost	88,285	13,959	16,059	—	—	118,303
Materials and supplies, at average cost	36,502	7,870	16,267	—	—	60,639
Prepayments and other	32,033	6,112	12,358	—	(233 )	50,270
Regulatory assets	44,736	4,855	5,109	—	—	54,700
Total current assets	491,713	87,146	99,758	101	(24,025 )	654,693
<b>Other long-term assets</b>						
Regulatory assets	395,343	66,004	59,665	—	—	521,012
Unamortized debt expense	5,830	1,485	1,304	—	—	8,619
Other	42,203	11,889	13,799	—	—	67,891
Total other long-term assets	443,376	79,378	74,768	—	—	597,522
Total assets	\$4,120,102	878,835	782,915	101	(556,791 )	\$ 5,225,162
<b>Capitalization and liabilities</b>						
<b>Capitalization</b>						
Common stock equity	\$1,635,751	279,388	253,277	101	(532,766 )	\$ 1,635,751
Cumulative preferred stock—not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	830,546	190,000	186,000	—	—	1,206,546
Total capitalization	2,488,590	476,388	444,277	101	(532,766 )	2,876,590
<b>Current liabilities</b>						
Current portion of long-term debt	—	11,400	—	—	—	11,400
Short-term borrowings from non-affiliates	84,987	—	—	—	—	84,987

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Short-term borrowings from affiliate	—	1,000	10,800	—	(11,800 )	—
Accounts payable	107,108	27,077	17,793	—	—	151,978
Interest and preferred dividends payable	16,700	3,772	3,936	—	(7 )	24,401
Taxes accrued	165,787	35,837	35,090	—	(233 )	236,481
Regulatory liabilities	289	—	239	—	—	528
Other	46,727	10,596	17,062	—	(11,985 )	62,400
Total current liabilities	421,598	89,682	84,920	—	(24,025 )	572,175
Deferred credits and other liabilities						
Deferred income taxes	404,144	84,905	76,450	—	—	565,499
Regulatory liabilities	244,830	79,389	32,343	—	—	356,562
Unamortized tax credits	49,609	14,914	14,745	—	—	79,268
Defined benefit pension and other postretirement benefit plans liability	192,246	26,435	29,657	—	—	248,338
Other	51,790	13,347	12,782	—	—	77,919
Total deferred credits and other liabilities	942,619	218,990	165,977	—	—	1,327,586
Contributions in aid of construction	267,295	93,775	87,741	—	—	448,811
Total capitalization and liabilities	\$4,120,102	878,835	782,915	101	(556,791 )	\$5,225,162

27



Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Balance Sheet (unaudited)  
 December 31, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consoli- dating adjustments	Hawaiian Electric Consolidated
<b>Assets</b>						
<b>Property, plant and equipment</b>						
<b>Utility property, plant and equipment</b>						
Land	\$43,407	5,460	3,016	—	—	\$ 51,883
Plant and equipment	3,558,569	1,136,923	1,006,383	—	—	5,701,875
Less accumulated depreciation	(1,222,129 )	(453,721 )	(435,379 )	—	—	(2,111,229 )
Construction in progress	124,494	7,709	11,030	—	—	143,233
Utility property, plant and equipment, net	2,504,341	696,371	585,050	—	—	3,785,762
Nonutility property, plant and equipment, less accumulated depreciation	4,953	82	1,532	—	—	6,567
Total property, plant and equipment, net	2,509,294	696,453	586,582	—	—	3,792,329
Investment in wholly owned subsidiaries, at equity	523,674	—	—	—	(523,674 )	—
<b>Current assets</b>						
Cash and cash equivalents	61,245	1,326	153	101	—	62,825
Advances to affiliates	6,839	1,000	—	—	(7,839 )	—
Customer accounts receivable, net	121,282	28,088	26,078	—	—	175,448
Accrued unbilled revenues, net	107,752	17,100	19,272	—	—	144,124
Other accounts receivable, net	16,373	4,265	2,451	—	(9,027 )	14,062
Fuel oil stock, at average cost	99,613	14,178	20,296	—	—	134,087
Materials and supplies, at average cost	37,377	6,883	14,784	—	—	59,044
Prepayments and other	29,798	8,334	16,140	—	(1,415 )	52,857
Regulatory assets	54,979	6,931	7,828	—	—	69,738
Total current assets	535,258	88,105	107,002	101	(18,281 )	712,185
<b>Other long-term assets</b>						
Regulatory assets	381,346	64,552	60,288	—	—	506,186
Unamortized debt expense	6,051	1,580	1,372	—	—	9,003
Other	42,163	11,270	13,993	—	—	67,426
Total other long-term assets	429,560	77,402	75,653	—	—	582,615
Total assets	\$3,997,786	861,960	769,237	101	(541,955 )	\$ 5,087,129
<b>Capitalization and liabilities</b>						
<b>Capitalization</b>						
Common stock equity	\$1,593,564	274,802	248,771	101	(523,674 )	\$ 1,593,564
Cumulative preferred stock—not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	830,547	189,998	186,000	—	—	1,206,545
Total capitalization	2,446,404	471,800	439,771	101	(523,674 )	2,834,402
<b>Current liabilities</b>						
Current portion of long-term debt	—	11,400	—	—	—	11,400
Short-term borrowings from affiliate	1,000	—	6,839	—	(7,839 )	—
Accounts payable	145,062	24,383	20,114	—	—	189,559

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Interest and preferred dividends payable	15,190	3,885	2,585	—	(8 )	21,652
Taxes accrued	175,790	37,899	37,171	—	(1,415 )	249,445
Regulatory liabilities	1,705	—	211	—	—	1,916
Other	48,443	9,033	15,424	—	(9,019 )	63,881
Total current liabilities	387,190	86,600	82,344	—	(18,281 )	537,853
Deferred credits and other liabilities						
Deferred income taxes	359,621	79,947	67,593	—	—	507,161
Regulatory liabilities	235,786	76,475	35,122	—	—	347,383
Unamortized tax credits	44,931	14,245	14,363	—	—	73,539
Defined benefit pension and other postretirement benefit plans liability	202,396	28,427	31,339	—	—	262,162
Other	63,374	14,703	13,658	—	—	91,735
Total deferred credits and other liabilities	906,108	213,797	162,075	—	—	1,281,980
Contributions in aid of construction	258,084	89,763	85,047	—	—	432,894
Total capitalization and liabilities	\$3,997,786	861,960	769,237	101	(541,955 )	\$5,087,129

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Changes in Common Stock Equity (unaudited)  
 Nine months ended September 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Balance, December 31, 2013	\$1,593,564	274,802	248,771	101	(523,674 )	\$1,593,564
Net income for common stock	108,529	13,308	15,268	—	(28,576 )	108,529
Other comprehensive income (loss), net of taxes	32	(2 )	—	—	2	32
Common stock dividends	(66,369 )	(8,720 )	(10,762 )	—	19,482	(66,369 )
Common stock issuance expenses	(5 )	—	—	—	—	(5 )
Balance, September 30, 2014	\$1,635,751	279,388	253,277	101	(532,766 )	\$1,635,751

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Changes in Common Stock Equity (unaudited)  
 Nine months ended September 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Balance, December 31, 2012	\$1,472,136	268,908	228,927	104	(497,939 )	\$1,472,136
Net income (loss) for common stock	90,939	14,744	15,704	(2 )	(30,446 )	90,939
Other comprehensive income (loss), net of taxes	52	(2 )	—	—	2	52
Common stock dividends	(61,183 )	(10,790 )	(10,513 )	—	21,303	(61,183 )
Balance, September 30, 2013	\$1,501,944	272,860	234,118	102	(507,080 )	\$1,501,944

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Cash Flows (unaudited)  
 Nine months ended September 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income	\$ 109,339	13,708	15,554	—	(28,576 )	\$ 110,025
Adjustments to reconcile net income to net cash provided by operating activities:						
Equity in earnings of subsidiaries	(28,651 )	—	—	—	28,576	(75 )
Common stock dividends received from subsidiaries	19,557	—	—	—	(19,482 )	75
Depreciation of property, plant and equipment	81,903	26,926	15,961	—	—	124,790
Other amortization	765	1,950	1,947	—	—	4,662
Increase in deferred income taxes	52,274	5,146	9,972	—	—	67,392
Change in tax credits, net	4,725	687	404	—	—	5,816
Allowance for equity funds used during construction	(4,557 )	(328 )	(48 )	—	—	(4,933 )
Change in cash overdraft	—	—	(1,038 )	—	—	(1,038 )
Changes in assets and liabilities:						
Increase in accounts receivable	(17,540 )	(4,714 )	(442 )	—	2,965	(19,731 )
Decrease (increase) in accrued unbilled revenues	(554 )	626	899	—	—	971
Decrease in fuel oil stock	11,328	219	4,237	—	—	15,784
Decrease (increase) in materials and supplies	875	(987 )	(1,483 )	—	—	(1,595 )
Decrease (increase) in regulatory assets	(15,159 )	(2,594 )	222	—	—	(17,531 )
Decrease in accounts payable	(70,916 )	(1,807 )	(5,170 )	—	—	(77,893 )
Change in prepaid and accrued income and utility revenue taxes	(18,131 )	(1,310 )	1,366	—	—	(18,075 )
Decrease in defined benefit pension and other postretirement benefit plans liability	(422 )	—	(326 )	—	—	(748 )
Change in other assets and liabilities	(31,754 )	(3,886 )	(3,024 )	—	(2,965 )	(41,629 )
Net cash provided by operating activities	93,082	33,636	39,031	—	(19,482 )	146,267
Cash flows from investing activities						
Capital expenditures	(163,333 )	(33,212 )	(32,560 )	—	—	(229,105 )
Contributions in aid of construction	12,352	6,229	3,159	—	—	21,740
Advances from (to) affiliates	(4,961 )	1,000	—	—	3,961	—
Net cash used in investing activities	(155,942 )	(25,983 )	(29,401 )	—	3,961	(207,365 )
Cash flows from financing activities						
Common stock dividends	(66,369 )	(8,720 )	(10,762 )	—	19,482	(66,369 )
Preferred stock dividends of Hawaiian Electric and subsidiaries	(810 )	(400 )	(286 )	—	—	(1,496 )

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	83,987	1,000	3,961	—	(3,961	)	84,987
Other	(337	)	(50	)	(75	)	—
Net cash provided by (used in) financing activities	16,471	(8,170	)	(7,162	)	—	15,521
Net increase (decrease) in cash and cash equivalents	(46,389	)	(517	)	2,468	—	—
Cash and cash equivalents, beginning of period	61,245	1,326	153	101	—	—	62,825
Cash and cash equivalents, end of period	\$14,856	809	2,621	101	—	—	\$18,387

30

---

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Cash Flows (unaudited)  
 Nine months ended September 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income (loss)	\$91,749	15,144	15,990	(2 )	(30,446 )	\$92,435
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Equity in earnings of subsidiaries	(30,522 )	—	—	—	30,446	(76 )
Common stock dividends received from subsidiaries	21,379	—	—	—	(21,303 )	76
Depreciation of property, plant and equipment	75,150	25,641	15,074	—	—	115,865
Other amortization	(228 )	1,075	1,623	—	—	2,470
Increase in deferred income taxes	31,361	7,165	9,488	—	—	48,014
Change in tax credits, net	3,773	119	618	—	—	4,510
Allowance for equity funds used during construction	(3,144 )	(552 )	(334 )	—	—	(4,030 )
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	37,894	(2,552 )	3,999	—	2,736	42,077
Decrease (increase) in accrued unbilled revenues	(4,381 )	(1,727 )	505	—	—	(5,603 )
Decrease in fuel oil stock	17,945	870	5,517	—	—	24,332
Increase in materials and supplies	(5,392 )	(1,706 )	(1,251 )	—	—	(8,349 )
Increase in regulatory assets	(37,032 )	(7,165 )	(9,117 )	—	—	(53,314 )
Decrease in accounts payable	(10,435 )	(3,343 )	(9,196 )	—	—	(22,974 )
Change in prepaid and accrued income and utility revenue taxes	(7,122 )	(3,566 )	(4,728 )	—	—	(15,416 )
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	1,744	(191 )	(65 )	—	—	1,488
Change in other assets and liabilities	(10,562 )	(1,821 )	4,924	—	(2,736 )	(10,195 )
Net cash provided by (used in) operating activities	172,177	27,391	33,047	(2 )	(21,303 )	211,310
Cash flows from investing activities						
Capital expenditures	(164,423 )	(35,900 )	(37,546 )	—	—	(237,869 )
Contributions in aid of construction	15,699	6,160	1,774	—	—	23,633
Other	623	(196 )	—	—	—	427
Advances from (to) affiliates	(13,600 )	11,050	—	—	2,550	—
Net cash used in investing activities	(161,701 )	(18,886 )	(35,772 )	—	2,550	(213,809 )
Cash flows from financing activities						
Common stock dividends	(61,183 )	(10,790 )	(10,513 )	—	21,303	(61,183 )
Preferred stock dividends of Hawaiian Electric and subsidiaries	(810 )	(400 )	(286 )	—	—	(1,496 )
Net increase in short-term borrowings from non-affiliates and affiliate with	62,196	—	13,600	—	(2,550 )	73,246

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

original maturities of three months or less						
Other	(38	) (2	) (2	) —	—	(42
Net cash provided by (used in) financing activities	165	(11,192	) 2,799	—	18,753	10,525
Net decrease in cash and cash equivalents	10,641	(2,687	) 74	(2	) —	8,026
Cash and cash equivalents, beginning of period	8,265	5,441	3,349	104	—	17,159
Cash and cash equivalents, end of period	\$18,906	2,754	3,423	102	—	\$25,185

## 4 · Bank segment

## Selected financial information

## American Savings Bank, F.S.B.

## Statements of Income Data

(in thousands)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Interest and dividend income				
Interest and fees on loans	\$45,532	\$43,337	\$133,065	\$129,564
Interest and dividends on investment and mortgage-related securities	2,773	3,025	8,758	9,723
Total interest and dividend income	48,305	46,362	141,823	139,287
Interest expense				
Interest on deposit liabilities	1,312	1,262	3,774	3,870
Interest on other borrowings	1,438	1,206	4,263	3,548
Total interest expense	2,750	2,468	8,037	7,418
Net interest income	45,555	43,894	133,786	131,869
Provision for loan losses	1,550	54	3,566	953
Net interest income after provision for loan losses	44,005	43,840	130,220	130,916
Noninterest income				
Fees from other financial services	5,642	5,728	15,987	21,367
Fee income on deposit liabilities	5,109	4,819	14,175	13,566
Fee income on other financial products	1,971	2,714	6,325	6,288
Mortgage banking income	875	1,547	1,749	6,896
Gain on sale of securities	—	—	2,847	1,226
Other income, net	1,634	3,888	4,865	7,211
Total noninterest income	15,231	18,696	45,948	56,554
Noninterest expense				
Compensation and employee benefits	19,892	20,564	60,050	60,715
Occupancy	4,517	4,208	12,959	12,550
Data processing	2,684	2,168	8,715	7,982
Services	2,580	2,424	7,708	6,855
Equipment	1,672	1,825	4,926	5,469
Office supplies, printing and postage	1,415	907	4,487	2,806
Marketing	948	692	2,690	2,054
Communication	412	479	1,363	1,374
Other expense	5,544	6,461	15,026	18,400
Total noninterest expense	39,664	39,728	117,924	118,205
Income before income taxes	19,572	22,808	58,244	69,265
Income taxes	6,312	7,532	18,769	23,915
Net income	\$13,260	\$15,276	\$39,475	\$45,350

## American Savings Bank, F.S.B.

## Statements of Comprehensive Income Data

(in thousands)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Net income	\$13,260	\$15,276	\$39,475	\$45,350
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on securities:	(1,657 )	(1,589 )	3,406	(10,724 )



Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Net unrealized gains (losses) on securities arising during the period, net of (taxes) tax benefits of \$1,094, \$1,049, (\$2,249) and \$7,081 for the respective periods				
Less: reclassification adjustment for net realized gains included in net income, net of taxes of nil, nil, \$1,132 and \$488 for the respective periods	—	—	(1,715 )	(738 )
Retirement benefit plans:				
Less: amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of \$138, \$278, \$424 and \$2,010 for the respective periods	208	420	642	3,043
Other comprehensive income (loss), net of taxes	(1,449 )	(1,169 )	2,333	(8,419 )
Comprehensive income	\$11,811	\$14,107	\$41,808	\$36,931

## American Savings Bank, F.S.B.

## Balance Sheets Data

(in thousands)

	September 30, 2014	December 31, 2013
<b>Assets</b>		
Cash and due from banks	\$98,879	\$108,998
Interest-bearing deposits	74,654	47,605
Available-for-sale investment and mortgage-related securities	531,603	529,007
Investment in stock of Federal Home Loan Bank of Seattle	75,063	92,546
Loans receivable held for investment	4,335,421	4,150,229
Allowance for loan losses	(43,461 )	(40,116 )
Loans receivable held for investment, net	4,291,960	4,110,113
Loans held for sale, at lower of cost or fair value	2,328	5,302
Other	285,659	268,063
Goodwill	82,190	82,190
<b>Total assets</b>	<b>\$5,442,336</b>	<b>\$5,243,824</b>
<b>Liabilities and shareholder's equity</b>		
Deposit liabilities—noninterest-bearing	\$1,298,726	\$1,214,418
Deposit liabilities—interest-bearing	3,235,071	3,158,059
Other borrowings	263,204	244,514
Other	107,814	105,679
<b>Total liabilities</b>	<b>4,904,815</b>	<b>4,722,670</b>
Commitments and contingencies (see "Litigation" section)		
Common stock	1	1
Additional paid in capital	337,862	336,053
Retained earnings	209,522	197,297
Accumulated other comprehensive loss, net of tax benefits		
Net unrealized losses on securities	\$(1,972 )	\$(3,663 )
Retirement benefit plans	(7,892 )	(9,864 )
<b>Total shareholder's equity</b>	<b>537,521</b>	<b>521,154</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$5,442,336</b>	<b>\$5,243,824</b>
<b>Other assets</b>		
Bank-owned life insurance	\$133,066	\$129,963
Premises and equipment, net	70,105	67,766
Prepaid expenses	3,941	3,616
Accrued interest receivable	13,436	13,133
Mortgage-servicing rights	11,524	11,687
Low-income housing equity investments	22,825	14,543
Real estate acquired in settlement of loans, net	580	1,205
Other	30,182	26,150
	<b>\$285,659</b>	<b>\$268,063</b>
<b>Other liabilities</b>		
Accrued expenses	\$24,733	\$19,989
Federal and state income taxes payable	35,096	37,807
Cashier's checks	23,754	21,110
Advance payments by borrowers	5,013	9,647

Other	19,218	17,126
	\$107,814	\$105,679

Bank-owned life insurance is life insurance purchased by ASB on the lives of certain key employees, with ASB as the beneficiary. The insurance is used to fund employee benefits through tax-free income from increases in the cash value of the policies and insurance proceeds paid to ASB upon an insured's death.

ASB invests, as a limited partner, in Low-Income Housing Tax Credit (LIHTC) investment partnerships formed for the purpose of providing funding for affordable multifamily rental properties. These properties are rented to qualified low-income tenants, pursuant to Section 42 of the Internal Revenue Code, allowing the properties to be eligible for federal and, for some properties, state tax credits. ASB realizes a return on its investment through reductions in income tax expense that result from tax credits and the deductibility of the operating losses of these partnerships. The partnership agreements are typically structured to meet a required 15-year period of occupancy by qualified low-income tenants. ASB's maximum exposure to loss is equal to its legally binding equity commitments adjusted for recorded impairment, partnership results, and/or proportional amortization for qualifying low income housing tax credit investments, where applicable.

Other borrowings consisted of securities sold under agreements to repurchase and advances from the Federal Home Loan Bank (FHLB) of Seattle of \$153 million and \$110 million, respectively, as of September 30, 2014 and \$145 million and \$100 million, respectively, as of December 31, 2013.

Investment and mortgage-related securities portfolio.

Available-for-sale securities. The book value (amortized cost), gross unrealized gains and losses, estimated fair value and gross unrealized losses (fair value and amount by duration of time in which positions have been held in a continuous loss position) for securities held in ASB's "available-for-sale" portfolio by major security type were as follows:

(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Gross unrealized losses			
					Fair value	Amount	Fair value	Amount
September 30, 2014								
U.S. Treasury and federal agency obligations	\$107,072	\$631	\$(1,407)	\$106,296	\$29,628	\$(137)	\$29,168	\$(1,270)
Mortgage-related securities- FNMA, FHLMC and GNMA	427,804	5,327	(7,824)	425,307	89,402	(910)	148,544	(6,914)
Municipal bonds	—	—	—	—	—	—	—	—
	\$534,876	\$5,958	\$(9,231)	\$531,603	\$119,030	\$(1,047)	\$177,712	\$(8,184)
December 31, 2013								
Federal agency obligations	\$83,193	\$174	\$(2,394)	\$80,973	\$70,799	\$(2,394)	\$—	\$—
Mortgage-related securities- FNMA, FHLMC and GNMA	374,993	4,911	(10,460)	369,444	228,543	(8,819)	19,655	(1,641)
Municipal bonds	76,904	1,826	(140)	78,590	14,478	(140)	—	—
	\$535,090	\$6,911	\$(12,994)	\$529,007	\$313,820	\$(11,353)	\$19,655	\$(1,641)

The unrealized losses on ASB's investments in mortgage-related securities and obligations issued by federal agencies were caused by interest rate movements. Because ASB does not intend to sell the securities and has determined it is more likely than not that it will not be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, ASB did not consider these investments to be other-than-temporarily impaired at September 30, 2014.

The fair values of ASB's investment securities could decline if interest rates rise or spreads widen.

The following table details the contractual maturities of available-for-sale securities. All positions with variable maturities (e.g. callable debentures and mortgage-related securities) are disclosed based upon the bond's contractual maturity. Actual maturities will likely differ from these contractual maturities because borrowers have the right to

prepay obligations with or without prepayment penalties.

34

---

September 30, 2014 (in thousands)	Amortized cost	Fair value
Due in one year or less	\$—	\$—
Due after one year through five years	44,498	44,419
Due after five years through ten years	37,332	37,641
Due after ten years	25,242	24,236
	107,072	106,296
Mortgage-related securities-FNMA,FHLMC and GNMA	427,804	425,307
Total available-for-sale securities	\$534,876	\$531,603

Allowance for loan losses. ASB maintains an allowance for loan losses that it believes is adequate to absorb losses inherent in its loan portfolio. The level of allowance for loan losses is based on a continuing assessment of existing risks in the loan portfolio, historical loss experience, changes in collateral values and current conditions (e.g., economic conditions, real estate market conditions and interest rate environment). The allowance for loan losses is allocated to loan types using both a formula-based approach applied to groups of loans and an analysis of certain individual loans for impairment. The formula-based approach emphasizes loss factors primarily derived from actual historical default and loss rates, which are combined with an assessment of certain qualitative factors to determine the allowance amounts allocated to the various loan categories. Adverse changes in any of these factors could result in higher charge-offs and provision for loan losses.

ASB disaggregates its portfolio loans into portfolio segments for purposes of determining the allowance for loan losses. Commercial and commercial real estate loans are defined as non-homogeneous loans and ASB utilizes a risk rating system for evaluating the credit quality of the loans. Loans are rated based on the degree of risk at origination and periodically thereafter, as appropriate. Values are applied separately to the probability of default (borrower risk) and loss given default (transaction risk). ASB's credit review department performs an evaluation of these loan portfolios to ensure compliance with the internal risk rating system and timeliness of rating changes.

Non-homogeneous loans are categorized into the regulatory asset quality classifications—Pass, Special Mention, Substandard, Doubtful, and Loss based on credit quality. For loans classified as substandard, an analysis is done to determine if the loan is impaired. A loan is deemed impaired when it is probable that ASB will be unable to collect all amounts due according to the contractual terms of the loan agreement. Once a loan is deemed impaired, ASB applies a valuation methodology to determine whether there is an impairment shortfall. The measurement of impairment may be based on (i) the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective interest rate, (ii) the observable market price of the impaired loan, or (iii) the fair value of the collateral, net of costs to sell. For all loans collateralized by real estate whose repayment is dependent on the sale of the underlying collateral property, ASB measures impairment by utilizing the fair value of the collateral, net of costs to sell; for other loans that are not considered collateral dependent, generally the discounted cash flow method is used to measure impairment. For loans collateralized by real estate that are classified as troubled debt restructured loans, the present value of the expected future cash flows of the loans may also be used to measure impairment as these loans are expected to perform according to their restructured terms. Impairment shortfalls are charged to the provision for loan losses and included in the allowance for loan losses. However, impairment shortfalls that are deemed to be confirmed losses (uncollectible) are charged off, with the loan written down by the amount of the confirmed loss.

Residential, consumer and credit scored business loans are considered homogeneous loans, which are typically underwritten based on common, uniform standards, and are generally classified as to the level of loss exposure based on delinquency status. The homogeneous loan portfolios are stratified into individual products with common risk characteristics and segmented into various secured and unsecured loan product types. For the homogeneous portfolio, the quality of the loan is best indicated by the repayment performance of an individual borrower. ASB does supplement performance data with an 11-risk rating retail credit model that assigns a probability of default to each borrower based primarily on the borrower's current Fair Isaac Corporation (FICO) score and for the home equity line of credit (HELOC) and unsecured consumer products, the bankruptcy score (BK). Current FICO and BK data is purchased and appended to all homogeneous loans on a quarterly basis and used to estimate the borrower's probability of default and the loss given default.

ASB also considers the following qualitative factors for all loans in estimating the allowance for loan losses:

- changes in lending policies and procedures;
- changes in economic and business conditions and developments that affect the collectability of the portfolio;
- changes in the nature, volume and terms of the loan portfolio;
- changes in lending management and other relevant staff;
- changes in loan quality (past due, non-accrual, classified loans);
- changes in the quality of the loan review system;
- changes in the value of underlying collateral;

effect of, and changes in the level of, any concentrations of credit; and  
effect of other external and internal factors.

ASB's methodology for determining the allowance for loan losses was generally based on historic loss rates using various look-back periods. During the second quarter of 2014, ASB implemented enhancements to the loss rate calculation for estimating the allowance for loan losses that included several refinements to determining the probability of default and the loss given default for the various segments of the loan portfolio that are more statistically sound than those previously employed. The result is an estimated loss rate established for each borrower. ASB also updated its measurement of the loss emergence period in the calculation of the allowance for loan losses. The loss emergence period is broadly defined as the period that it takes, on average, for the lender to identify the specific borrower and amount of loss incurred by the bank for a loan that has suffered from a loss-causing event. In most cases, the loss emergence period was within a twelve month period; however, as credit quality and conditions improve, management has observed that the loss emergence period has extended and has incorporated this observed change in the estimate of the allowance for loan losses. Management believes these enhancements will improve the precision in estimating the allowance for loan losses. The enhancement did not have a material effect on the total allowance for loan losses or the provision for loan losses for the second quarter 2014. The enhancement did result in the full allocation of the previously unallocated portion of the allowance for loan losses.

In conjunction with the above enhancement, management also adopted an enhanced risk rating system for monitoring and managing credit risk in the non-homogenous loan portfolios, that measures general creditworthiness at the borrower level. The numerical-based, risk rating "PD Model" takes into consideration fiscal year-end financial information of the borrower and identified financial attributes including retained earnings, operating cash flows, interest coverage, liquidity and leverage that demonstrate a strong correlation with default to assign default probabilities at the borrower level. In addition, a loss given default (LGD) value is assigned to each loan to measure loss in the event of default based on loan specific features such as collateral that mitigates the amount of loss in the event of default. Together the PD Model and LGD construct provide a more quantitative, data driven and consistent framework for measuring risk within the portfolio, on a loan by loan basis and for the ultimate collectability of each loan. Management believes its allowance for loan losses adequately estimates actual loan losses that will ultimately be incurred. However, such estimates are based on currently available information and historical experience, and future adjustments may be required from time to time to the allowance for loan losses based on new information and changes that occur (e.g., due to changes in economic conditions, particularly in Hawaii). Actual losses could differ from management's estimates, and these differences and subsequent adjustments could be material.



Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

The allowance for loan losses (balances and changes) and financing receivables were as follows:

(in thousands)	Residential 1-4 family	Commercial real estate	Home equity line of credit	Residential land	Commercial construction	Residential construction	Commercial loans	Consumer loans	Unallocated	Total
Three months ended										
September 30, 2014										
Allowance for loan losses:										
Beginning balance	\$5,667	\$7,230	\$7,081	\$1,837	\$3,390	\$26	\$15,144	\$1,997	\$—	\$42,372
Charge-offs	(632)	) —	(46)	) (28)	) —	—	(886)	) (592)	) —	(2,184)
Recoveries	160	—	299	90	—	—	952	222	—	1,723
Provision	670	3	(119)	) (92)	) 1,724	3	(1,130)	) 491	—	1,550
Ending balance	\$5,865	\$7,233	\$7,215	\$1,807	\$5,114	\$29	\$14,080	\$2,118	\$—	\$43,461
Three months ended										
September 30, 2013										
Allowance for loan losses:										
Beginning balance	\$6,357	\$4,117	\$5,009	\$2,187	\$2,305	\$14	\$16,307	\$2,399	\$2,309	\$41,004
Charge-offs	(106)	) —	(44)	) (3)	) —	—	(305)	) (407)	) —	(865)
Recoveries	157	—	78	282	—	—	166	176	—	859
Provision	(604)	) 204	12	(361)	) 44	2	(361)	) 42	1,076	54
Ending balance	\$5,804	\$4,321	\$5,055	\$2,105	\$2,349	\$16	\$15,807	\$2,210	\$3,385	\$41,052
Nine months ended										
September 30, 2014										
Allowance for loan losses:										
Beginning balance	\$5,534	\$5,059	\$5,229	\$1,817	\$2,397	\$19	\$15,803	\$2,367	\$1,891	\$40,116
Charge-offs	(992)	) —	(182)	) (81)	) —	—	(1,256)	) (1,614)	) —	(4,125)
Recoveries	1,056	—	624	253	—	—	1,277	694	—	3,904
Provision	267	2,174	1,544	(182)	) 2,717	10	(1,744)	) 671	(1,891)	3,566
Ending balance	\$5,865	\$7,233	\$7,215	\$1,807	\$5,114	\$29	\$14,080	\$2,118	\$—	\$43,461
Ending balance:										
individually evaluated for impairment	\$917	\$4	\$8	\$1,171	\$—	\$—	\$810	\$5	\$—	\$2,915
	\$4,948	\$7,229	\$7,207	\$636	\$5,114	\$29	\$13,270	\$2,113	\$—	\$40,546

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Ending balance: collectively evaluated for impairment											
Financing Receivables:											
Ending balance	\$2,030,337	\$502,356	\$808,991	\$16,935	\$87,461	\$18,699	\$770,079	\$107,531	\$—	\$4,342,389	
Ending balance: individually evaluated for impairment	\$20,015	\$754	\$392	\$8,872	\$—	\$—	\$15,058	\$16	\$—	\$45,107	
Ending balance: collectively evaluated for impairment	\$2,010,322	\$501,602	\$808,599	\$8,063	\$87,461	\$18,699	\$755,021	\$107,515	\$—	\$4,297,282	
Nine months ended September 30, 2013											
Allowance for loan losses:											
Beginning balance	\$6,068	\$2,965	\$4,493	\$4,275	\$2,023	\$9	\$15,931	\$4,019	\$2,202	\$41,985	
Charge-offs	(1,162)	) —	(782)	) (238)	) —	—	(1,655)	) (1,811)	) —	(5,648)	)
Recoveries	1,382	—	334	782	—	—	778	486	—	3,762	
Provision	(484)	) 1,356	1,010	(2,714)	) 326	7	753	(484)	) 1,183	953	
Ending balance	\$5,804	\$4,321	\$5,055	\$2,105	\$2,349	\$16	\$15,807	\$2,210	\$3,385	\$41,052	
Ending balance: individually evaluated for impairment	\$944	\$888	\$—	\$1,585	\$—	\$—	\$2,679	\$—	\$—	\$6,096	
Ending balance: collectively evaluated for impairment	\$4,860	\$3,433	\$5,055	\$520	\$2,349	\$16	\$13,128	\$2,210	\$3,385	\$34,956	
Financing Receivables:											0
Ending balance	\$2,015,082	\$405,037	\$703,210	\$18,400	\$51,067	\$10,460	\$749,733	\$102,400	\$—	\$4,055,389	
Ending balance: individually evaluated for impairment	\$22,123	\$4,484	\$960	\$12,747	\$—	\$—	\$22,777	\$19	\$—	\$63,110	

Ending  
balance:

collectively	\$1,992,959	\$400,553	\$702,250	\$5,653	\$51,067	\$10,460	\$726,956	\$102,381	\$—	\$3,992,279
--------------	-------------	-----------	-----------	---------	----------	----------	-----------	-----------	-----	-------------

evaluated for  
impairment

Credit quality. ASB performs an internal loan review and grading on an ongoing basis. The review provides management with periodic information as to the quality of the loan portfolio and effectiveness of its lending policies and procedures. The objectives of the loan review and grading procedures are to identify, in a timely manner, existing or emerging credit trends so that appropriate steps can be initiated to manage risk and avoid or minimize future losses. Loans subject to grading include commercial and industrial, commercial real estate and commercial construction loans.

37

---

Each loan is assigned an Asset Quality Rating (AQR) reflecting the likelihood of repayment or orderly liquidation of that loan transaction pursuant to regulatory credit classifications: Pass, Special Mention, Substandard, Doubtful, and Loss. The AQR is a function of the PD Model rating, the LGD, and possible non-model factors which impact the ultimate collectability of the loan such as character of the business owner/guarantor, interim period performance, litigation, tax liens, and major changes in business and economic conditions. Pass exposures generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral. Special Mention loans have potential weaknesses that, if left uncorrected, could jeopardize the liquidation of the debt. Substandard loans have well-defined weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the Bank may sustain some loss. An asset classified Doubtful has the weaknesses of those classified Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. An asset classified Loss is considered uncollectible.

The credit risk profile by internally assigned grade for loans was as follows:

(in thousands)	September 30, 2014			December 31, 2013		
	Commercial real estate	Commercial construction	Commercial	Commercial real estate	Commercial construction	Commercial
Grade:						
Pass	\$444,723	\$70,335	\$715,284	\$375,217	\$52,112	\$703,053
Special mention	18,199	—	8,500	33,436	—	17,634
Substandard	39,434	17,126	45,101	28,020	—	59,663
Doubtful	—	—	1,194	3,770	—	3,038
Loss	—	—	—	—	—	—
Total	\$502,356	\$87,461	\$770,079	\$440,443	\$52,112	\$783,388

The credit risk profile based on payment activity for loans was as follows:

(in thousands)	September 30, 2014				Current	Total financing receivables	Recorded investment > 90 days and accruing
	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due			
Real estate loans:							
Residential 1-4 family	\$6,449	\$909	\$14,427	\$21,785	\$2,008,552	\$2,030,337	\$—
Commercial real estate	—	—	—	—	502,356	502,356	—
Home equity line of credit	578	166	143	887	808,104	808,991	—
Residential land	260	—	525	785	16,150	16,935	525
Commercial construction	—	—	—	—	87,461	87,461	—
Residential construction	—	—	—	—	18,699	18,699	—
Commercial loans	239	34	954	1,227	768,852	770,079	—
Consumer loans	781	377	293	1,451	106,080	107,531	—
Total loans	\$8,307	\$1,486	\$16,342	\$26,135	\$4,316,254	\$4,342,389	\$525
December 31, 2013							
Real estate loans:							
Residential 1-4 family	\$2,728	\$622	\$15,411	\$18,761	\$1,987,246	\$2,006,007	\$—
Commercial real estate	—	—	3,770	3,770	436,673	440,443	—
Home equity line of credit	765	312	960	2,037	737,294	739,331	—
Residential land	184	48	2,756	2,988	13,188	16,176	—
Commercial construction	—	—	—	—	52,112	52,112	—
Residential construction	—	—	—	—	12,774	12,774	—
Commercial loans	1,668	612	3,026	5,306	778,082	783,388	—

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Consumer loans	436	158	304	898	107,824	108,722	—
Total loans	\$5,781	\$1,752	\$26,227	\$33,760	\$4,125,193	\$4,158,953	\$—

38

---

The credit risk profile based on nonaccrual loans and accruing loans 90 days or more past due was as follows:

(in thousands)	September 30, 2014		December 31, 2013	
	Nonaccrual loans	Accruing loans 90 days or more past due	Nonaccrual loans	Accruing loans 90 days or more past due
Real estate loans:				
Residential 1-4 family	\$20,499	\$—	\$19,679	\$—
Commercial real estate	596	—	4,439	—
Home equity line of credit	1,105	—	2,060	—
Residential land	2,798	525	3,161	—
Commercial construction	—	—	—	—
Residential construction	—	—	—	—
Commercial loans	11,414	—	18,781	—
Consumer loans	502	—	401	—
Total	\$36,914	\$525	\$48,521	\$—

The total carrying amount and the total unpaid principal balance of impaired loans, with and without recorded allowance for loan losses and combined, were as follows:

(in thousands)	September 30, 2014			Three months ended September 30, 2014		Nine months ended September 30, 2014	
	Recorded investment	Unpaid principal balance	Related Allowance	Average recorded investment	Interest income recognized*	Average recorded investment	Interest income recognized*
With no related allowance recorded							
Real estate loans:							
Residential 1-4 family	\$8,718	\$10,398	\$—	\$8,519	\$30	\$9,077	\$189
Commercial real estate	596	642	—	199	—	66	—
Home equity line of credit	208	332	—	274	—	450	4
Residential land	2,500	3,356	—	2,610	40	2,823	138
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial loans	8,858	14,147	—	6,152	6	4,145	22
Consumer loans	—	—	—	—	—	10	—
	20,880	28,875	—	17,754	76	16,571	353
With an allowance recorded							
Real estate loans:							
Residential 1-4 family	11,297	11,338	917	10,232	112	8,019	303
Commercial real estate	158	158	4	3,045	455	4,049	458
Home equity line of credit	184	212	8	198	1	89	2
Residential land	6,372	6,450	1,171	6,379	81	6,685	301
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial loans	6,200	6,637	810	10,549	207	14,249	301
Consumer loans	16	16	5	17	—	8	—
	24,227	24,811	2,915	30,420	856	33,099	1,365
Total							
Real estate loans:							
Residential 1-4 family	20,015	21,736	917	18,751	142	17,096	492

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Commercial real estate	754	800	4	3,244	455	4,115	458
Home equity line of credit	392	544	8	472	1	539	6
Residential land	8,872	9,806	1,171	8,989	121	9,508	439
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial loans	15,058	20,784	810	16,701	213	18,394	323
Consumer loans	16	16	5	17	—	18	—
	\$45,107	\$53,686	\$2,915	\$48,174	\$932	\$49,670	\$1,718

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

(in thousands)	December 31, 2013			Year ended December 31, 2013	
	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized*
With no related allowance recorded					
Real estate loans:					
Residential 1-4 family	\$9,708	\$12,144	\$—	\$11,674	\$386
Commercial real estate	—	—	—	802	—
Home equity line of credit	672	1,227	—	623	2
Residential land	2,622	3,612	—	6,675	482
Commercial construction	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial loans	3,466	4,715	—	4,837	12
Consumer loans	19	19	—	20	—
	16,487	21,717	—	24,631	882
With an allowance recorded					
Real estate loans:					
Residential 1-4 family	6,216	6,236	642	6,455	372
Commercial real estate	4,604	4,686	1,118	5,745	152
Home equity line of credit	—	—	—	—	—
Residential land	7,452	7,623	1,332	6,844	409
Commercial construction	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial loans	17,759	20,640	2,246	15,635	139
Consumer loans	—	—	—	—	—
	36,031	39,185	5,338	34,679	1,072
Total					
Real estate loans:					
Residential 1-4 family	15,924	18,380	642	18,129	758
Commercial real estate	4,604	4,686	1,118	6,547	152
Home equity line of credit	672	1,227	—	623	2
Residential land	10,074	11,235	1,332	13,519	891
Commercial construction	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial loans	21,225	25,355	2,246	20,472	151
Consumer loans	19	19	—	20	—
	\$52,518	\$60,902	\$5,338	\$59,310	\$1,954

\* Since loan was classified as impaired.

Troubled debt restructurings. A loan modification is deemed to be a troubled debt restructuring (TDR) when ASB grants a concession it would not otherwise consider were it not for the borrower's financial difficulty. When a borrower experiencing financial difficulty fails to make a required payment on a loan or is in imminent default, ASB takes a number of steps to improve the collectability of the loan and maximize the likelihood of full repayment. At times, ASB may modify or restructure a loan to help a distressed borrower improve its financial position to eventually be able to fully repay the loan, provided the borrower has demonstrated both the willingness and the ability to fulfill the modified terms. TDR loans are considered an alternative to foreclosure or liquidation with the goal of minimizing losses to ASB and maximizing recovery.



ASB may consider various types of concessions in granting a TDR including maturity date extensions, extended amortization of principal, temporary deferral of principal payments, and temporary interest rate reductions. ASB rarely grants principal forgiveness in its TDR modifications. Residential loan modifications generally involve interest rate reduction, extending the amortization period, or capitalizing certain delinquent amounts owed not to exceed the original loan balance. Land loans at origination are typically structured as a three-year term, interest-only monthly payment with a balloon payment due at maturity. Land loan TDR modifications typically involve extending the maturity date up to five years and converting the payments from interest-only to principal and interest monthly, at the same or higher interest rate. Commercial loan modifications generally involve extensions of maturity dates, extending the amortization period, and temporary deferral of principal payments. ASB generally does not reduce the interest rate on commercial loan TDR modifications. Occasionally, additional collateral and/or guaranties are obtained.

All TDR loans are classified as impaired and are segregated and reviewed separately when assessing the adequacy of the allowance for loan losses based on the appropriate method of measuring impairment: (1) present value of expected future cash flows discounted at the loan's effective original contractual rate, (2) fair value of collateral less costs to sell, or (3) observable market price. The financial impact of the calculated impairment amount is an increase to the allowance associated with the modified loan. When available information confirms that specific loans or portions thereof are uncollectible (confirmed losses), these amounts are charged off against the allowance for loan losses.

Loan modifications that occurred were as follows for the indicated periods:

(dollars in thousands)	Three months ended September 30, 2014			Nine months ended September 30, 2014		
	Number of contracts	Outstanding recorded investment Pre-modification	Outstanding recorded investment Post-modification	Number of contracts	Outstanding recorded investment Pre-modification	Outstanding recorded investment Post-modification
Troubled debt restructurings						
Real estate loans:						
Residential 1-4 family	6	\$ 1,800	\$ 1,825	18	\$ 4,915	\$ 4,972
Commercial real estate	—	—	—	—	—	—
Home equity line of credit	1	91	91	1	91	91
Residential land	2	256	256	18	4,304	4,304
Commercial loans	2	2,600	2,600	7	3,827	3,827
Consumer loans	—	—	—	—	—	—
	11	\$ 4,747	\$ 4,772	44	\$ 13,137	\$ 13,194

(dollars in thousands)	Three months ended September 30, 2013			Nine months ended September 30, 2013		
	Number of contracts	Outstanding recorded investment Pre-modification	Outstanding recorded investment Post-modification	Number of contracts	Outstanding recorded investment Pre-modification	Outstanding recorded investment Post-modification
Troubled debt restructurings						
Real estate loans:						
Residential 1-4 family	14	\$ 2,864	\$ 2,874	32	\$ 8,631	\$ 8,712
Commercial real estate	—	—	—	—	—	—
Home equity line of credit	—	—	—	4	462	215
Residential land	9	2,943	2,943	16	4,983	4,974
Commercial loans	3	2,076	2,076	6	2,790	2,790
Consumer loans	—	—	—	—	—	—
	26	\$ 7,883	\$ 7,893	58	\$ 16,866	\$ 16,691

Loans modified in TDRs that experienced a payment default of 90 days or more for the indicated periods, and for which the payment default occurred within one year of the modification, were as follows:

(dollars in thousands)	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Troubled debt restructurings that subsequently defaulted				
Real estate loans:				
Residential 1-4 family	—	\$ —	1	\$ 390
Commercial real estate	—	—	—	—
Home equity line of credit	—	—	—	—
Residential land	—	—	—	—
Commercial loans	—	—	—	—
Consumer loans	—	—	—	—
	—	\$ —	1	\$ 390

(dollars in thousands)	Three months ended September 30, 2013		Nine months ended September 30, 2013	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Troubled debt restructurings that subsequently defaulted				
Real estate loans:				
Residential 1-4 family	—	\$ —	—	\$ —
Commercial real estate	—	—	—	—
Home equity line of credit	1	67	1	67
Residential land	—	—	—	—
Commercial loans	3	669	3	669
Consumer loans	—	—	—	—
	4	\$ 736	4	\$ 736

If loans modified in a TDR subsequently default, ASB evaluates the loan for further impairment. Based on its evaluation, adjustments may be made in the allocation of the allowance or partial charge-offs may be taken to further write-down the carrying value of the loan. There were no commitments to lend additional funds to borrowers whose loans have been designated impaired or whose terms have been modified in TDRs as of September 30, 2014.

Other borrowings. Securities sold under agreements to repurchase are accounted for as financing transactions and the obligations to repurchase these securities are recorded as liabilities in the balance sheet. All such agreements are subject to master netting arrangements, which provide for conditional right of set-off in case of default by either party; however, ASB presents securities sold under agreements to repurchase on a gross basis in the balance sheet. The following tables present information about the securities sold under agreements to repurchase, including the related collateral received from or pledged to counterparties:

(in millions)	Gross amount of recognized liabilities	Gross amount offset in the Balance Sheet	Net amount of liabilities presented in the Balance Sheet
Repurchase agreements			
September 30, 2014	\$153	\$—	\$153
December 31, 2013	145	—	145

(in millions)	Gross amount not offset in the Balance Sheet			
	Net amount of liabilities presented in the Balance Sheet	Financial instruments	Cash collateral pledged	Net amount
September 30, 2014				
Financial institution	\$50	\$50	\$—	\$—
Government entities	15	15	—	—
Commercial account holders	88	88	—	—
Total	\$153	\$153	\$—	\$—
December 31, 2013				
Financial institution	\$51	\$51	\$—	\$—
Commercial account holders	94	94	—	—
Total	\$145	\$145	\$—	\$—

Amortized intangible assets. The table below presents the gross carrying amount, accumulated amortization, valuation allowance and net carrying amount of ASB's mortgage servicing assets as of September 30, 2014 and 2013:

September 30	2014				2013			
	Gross carrying amount	Accumulated amortization	Valuation allowance	Net carrying amount	Gross carrying amount	Accumulated amortization	Valuation allowance	Net carrying amount
(in thousands)								
Mortgage servicing assets	\$26,685	(15,003 )	(158 )	\$11,524	\$25,198	(13,265 )	(127 )	\$11,806

Changes in the valuation allowance for mortgage servicing assets were as follows:

(in thousands)	2014	2013
Valuation allowance, January 1	\$251	\$498
Provision (recovery)	(36 )	(215 )
Other-than-temporary impairment	(57 )	(156 )
Valuation allowance, September 30	\$158	\$127

ASB recognizes a mortgage servicing asset when a mortgage loan is sold with servicing rights retained. This mortgage servicing right (MSR) is initially capitalized at its presumed fair value based on market data at the time of sale and accounted for in subsequent periods at the lower of amortized cost or fair value. The MSR is amortized in proportion to and over the period of estimated net servicing income and assessed for impairment at each reporting date.

ASB stratifies the MSR based on predominant risk characteristics of the underlying loans including loan type and note rate. For each stratum, fair value is calculated by discounting expected net income streams using discount rates that reflect industry pricing for similar assets. Expected net income streams are estimated based on industry assumptions regarding prepayment expectations and income and expenses associated with servicing residential mortgage loans for others.

Impairment is recognized through a valuation allowance for each stratum when the carrying amount exceeds fair value, with any associated provision recorded as a component of loan servicing fees included in ASB's noninterest income. A direct write-down is recorded when the recoverability of the valuation allowance is deemed to be unrecoverable.

Key assumptions used in estimating the fair value of the bank's mortgage servicing rights were as follows:

(dollars in thousands)	September 30, 2014	September 30, 2013		
Unpaid principal balance	\$1,380,299	\$1,329,815		
Weighted average note rate	4.08	% 4.06		%
Weighted average discount rate	9.6	% 10.1		%
Weighted average prepayment speed	8.1	% 6.6		%

Derivative financial instruments. ASB enters into interest rate lock commitments with borrowers, and forward commitments to sell loans or to-be-announced mortgage-backed securities to investors to hedge against the inherent interest rate and pricing risk associated with selling loans.

ASB enters into interest rate lock commitments (IRLCs) for residential mortgage loans, which commit ASB to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative financial instruments under applicable accounting guidance. Outstanding IRLCs expose ASB to the risk that the price of the mortgage loans underlying the commitments may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. The IRLCs are free-standing derivatives which are carried at fair value with changes recorded in mortgage banking income.

ASB enters into forward commitments to hedge the interest rate risk for rate locked mortgage applications in process and closed mortgage loans held for sale. These commitments are primarily forward sales of to-be-announced mortgage backed securities. Generally, when mortgage loans are closed, the forward commitment is liquidated and replaced with a mandatory delivery forward sale of the mortgage to a secondary market investor. In some cases, a best-efforts forward sale agreement is utilized as the forward commitment. These commitments are free-standing derivatives which are carried at fair value with changes recorded in mortgage banking income.

Changes in the fair value of IRLCs and forward commitments subsequent to inception are based on changes in the fair value of the underlying loan resulting from the fulfillment of the commitment and changes in the probability that the loan will fund within the terms of the commitment, which is affected primarily by changes in interest rates and the passage of time.

The notional amount and fair value of ASB's derivative financial instruments as of September 30, 2014 and December 31, 2013 were as follows:

(dollars in thousands)	September 30, 2014		December 31, 2013	
	Notional amount	Fair value	Notional amount	Fair value
Interest rate lock commitments	\$14,511	\$215	\$25,070	\$464
Forward commitments	12,707	(25 )	26,018	139

The following table presents ASB's derivative financial instruments, their fair values, and balance sheet location as of September 30, 2014 and December 31, 2013:

Derivative Financial Instruments Not Designated as Hedging Instruments <sup>1</sup>	September 30, 2014		December 31, 2013	
	Derivative asset	Derivative liability	Derivative asset	Derivative liability
(dollars in thousands)				
Interest rate lock commitments	\$216	\$1	\$488	\$24
Forward commitments	1	26	141	2
	\$217	\$27	\$629	\$26

<sup>1</sup> Derivative assets are included in other assets and derivative liabilities are included in other liabilities in the balance sheets.

The following table presents ASB's derivative financial instruments and the amount and location of the net gains or losses recognized in the statements of income for the three and nine months ended September 30, 2014 and 2013.

Derivative Financial Instruments Not Designated as Hedging Instruments	Location of net gains (losses) recognized in the Statement of Income	Three months ended September 30		Nine months ended September 30	
		2014	2013	2014	2013
(dollars in thousands)					
Interest rate lock commitments	Mortgage banking income	\$215	\$818	\$(249 )	\$556
Forward commitments	Mortgage banking income	(25 )	(1,173 )	(164 )	(273 )
		\$190	\$(355 )	\$(413 )	\$283

Litigation. In March 2011, a purported class action lawsuit was filed in the First Circuit Court of the state of Hawaii by a customer who claimed that ASB had improperly charged overdraft fees on debit card transactions. ASB filed a motion to dismiss the lawsuit on the basis that as a bank chartered under federal law, ASB believes its business practices are governed by federal regulations established for federal savings banks and not by state law. In July 2011, the Circuit Court denied ASB's motion and ASB appealed that decision. ASB's appeal is currently pending before the

Hawaii Supreme Court. The probable outcome and range of reasonably possible loss remains indeterminable at this time.

ASB is subject in the normal course of business to pending and threatened legal proceedings. Management does not anticipate that the aggregate ultimate liability arising out of these pending or threatened legal proceedings will be material to its financial position. However, ASB cannot rule out the possibility that such outcomes could have a material adverse effect on the results of operations or liquidity for a particular reporting period in the future.

## 5 · Retirement benefits

Defined benefit pension and other postretirement benefit plans information. For the first nine months of 2014, the Company contributed \$45 million (\$44 million by the Utilities) to its pension and other postretirement benefit plans, compared to \$62 million (\$61 million by the Utilities) in the first nine months of 2013. The Company's current estimate of contributions to its pension and other postretirement benefit plans in 2014 is \$60 million (\$59 million by the Utilities, \$1 million by HEI and nil by ASB), compared to \$83 million (\$81 million by the Utilities, \$2 million by HEI and nil by ASB) in 2013. In addition, the Company expects to pay directly \$2 million (\$1 million by the Utilities) of benefits in 2014, compared to \$2 million (\$1 million by the Utilities) paid in 2013.

On July 6, 2012, President Obama signed the Moving Ahead for Progress in the 21st Century Act (MAP-21), which included provisions related to the funding and administration of pension plans. This law does not affect the Company's or the Utilities' accounting for pension benefits; therefore, the net periodic benefit costs disclosed for the plans were not affected. The Company elected to apply MAP-21 for 2012, which improved the plans' Adjusted Funding Target Attainment Percentage for funding and benefit distribution purposes and thereby reduced the 2012 minimum funding requirement and lifted the restrictions on accelerated distribution options (which restrictions were in effect from April 1, 2011 to September 30, 2012) for HEI and the Utilities. MAP-21 caused the minimum required funding under the Employee Retirement Income Security Act of 1974, as amended (ERISA) to be less than the net periodic cost for 2013 and 2014; therefore, to satisfy the requirements of the Utilities pension and OPEB tracking mechanisms, the Utilities will contribute the net periodic cost in 2014.

The Pension Protection Act provides that if a pension plan's funded status falls below certain levels, more conservative assumptions must be used to value obligations under the pension plan. The HEI Retirement Plan met the threshold requirements in each of 2012 and 2013 so that the more conservative assumptions did not apply for either the 2013 or 2014 valuation of plan liabilities for purposes of calculating the minimum required contribution. Other factors could cause changes to the required contribution levels.

The components of net periodic benefit cost for HEI consolidated and Hawaiian Electric consolidated were as follows:

(in thousands)	Three months ended September 30				Nine months ended September 30			
	Pension benefits		Other benefits		Pension benefits		Other benefits	
	2014	2013	2014	2013	2014	2013	2014	2013
HEI consolidated								
Service cost	\$12,306	\$14,097	\$870	\$1,077	\$36,958	\$42,307	\$2,619	\$3,229
Interest cost	18,044	16,187	2,137	1,891	54,158	48,600	6,414	5,677
Expected return on plan assets	(20,337 )	(18,134 )	(2,724 )	(2,531 )	(61,018 )	(54,401 )	(8,180 )	(7,614 )
Amortization of net prior service loss (gain)	22	(24 )	(448 )	(448 )	66	(73 )	(1,345 )	(1,345 )
Amortization of net actuarial loss (gain)	5,064	9,560	(2 )	398	15,240	28,878	(8 )	1,203
Net periodic benefit cost (credit)	15,099	21,686	(167 )	387	45,404	65,311	(500 )	1,150
Impact of PUC D&Os	(3,331 )	(9,257 )	494	(332 )	(9,993 )	(28,847 )	1,482	(1,018 )
Net periodic benefit cost (adjusted for impact of PUC D&Os)	\$11,768	\$12,429	\$327	\$55	\$35,411	\$36,464	\$982	\$132
Hawaiian Electric consolidated								
Service cost	\$11,900	\$13,620	\$848	\$1,041	\$35,698	\$40,861	\$2,544	\$3,122
Interest cost	16,495	14,780	2,058	1,822	49,484	44,339	6,175	5,466
Expected return on plan assets	(18,167 )	(16,138 )	(2,684 )	(2,502 )	(54,496 )	(48,413 )	(8,054 )	(7,502 )
	15	(116 )	(451 )	(451 )	46	(348 )	(1,353 )	(1,353 )



Amortization of net prior service loss (gain)									
Amortization of net actuarial loss	4,616	8,649	—	387	13,845	25,948	—	1,159	
Net periodic benefit cost (credit)	14,859	20,795	(229)	) 297	44,577	62,387	(688)	) 892	
Impact of PUC D&Os	(3,331)	) (9,257)	) 494	(332)	) (9,993)	) (28,847)	) 1,482	(1,018)	)
Net periodic benefit cost (adjusted for impact of PUC D&Os)	\$11,528	\$11,538	\$265	\$(35)	) \$34,584	\$33,540	\$794	\$(126)	)

HEI consolidated recorded retirement benefits expense of \$24 million (\$23 million by the Utilities) and \$24 million (\$21 million by the Utilities) in the first nine months of 2014 and 2013, respectively, and charged the remaining net periodic benefit cost primarily to electric utility plant.

The Utilities have implemented pension and OPEB tracking mechanisms under which all of their retirement benefit expenses (except for executive life and nonqualified pension plan expenses) determined in accordance with GAAP are recovered over time. Under the tracking mechanisms, these retirement benefit costs that are over/under amounts allowed in rates are charged/credited to a regulatory asset/liability. The regulatory asset/liability for each utility will be amortized over 5 years beginning with the issuance of the PUC's D&O in the respective utility's next rate case.

Defined contribution plans information. For the first nine months of 2014 and 2013, the Company's expense for its defined contribution pension plans under the Hawaiian Electric Industries Retirement Savings Plan (HEIRSP) and the ASB 401(k) Plan was \$3.4 million and \$3.1 million, respectively, and cash contributions were \$4.2 million and \$3.7 million, respectively. For the first nine months of 2014 and 2013, the Utilities' expense for its defined contribution pension plan was \$0.7 million and \$0.4 million, respectively, and cash contributions were \$0.7 million and \$0.4 million, respectively.

#### 6 · Share-based compensation

Under the 2010 Equity and Incentive Plan, HEI can issue shares of common stock as incentive compensation to selected employees in the form of stock options, stock appreciation rights (SARs), restricted shares, restricted stock units, performance shares and other share-based and cash-based awards. The 2010 Equity and Incentive Plan was amended and restated (EIP) effective March 1, 2014 and an additional 1.5 million shares was added to the shares available for issuance under these programs.

As of September 30, 2014, approximately 3.6 million shares were available for future issuance under the terms of the EIP, assuming recycling of shares withheld to satisfy minimum statutory tax liabilities relating to EIP awards, including an estimated 1.1 million shares that could be issued upon the vesting of outstanding restricted stock units and the achievement of performance goals for awards outstanding under long-term incentive plans (assuming that such performance goals are achieved at maximum levels).

Under the 1987 Stock Option and Incentive Plan, as amended (SOIP), there are possible future issuances of an estimated 1,000 shares upon the exercise of outstanding SARs, based on the market price of shares on September 30, 2014. As of May 11, 2010 (when the 2010 Equity and Incentive Plan became effective), no new awards may be granted under the SOIP. After the shares of common stock for the outstanding SOIP grants and awards are issued or such grants and awards expire, the remaining shares registered under the SOIP will be deregistered and delisted.

Under the 2011 Nonemployee Director Stock Plan (2011 Director Plan), HEI can issue shares of common stock as compensation to nonemployee directors of HEI, Hawaiian Electric and ASB. As of September 30, 2014, there were 169,290 shares remaining available for future issuance under the 2011 Director Plan.

Share-based compensation expense and the related income tax benefit were as follows:

(in millions)	Three months ended September		Nine months ended September	
	30 2014	2013	30 2014	2013
HEI consolidated				
Share-based compensation expense <sup>1</sup>	\$2.0	\$2.5	\$7.2	\$6.0
Income tax benefit	0.7	0.9	2.6	2.2
Hawaiian Electric consolidated				
Share-based compensation expense <sup>1</sup>	0.6	0.8	2.2	1.9
Income tax benefit	0.2	0.3	0.9	0.7

\$0.04 million and \$0.03 million of this share-based compensation expense was capitalized in the third quarter of <sup>1</sup> 2014 and 2013, respectively. \$0.12 million and \$0.09 million of this share-based compensation expense was capitalized in the nine months ended September 30, 2014 and 2013, respectively.

Stock awards. HEI granted HEI common stock to nonemployee directors of HEI, Hawaiian Electric and ASB under the 2011 Director Plan as follows:

(\$ in millions)	Nine months ended	
	September 30 2014	2013

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Shares granted	33,170	33,184
Fair value	\$0.8	\$0.8
Income tax benefit	0.3	0.3

46

---

The number of shares issued to each nonemployee director of HEI, Hawaiian Electric and ASB is determined based on the closing price of HEI Common Stock on the grant date.

Nonqualified stock options. Since April 9, 2013, there were no nonqualified stock options (NQSOs) outstanding. NQSO activity and statistics were as follows:

(dollars in thousands, except prices)	Three months ended September 30, 2013	Nine months ended September 30, 2013
Shares exercised	—	14,000
Weighted-average exercise price	\$—	\$20.49
Cash received from exercise	\$—	\$287
Intrinsic value of shares exercised <sup>1</sup>	\$—	\$128
Tax benefit realized for the deduction of exercises	\$—	\$50

<sup>1</sup> Intrinsic value is the amount by which the fair market value of the underlying stock and the related dividend equivalents exceeds the exercise price of the option.

Stock appreciation rights. Information about HEI's SARs was as follows:

Year of grant	Number of shares underlying SARs	Weighted-average remaining contractual life	Weighted-average exercise price
2005	102,000	0.5	\$26.18

As of December 31, 2013, the shares underlying SARs outstanding totaled 164,000, with a weighted-average exercise price of \$26.12. As of September 30, 2014, all SARs outstanding were exercisable and had an aggregate intrinsic value of \$38,000. In April 2014, the shares underlying SARs totaling 62,000, with a weighted-average exercise price of \$26.02, expired.

Restricted shares. As of September 30, 2014 and December 31, 2013, the outstanding restricted shares totaled 4,503 with a weighted-average exercise price of \$22.21. For the first nine months of 2014 and 2013, there was no activity relating to restricted shares. As of September 30, 2014, there was \$21,000 of total unrecognized compensation cost related to nonvested restricted shares and restricted stock awards. The cost is expected to be recognized over a weighted-average period of 0.2 years.

Restricted stock units. Information about HEI's grants of restricted stock units was as follows:

	Three months ended September 30				Nine months ended September 30			
	2014		2013		2014		2013	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	264,326	\$25.74	300,313	\$25.15	288,151	\$25.17	315,094	\$22.82
Granted	2,750	24.48	4,000	26.48	117,786	25.17	111,231	26.88
Vested	(3,500 )	23.50	(2,500 )	22.31	(142,361 )	24.07	(116,544 )	20.39
Forfeited	—	—	(11,321 )	25.88	—	—	(19,289 )	25.62
Outstanding, end of period	263,576	\$25.76	290,492	\$25.16	263,576	\$25.76	290,492	\$25.16
Total weighted-average grant-date fair value of shares granted (\$ millions)	\$0.1		\$0.1		\$3.0		\$3.0	

(1) Weighted-average grant-date fair value per share based on the average price of HEI common stock on the date of grant.

As of September 30, 2014, there was \$5.1 million of total unrecognized compensation cost related to the nonvested restricted stock units. The cost is expected to be recognized over a weighted-average period of 2.6 years.

For the first nine months of 2014 and 2013, total restricted stock units that vested and related dividends had a fair value of \$4.1 million and \$3.6 million, respectively, and the related tax benefits were \$1.3 million and \$1.0 million,

respectively.

Long-term incentive plan payable in stock. The 2012-2014 long-term incentive plan (LTIP), 2013-2015 LTIP and 2014-2016 LTIP, provide for performance awards under the EIP of shares of HEI common stock based on the satisfaction of performance goals considered to be a market condition and service conditions. The number of shares of HEI common stock that may be awarded is fixed on the date the grants are made subject to the achievement of specified performance levels. The potential payout varies from 0% to 200% of the number of target shares depending on achievement of the goals. The LTIP performance goals for the LTIP periods include awards with a market goal based on total return to shareholders (TRS) of HEI

47

---

stock as a percentile to the Edison Electric Institute Index over the applicable three-year period. In addition, the 2012-2014 LTIP, 2013-2015 LTIP and 2014-2016 LTIP have performance goals related to levels of HEI consolidated net income, HEI consolidated return on average common equity (ROACE), Hawaiian Electric consolidated net income, Hawaiian Electric consolidated ROACE, ASB net income and ASB return on assets — all based on the applicable three-year averages, and ASB return on assets relative to performance peers.

LTIP linked to TRS. Information about HEI's LTIP grants linked to TRS was as follows:

	Three months ended September 30				Nine months ended September 30			
	2014		2013		2014		2013	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	257,956	\$28.45	235,064	\$32.87	232,127	\$32.88	239,256	\$29.12
Granted (target level)	—	—	1,505	32.69	97,524	22.95	91,038	32.69
Vested (issued or unissued and cancelled)	—	—	—	—	(70,189 )	35.46	(87,753 )	22.45
Forfeited	—	—	(4,442 )	32.40	(1,506 )	28.32	(10,414 )	32.72
Outstanding, end of period	257,956	\$28.45	232,127	\$32.88	257,956	\$28.45	232,127	\$32.88
Total weighted-average grant-date fair value of shares granted (\$ millions)	\$—		\$—		\$2.2		\$3.0	

(1) Weighted-average grant-date fair value per share determined using a Monte Carlo simulation model.

The grant date fair values of the shares were determined using a Monte Carlo simulation model utilizing actual information for the common shares of HEI and its peers for the period from the beginning of the performance period to the grant date and estimated future stock volatility and dividends of HEI and its peers over the remaining three-year performance period. The expected stock volatility assumptions for HEI and its peer group were based on the three-year historic stock volatility, and the annual dividend yield assumptions were based on dividend yields calculated on the basis of daily stock prices over the same three-year historical period.

The following table summarizes the assumptions used to determine the fair value of the LTIP awards linked to TRS and the resulting fair value of LTIP awards granted:

	2014	2013	
Risk-free interest rate	0.66	% 0.38	%
Expected life in years	3	3	
Expected volatility	17.8	% 19.4	%
Range of expected volatility for Peer Group	12.4% to 23.3%	12.4% to 25.3%	
Grant date fair value (per share)	\$22.95	\$32.69	

For the nine months ended September 30, 2014 and 2013, total vested LTIP awards linked to TRS and related dividends had a fair value of nil and \$2.2 million, respectively, and the related tax benefits were nil and \$0.9 million, respectively. For the nine months ended September 30, 2014, all of the shares vested (which were granted at target level based on the satisfaction of TRS performance) for the 2011-2013 LTIP lapsed.

As of September 30, 2014, there was \$2.7 million of total unrecognized compensation cost related to the nonvested performance awards payable in shares linked to TRS. The cost is expected to be recognized over a weighted-average period of 1.3 years.

LTIP awards linked to other performance conditions. Information about HEI's LTIP awards payable in shares linked to other performance conditions was as follows:

	Three months ended September 30				Nine months ended September 30			
	2014		2013		2014		2013	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	359,782	\$26.01	304,473	\$26.12	296,843	\$26.14	247,175	\$25.04
Granted (target level)	—	—	1,504	27.11	129,603	25.18	120,399	26.89
Vested (issued)	—	—	—	—	(65,089 )	24.95	(18,280 )	18.95
Cancelled	—	—	—	—	—	—	(37,346 )	24.96
Forfeited	—	—	(4,881 )	26.53	(1,575 )	26.07	(10,852 )	26.20
Outstanding, end of period	359,782	\$26.01	301,096	\$26.12	359,782	\$26.01	301,096	\$26.12
Total weighted-average grant-date fair value of shares granted (at target performance levels) (\$ millions)	\$—		\$—		\$3.3		\$3.2	

(1) Weighted-average grant-date fair value per share based on the average price of HEI common stock on the date of grant.

For the nine months ended September 30, 2014 and 2013, total vested LTIP awards linked to other performance conditions and related dividends had a fair value of \$1.9 million and \$0.6 million and the related tax benefits were \$0.8 million and \$0.2 million, respectively.

As of September 30, 2014, there was \$4.0 million of total unrecognized compensation cost related to the nonvested shares linked to performance conditions other than TRS. The cost is expected to be recognized over a weighted-average period of 1.3 years.

#### 7 · Earnings per share and shareholders' equity

Earnings per share. Under the two-class method of computing earnings per share (EPS), EPS was comprised as follows for both participating securities and unrestricted common stock:

	Three months ended September 30				Nine months ended September 30			
	2014		2013		2014		2013	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Distributed earnings	\$0.31	\$0.31	\$0.31	\$0.31	\$0.93	\$0.93	\$0.93	\$0.93
Undistributed earnings	0.16	0.15	0.18	0.17	0.40	0.39	0.31	0.30
	\$0.47	\$0.46	\$0.49	\$0.48	\$1.33	\$1.32	\$1.24	\$1.23

As of September 30, 2014, there were no shares that were antidilutive. As of September 30, 2013, the antidilutive effects of SARs on 164,000 shares of HEI common stock (for which the exercise prices were greater than the closing market price of HEI's common stock on such dates), were not included in the computation of dilutive EPS.

#### Shareholders' equity.

Equity forward transaction. On March 19, 2013, HEI entered into an equity forward transaction in connection with a public offering on that date of 6.1 million shares of HEI common stock at \$26.75 per share. On March 19, 2013, HEI common stock closed at \$27.01 per share. On March 20, 2013, the underwriters exercised their over-allotment option in full and HEI entered into an equity forward transaction in connection with the resulting additional 0.9 million shares of HEI common stock.

The use of an equity forward transaction substantially eliminates future equity market price risk by fixing a common equity offering sales price under the then existing market conditions, while mitigating immediate share dilution resulting from the offering by postponing the actual issuance of common stock until funds are needed in accordance with the Company's capital investment plans. Pursuant to the terms of these transactions, a forward counterparty borrowed 7 million shares of HEI's common stock from third parties and sold them to a group of underwriters for \$26.75 per share, less an underwriting discount equal to \$1.00312 per share. Under the terms of the equity forward transactions, to the extent that the transactions are physically settled, HEI would be required to issue and deliver shares of HEI common stock to the forward counterparty at the then applicable forward sale price. The forward sale price was initially determined to be \$25.74688 per share at the time the equity forward transactions were entered into, and the amount of cash to be received by HEI upon physical settlement of the equity forward is subject to certain

adjustments in accordance with the terms of the equity forward transactions. Initially, the equity forward transactions had to be settled fully by March 25, 2015, but an amendment extended this date to December 31, 2015. Except in specified circumstances or events that would require physical settlement, HEI is able to elect to settle the



equity forward transactions by means of physical, cash or net share settlement, in whole or in part, at any time on or prior to December 31, 2015.

The equity forward transactions had no initial fair value since they were entered into at the then market price of the common stock. HEI receives proceeds from the sale of common stock when the equity forward transactions are settled and records the proceeds at that time in equity. HEI concluded that the equity forward transactions were equity instruments based on the accounting guidance in ASC 480, "Distinguishing Liabilities from Equity," and ASC 815, "Derivatives and Hedging," and that they qualified for an exception from derivative accounting under ASC 815 because the forward sale transactions were indexed to its own stock. On December 19, 2013, HEI settled 1.3 million shares under the equity forward for proceeds of \$32.1 million (net of the underwriting discount of \$1.3 million), which funds were ultimately used to purchase Hawaiian Electric shares. On July 14, 2014, HEI settled 1.0 million shares for proceeds of \$23.9 million (net of underwriting discount of \$1.0 million), which funds will be used primarily later in 2014 to invest in Hawaiian Electric to fund its capital expenditures, to repay short-term borrowings incurred to finance or refinance such capital expenditures, and/or for reimbursement of funds used for payment of capital expenditures. In the interim, the proceeds have been applied by HEI to repay its short-term borrowings and for working capital and general corporate purposes.

At September 30, 2014, the equity forward transactions could have been settled with delivery to the forward counterparty of (a) 4.7 million shares in exchange for cash of \$109 million, (b) cash of approximately \$16 million (which amount includes \$5 million of underwriting discount), or (c) approximately 588,000 shares.

Prior to their settlement, the shares remaining under the equity forward transactions will be reflected in HEI's diluted EPS calculations using the treasury stock method. Under this method, the number of shares of HEI's common stock used in calculating diluted EPS for a reporting period would be increased by the number of shares, if any, that would be issued upon physical settlement of the equity forward transactions less the number of shares that could be purchased by HEI in the market (based on the average market price during that reporting period) using the proceeds receivable upon settlement of the equity forward transactions (based on the adjusted forward sale price of \$23.23 as of September 30, 2014). The excess number of shares is weighted for the portion of the reporting period in which the equity forward transactions are outstanding.

Accordingly, before physical or net share settlement of the equity forward transactions, and subject to the occurrence of certain events, HEI anticipates that the forward sale agreement and additional forward sale agreement will have a dilutive effect on HEI's EPS only during periods when the applicable average market price per share of HEI's common stock is above the per share adjusted forward sale price, as described above. However, if HEI decides to physically or net share settle the forward sale agreement and additional forward sale agreement, any delivery by HEI of shares upon settlement could result in dilution to HEI's EPS.

For the nine months ended September 30, 2014, the equity forward transactions did not have a material dilutive effect on HEI's EPS.

Accumulated other comprehensive income. Changes in the balances of each component of accumulated other comprehensive income/(loss) (AOCI) were as follows:

(in thousands)	HEI Consolidated				Hawaiian Electric Consolidated
	Net unrealized gains (losses) on securities	Unrealized losses on derivatives	Retirement benefit plans	AOCI	AOCI -retirement benefit plans
Balance, December 31, 2013	\$ (3,663 )	\$ (525 )	\$ (12,562 )	\$ (16,750 )	\$ 608
Current period other comprehensive income	1,691	177	888	2,756	32
Balance, September 30, 2014	\$ (1,972 )	\$ (348 )	\$ (11,674 )	\$ (13,994 )	\$ 640
Balance, December 31, 2012	\$ 10,761	\$ (760 )	\$ (36,424 )	\$ (26,423 )	\$ (970 )
Current period other comprehensive income (loss)	(11,462 )	177	2,022	(9,263 )	52

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Balance, September 30, 2013                    \$(701            ) \$(583            ) \$(34,402    ) \$(35,686    ) \$(918            )

50

---

Reclassifications out of AOCI were as follows:

(in thousands)	Amount reclassified from AOCI				Affected line item in the Statement of Income
	Three months ended September 30		Nine months ended September 30		
	2014	2013	2014	2013	
HEI consolidated					
Net realized gains on securities	\$—	\$—	\$(1,715)	\$(738)	Revenues-bank (net gains on sales of securities)
Derivatives qualified as cash flow hedges					
Interest rate contracts (settled in 2011)	59	59	177	177	Interest expense
Retirement benefit plan items					
Amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost	2,829	5,789	8,515	17,490	See Note 5 for additional details
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets	(2,542)	(5,156)	(7,627)	(15,468)	See Note 5 for additional details
Total reclassifications	\$346	\$692	\$(650)	\$1,461	
Hawaiian Electric consolidated					
Retirement benefit plan items					
Amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost	\$2,552	\$5,173	\$7,659	\$15,520	See Note 5 for additional details
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets	(2,542)	(5,156)	(7,627)	(15,468)	See Note 5 for additional details
Total reclassifications	\$10	\$17	\$32	\$52	

#### 8 · Fair value measurements

Fair value estimates are based on the price that would be received to sell an asset, or paid upon the transfer of a liability, in an orderly transaction between market participants at the measurement date. The fair value estimates are generally determined based on assumptions that market participants would use in pricing the asset or liability and are based on market data obtained from independent sources. However, in certain cases, the Company and the Utilities use their own assumptions about market participant assumptions based on the best information available in the circumstances. These valuations are estimates at a specific point in time, based on relevant market information, information about the financial instrument and judgments regarding future expected loss experience, economic conditions, risk characteristics of various financial instruments and other factors. These estimates do not reflect any premium or discount that could result if the Company or the Utilities were to sell its entire holdings of a particular

financial instrument at one time. Because no active trading market exists for a portion of the Company's and the Utilities' financial instruments, fair value estimates cannot be determined with precision. Changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the estimates. In addition, the tax ramifications related to the realization of the unrealized gains and losses could have a significant effect on fair value estimates, but have not been considered in making such estimates.

The Company and the Utilities group its financial assets measured at fair value in three levels outlined as follows:

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow

methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

Short term borrowings—other than bank. The carrying amount approximated fair value because of the short maturity of these instruments.

Investment and mortgage-related securities. To determine the fair value of investment securities held in ASB's available-for-sale portfolio, independent third-party vendor or broker pricing is used on an unadjusted basis. Prices for investments and mortgage-related securities are based on observable inputs, including historical trading levels or sector yields, using market-based valuation techniques. The third party pricing service uses applications, models and pricing matrices that correlate security prices to benchmark securities which are adjusted for various inputs. Inputs include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark security bids and offers, TBA (to be announced) prices, monthly payment information, and reference data including market research. The pricing service may prioritize inputs differently on any given day for any security, and not all inputs are available for use in the evaluation process on any given day or for each security. The pricing vendor corroborates its finding on an on-going basis by monitoring market activity and events.

Third party pricing services provide security prices in good faith using rigorous methodologies; however, they do not warrant or guarantee the adequacy or accuracy of their information. Therefore, ASB utilizes a separate third party pricing vendor to corroborate security pricing of the first pricing vendor. If the pricing differential between the two pricing sources exceeds an established threshold, a pricing inquiry will be sent to both vendors or to an independent broker to determine a price that can be supported based on observable inputs found in the market. Such challenges to pricing are required infrequently and are generally resolved using additional security-specific information that was not available to a specific vendor.

Loans receivable. The estimated fair value of loans receivable is determined based on characteristics such as loan category, repricing features and remaining maturity, and includes prepayment estimates.

For residential real estate loans, fair values were estimated by discounting estimated cash flows using discount rates based on current industry pricing for loans with similar contractual characteristics and remaining maturity.

For other types of loans, fair values were estimated by discounting contractual cash flows using discount rates that reflect current industry pricing for loans with similar characteristics and remaining maturity. Where industry pricing is not available, discount rates are based on ASB's current pricing for loans with similar characteristics and remaining maturity.

The fair value of all loans was adjusted to reflect current assessments of loan collectability. Also see "Fair value measurements on a nonrecurring basis" below.

Deposit liabilities. The fair value of savings, negotiable orders of withdrawal, demand and money market deposits was the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit was estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Other bank borrowings. Fair value was estimated by discounting the future cash flows using the current rates available for borrowings with similar credit terms and remaining maturities.

Long-term debt. Fair value was obtained from third-party financial services providers based on the current rates offered for debt of the same or similar remaining maturities and from discounting the future cash flows using the current rates offered for debt of the same or similar remaining maturities.

Derivative financial instruments. See "Fair value measurements on a recurring basis" below.

Off-balance sheet financial instruments. The fair value of loans serviced for others was calculated by discounting expected net income streams using discount rates that reflect industry pricing for similar assets. Expected net income streams were estimated based on industry assumptions regarding prepayment speeds and income and expenses associated with servicing residential mortgage loans for others. The fair value of commitments to originate loans was estimated based on the change in current primary market prices of new commitments. Since lines of credit can expire

without being drawn and customers are under no obligation to utilize the lines, no fair value was assigned to unused lines of credit. The fair value of letters of credit was estimated based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements.

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

(in thousands)	Carrying or notional amount	Estimated fair value			Total
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
September 30, 2014					
Financial assets					
Money market funds	\$ 10	\$—	\$ 10	\$—	\$ 10
Available-for-sale investment and mortgage-related securities	531,603	—	531,603	—	531,603
Investment in stock of Federal Home Loan Bank of Seattle	75,063	—	75,063	—	75,063
Loans receivable, net	4,294,288	—	—	4,444,869	4,444,869
Derivative assets	17,011	—	217	—	217
Financial liabilities					
Deposit liabilities	4,533,797	—	4,534,177	—	4,534,177
Short-term borrowings—other than bank	150,576	—	150,576	—	150,576
The Utilities' short-term borrowings (included in amount above)	84,987	—	84,987	—	84,987
Other bank borrowings	263,204	—	271,872	—	271,872
Long-term debt, net—other than bank	1,517,946	—	1,626,159	—	1,626,159
The Utilities' long-term debt, net (included in amount above)	1,217,946	—	1,316,380	—	1,316,380
Derivative liabilities	10,207	23	4	—	27
December 31, 2013					
Financial assets					
Money market funds	\$ 10	\$—	\$ 10	\$—	\$ 10
Available-for-sale investment and mortgage-related securities	529,007	—	529,007	—	529,007
Investment in stock of Federal Home Loan Bank of Seattle	92,546	—	92,546	—	92,546
Loans receivable, net	4,115,415	—	—	4,211,290	4,211,290
Derivative assets	46,356	98	531	—	629
Financial liabilities					
Deposit liabilities	4,372,477	—	4,374,377	—	4,374,377
Short-term borrowings—other than bank	105,482	—	105,482	—	105,482
Other bank borrowings	244,514	—	256,029	—	256,029
Long-term debt, net—other than bank	1,492,945	—	1,508,425	—	1,508,425
The Utilities' long-term debt, net (included in amount above)	1,217,945	—	1,228,966	—	1,228,966
Derivative liabilities	4,732	—	26	—	26

As of September 30, 2014 and December 31, 2013, loan commitments and unused lines and letters of credit issued by ASB had notional amounts of \$1.8 billion and \$1.6 billion, respectively, and their estimated fair value on such dates were \$0.5 million and \$0.2 million, respectively. As of September 30, 2014 and December 31, 2013, loans serviced by ASB for others had notional amounts of \$1.4 billion, and the estimated fair value of the servicing rights for such loans

was \$16.1 million and \$15.7 million, respectively.

Fair value measurements on a recurring basis.

Securities. While securities held in ASB's investment portfolio trade in active markets, they do not trade on listed exchanges nor do the specific holdings trade in quoted markets by dealers or brokers. All holdings are valued using market-based approaches that are based on exit prices that are taken from identical or similar market transactions, even in situations where trading volume may be low when compared with prior periods. Inputs to these valuation techniques reflect the



assumptions that consider credit and nonperformance risk that market participants would use in pricing the asset based on market data obtained from independent sources. Available-for-sale securities were comprised of federal agency obligations and mortgage-backed securities and municipal bonds.

Derivative financial instruments. ASB enters into interest rate lock commitments (IRLC) for residential mortgage loans, which commit ASB to lend funds to a potential borrower at a specific interest rate and within a specified period of time. The estimated fair value of commitments to originate residential mortgage loans for sale is based on quoted prices for similar loans in active markets. IRLCs are classified as Level 2 measurements.

ASB utilizes forward commitments as economic hedges against potential changes in the values of the IRLCs and loans held for sale. To reduce the impact of price fluctuations of IRLC and mortgage loans held for sale, ASB will purchase to be announced (TBA) mortgage-backed securities forward commitments, mandatory and best effort commitments. These commitments help protect ASB's loan sale profit margin from fluctuations in interest rates. The changes in the fair value of these commitments are recognized as part of mortgage banking income on the consolidated statements of income. TBA forward commitments are classified as Level 1, and consist of publicly-traded debt securities for which identical fair values can be obtained through quoted market prices in active exchange markets. The fair values of ASB's best efforts and mandatory delivery loan sale commitments are determined similarly to the IRLCs using quoted prices in the market place that are observable and are classified as Level 2 measurements.

Assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	September 30, 2014			December 31, 2013		
	Fair value measurements using Level 1	Level 2	Level 3	Fair value measurements using Level 1	Level 2	Level 3
Money market funds ("other" segment)	\$—	\$10	\$—	\$—	\$10	\$—
Available-for-sale securities (bank segment)						
Mortgage-related securities-FNMA, FHLMC and GNMA	\$—	\$425,307	\$—	\$—	\$369,444	\$—
U.S. Treasury and federal agency obligations	—	106,296	—	—	80,973	—
Municipal bonds	—	—	—	—	78,590	—
	\$—	\$531,603	\$—	\$—	\$529,007	\$—
Derivative assets <sup>1</sup>						
Interest rate lock commitments	\$—	\$216	\$—	\$—	\$488	\$—
Forward commitments	—	1	—	98	43	—
	\$—	\$217	\$—	\$98	\$531	\$—
Derivative liabilities <sup>1</sup>						
Interest rate lock commitments	\$—	\$1	\$—	\$—	\$24	\$—
Forward commitments	23	3	—	—	2	—
	\$23	\$4	\$—	\$—	\$26	\$—

<sup>1</sup> Derivatives are carried at fair value with changes in value reflected in the balance sheet in other assets or other liabilities and included in mortgage banking income.

Fair value measurements on a nonrecurring basis. From time to time, the Company and the Utilities may be required to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the writedowns of individual assets. ASB does not record loans at fair value on a recurring basis. However, from time to time, ASB records nonrecurring fair value adjustments based on the current appraised value of the collateral securing impaired loans or unobservable market assumptions. Unobservable assumptions reflect ASB's own estimate of the fair value of collateral used in valuing impaired loans. ASB may also be required to measure goodwill at fair value on a nonrecurring basis. During the first nine months of 2014, it was not required that a measurement of the fair value of goodwill be calculated and goodwill was not measured at fair value.



Assets measured at fair value on a nonrecurring basis were as follows:

(in millions)	Balance	Fair value measurements		
		Level 1	Level 2	Level 3
Loans				
September 30, 2014	\$2	\$—	\$—	\$2
December 31, 2013	4	—	—	4
Real estate acquired in settlement of loans				
September 30, 2014	\$1	—	—	\$1
December 31, 2013	—	—	—	—

At September 30, 2014 and 2013, there were no adjustments to fair value for ASB's loans held for sale.

**Residential loans.** The fair value of ASB's residential loans that were written down due to impairment was determined based on third party appraisals, which include the appraisers' assumptions and judgment, and therefore, is classified as a Level 3 measurement.

**Home equity lines of credit.** The fair value of ASB's home equity lines of credit that were written down due to impairment was determined based on third party appraisals, which include the appraisers' assumptions and judgment, and therefore, is classified as a Level 3 measurement.

**Commercial loans.** The fair value of ASB's commercial loans that were written down due to impairment was determined based on the value placed on the assets of the business, and therefore, is classified as a Level 3 measurement.

**Real estate acquired in settlement of loans.** The fair value of ASB's real estate acquired in settlement of loans that were written down due to impairment was determined based on third party appraisals, which include the appraisers' assumptions and judgment, and therefore, is classified as a Level 3 measurement.

For loans and real estate acquired in settlement of loans classified as Level 3 as of September 30, 2014 and December 31, 2013, the significant unobservable inputs used in the fair value measurement were as follows:

(\$ in thousands)	Fair value	Valuation technique	Significant unobservable input	Significant unobservable input value <sup>1</sup>	
				Range	Weighted Average
September 30, 2014					
Residential loans	\$1,928	Fair value of property or collateral	Appraised value less 7% selling costs	44-96%	83%
Commercial loans	216	Fair value of property or collateral	Fair value of business assets		19%
Total loans	\$2,144				
December 31, 2013					
Real estate acquired in settlement of loans	\$554	Fair value of property or collateral	Appraised value less 7% selling costs	100%	100%
September 30, 2014					
Residential loans	\$2,361	Fair value of property or collateral	Appraised value less 7% selling costs	44-96%	87%
Home equity lines of credit	170	Fair value of property or collateral	Appraised value less 7% selling costs	45-50%	50%
Commercial loans	217	Fair value of property or collateral	Fair value of business assets		19%
Commercial loans	1,668	Discounted cash flows	Present value of expected future cash flows		58%
			Discount rate		4.5%
Total loans	\$4,416				

<sup>1</sup> Represent percent of outstanding principal balance.

Significant increases (decreases) in any of those inputs in isolation would result in significantly higher (lower) fair value measurements.

## 9 · Cash flows

Nine months ended September 30 (in millions)	2014	2013
Supplemental disclosures of cash flow information		
HEI consolidated		
Interest paid to non-affiliates	\$64	\$62
Income taxes paid	31	6
Income taxes refunded	24	4
Hawaiian Electric consolidated		
Interest paid	44	43
Income taxes paid	6	6
Income taxes refunded	8	32
Supplemental disclosures of noncash activities		
HEI consolidated		
Common stock dividends reinvested in HEI common stock <sup>1</sup>	—	18
Increases in common stock related to director and officer compensatory plans	4	3
Real estate acquired in settlement of loans	2	4
Loans transferred from held-for-investment to held-for-sale	—	25
Obligations to fund low income housing investments	6	—
HEI consolidated and Hawaiian Electric consolidated		
Additions to electric utility property, plant and equipment - unpaid invoices and other	40	17

<sup>1</sup> The amounts shown represent common stock dividends reinvested in HEI common stock under the HEI Dividend Reinvestment and Stock Purchase Plan (DRIP) in noncash transactions. As of March 6, 2014, HEI began satisfying the share purchase requirements of the DRIP through open market purchases of its common stock rather than through new issuances.

## 10 · Recent accounting pronouncements

**Obligations resulting from joint and several liability.** In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-04, “Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date,” which provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance requires entities to measure these obligations as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information.

The Company and the Utilities retrospectively adopted ASU No. 2013-04 in the first quarter of 2014 and it did not have a material impact on the Company’s or the Utilities’ results of operations, financial condition or liquidity.

**Unrecognized tax benefits (UTBs).** In July 2013, the FASB issued ASU No. 2013-11, “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists,” which requires the netting of UTBs against a deferred tax asset for a loss or other tax carryforwards that would apply in settlement of the uncertain tax positions. UTBs should be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs.

The Company and the Utilities prospectively adopted ASU No. 2013-11 in the first quarter of 2014 and it did not have a material impact on the Company’s or the Utilities’ results of operations, financial condition or liquidity.

**Investments in Qualified Affordable Housing Projects.** In January 2014, the FASB issued ASU No. 2014-01, Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects,” which permits entities to make an accounting policy election to account for their investments in

qualified affordable housing projects using the proportional amortization method if certain conditions are met. The amendments also require additional disclosures.

The Company has not determined whether it will retrospectively adopt ASU No. 2014-01 in 2014 or the first quarter of 2015, as early adoption is permitted, nor has it determined the impact of adoption on its results of operations, financial condition or liquidity.

Reclassification of loans upon foreclosure. In January 2014, the FASB issued ASU No. 2014-04, "Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure," which clarifies when an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer loan. A creditor is considered to have received physical possession of residential real estate property collateralizing a consumer loan upon either: (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through a deed in lieu of foreclosure or through a similar legal agreement. The amendment also requires additional disclosures.

The Company plans to prospectively adopt ASU No. 2014-04 in the first quarter of 2015 and does not believe that such adoption will have a material impact on the Company's results of operations, financial condition or liquidity.

Revenues from contracts. In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers: (Topic 606)." The core principle of the guidance in ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract/s with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when, or as, the entity satisfies a performance obligation.

The Company will adopt ASU No. 2014-09 in the first quarter of 2017, but has not determined the method of adoption (full or modified retrospective application) nor the impact of adoption on its results of operations, financial condition or liquidity.

Repurchase agreements. In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosure," which changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires additional disclosures about repurchase agreements and other similar transactions. The ASU requires a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The ASU also requires expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings.

The Company will adopt ASU No. 2014-11 in the first quarter of 2015 and does not believe that such adoption will have a material impact on its results of operations, financial condition or liquidity.

#### 11 · Credit agreements and long-term debt

##### Credit agreements.

HEI. On April 2, 2014, HEI and a syndicate of nine financial institutions entered into an amended and restated revolving non-collateralized credit agreement (HEI Facility). The HEI Facility increased HEI's line of credit to \$150 million from \$125 million, extended the term of the facility to April 2, 2019, and provided improved pricing compared to HEI's prior facility. Under the HEI Facility, draws would generally bear interest, based on HEI's current long-term credit ratings, at the "Adjusted LIBO Rate," as defined in the agreement, plus 137.5 basis points and annual fees on undrawn commitments of 20 basis points. The HEI Facility contains updated provisions for pricing adjustments in the event of a long-term ratings change based on the HEI Facility's ratings-based pricing grid. Certain modifications were made to incorporate some updated terms and conditions customary for facilities of this type. In addition, the HEI Consolidated Net Worth covenant, as defined in the original facility, was removed from the HEI Facility, leaving only one financial covenant (relating to HEI's ratio of funded debt to total capitalization, each on a non-consolidated basis). Under the credit agreement, it is an event of default if HEI fails to maintain an unconsolidated "Capitalization Ratio" (funded debt) of 50% or less (actual ratio of 17% as of September 30, 2014, as calculated under the agreement) or if HEI no longer owns Hawaiian Electric. The HEI Facility does not contain clauses that would affect access to the facility by reason of a ratings downgrade, nor does it have broad "material adverse change" clauses, but it continues to contain customary conditions which must be met in order to draw on it, including compliance with covenants (such as covenants preventing HEI's subsidiaries from entering into agreements that restrict the ability of the subsidiaries to pay

dividends to, or to repay borrowings from, HEI).

The facility will be maintained to support the issuance of commercial paper, but also may be drawn to repay HEI's short-term and long-term indebtedness, to make investments in or loans to subsidiaries and for HEI's working capital and general corporate purposes.

Hawaiian Electric. On April 2, 2014, Hawaiian Electric and a syndicate of nine financial institutions entered into an amended and restated revolving non-collateralized credit agreement (Hawaiian Electric Facility). The Hawaiian Electric



Facility increased Hawaiian Electric's line of credit to \$200 million from \$175 million, provided for a term of the facility to April 1, 2015 (but which term is to be extended to up to April 2, 2019 upon approval by the PUC during the initial term, which approval is currently being requested), and provided improved pricing compared to Hawaiian Electric's prior facility. Under the Hawaiian Electric Facility, draws would generally bear interest, based on Hawaiian Electric's current long-term credit ratings, at the "Adjusted LIBO Rate," as defined in the agreement, plus 125 basis points and annual fees on undrawn commitments of 17.5 basis points. The Hawaiian Electric Facility contains updated provisions for pricing adjustments in the event of a long-term ratings change based on the Hawaiian Electric Facility's ratings-based pricing grid. Certain modifications were made to incorporate some updated terms and conditions customary for facilities of this type. The Hawaiian Electric Facility does not contain clauses that would affect access to the facility by reason of a ratings downgrade, nor does it have broad "material adverse change" clauses, but it continues to contain customary conditions which must be met in order to draw on it, including compliance with several covenants (such as covenants preventing its subsidiaries from entering into agreements that restrict the ability of the subsidiaries to pay dividends to, or to repay borrowings from, Hawaiian Electric, and restricting its ability as well as the ability of any of its subsidiaries to guarantee additional indebtedness of the subsidiaries if such additional debt would cause the subsidiary's "Consolidated Subsidiary Funded Debt to Capitalization Ratio" to exceed 65% (ratio of 41% for Hawaii Electric Light and 43% for Maui Electric as of September 30, 2014, as calculated under the agreement)). In addition to customary defaults, Hawaiian Electric's failure to maintain its financial ratios, as defined in its credit agreement, or meet other requirements may result in an event of default. For example, under the credit agreement, it is an event of default if Hawaiian Electric fails to maintain a "Consolidated Capitalization Ratio" (equity) of at least 35% (ratio of 55% as of September 30, 2014, as calculated under the credit agreement), or if Hawaiian Electric is no longer owned by HEI.

The credit facility will be maintained to support the issuance of commercial paper, but also may be drawn to repay Hawaiian Electric's short-term indebtedness, to make loans to subsidiaries and for Hawaiian Electric's capital expenditures, working capital and general corporate purposes.

Changes in long-term debt.

May 2014 loan. On May 2, 2014, HEI entered into a loan agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd., Royal Bank of Canada and U.S. Bank, National Association, which agreement includes the same financial covenant and customary conditions as the HEI credit agreement described above. On May 2, 2014, HEI drew a \$125 million Eurodollar term loan for a term of two years and at a resetting interest rate ranging from 1.12% to 1.14% through September 30, 2014. The proceeds from the term loan were used to pay-off \$100 million of 6.51% medium term notes at maturity on May 5, 2014, pay down maturing commercial paper and for general corporate purposes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion updates "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in HEI's and Hawaiian Electric's 2013 Form 10-K and should be read in conjunction with such discussion and the 2013 annual consolidated financial statements of HEI and Hawaiian Electric and notes thereto included in HEI's and Hawaiian Electric's 2013 Form 10-K, as well as the quarterly (as of and for the three and nine months ended September 30, 2014) financial statements and notes thereto included in this Form 10-Q.

HEI consolidated

#### RESULTS OF OPERATIONS

(in thousands, except per share amounts)	Three months ended		%	Primary reason(s)*
	September 30 2014	September 30 2013		
Revenues	\$867,096	\$829,168	5	Increase for the electric utility segment, partly offset by decrease for the bank segment
Operating income	91,102	88,038	3	Increase for the electric utility segment, partly offset by decrease for the bank segment
	47,815	48,236	(1)	)

Net income for common stock				Lower bank net income, partly offset by higher net income for the electric utility segment, including a higher amount of allowance for funds used during construction
Basic earnings per common share	\$0.47	\$0.49	(4	) Lower net income and the impact of higher weighted average shares outstanding
Weighted-average number of common shares outstanding	102,416	99,204	3	Issuances of shares under the HEI Dividend Reinvestment and Stock Purchase Plan and other plans

Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

(in thousands, except per share amounts)	Nine months ended September 30		%	Primary reason(s)*
	2014	2013		
Revenues	\$2,449,502	\$2,405,967	2	Increase for the electric utility segment, partly offset by decrease for the bank segment
Operating income	261,683	237,070	10	Increase for the electric utility segment, partly offset by decrease for the bank segment and higher losses for the "other" segment
Net income for common stock	135,163	122,503	10	Higher net income for the electric utility segment and lower losses for the "other" segment, partly offset by lower net income for the bank segment
Basic earnings per common share	\$ 1.33	\$ 1.24	7	Higher net income, partly offset by the impact of higher weighted average shares outstanding
Weighted-average number of common shares outstanding	101,768	98,670	3	Issuances of shares under the HEI Dividend Reinvestment and Stock Purchase Plan and other plans

\* Also, see segment discussions which follow.

Notes: The Company's effective tax rates (combined federal and state) for the third quarters of 2014 and 2013 were 35% and 31%, respectively, and for the first nine months of 2014 and 2013 were 35% and 34%, respectively. The effective tax rates were higher for the three and nine months ended September 30, 2014 compared to the same periods in 2013 due primarily to the 2013 reversal of deferred taxes (see "Out-of period income tax benefit" in Note 1 of the Consolidated Financial Statements).

HEI's consolidated ROACE was 10.1% for the twelve months ended September 30, 2014 and 8.4% for the twelve months ended September 30, 2013.

Dividends. The payout ratios for the first nine months of 2014 and full year 2013 were 70% and 76%, respectively. HEI currently expects to maintain the dividend at its present level; however, the HEI Board of Directors evaluates the dividend quarterly and considers many factors in the evaluation, including but not limited to the Company's results of operations, the long-term prospects for the Company, and current and expected future economic conditions.

Economic conditions.

Note: The statistical data in this section is from public third-party sources that management believes to be reliable (e.g., Department of Business, Economic Development and Tourism (DBEDT); University of Hawaii Economic Research Organization; U.S. Bureau of Labor Statistics; Department of Labor and Industrial Relations (DLIR); Hawaii Tourism Authority (HTA); Honolulu Board of REALTORS® and national and local newspapers).

Hawaii's tourism industry, a significant driver of Hawaii's economy, ended the first nine months of 2014 with higher visitor expenditures and relatively flat arrivals as compared to the same period a year ago. Visitor expenditures increased 2.0% and arrivals increased 0.5% compared to the first nine months of 2013. The Hawaii Tourism Authority expects scheduled nonstop seats to Hawaii for the fourth quarter of 2014 to increase by 6.0% over the fourth quarter of 2013 driven by an 8.9% increase in domestic seats.

Hawaii's unemployment rate was relatively stable at 4.2% in September 2014, lower than the state's 4.7% rate in September 2013 and the September 2014 national unemployment rate of 5.9%.

Hawaii real estate activity, as indicated by the home resale market, experienced strong growth in median sales prices in the first nine months of 2014. Median sales prices for single family residential homes and condominiums on Oahu increased 4.6% and 5.4%, respectively, over the first nine months of 2013. However, the number of closed sales was relatively flat in the first nine months of 2014. Closed sales for single family residential homes were up 1.6% and

condominiums were down 0.4% compared to the same period in 2013.

Hawaii's petroleum product prices reflect supply and demand in the Asia-Pacific region and the price of crude oil in international markets. The dramatic reduction in Japan's nuclear production following the tragic earthquake and tsunami in 2011 increased regional demand for energy supplies, including petroleum, and the prices of the Utilities' fuels remained at the elevated 2011 level until the third quarter of 2014 when petroleum product prices moved lower in response to falling prices for crude oil on world markets, weaker prices for coal and LNG in the Far East and lower regional demand after relatively mild summer weather in North Asia.

At its October 2014 meeting, the Federal Open Market Committee (FOMC) decided to end its asset purchase program in October 2014. Also, the FOMC held the federal funds rate target at 0% to 0.25% and this rate is expected to remain at record lows for a considerable time after the asset purchase program ends.

Overall, Hawaii growth prospects remain subdued. Construction has continued to expand, but at a slower pace than anticipated. Tourism has fared decently well, but future gains will be restrained due to limited capacity. Construction, including the Honolulu rail transit project, remains the most likely driver of growth for the next several years. Risks to local economic growth include planned reductions in active duty military, weak Japanese visitor arrivals and spending, and the potential impact of the Ebola situation overseas.

Recent tax developments. The American Taxpayer Relief Act of 2012 provided a one year extension of 50% bonus depreciation through 2013, which increased federal tax depreciation for 2013 by an estimated \$131 million, primarily attributable to the Utilities. Congress has not extended bonus depreciation for 2014 plant additions, but both Houses have proposed bills which would extend bonus depreciation into the future. No action on these bills is expected until after the November election. Without an extension of bonus depreciation, Hawaiian Electric consolidated income tax cash refunds are expected to decrease in 2014 compared to 2013.

Also, see Note 3 and Hawaiian Electric's consolidated income taxes refunded in Note 9 of the Consolidated Financial Statements.

Retirement benefits. For the first nine months of 2014, the Company's defined benefit pension and other postretirement benefit plans' assets generated a return, net of investment management fees, of 3.7%. The market value of these assets as of September 30, 2014 and December 31, 2013 was \$1.4 billion (including \$1.3 billion for the Utilities) and \$1.4 billion (including \$1.2 billion for the Utilities), respectively.

On July 30, 2014, the investment strategy for the ASB Retirement Plan's assets was changed to a liability-driven investment strategy. In August and September 2014, equity securities with a value equal to the amount of assets allocated to the ASB Retirement Plan were liquidated. The resulting proceeds of approximately \$77 million were used to purchase U.S. Treasury bonds.

The Company estimates that the cash funding for its defined benefit pension and other postretirement benefit plans in 2014 will be \$60 million (\$59 million by the Utilities, \$1 million by HEI and nil by ASB), which is expected to fully satisfy the minimum contribution requirements, including requirements of the Utilities' pension and OPEB tracking mechanisms and the plans' funding policies.

The following table reflects the sensitivity of the qualified defined benefit pension projected benefit obligation (PBO) as of December 31, 2014, associated with a change in the pension benefits discount rate actuarial assumption by the indicated basis points and constitutes "forward-looking statements."

Actuarial Assumption	Change in 5.09% assumption in basis points	Impact on HEI consolidated PBO	Impact on the Utilities PBO
Pension benefits discount rate	- 100/+100	\$233 million/\$(187) million	\$217 million/\$(173) million

On October 27, 2014, the Society of Actuaries (SOA) published their RP-2014 (mortality tables) and MP-2014 (mortality improvement scale), which reflect an anticipation of substantial life expectancy improvements since the last study published in 2000 (RP-2000). Adoption of RP-2014 and MP-2014, as published, would result in significantly increased future pension and OPEB plan obligations, costs and required contribution amounts for all plan sponsors.

The Company is currently evaluating an alternative to the adoption of RP-2014 and MP-2014, which reflects an appropriate mortality assumption for the Company's workforce to be used for financial reporting and funding of pension and OPEB obligations, including the potential impacts to the Company's December 31, 2014 valuation and future expected pension and OPEB plan obligations, costs and contributions. For ERISA valuation purposes, the IRS has indicated that for sponsors electing a static mortality option, the RP-2000 table with mortality improvements projected 7 years beyond the valuation date for annuitants and 15 years beyond the valuation date for non-annuitants should be used in 2014 and 2015 (tables with projected mortality provided by the IRS), meaning the earliest new mortality tables are expected to be required for ERISA valuation requirements is January 1, 2016. As of December 31, 2014, the Company is anticipating the use of different mortality assumptions for ERISA funding versus financial reporting and accounting.

Commitments and contingencies. See Note 3, "Electric utility segment" and Note 4, "Bank segment," of the Consolidated Financial Statements.

60

---

Recent accounting pronouncements. See Note 10, “Recent accounting pronouncements,” of the Consolidated Financial Statements.

“Other” segment.

	Three months ended September 30		Nine months ended September 30		Primary reason(s)
	2014	2013	2014	2013	
(in thousands)					
Revenues	\$(5 )	\$56	\$(325 )	\$106	Year-to-date: Writedown of venture capital investments
Operating loss	(4,626 )	(4,650 )	(13,450 )	(12,170 )	Year-to-date: Writedown of venture capital investments and higher administrative and general expenses due to higher salaries, executive compensation, legal expenses and charitable contributions, partly offset by lower retirement benefits expense
Net loss	(4,324 )	(4,857 )	(12,841 )	(13,786 )	Quarter: Slightly lower operating loss and lower interest expense due to lower interest rates Year-to-date: Higher operating loss, more than offset by lower interest expense due to lower interest rates

The “other” business segment includes results of the stand-alone corporate operations of HEI and American Savings Holdings, Inc. (ASHI), both holding companies; HEI Properties, Inc., a company holding passive, venture capital investments; and The Old Oahu Tug Service, Inc., a maritime freight transportation company that ceased operations in 1999; as well as eliminations of intercompany transactions.

#### FINANCIAL CONDITION

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

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

(dollars in millions)	September 30, 2014		December 31, 2013		
Short-term borrowings—other than bank	\$151	4	% \$105	3	%
Long-term debt, net—other than bank	1,518	43	1,493	45	
Preferred stock of subsidiaries	34	1	34	1	
Common stock equity	1,801	52	1,727	51	
	\$3,504	100	% \$3,359	100	%

HEI’s short-term borrowings and HEI’s line of credit facility were as follows:

(in millions)	Nine months ended September 30, 2014		Balance	
	Average balance	September 30, 2014	September 30, 2014	December 31, 2013
Short-term borrowings <sup>1</sup>				
Commercial paper	\$73	\$66	\$66	\$105
Line of credit draws	—	—	—	—
Undrawn amount under line of credit facility <sup>2</sup>			150	125

<sup>1</sup> This table does not include Hawaiian Electric’s separate commercial paper issuances and line of credit facilities and draws, which are disclosed below under “Electric utility—Financial Condition—Liquidity and capital resources.” The maximum amount of HEI’s external short-term borrowings during the first nine months of 2014 was \$106 million. At

October 31, 2014, HEI had \$67 million in outstanding commercial paper and its line of credit facility was undrawn.

<sup>2</sup> On April 2, 2014, HEI entered into an amended and restated revolving unsecured credit agreement, which increased HEI's line of credit to \$150 million from \$125 million and extended the term.

HEI has a line of credit facility, as amended and restated on April 2, 2014, of \$150 million. See Note 11 of the Consolidated Financial Statements.



The Company raised \$3 million through the issuance of approximately 0.1 million shares of common stock under the DRIP, the HEIRSP and ASB 401(k) Plan from January 1 through March 5, 2014. As of March 6, 2014, HEI began satisfying the share purchase requirements of the DRIP, HEIRSP and ASB 401(k) Plan through open market purchases of its common stock rather than through new issuances.

In March 2013, HEI entered into equity forward transactions in which a forward counterparty borrowed 7 million shares of HEI's common stock from third parties and such borrowed shares were sold pursuant to an HEI registered public offering. See Note 7 of the Consolidated Financial Statements. In July 2014, HEI issued 1 million shares under the equity forward for proceeds of \$23.9 million.

On May 2, 2014, HEI closed a two-year term loan from three banks for \$125 million. See Note 11 of the Consolidated Financial Statements for a brief description of the loan agreement and the application of the proceeds of the loan.

On March 6, 2013, HEI issued \$50 million of 3.99% Senior Notes due March 6, 2023 via a private placement. HEI used the net proceeds from the issuance of the Senior Notes to refinance \$50 million of its 5.25% medium-term notes that matured on March 7, 2013. The Senior Notes contain customary representation and warranties, affirmative and negative covenants, and events of default (the occurrence of which may result in some or all of the notes then outstanding becoming immediately due and payable) and provisions requiring the maintenance by HEI of certain financial ratios generally consistent with those in HEI's line of credit facility.

In November 2011, HEI filed an omnibus registration statement to register an indeterminate amount of debt and equity securities, which registration statement expired on November 4, 2014. HEI intends to file a new omnibus registration statement in the fourth quarter of 2014.

For the first nine months of 2014, net cash provided by operating activities of HEI consolidated was \$173 million. Net cash used by investing activities for the same period was \$377 million, due to Hawaiian Electric's consolidated capital expenditures, a net increase in ASB's loans held for investment and purchases of investment and mortgage-related securities, partly offset by ASB's proceeds from sales of investment securities, repayments of investment and mortgage-related securities and redemption of stock from the FHLB of Seattle, and Hawaiian Electric's contributions in aid of construction. Net cash provided by financing activities during this period was \$176 million as a result of several factors, including proceeds from the issuance of shares under the equity forward, net increases in deposit liabilities, short-term borrowings and other bank borrowings and proceeds from the issuance of long-term debt (net of repayments), partly offset by the payment of common stock dividends. Other than capital contributions from their parent company, intercompany services (and related intercompany payables and receivables), Hawaiian Electric's periodic short-term borrowings from HEI (and related interest) and the payment of dividends to HEI, the electric utility and bank segments are largely autonomous in their operating, investing and financing activities. (See the electric utility and bank segments' discussions of their cash flows in their respective "Financial condition—Liquidity and capital resources" sections below.). During the first nine months of 2014, Hawaiian Electric and ASB (through ASHI) paid cash dividends to HEI of \$66 million and \$27 million, respectively.

#### **CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION**

The Company's results of operations and financial condition can be affected by numerous factors, many of which are beyond the Company's control and could cause future results of operations to differ materially from historical results. For information about certain of these factors, see pages 45, 59 to 61, and 71 to 73 of HEI's MD&A included in Part II, Item 7 of HEI's 2013 Form 10-K.

Additional factors that may affect future results and financial condition are described on pages iv and v under "Forward-Looking Statements."

#### **MATERIAL ESTIMATES AND CRITICAL ACCOUNTING POLICIES**

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

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

or complex judgments.

For information about these material estimates and critical accounting policies, see pages 46, 61 to 62, and 73 to 74 of HEI's MD&A included in Part II, Item 7 of HEI's 2013 Form 10-K.

62

---

Following are discussions of the results of operations, liquidity and capital resources of the electric utility and bank segments.

Electric utility

## RESULTS OF OPERATIONS

Utility strategic progress. The Utilities continue to make significant progress in implementing their renewable energy strategies to support Hawaii's efforts to reduce its dependence on oil. The PUC issued several important regulatory decisions during the last few years, including a number of interim and final rate case decisions (see table in "Most recent rate proceedings" below).

On August 26, 2014, Hawaiian Electric, Hawaii Electric Light and Maui Electric filed proposed plans for Hawaii's energy future with the PUC, as required by PUC orders issued in April 2014. The plans filed were the Hawaiian Electric Power Supply Improvement Plan, Maui Electric Power Supply Improvement Plan, Hawaii Electric Light Power Supply Improvement Plan, Hawaiian Electric Companies Distributed Generation Interconnection Plan, and Hawaiian Electric Companies Integrated Interconnection Queue Plan. Under these plans, the Utilities will support sustainable growth of rooftop solar, expand use of energy storage systems, empower customers by developing smart grids, offer new products and services to customers (e.g., community solar, microgrids and voluntary "demand response" programs), and switch from high-priced oil to lower cost liquefied natural gas.

Transition to renewable energy. The Utilities are committed to achieving or exceeding the State's Renewable Portfolio Standard goal of 40% renewable energy by 2030 (see "Renewable energy strategy" below). In addition, while it will not take precedence over the Utilities' work to increase their use of renewable energy, the Utilities are also working with the State of Hawaii and other entities to examine the possibility of using liquefied natural gas (LNG) as a cleaner and lower cost fuel to replace, at least in part, the petroleum oil that would otherwise be used for the remaining generation. In December 2013, the Utilities executed a non-binding memorandum of understanding with The Gas Company, LLC d/b/a HawaiiGAS, documenting the parties' desire to work together to (a) develop and/or secure infrastructure for large scale importation of LNG into Hawaii and (b) establish a consortium to competitively procure the LNG and provide storage and regasification of it at an LNG terminal site. In March 2014, Hawaiian Electric issued a RFP for the supply of containerized LNG. Hawaiian Electric received 3 final bid submissions in May 2014 and is currently evaluating them in detail. Also, see "Liquefied natural gas" in Note 3 of the Consolidated Financial Statements for a description of Hawaiian Electric's agreement with Fortis BC Energy Inc.

After launching a smart grid customer engagement plan during the second quarter of 2014, Hawaiian Electric replaced approximately 5,200 residential and commercial meters with smart meters in selected areas across Oahu as part of the Smart Grid Initial Phase. The Initial Phase is expected to run through 2015 and includes the installation of remote switching and direct load control water heating switches and the launch of a Pre Pay Application. Also under the Initial Phase, fault circuit indicators and key remote controlled switches have been installed, a grid efficiency measure called Volt/Var Optimization was turned on and customer energy portals were launched and are available for customer use. The smart grid provides benefits such as customer tools to manage their electric bills, potentially shortening outages and enabling the Utilities to integrate more low-cost renewable energy, like wind and solar, which will reduce Hawaii's dependence on imported oil. The Utilities are planning to seek approval from the PUC in 2015 to commit funds for an expansion of the smart grid project, including at Hawaii Electric Light and Maui Electric.

Decoupling. In 2010, the PUC issued an order approving decoupling, which was implemented by the Utilities in 2011 and 2012. The decoupling model implemented delinks revenues from sales and includes annual revenue adjustments for certain O&M expenses and rate base changes.

Under decoupling, the most significant drivers for improving earnings are:

- completing major capital projects within PUC approved amounts and on schedule;
- managing O&M expense relative to authorized O&M adjustments; and
- regulatory outcomes that cover O&M requirements and rate base items not included in the RAMs.

On May 31, 2013, as provided for in its original order issued in 2010 approving decoupling, the PUC opened an investigative docket to review whether the decoupling mechanisms are functioning as intended, are fair to the Utilities and their ratepayers, and are in the public interest. On February 7, 2014, in the first part of this bifurcated proceeding, the PUC issued a D&O on select issues, which made certain modifications to the decoupling mechanism. Among

other things, the D&O requires:

63

---

An adjustment to the Rate Base RAM Adjustment to include 90% of the amount of the current RAM Period Rate Base RAM Adjustment that exceeds the Rate Base RAM Adjustment from the prior year, to be effective with the Utilities' 2014 decoupling filing.

Effective March 1, 2014, the interest rate to be applied on the outstanding RBA balances to be the short term debt rate used in each Utilities last rate case (ranging from 1.25% to 3.25%), instead of the 6% that has been previously approved.

The second part of this proceeding will continue this year with panel hearings scheduled for October 2014. See "Decoupling" in Note 3 of the Consolidated Financial Statements.

Actual and PUC-allowed (as of September 30, 2014) returns were as follows:

%	Return on average rate base (RORB)*			ROACE**			Rate-making ROACE***		
	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Hawaiian Electric	Hawaii Electric Light	Maui Electric
Twelve months ended September 30, 2014									
Utility returns	8.12	6.42	7.36	9.63	6.77	8.55	10.42	6.97	9.03
PUC-allowed returns	8.11	8.31	7.34	10.00	10.00	9.00	10.00	10.00	9.00
Difference	0.01	(1.89 )	0.02	(0.37 )	(3.23 )	(0.45 )	0.42	(3.03 )	0.03

\* Based on recorded operating income and average rate base, both adjusted for items not included in determining electric rates.

\*\* Recorded net income divided by average common equity.

\*\*\* ROACE adjusted to remove items not included by the PUC in establishing rates, such as executive bonuses and advertising.

The approval of decoupling by the PUC has helped the Utilities to gradually improve their ROACEs, which in turn will facilitate the Utilities' ability to effectively raise capital for needed infrastructure investments. However, the Utilities continue to expect an ongoing structural gap between their PUC-allowed ROACEs and the ROACEs actually achieved due to the following:

- the timing of general rate case decisions, the effective date of June 1 (rather than January 1) for the RAMs for Hawaii Electric Light and Maui Electric currently, and for Hawaiian Electric beginning in 2017,
- the 5-year historical average for baseline plant additions, the modifications to the rate base RAM and RBA interest rate per the PUC's February 2014 decision on decoupling (as discussed in Note 3 of the Consolidated Financial Statements), and
- the PUC's consistent exclusion of certain expenses from rates.

The structural gap in 2014 to 2016 is expected to be 100 to 130 basis points. Factors which impact the range of the structural gap include the actual sales impacting the size of the RBA regulatory asset, the actual level of baseline additions in any given year relative to the 5-year historical average, and the timing, nature, and size of any general rate case. Between rate cases, items not covered by the annual RAMs could also have a negative impact on the actual ROACEs achieved by the Utilities. Items not covered by the annual RAMS include the changes in rate base for the regulatory asset for pension contributions in excess of the pension amount in rates, investments in software projects, changes in fuel inventory and O&M in excess of indexed escalations. The specific magnitude of the impact will depend on various factors, including changes in the required annual pension contribution, the size of software projects, changes in fuel prices and management's ability to manage costs within the current mechanisms.

As part of decoupling, the Utilities also track their rate-making ROACEs as calculated under the earnings sharing mechanism, which includes only items considered in establishing rates. At year-end, each utility's rate-making ROACE is compared against its ROACE allowed by the PUC to determine whether earnings sharing has been triggered. Annual earnings of a utility over and above the ROACE allowed by the PUC are shared between the utility and its ratepayers on a tiered basis. For 2013, Maui Electric's rate-making ROACE was 9.35%, which was above the PUC allowed 9% ROACE and triggered the earnings sharing mechanism. As a result, Maui Electric will credit its

customers \$0.4 million for their portion of the earnings sharing. Maui Electric's 2013 ratemaking ROACE of 9.35% included adjustments to Maui Electric's actual ROACE of 8.91% such as the exclusion of expenses not considered in establishing electric rates (e.g., executive bonuses). For 2013, Hawaiian Electric's rate-making ROACE was 8.95% and Hawaii Electric Light's rate-making ROACE was 7.46%, which did not trigger the earnings sharing mechanism. Annual decoupling filings. On May 30, 2014, the PUC approved the revised annual decoupling filings for tariffed rates for the Utilities that will be effective from June 1, 2014 through May 31, 2015. The tariffed rates include: (1) RAM adjusted revenues (the components of the annual incremental changes are shown below) with the 2014 rate base RAM return on investment calculated as the PUC ordered in its recent investigative docket on the decoupling mechanism, (2) accrued earnings

sharing credits to be refunded, and (3) the amount of the accrued RBA balance as of December 31, 2013 (and associated revenue taxes) to be collected:

(in millions)	Hawaiian Electric	Hawaii Electric Light	Maui Electric
Annual incremental RAM adjusted revenues			
O&M	\$4.0	\$0.9	\$1.0
Invested capital	26.8	3.9	4.4
Total annual incremental RAM adjusted revenues	\$30.8	\$4.8	\$5.4
Accrued earnings sharing credits to be refunded	\$—	\$—	\$(0.4 )
Accrued RBA balance as of December 31, 2013 (and associated revenue taxes) to be collected	\$72.6	\$8.2	\$9.6

Results.

Three months ended September 30	Increase (decrease)		
2014	2013		(dollars in millions, except per barrel amounts)
\$804	\$764	\$40	Revenues. Increase largely due to:
		\$21	higher fuel costs
		11	higher rate base (RB) and O&M RAM
		7	higher KWHs generated
309	283	26	Fuel oil expense. Increase due to higher KWHs generated and higher fuel costs
193	195	(2 )	Purchased power expense. Decrease due to lower KWHs purchased offset by higher purchased energy costs
108	105	3	Operation and maintenance expenses. Increase due to:
		4	consultant costs related to 4 PUC D&Os
		4	storm restoration costs
		3	costs related to the Smart Grid initial phase
		(4 )	lower customer service costs that were elevated in 2013 during the stabilization period for the new customer information system
		(2 )	fewer overhauls performed
		(2 )	lower production costs due to deactivation of HPP
117	111	6	Other expenses. Increase due to higher revenue associated taxes and depreciation expense for plant investments
76	70	6	Operating income. Increase due to higher revenues offset by an increase in overall expenses
39	38	1	Net income for common stock. Increase due to higher operating income
2,384	2,376	8	Kilowatthour sales (millions)
72.2	70.6	1.6	Wet-bulb temperature (Oahu average; degrees Fahrenheit)
1,631	1,468	163	Cooling degree days (Oahu)
\$133.26	\$127.42	\$5.84	Average fuel oil cost per barrel





Nine months ended September 30		Increase	
2014	2013	(decrease)	(dollars in millions, except per barrel amounts)
\$2,262	\$2,210	\$52	Revenues. Increase largely due to:
		\$42	higher rate base (RB) and O&M RAM
		15	higher fuel costs
		9	higher purchased power costs
		5	Maui Electric refund in 2013 due to final 2012 rate case decision
		(24 )	lower generated KWH sales
866	878	(12 )	Fuel oil expense. Decrease largely due to lower KWHs generated, resulting from higher purchased power
546	527	19	Purchased power expense. Increase due to higher KWHs purchased and capacity/non-fuel charges as a result of decreased availability of AES in 2013 and expanded capacity of HPower in 2014, partly offset by lower purchased energy costs
295	301	(6 )	Operation and maintenance expenses. Decrease due to:
		(9 )	lower customer service costs that were elevated in 2013 during the stabilization period for the new customer information system
		(7 )	fewer overhauls performed
		(4 )	lower production costs due to deactivation of HPP
		7	costs related to the Smart Grid initial phase
		5	consultant costs related to the 4 PUC D&Os
		4	storm restoration costs
338	325	13	Other expenses. Increase primarily due to depreciation expense for plant investments
217	180	37	Operating income. Increase due to higher revenues offset by an increase in overall expenses
109	91	18	Net income for common stock. Increase due to higher operating income
6,699	6,746	(47 )	Kilowatthour sales (millions)
69.5	68.6	0.9	Wet-bulb temperature (Oahu average; degrees Fahrenheit)
3,703	3,371	332	Cooling degree days (Oahu)
\$132.19	\$130.15	\$2.04	Average fuel oil cost per barrel
454,156	450,939	3,217	Customer accounts (end of period)

Note: The electric utilities had effective tax rates for the third quarters of 2014 and 2013 of 37% and 32%, respectively. The electric utilities had effective tax rates for the first nine months of 2014 and 2013 of 37% and 35%, respectively. The effective tax rates were higher for the three and nine months ended September 30, 2014 compared to the same periods in 2014 due primarily to the 2013 reversal of deferred taxes (see "Out-of period income tax benefit" in Note 1 of the Consolidated Financial Statements).

Hawaiian Electric's consolidated ROACE was 9.0% for the twelve months ended September 30, 2014 and 6.5% for the twelve months ended September 30, 2013.

The Utilities' consolidated kilowatthour (KWH) sales have declined each year since 2007. Based on expectations of additional customer renewable self-generation and energy-efficiency installations, the Utilities' 2014 and 2015 KWH sales are expected to further decline below 2013 levels.

Other operation and maintenance expenses (excluding expenses covered by surcharges or by third parties) for 2014 are projected to be relatively flat as compared to 2013 as the Utilities expect to manage expenses to near 2013 levels. The net book value (cost less accumulated depreciation) of utility property, plant and equipment (PPE) as of September 30, 2014 amounted to \$3.8 billion, of which approximately 28% related to production PPE, 63% related to

transmission and distribution PPE, and 9% related to other PPE. Approximately 3% of the total net book value relates to generation PPE that has been deactivated or that the Utilities plan to deactivate or decommission. See “Adequacy of supply” below.

See “Economic conditions” in the “HEI Consolidated” section above.

Most recent rate proceedings. Unless otherwise agreed or ordered, each electric utility is currently required by PUC order to initiate a rate proceeding every third year (on a staggered basis) to allow the PUC and the Consumer Advocate to regularly evaluate decoupling and to allow the utility to request electric rate increases to cover rising operating costs and the cost of plant and equipment, including the cost of new capital projects to maintain and improve service reliability. The PUC may grant an interim increase within 10 to 11 months following the filing of an application, but there is no guarantee of such an interim increase and interim amounts collected are refundable, with interest, to the extent they exceed the amount approved in the PUC’s final D&O. The timing and amount of any final increase is determined at the discretion of the PUC. The adoption of revenue, expense, rate base and cost of capital amounts (including the ROACE and RORB) for purposes of an interim rate increase does not commit the PUC to accept any such amounts in its final D&O.

The following table summarizes certain details of each utility’s most recent rate cases, including the details of the increases requested, whether the utility and the Consumer Advocate reached a settlement that they proposed to the PUC, and the details of any granted interim and final PUC D&O increases.

Test year (dollars in millions)	Date (applied/ implemented)	Amount	% over rates in effect	ROACE (%)	RORB (%)	Rate base	Common equity %	Stipulated agreement reached with Consumer Advocate
Hawaiian Electric								
2011 (1)								
Request	7/30/10	\$113.5	6.6	10.75	8.54	\$1,569	56.29	Yes
Interim increase	7/26/11	53.2	3.1	10.00	8.11	1,354	56.29	
Interim increase (adjusted)	4/2/12	58.2	3.4	10.00	8.11	1,385	56.29	
Interim increase (adjusted)	5/21/12	58.8	3.4	10.00	8.11	1,386	56.29	
Final increase	9/1/12	58.1	3.4	10.00	8.11	1,386	56.29	
2014 (2)								
	6/27/14							
Hawaii Electric Light								
2010 (3)								
Request	12/9/09	\$20.9	6.0	10.75	8.73	\$487	55.91	Yes
Interim increase	1/14/11	6.0	1.7	10.50	8.59	465	55.91	
Interim increase (adjusted)	1/1/12	5.2	1.5	10.50	8.59	465	55.91	
Final increase	4/9/12	4.5	1.3	10.00	8.31	465	55.91	
2013 (4)								
Request	8/16/12	\$19.8	4.2	10.25	8.30	\$455	57.05	
Closed	3/27/13							
Maui Electric								
2012 (5)								
Request	7/22/11	\$27.5	6.7	11.00	8.72	\$393	56.85	Yes
Interim increase	6/1/12	13.1	3.2	10.00	7.91	393	56.86	
Final increase	8/1/13	5.3	1.3	9.00	7.34	393	56.86	

Note: The “Request Date” reflects the application filing date for the rate proceeding. All other line items reflect the effective dates of the revised schedules and tariffs as a result of PUC-approved increases.

(1) Hawaiian Electric filed a request with the PUC for a general rate increase of \$113.5 million, based on depreciation rates and methodology as proposed by Hawaiian Electric in a separate depreciation proceeding. Hawaiian Electric’s request was primarily to pay for major capital projects and higher O&M costs to maintain and improve service reliability and to recover the costs for several proposed programs to help reduce Hawaii’s dependence on imported oil, and to further increase reliability and fuel security.

The \$53.2 million, \$58.2 million, and \$58.8 million interim increases, and the \$58.1 million final increase, include the \$15 million in annual revenues that were being recovered through the decoupling RAM prior to the first interim increase.

(2) See “Hawaiian Electric 2014 test year rate case” below.

Hawaii Electric Light’s request was primarily to cover investments for system upgrade projects, two major transmission line upgrades and increasing O&M expenses. On February 8, 2012, the PUC issued a final D&O, (3) which reflected the approval of decoupling and cost-recovery mechanisms, and on February 21, 2012, Hawaii Electric Light filed its revised tariffs to reflect the increase in rates. On April 4, 2012, the PUC issued an order approving the revised tariffs, which became effective April 9, 2012. Hawaii Electric Light implemented

the decoupling mechanism and began tracking the target revenues and actual recorded revenues via a revenue balancing account. Hawaii Electric Light also reset the heat rates and implemented heat rate deadbands and the PPAC, which provides a surcharge mechanism that more closely aligns cost recovery with costs incurred. The revised tariffs reflect a lower increase in annual revenue requirement compared to the interim increase due to factors that became effective concurrently with the revised tariffs (lower depreciation rates and lower ROACE) and therefore, no refund to customers was required.

(4) Hawaii Electric Light's request was to pay for O&M expenses and additional investments in plant and equipment required to maintain and improve system reliability and to cover the increased costs to support the integration of more renewable energy generation. As a result of the 2013 Agreement and 2013 Order (described below), the rate case was withdrawn and the docket has been closed.

(5) Maui Electric's request was to pay for O&M expenses and additional investments in plant and equipment required to maintain and improve system reliability and to cover the increased costs to support the integration of more renewable energy generation. See discussion on final D&O, including the refund to customers in September and October 2013 required as a result of the final D&O, in Note 3 of the Consolidated Financial Statements.

Hawaiian Electric 2011 test year rate case. In the Hawaiian Electric 2011 test year rate case, the PUC had granted Hawaiian Electric's request to defer Customer Information System (CIS) project O&M expenses (limited to \$2,258,000 per year in 2011 and 2012) that were to be subject to a regulatory audit of project costs, and allowed Hawaiian Electric to accrue AFUDC on these deferred costs until the completion of the regulatory audit.

On January 28, 2013, the Utilities and the Consumer Advocate entered into the 2013 Agreement to, among other things, write-off \$40 million of CIS Project costs in lieu of conducting the regulatory audits of the CIP CT-1 and the CIS projects, with the remaining recoverable costs for the projects of \$52 million to be included in rate base as of December 31, 2012. The parties agreed that Hawaii Electric Light would withdraw its 2013 test year rate case and not file a rate case until its next turn in the rate case cycle, for a 2016 test year, and Hawaiian Electric would delay the filing of its scheduled 2014 test year rate case to no earlier than January 2, 2014. The parties also agreed that, starting in 2014, Hawaiian Electric will be allowed to record RAM revenues starting on January 1 (instead of the prior start date of June 1) for the years 2014, 2015 and 2016. This resulted in additional revenues of \$7 million and \$5 million for the first and second quarters of 2014, respectively, for a year-to-date amount of \$12 million. There were no additional revenues recorded in the third quarter of 2014 as a result of the 2013 Agreement.

Hawaiian Electric 2014 test year rate case. On October 30, 2013 Hawaiian Electric filed with the PUC a Notice of Intent to file an application for a general rate case (on or after January 2, 2014, but before June 30, 2014, using a 2014 test year) and a motion, which was subsequently recommended by the Consumer Advocate, for approval of test period waiver. Hawaiian Electric's filing of a 2014 rate case would be in accordance with a PUC order which calls for a mandatory triennial rate case cycle. On March 7, 2014, the PUC issued an order granting Hawaiian Electric's motion to waive the requirement to utilize a split test year, and authorized a 2014 test year.

On June 27, 2014, Hawaiian Electric submitted an abbreviated rate case filing (abbreviated filing), stating that it intends to forego the opportunity to seek a general rate increase in base rates, and if approved, this filing would result in no change in base rates. Hawaiian Electric stated that it is foregoing a rate increase request in recognition that its customers are already in a challenging high electricity bill environment. The abbreviated filing explained that Hawaiian Electric is aggressively attacking the root causes of high rates, by, among other things, vigorously pursuing the opportunity to switch from oil to liquefied natural gas, acquiring lower-cost renewable energy resources, pursuing opportunities to achieve operational efficiencies, and deactivating older, high-cost generation. Instead of seeking a rate increase, Hawaiian Electric is focused on developing and executing the new business model, plans and strategies required by the PUC's April 2014 regulatory orders discussed in Note 3 of the Consolidated Financial Statements, as well as other actions that will reduce rates.

Hawaiian Electric further explained that the abbreviated filing satisfies the obligation to file a general rate case under the three-year cycle established by the PUC in the decoupling final D&O. If the PUC determines that additional materials are required, Hawaiian Electric stated it will work with the Consumer Advocate on a schedule to submit additional information as needed. Hawaiian Electric asked for an expedited decision on this filing and stated that if the PUC decides that such a ruling is not in order, Hawaiian Electric reserves the right to supplement the abbreviated

filing with additional material to support the increase in revenue requirements forgone by this filing—calculated to be \$56 million over revenues at current effective rates. Hawaiian Electric’s revenue at current effective rates includes: (1) the revenue from Hawaiian Electric’s base rates, including the revenue from the energy cost adjustment clause and the purchased power adjustment clause, (2) the revenue that would be included in the decoupling revenue balancing account (RBA) in 2014 based on 2014 test year forecasted sales, and (3) the revenue from the 2014 revenue adjustment mechanism (RAM) implemented in connection with the decoupling mechanism.

Under Hawaiian Electric’s proposal, the decoupling RBA and RAM would continue, subject to any change to these mechanisms ordered by the PUC in Schedule B of the decoupling proceedings, the DSM surcharge would continue since demand response (DR) program costs would not be rolled into base rates (as required in the April 28, 2014 DR Order) until the next rate case, and the pension and OPEB tracking mechanisms would continue. Hawaiian Electric plans to file its next rate

case according to the normal rate case cycle using a 2017 test year. If circumstances change, Hawaiian Electric may file its next rate case earlier.

Management cannot predict whether the PUC will accept this abbreviated filing to satisfy Hawaiian Electric's obligation to file a rate case in 2014, whether additional material will be required or whether Hawaiian Electric will be required to proceed with a traditional rate proceeding.

**Maui Electric 2015 Rate Case.** On October 17, 2014, Maui Electric filed its notice of intent to file a general rate case application by the end of 2014, utilizing a 2015 calendar test year. The rate case filing is required to satisfy the obligation to file a general rate case under the three-year cycle established by the PUC in the decoupling final D&O. Renewable energy strategy. The Utilities' policy is to support efforts to increase renewable energy in Hawaii. The Utilities believe their actions will help stabilize customer bills as they become less dependent on costly and price-volatile fossil fuel. The Utilities' renewable energy strategy will also allow them to meet Hawaii's RPS law, which requires electric utilities to meet an RPS of 10%, 15%, 25% and 40% by December 31, 2010, 2015, 2020 and 2030, respectively. The Utilities met the 10% RPS for 2010 with a consolidated RPS of 20.7%, including savings from energy efficiency programs and solar water heating (or 9.5% without DSM energy savings). Energy savings resulting from DSM energy efficiency programs and solar water heating will not count toward the RPS after 2014. For 2013, the Utilities achieved an RPS without DSM energy savings of 18%, primarily through a comprehensive portfolio of renewable energy PPAs, net energy metering programs and biofuels. The Utilities have been successful in adding significant amounts of renewable energy resources to their electric systems. The Utilities are on track to exceed their 2015 RPS goal, and lead the nation in terms of the amount of photovoltaic (PV) systems installed by its customers. Additionally, the State continues to pursue reduction in energy use, as embodied in its energy efficiency portfolio standard goals.

As more generating resources, whether utility scale or distributed generation, are added to the Utilities' electric systems and as customers reduce their energy usage, the ability to accommodate additional generating resources and to accept energy from existing resources is becoming more challenging. As a result, there is a growing risk that energy production from generating resources may need to be curtailed and the interconnection of additional resources will need to be closely evaluated. Also, under the state's renewable energy strategy, there has been exponential growth in recent years in variable generation (e.g. solar and wind) on Hawaii's island grids. Much of this variable generation is in the form of distributed generators interconnected at distribution circuits that cannot be directly controlled by system operators. As a consequence, grid resiliency in response to events that cause significant frequency and/or voltage excursions has weakened, and the prospects for larger and more frequent service outages have increased. The Utilities have been progressively making changes in their operating practices, are making investments in grid modernization technologies, and are working with the solar industry to mitigate these risks and continue the integration of more renewable energy.

Developments in the Utilities' renewable energy strategy include the following:

In July 2011, the PUC directed Hawaiian Electric to submit a draft RFP for the PUC's consideration for a competitive bidding process for 200 MW or more of renewable energy to be delivered to, or to be sited on, the island of Oahu. In October 2011, Hawaiian Electric filed a draft RFP with the PUC. In July 2013, the PUC issued orders related to the 200-MW RFP. First, it issued an order that Hawaiian Electric shall amend its current draft of the Oahu 200-MW RFP to remove references to the Lanai Wind Project, eliminate solicitations for an undersea transmission cable, and amend the draft RFP to reflect other guidance provided in the order. Second, it initiated an investigative proceeding to review the progress of the Lanai Wind Project stating that there was an uncertainty whether the project developer retained an equivalent ability to develop the project as when it submitted its bid in 2008 and its term sheet in 2011. Third, the PUC initiated a proceeding to solicit information and evaluate whether an interisland grid interconnection transmission system between the islands of Oahu and Maui is in the public interest, given the potential for large-scale wind and solar projects on Maui.

In May 2012, the PUC approved Hawaiian Electric's 3-year biodiesel supply contract with Renewable Energy Group for continued biodiesel supply to CIP CT-1 of 3 million to 7 million gallons per year.

In May 2012, Maui Electric began purchasing wind energy from the 21-MW Kaheawa Wind Power II, LLC facility, which went into commercial operation in July 2012.

In May 2012, Hawaiian Electric signed a contract, which was approved by the PUC, with the City and County of Honolulu to purchase an additional 27 MW of capacity and energy from an expanded waste-to-energy HPower facility, which was placed in service in April 2013.

In May 2012, Hawaii Electric Light signed a PPA, which the PUC approved in December 2013, with Hu Honua Bioenergy for 21.5 MW of renewable, dispatchable firm capacity fueled by locally grown biomass from a facility on the island of Hawaii.

In May 2012, the PUC instituted a proceeding for a competitive bidding process for up to 50 MW of firm renewable geothermal dispatchable energy (Geothermal RFP) on the island of Hawaii. In September 2014, Hawaii Electric Light



filed its request for modification of the Geothermal RFP (Best and Final Offer Process), and in October 2014, issued the Geothermal RFP Addendum No. 1 (Best and Final Offer) to eligible bidders.

In August 2012, the battery facility at a 30-MW Kahuku wind farm experienced a fire. After the interconnection infrastructure was rebuilt and voltage regulation equipment was installed, the facility came up to full output in January 2014 to perform control system acceptance testing, and energy is being purchased at a base rate until PUC approval of an amendment to the PPA.

In August 2012, the PUC approved a waiver from the competitive bidding process to allow Hawaiian Electric to negotiate with the U.S. Army for construction of a 50-MW utility-owned and operated firm, renewable and dispatchable generation facility at Schofield Barracks on the island of Oahu and expected to be placed in service in 2017.

In September 2012, Hawaiian Electric began purchasing test wind energy from the 69-MW Kawailoa Wind, LLC facility. The wind farm was placed into full commercial operation in November 2012.

In December 2012, the PUC approved a 3-year biodiesel supply contract with Pacific Biodiesel to supply 250,000 to 1 million gallons of biodiesel at the Honolulu International Airport Emergency Power Facility beginning in 2013.

In December 2012, the 21-MW Auwahi Wind Energy LLC facility was placed into commercial operation, selling power to Maui Electric under a 20-year contract.

In December 2012, the 5-MW Kalaeloa Solar Two, LLC PV facility was placed into commercial operation, selling power to Hawaiian Electric under a 20-year contract.

In February 2013, Hawaiian Electric issued an "Invitation for Low Cost Renewable Energy Projects on Oahu through Request for Waiver from Competitive Bidding," which seeks to lower the cost of electricity for customers in the near term with qualified renewable energy projects on Oahu that can be quickly placed into service at a low cost per KWH. Proposals were received and Hawaiian Electric obtained waivers from the PUC Competitive Bidding Framework for nine projects, subject to certain conditions. Developers of two of the nine projects withdrew their proposed projects. The first completed contract from the waiver process (a 22-year term PPA with Ka La Nui Solar, LLC for a 15-MW PV project) was filed with the PUC in October 2014 for approval. Per the PUC's Order approving waivers for the remaining six projects, executed PPAs need to be filed by December 5, 2014.

In May 2013, Maui Electric requested a waiver from the PUC Competitive Bidding Framework to conduct negotiations for a PPA for approximately 4.5 to 6.0 MW of firm power from a proposed Mahinahina Energy Park, LLC project, fueled with biofuel. The PUC approved the waiver request, provided that an executed PPA must be filed for PUC approval by February 2015.

In October 2013, Hawaiian Electric requested approval from the PUC for a waiver from the competitive bidding process and to commit \$42.4 million for the purchase and installation of a 15-MW utility-scale PV generation system at its Kahe Power generation station property. If approved, the project is expected to be completed in early 2016.

In October 2013, the PUC approved Hawaiian Electric's 20-year contract with Hawaii BioEnergy to supply 10 million gallons per year of biocrude at Kahe Power Plant to begin within five years of November 25, 2013.

- In November 2013, the 5-MW Kalaeloa Renewable Energy Park, LLC PV facility was placed into commercial operation selling power to Hawaiian Electric under a 20-year contract.

In December 2013, the PUC denied approval of Hawaii Electric Light's contract with Aina Koa Pono-Ka'u LLC (AKP) to supply 16 million gallons of biodiesel per year, citing the higher cost of the biofuel over the cost of petroleum diesel.

In December 2013, Hawaiian Electric requested PUC approval for a waiver of the Na Pua Makani Power Partners, LLC's proposed 24-MW wind farm located in the Kahuku area on Oahu from the competitive bidding process and of the PPA for Renewable As-Available Energy dated October 3, 2013 between Hawaiian Electric and Na Pua Makani Power Partners, LLC for the proposed 24-MW wind farm.

In April 2014, Hawaiian Electric requested PUC approval of a PPA for Renewable As-Available Energy with Lanikuhana Solar, LLC for a proposed 20-MW PV facility on Oahu.

In June 2014, the PUC approved the Utilities 3-year biodiesel supply contract with Pacific Biodiesel Technologies, LLC to spot purchase up to 200,000 gallons per month of as available biodiesel at cost parity to petroleum diesel.

The Utilities began accepting energy from feed-in tariff projects in 2011. As of September 30, 2014, there were 10 MW, 1 MW and 2 MW of installed feed-in tariff capacity from renewable energy technologies at Hawaiian Electric, Hawaii Electric Light and Maui Electric, respectively.

As of September 30, 2014, there were approximately 204 MW, 42 MW and 45 MW of installed net energy metering capacity from renewable energy technologies (mainly PV) at Hawaiian Electric, Hawaii Electric Light and Maui Electric, respectively. The amount of net energy metering capacity installed in the first nine months of 2014 was about 26% lower than the amount installed in the first nine months of 2013, principally due to higher circuit saturations (resulting in the need for further technical reviews and potential equipment modification and/or upgrades).

#### Adequacy of supply.

Hawaiian Electric. In April 2014, Hawaiian Electric filed its 2014 Adequacy of Supply (AOS) letter, which indicated that based on its February 2014 updated sales and peak forecast, Hawaiian Electric's generation capacity is sufficient to meet reasonably expected demands for service and provide reasonable reserves for emergencies for the next three years (2014-2016). Hawaiian Electric deactivated two fossil fuel generating units from active service at its Honolulu Power Plant in January 2014 and anticipates deactivating two additional fossil fuel units at its Waiiau Power Plant in the 2016 timeframe. Hawaiian Electric is proceeding with future firm capacity additions in coordination with the State of Hawaii Department of Transportation, and also the U.S. Department of the Army for a utility owned and operated renewable, dispatchable, generation security project on federal lands. Hawaiian Electric is continuing negotiations with two firm capacity IPPs on Oahu under PPAs scheduled to expire in 2016 and 2022.

Hawaii Electric Light. In January 2014, Hawaii Electric Light filed its 2014 AOS letter which indicated that Hawaii Electric Light's generation capacity through 2016 is sufficiently large to meet all reasonably expected demands for service and provide reasonable reserves for emergencies.

Hawaii Electric Light is anticipating the addition of the Hu Honua Bioenergy, LLC plant in 2015, and potentially additional generation in the 2020-2025 timeframe. Hawaii Electric Light's current generation resource plans also include decommissioning Shipman units 3 and 4 in 2015, seasonal cycling of the Puna plant in 2014, with deactivation in 2018 and decommissioning in 2020, and occasional cycling operation of the Hill unit 5 in 2014, with deactivation in 2020 and decommissioning in 2022.

Maui Electric. In April 2014, Maui Electric filed its 2014 AOS letter, which indicated that Maui Electric's generation capacity through 2015 is sufficient to meet the forecasted demands on the islands of Maui, Lanai, and Molokai. Maui Electric anticipates needing additional firm capacity on Maui in the 2016 timeframe, with greater capacity needs in 2019. In February 2014, Maui Electric deactivated two fossil fuel generating units at its Kahului Power Plant. Maui Electric anticipates the retirement of all generating units at the Kahului Power Plant in the 2019 timeframe. Maui Electric plans to issue one or more RFPs for energy storage, demand response and firm generating capacity, and to make system improvements needed to ensure reliability and voltage support in this timeframe.

The PSIPs, Distributed Generation Interconnection Plan, Integrated Interconnection Queue Plan and Demand Response Portfolio Plan filed in response to the April 2014 regulatory orders may affect the resource plans.

April 2014 regulatory orders. In April 2014, the PUC issued four orders that collectively provide certain key policy, resource planning, and operational directives to the Utilities. See "April 2014 regulatory orders" in Note 3 of the Consolidated Financial Statements.

Commitments and contingencies. See Note 3 of the Consolidated Financial Statements.

Potential impact of lava flows. In June 2014, lava from the Kilauea Volcano on the island of Hawaii began flowing toward the town of Paho. Hawaii Electric Light is monitoring utility property and equipment near the affected areas and protecting that property and equipment to the extent possible (e.g., building barriers around poles). Management does not expect the lava flows to materially impact its operations or financial performance at this time.

Recent accounting pronouncements. See Note 10, "Recent accounting pronouncements," of the Consolidated Financial Statements.

#### FINANCIAL CONDITION

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

Hawaiian Electric's consolidated capital structure was as follows:

(dollars in millions)	September 30, 2014		December 31, 2013		
Short-term borrowings	\$85	3	% \$—	—	%
Long-term debt, net	1,218	41	1,218	43	
Preferred stock	34	1	34	1	
Common stock equity	1,636	55	1,594	56	

\$2,973	100	%	\$2,846	100	%
---------	-----	---	---------	-----	---

71

---

Information about Hawaiian Electric's short-term borrowings (other than from Hawaii Electric Light and Maui Electric) and Hawaiian Electric's line of credit facility were as follows:

(in millions)	Average balance	Balance	
	Nine months ended September 30, 2014	September 30, 2014	December 31, 2013
Short-term borrowings <sup>1</sup>			
Commercial paper	\$58	\$85	\$—
Line of credit draws	—	—	—
Borrowings from HEI	—	—	—
Undrawn amount under line of credit facility <sup>2</sup>		200	175

<sup>1</sup> The maximum amount of Hawaiian Electric's external short-term borrowings during the first nine months of 2014 was \$103 million. At September 30, 2014, Hawaii Electric Light and Maui Electric had short-term borrowings from Hawaiian Electric of \$1 million and \$11 million, respectively. At October 31, 2014, Hawaiian Electric had \$57 million of outstanding commercial paper, no draws under its line of credit facility and no borrowings from HEI. Also, at October 31, 2014, Hawaii Electric Light and Maui Electric had short-term borrowings from Hawaiian Electric of \$2 million and \$10 million, respectively. Intercompany borrowings are eliminated in consolidation.

<sup>2</sup> On April 2, 2014, Hawaiian Electric entered into an amended and restated revolving non-collateralized credit agreement, which increased Hawaiian Electric's line of credit to \$200 million from \$175 million and revised the term. See Note 11 of the Consolidated Financial Statements.

Hawaiian Electric has a line of credit facility, as amended and restated on April 2, 2014, of \$200 million. See Note 11 of the Consolidated Financial Statements. The Hawaiian Electric facility provides for a term through April 1, 2015 (but which term is to be extended to up to April 2, 2019 upon approval by the PUC during the initial term, which approval is currently being requested) and provides improved pricing compared to Hawaiian Electric's prior facility.

Special purpose revenue bonds (SPRBs) have been issued by the Department of Budget and Finance of the State of Hawaii (DBF) to finance (and refinance) capital improvement projects of Hawaiian Electric and its subsidiaries, but the sources of their repayment are the non-collateralized obligations of Hawaiian Electric and its subsidiaries under loan agreements and notes issued to the DBF, including Hawaiian Electric's guarantees of its subsidiaries' obligations. The payment of principal and interest due on SPRBs currently outstanding and issued prior to 2009 are insured by Ambac Assurance Corporation or Financial Guaranty Insurance Company (FGIC), which was placed in a rehabilitation proceeding in the State of New York in June 2012. On August 19, 2013 FGIC's plan of rehabilitation became effective and the rehabilitation proceeding terminated. The S&P and Moody's ratings of these insurers, which at the time the insured obligations were issued were higher than the ratings of the Utilities, have been withdrawn. Management believes that if Hawaiian Electric's long-term credit ratings were to be downgraded, or if credit markets further tighten, it could be more difficult and/or expensive to sell bonds in the future.

The PUC has approved the use of an expedited approval procedure for the approval of long-term debt financings or refinancings (including the issuance of taxable debt) by the Utilities, up to specified amounts, during the period 2013 through 2015, subject to certain conditions. On October 3, 2013, after obtaining such expedited approvals, the Utilities issued through a private placement taxable non-collateralized senior notes with an aggregate principal amount of \$236 million. In September 2014, the Utilities filed a request with the PUC under the expedited approval procedure for approval to issue unsecured obligations bearing taxable interest through December 31, 2015 of up to \$80 million (Hawaiian Electric \$50 million, Hawaii Electric Light \$25 million and Maui Electric \$5 million), which represents the remaining unused amount subject to the expedited approval procedure for long-term debt financings. The proceeds are expected to be used, as applicable, to finance capital expenditures, repay long-term and/or short term debt used to finance or refinance capital expenditures and/or to reimburse funds used for payment of the capital expenditures. PUC approval to issue an additional \$47 million to refinance outstanding revenue bonds

(Hawaiian Electric \$40 million, Hawaii Electric Light \$5 million and Maui Electric \$2 million) can be requested under the expedited approval procedure through 2015.

In April 2014, Hawaiian Electric, Hawaii Electric Light and Maui Electric filed an application with the PUC for approval of the sale of each utility's common stock over a period from the date of approval in 2014 to December 31, 2016 (Hawaiian Electric's sale to HEI of up to \$250 million and Hawaii Electric Light's and Maui Electric's sales to Hawaiian Electric of up to \$26 million and \$47 million, respectively), and the purchase of the Hawaii Electric Light and Maui Electric common stock by Hawaiian Electric over the same period. In July 2014, the Utilities modified their request to the PUC to approve the issuance and sale of common stock in 2014 only in the amounts stated in the application (Hawaiian Electric's issuance and sale of its common stock to HEI of up to \$60 million and Hawaii Electric Light's and Maui Electric's issuance and sale of their common stock to Hawaiian Electric of up to \$5 million and \$20 million, respectively), which the PUC approved in November 2014. In addition, under a previous authorization received from the PUC in November 2010, Hawaiian Electric and Hawaii Electric

Light have remaining authorization to issue their common stock through 2014 of up to an additional \$43.4 million and \$19.9 million, respectively.

Cash flows from operating activities generally relate to the amount and timing of cash received from customers and payments made to third parties. Using the indirect method of determining cash flows from operating activities, noncash expense items such as depreciation and amortization, as well as changes in certain assets and liabilities, are added to (or deducted from) net income. For the first nine months of 2014 and 2013, net cash provided by operating activities decreased by \$65 million and increased by \$131 million, respectively, compared to the same period in the prior year. In 2014, noncash depreciation and amortization amounted to \$129 million an increase over the prior year due to an increase in plant and equipment. Further, net cash provided by operating activities included a \$16 million decrease in fuel oil stock, a net decrease of \$19 million in accounts receivable and accrued unbilled revenues due to timing of customer payments, and \$78 million decrease in accounts payable due to timing of vendor payments. In 2013, noncash depreciation and amortization amounted to \$118 million due to an increase in plant and equipment. Further, net cash provided by operating activities included a \$24 million decrease in fuel oil stock, a net decrease of \$36 million in accounts receivable and accrued unbilled revenues due to timing of customer payments, and \$41 million decrease in accounts payable due to timing of vendor payments.

For the first nine months of 2014 and 2013, net cash used in investing activities increased by \$6 million and decreased by \$26 million, respectively, compared to the same period in the prior year. Cash used in investing activities consisted primarily of capital expenditures, partly offset by contributions in aid of construction.

Financing activities provide supplemental cash for both day-to-day operations and capital requirements as needed. For the first nine months of 2014 and 2013, cash flows from financing activities increased by \$6 million and decreased by \$64 million, respectively, compared to the same period in the prior year. In 2014, cash provided by financing activities consisted primarily of net proceeds received from short-term borrowings of \$85 million, partly offset by the payment of \$68 million of common and preferred stock dividends. In 2013, cash provided by financing activities consisted of net proceeds received from short-term borrowings of \$73 million, partly offset by the payment of \$63 million of common and preferred stock dividends.

## Bank

## RESULTS OF OPERATIONS

(in millions)	Three months ended September 30		Increase (decrease)	Primary reason(s)
	2014	2013		
Interest income	\$49	\$46	\$3	The impact of higher average earning asset balances was partly offset by lower yields on earning assets. ASB's average loan portfolio balance for the three months ended September 30, 2014 was \$303 million higher than for the same period in 2013 as average commercial real estate, home equity lines of credit and commercial balances increased by \$132 million, \$113 million and \$44 million, respectively. The growth in these loan portfolios was reflective of ASB's portfolio mix target and loan growth strategy. Loan portfolio yields were impacted by the low interest rate environment as new loan production yields were lower than the average loan portfolio yields. The average investment and mortgage-related securities portfolio balance decreased by \$7 million and the securities portfolio yield was lower due to the sale of the higher yielding municipal bond portfolio in the first quarter of 2014.
Noninterest income	15	19	(4)	Lower noninterest income as the 2013 noninterest income included the gain from the sale of the credit card portfolio of \$2 million and 2014 mortgage banking income was lower as a result of lower refinancing volumes.
Revenues	64	65	(1)	
Interest expense	3	2	1	Average deposit balances for the three months ended September 30, 2014 increased by \$245 million compared to the same period in 2013 due to an increase in core deposits of \$255 million, partly offset by a decrease of term certificates of \$10 million. Other borrowings increased by \$51 million primarily due to an increase in FHLB advance borrowings.
Provision (credit) for loan losses	1	—	1	The provision for loan losses increased by \$1.5 million as the provision for loan losses for the three months ended September 30, 2013 was unusually low due to the release of reserves related to the payoff of a specific commercial loan and recoveries of previously charged-off loans. The net charge-off ratio for the three months ended September 30, 2014 and 2013 was 0.04% and nil, respectively.
Noninterest expense	40	40	—	Noninterest expense for the three months ended September 30, 2014 was slightly lower than noninterest expense for the same period in 2013 due to costs incurred in 2013 for the sale of the credit card portfolio, partly offset by higher printing expenses due to the outsourcing of printing in 2014 (which also resulted in lower equipment, compensation and employee benefit expenses).
Expenses	44	42	2	
Operating income	20	23	(3)	Lower noninterest income, higher provision for loan losses and higher interest expense, partly offset by higher interest income.
Net income	13	15	(2)	





(in millions)	Nine months ended September 30		Increase (decrease)	Primary reason(s)
	2014	2013		
Interest income	\$142	\$139	\$3	The impact of higher average earning asset balances was partly offset by lower yields on earning assets. ASB's average loan portfolio balance for the nine months ended September 30, 2014 was \$334 million higher than for the same period in 2013 as average home equity lines of credit, commercial real estate, commercial and residential balances increased by \$115 million, \$106 million, \$68 million and \$60 million, respectively. The growth in these loan portfolios was reflective of ASB's portfolio mix target and loan growth strategy. Loan portfolio yields were impacted by the low interest rate environment as new loan production yields were lower than the average loan portfolio yields. The average investment and mortgage-related securities portfolio balance decreased by \$67 million due to the sale of the agency obligations in 2013 and the municipal bond portfolio in 2014.
Noninterest income	46	57	(11)	Lower noninterest income due to \$5 million lower mortgage banking income as a result of lower refinancing volumes, \$4 million lower debit card interchange fees as a result of being non-exempt from the Durbin Amendment as of July 1, 2013 and 2013 noninterest income included the gain from the sale of the credit card portfolio of \$2 million. ASB had \$2 million higher gain on sale of securities in 2014 compared to 2013.
Revenues	188	196	(8)	
Interest expense	8	8	—	Average deposit balances for the nine months ended September 30, 2014 increased by \$208 million compared to the same period in 2013 due to an increase in core deposits of \$234 million, partly offset by a decrease of term certificates of \$26 million. Other borrowings increased by \$51 million primarily due to an increase in FHLB advance borrowings.
Provision for loan losses	4	1	3	The provision for loan losses increased by \$2.6 million primarily due to growth in the loan portfolio. The provision for loan losses for the nine months ended September 30, 2013 benefited from the release of reserves related to ASB's credit card portfolio sale. The net charge-off ratio for the nine months ended September 30, 2014 and 2013 was 0.01% and 0.06%, respectively.
Noninterest expense	118	118	—	Noninterest expense for the nine months ended September 30, 2014 was slightly lower than the noninterest expense for the same period in 2013 due to costs incurred in 2013 for the sale of the credit card portfolio and lower debit card expenses in 2014, partly offset by higher printing expenses due to the outsourcing of printing in 2014 (which also resulted in lower equipment, compensation and employee benefit expenses).
Expenses	130	127	3	
Operating income	58	69	(11)	Lower noninterest income and higher provision for loan losses, partly offset by higher interest income.

Net income 39 45 (6 )

Details of ASB's other noninterest income and other noninterest expense were as follows:

(in thousands)	Three months ended September		Nine months ended September	
	30	30	30	30
	2014	2013	2014	2013
Bank-owned life insurance	\$1,000	\$998	\$2,945	\$2,950
Credit card sale	—	2,251	—	2,251
Other	634	639	1,920	2,010
Total other income, net	\$1,634	\$3,888	\$4,865	\$7,211
FDIC insurance premium	\$840	\$817	\$2,441	\$2,505
Credit card IT exit costs	—	1,377	—	1,377
Other	4,704	4,267	12,585	14,518
Total other expense	\$5,544	\$6,461	\$15,026	\$18,400

See Note 4 of the Consolidated Financial Statements and "Economic conditions" in the "HEI Consolidated" section above.

Despite the revenue pressures across the banking industry, management expects ASB's low-cost funding base and lower-risk profile to continue to deliver strong performance compared to industry peers.

ASB's return on average assets and net interest margin were as follows:

	Three months ended September 30		Nine months ended September 30	
(percent)	2014	2013	2014	2013
Return on average assets	0.98	1.20	0.98	1.19
Net interest margin	3.62	3.73	3.60	3.77

Average balance sheet and net interest margin. The following tables set forth average balances, together with interest earned and accrued, and resulting yields and costs:

Three months ended September 30	2014			2013		
(dollars in thousands)	Average balance	Interest	Yield/ rate (%)	Average balance	Interest	Yield/ rate (%)
Assets:						
Other investments <sup>1</sup>	\$ 152,476	\$68	0.17	\$ 156,337	\$63	0.16
Securities purchased under resale agreements	—	—	—	—	—	—
Available-for-sale investment and mortgage-related securities	541,262	2,705	2.00	548,747	3,179	2.32
Loans						
Residential 1-4 family	2,037,715	22,725	4.46	2,021,837	23,455	4.64
Commercial real estate	574,779	6,407	4.43	442,617	4,794	4.31
Home equity line of credit	804,504	6,576	3.24	691,316	5,352	3.07
Residential land	16,888	257	6.09	19,506	425	8.72
Commercial loans	775,503	7,368	3.76	731,822	7,123	3.85
Consumer loans	110,471	2,199	7.90	109,888	2,188	7.92
Total loans <sup>2,3</sup>	4,319,860	45,532	4.20	4,016,986	43,337	4.30
Total interest-earning assets <sup>4</sup>	5,013,598	48,305	3.84	4,722,070	46,579	3.93
Allowance for loan losses	(42,812 )			(41,697 )		
Non-interest-earning assets	461,002			411,345		
Total assets	\$5,431,788			\$5,091,718		
Liabilities and shareholder's equity:						
Savings	\$ 1,888,932	\$289	0.06	\$ 1,811,378	\$265	0.06
Interest-bearing checking	742,018	32	0.02	668,076	27	0.02
Money market	166,295	51	0.12	173,972	55	0.12
Time certificates	439,563	940	0.85	449,364	915	0.81
Total interest-bearing deposits	3,236,808	1,312	0.16	3,102,790	1,262	0.16
Advances from Federal Home Loan Bank	101,543	794	3.06	56,685	562	3.88
Securities sold under agreements to repurchase	153,909	644	1.64	147,438	644	1.71
Total interest-bearing liabilities	3,492,260	2,750	0.31	3,306,913	2,468	0.29
Non-interest bearing liabilities:						
Deposits	1,291,463			1,180,024		
Other	110,661			101,081		
Total liabilities	4,894,384			4,588,018		
Shareholder's equity	537,404			503,700		
Total liabilities and shareholder's equity	\$5,431,788			\$5,091,718		
Net interest income		\$45,555			\$44,111	
Net interest margin (%) <sup>5</sup>			3.62			3.73



Edgar Filing: HAWAIIAN ELECTRIC INDUSTRIES INC - Form 10-Q

Nine months ended September 30 (dollars in thousands)	2014			2013		
	Average balance	Interest	Yield/ rate (%)	Average balance	Interest	Yield/ rate (%)
<b>Assets:</b>						
Other investments <sup>1</sup>	\$172,051	\$230	0.18	\$172,818	\$171	0.17
Securities purchased under resale agreements	6,813	20	0.38	8,718	25	0.38
Available-for-sale investment and mortgage-related securities	537,904	8,658	2.15	604,761	10,184	2.25
<b>Loans</b>						
Residential 1-4 family	2,016,331	67,869	4.49	1,956,566	70,314	4.79
Commercial real estate	537,694	17,284	4.29	431,250	14,400	4.45
Home equity line of credit	780,760	19,088	3.27	665,969	14,654	2.94
Residential land	16,353	751	6.12	22,354	1,016	6.06
Commercial loans	782,371	21,767	3.71	714,258	21,939	4.10
Consumer loans	109,748	6,306	7.68	118,995	7,241	8.13
Total loans <sup>2,3</sup>	4,243,257	133,065	4.18	3,909,392	129,564	4.42
Total interest-earning assets <sup>4</sup>	4,960,025	141,973	3.82	4,695,689	139,944	3.98
Allowance for loan losses	(41,701 )			(42,556 )		
Non-interest-earning assets	453,230			425,046		
Total assets	\$5,371,554			\$5,078,179		
<b>Liabilities and shareholder's equity:</b>						
Savings	\$1,866,482	\$835	0.06	\$1,799,469	\$782	0.06
Interest-bearing checking	732,270	93	0.02	656,121	76	0.02
Money market	174,648	163	0.13	182,037	174	0.13
Time certificates	434,553	2,683	0.83	460,566	2,838	0.82
Total interest-bearing deposits	3,207,953	3,774	0.16	3,098,193	3,870	0.17
Advances from Federal Home Loan Bank	100,520	2,353	3.09	52,674	1,639	4.10
Securities sold under agreements to repurchase	149,340	1,910	1.69	146,410	1,909	1.72
Total interest-bearing liabilities	3,457,813	8,037	0.31	3,297,277	7,418	0.30
<b>Non-interest bearing liabilities:</b>						
Deposits	1,269,355			1,171,384		
Other	112,157			105,400		
Total liabilities	4,839,325			4,574,061		
Shareholder's equity	532,229			504,118		
Total liabilities and shareholder's equity	\$5,371,554			\$5,078,179		
Net interest income		\$133,936			\$132,526	
Net interest margin (%) <sup>5</sup>			3.60			3.77

<sup>1</sup> Includes federal funds sold, interest bearing deposits and stock in the Federal Home Loan Bank of Seattle.

<sup>2</sup> Includes loans held for sale.

<sup>3</sup> Includes loan fees of \$0.8 million and \$1.3 million for the three months ended September 30, 2014 and 2013, respectively, and \$2.6 million and \$4.1 million for the nine months ended September 30, 2014 and 2013, respectively, together with interest accrued prior to suspension of interest accrual on nonaccrual loans.

<sup>4</sup> Interest income includes taxable equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of nil and \$0.2 million for the three months ended September 30, 2014 and 2013, respectively, and \$0.2 million and \$0.7 million for the nine months ended September 30, 2014 and 2013, respectively.

<sup>5</sup> Defined as net interest income as a percentage of average earning assets.



Earning assets, costing liabilities and other factors. Earnings of ASB depend primarily on net interest income, which is the difference between interest earned on earning assets and interest paid on costing liabilities. The interest rate environment has been impacted by disruptions in the financial markets over a period of several years and these conditions have continued to have a negative impact on ASB's net interest margin.

Loan originations and mortgage-related securities are ASB's primary sources of earning assets.

Loan portfolio. ASB's loan volumes and yields are affected by market interest rates, competition, demand for financing, availability of funds and management's responses to these factors. The composition of ASB's loan portfolio was as follows:

(dollars in thousands)	September 30, 2014		December 31, 2013	
	Balance	% of total	Balance	% of total
Real estate loans:				
Residential 1-4 family	\$2,030,337	46.8	\$2,006,007	48.2
Commercial real estate	502,356	11.6	440,443	10.6
Home equity line of credit	808,991	18.6	739,331	17.8
Residential land	16,935	0.4	16,176	0.4
Commercial construction	87,461	2.0	52,112	1.3
Residential construction	18,699	0.4	12,774	0.3
Total real estate loans, net	3,464,779	79.8	3,266,843	78.6
Commercial loans	770,079	17.7	783,388	18.8
Consumer loans	107,531	2.5	108,722	2.6
	4,342,389	100.0	4,158,953	100.0
Less: Deferred fees and discounts	(6,968 )		(8,724 )	
Allowance for loan losses	(43,461 )		(40,116 )	
Total loans, net	\$4,291,960		\$4,110,113	

The increase in the total loan portfolio during the nine months ended September 30, 2014 was primarily due to an increase in originated home equity lines of credit, commercial real estate loans and commercial construction loans.

Home equity — key credit statistics.

	September 30, 2014		December 31, 2013	
Outstanding balance (in thousands)	\$808,991		\$739,331	
Percent of portfolio in first lien position	40.3		38.2	%
Net charge-off (recovery) ratio	(0.08	)%	0.06	%
Delinquency ratio	0.11		0.28	%

  

September 30, 2014	Total	Interest only	End of draw period – interest only			Current amortizing
			2014-2015	2016-2018	Thereafter	
Outstanding balance (in thousands)	\$808,991	\$594,894	\$903	\$102,750	\$491,241	\$214,097
% of total	100	% 74	% —	% 13	% 61	% 26

The HELOC portfolio makes up 19% of the total loan portfolio and is generally an interest-only revolving loan for a 10-year period, after which time the HELOC outstanding balance converts to a fully amortizing variable rate term loan with a 20-year amortization period. This product type comprises 94% of the total HELOC portfolio and is the current product offering. Within this product type, borrowers also have a "Fixed Rate Loan Option" to convert a part of their available line of credit into a 5, 7 or 10-year fully amortizing fixed rate loan with level principal and interest payments. As of September 30, 2014, approximately 20% of the portfolio balances were amortizing loans under the Fixed Rate Loan Option. Nearly all originations prior to 2008 consisted of amortizing equity lines that have structured principal payments during the draw period. These older vintage equity lines represent 6% of the portfolio and are included in the amortizing balances identified in the table above.



Loan portfolio risk elements. See Note 4 of the Consolidated Financial Statements.

78

---

Investment and mortgage-related securities. ASB's investment portfolio was comprised as follows:

(dollars in thousands)	September 30, 2014		December 31, 2013	
	Balance	% of total	Balance	% of total
Federal agency obligations	\$101,338	19 %	\$80,973	15 %
Mortgage-related securities — FNMA, FHLMC and GNMA	425,307	80	369,444	70
U.S. treasury securities	4,958	1	—	—
Municipal bonds	—	—	78,590	15
	\$531,603	100 %	\$529,007	100 %

Principal and interest on mortgage-related securities issued by Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) are guaranteed by the issuer and, in the case of GNMA, backed by the full faith and credit of the U.S. government.

Deposits and other borrowings. Deposits continue to be the largest source of funds for ASB and are affected by market interest rates, competition and management's responses to these factors. Deposit retention and growth will remain challenging in the current environment due to competition for deposits and the low level of short-term interest rates. Advances from the FHLB of Seattle and securities sold under agreements to repurchase continue to be additional sources of funds. As of September 30, 2014 and December 31, 2013, ASB's costing liabilities consisted of 95% deposits and 5% other borrowings. The weighted average cost of deposits for the first nine months of 2014 and 2013 was 0.11% and 0.12%, respectively.

Other factors. Interest rate risk is a significant risk of ASB's operations and 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 the fair value of those instruments, respectively. In addition, changes in credit spreads also impact the fair values of those instruments.

As of September 30, 2014, ASB had an unrealized loss, net of taxes, on available-for-sale investments and mortgage-related securities (including securities pledged for repurchase agreements) in AOCI of \$2 million compared to an unrealized loss, net of taxes, on available-for-sale investments and mortgage-related securities (including securities pledged for repurchase agreements) in AOCI of \$4 million as of December 31, 2013. See "Item 3.

Quantitative and qualitative disclosures about market risk."

During the first nine months of 2014, ASB recorded a provision for loan losses of \$3.6 million primarily due to growth in the loan portfolio and net charge-offs during the year for consumer loans. During the first nine months of 2013, ASB recorded a provision for loan losses of \$1.0 million primarily due to net charge-offs during the year for consumer, commercial and HELOC loans, and growth in the loan portfolio, partly offset by the release of reserves for the credit card and residential land loan portfolio. Financial stress on ASB's customers may result in higher levels of delinquencies and losses.

(in thousands)	Nine months ended September 30		Year ended
	2014	2013	December 31
Allowance for loan losses, January 1	\$40,116	\$41,985	\$41,985
Provision for loan losses	3,566	953	1,507
Less: net charge-offs	221	1,886	3,376
Allowance for loan losses, end of period	\$43,461	\$41,052	\$40,116
Ratio of allowance for loan losses, end of period, to end of period loans outstanding	1.00	% 1.01	% 0.97 %
Ratio of net charge-offs during the period to average loans outstanding (annualized)	0.01	% 0.06	% 0.09 %

Legislation and regulation. ASB is subject to extensive regulation, principally by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC). Depending on ASB's level of regulatory capital and other considerations, these regulations could restrict the ability of ASB to compete with other institutions and to pay dividends to its shareholder. See the discussion below under "Liquidity and capital resources."

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Regulation of the financial services industry, including regulation of HEI, ASHI and ASB, has changed and will continue to change as a result of the enactment of the Dodd-Frank Act, which became law in July 2010. Importantly for HEI, ASHI and ASB, under the Dodd-Frank Act, on July 21, 2011, all of the functions of the Office of Thrift Supervision (OTS) transferred to the OCC, the FDIC, the Federal Reserve Board (FRB) and the Consumer Financial Protection Bureau (Bureau). 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 OCC. While the laws and regulations applicable to HEI and ASB did not generally change, the applicable laws and regulations are being interpreted, and new and amended regulations may be adopted, by the FRB, OCC and the Bureau. In addition, HEI will continue to be required to serve as a source of strength to ASB in the event of its financial distress. The Dodd-Frank Act also imposes new restrictions on the ability of a savings bank to pay dividends should it fail to remain a qualified thrift lender.

More stringent affiliate transaction rules now apply to ASB in the securities lending, repurchase agreement and derivatives areas. Standards were raised with respect to the ability of ASB to merge with or acquire another institution. In reviewing a potential merger or acquisition, the approving federal agency will need to consider the extent to which the proposed transaction will result in “greater or more concentrated risks to the stability of the U.S. banking or financial system.”

The Dodd-Frank Act established the Bureau. It has authority to prohibit practices it finds to be unfair, deceptive or abusive, and it may also issue rules requiring specified disclosures and the use of new model forms. On January 10, 2013, the Bureau issued the Ability-to-Repay rule which closed for comment on February 25, 2013. For mortgages, under the proposed Ability-to-Repay rule, among other things, (i) potential borrowers will have to supply financial information, and lenders must verify it, (ii) to qualify for a particular loan, a consumer will have to have sufficient assets or income to pay back the loan, and (iii) lenders will have to determine the consumer’s ability to repay both the principal and the interest over the long term - not just during an introductory period when the rate may be lower. ASB may also be subject to new state regulation because of a provision in the Dodd-Frank Act that acknowledges that a federal savings bank may be subject to state regulation and allows federal law to preempt a state consumer financial law on a “case by case” basis only when (1) the state law would have a discriminatory effect on the bank compared to that on a bank chartered in that state; (2) the state law prevents or significantly interferes with a bank’s exercise of its power; or (3) the state law is preempted by another federal law.

The Dodd-Frank Act also adopts a number of provisions that will impact the mortgage industry, including the imposition of new specific duties on the part of mortgage originators (such as ASB) to act in the best interests of consumers and to take steps to ensure that consumers will have the capability to repay loans they may obtain, as well as provisions imposing new disclosure requirements and requiring appraisal reforms.

The “Durbin Amendment” to the Dodd-Frank Act required the FRB to issue rules to ensure that debit card interchange fees are “reasonable and proportional” to the processing costs incurred. In June 2011, the FRB issued a final rule establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. Under the final rule, effective October 1, 2011, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction is 21-24 cents, depending on certain components. Financial institutions and their affiliates that have less than \$10 billion in assets are exempt from this Amendment; however, on July 1, 2013, ASB became non-exempt as the consolidated assets of HEI exceeded \$10 billion. ASB estimates debit card interchange fees to be lower, as a result of the application of this Amendment, by approximately \$6 million after tax in 2014.

Many of the provisions of the Dodd-Frank Act, as amended, will not become effective until implementing regulations are issued and effective.

**Final Capital Rules.** On July 2, 2013, the FRB finalized its rule implementing the Basel III regulatory capital framework. The final rule would apply to banking organizations of all sizes and types regulated by the FRB and the OCC, except bank holding companies subject to the FRB’s Small Bank Holding Company Policy Statement and Savings & Loan Holding Companies (SLHCs) substantially engaged in insurance underwriting or commercial activities. HEI currently meets the requirements of the exemption as a top-tier grandfathered unitary SLHC that derived, as of June 30 of the previous calendar year, either 50% or more of its total consolidated assets or 50% or more of its total revenues on an enterprise-wide basis (calculated under GAAP) from activities that are not financial in nature pursuant to Section 4(k) of the Bank Holding Company Act. The FRB is temporarily excluding these SLHCs from the final rule while it considers a proposal relating to capital and other requirements for SLHC intermediate holding companies (such as ASHI). The FRB anticipates that it will release a proposal on intermediate holding companies in the near term that would specify the criteria for establishing and transferring activities to intermediate

holding companies and propose to apply the FRB's capital requirements to such intermediate holding companies. Pursuant to the final rule and consistent with the proposals, all banking organizations, including covered holding companies, would initially be subject to the following minimum regulatory capital requirements: a common equity tier 1 capital ratio of 4.5%, a tier 1 capital ratio of 6%, a total capital ratio of 8% of risk-weighted assets and a leverage ratio of 4%, and these requirements would increase in subsequent years. In order to avoid restrictions on capital distributions and discretionary bonus payments to executive officers, the final rule requires a banking organization to hold a buffer of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets (capital conservation buffer). In addition, a countercyclical capital buffer would expand the capital conservation buffer by up to 2.5% of a banking

organization's total risk-weighted assets for advanced approaches banking organizations. The final rule would establish qualification criteria for common equity, additional tier 1 and tier 2 capital instruments that help to ensure their ability to absorb losses. All banking organizations would be required to calculate risk-weighted assets under the standardized approach, which harmonizes the banking agencies' calculation of risk-weighted assets and address shortcomings in risk-based capital requirements identified by the agencies. The phased-in effective dates of the capital requirements under the final rule are:

#### Minimum Capital Requirements

Effective dates	1/1/2015	1/1/2016	1/1/2017	1/1/2018	1/1/2019	
Capital conservation buffer		0.625	% 1.25	% 1.875	% 2.50	%
Common equity ratio + conservation buffer	4.50	% 5.125	% 5.75	% 6.375	% 7.00	%
Tier 1 capital ratio + conservation buffer	6.00	% 6.625	% 7.25	% 7.875	% 8.50	%
Total capital ratio + conservation buffer	8.00	% 8.625	% 9.25	% 9.875	% 10.50	%
Tier 1 leverage ratio	4.00	% 4.00	% 4.00	% 4.00	% 4.00	%
Countercyclical capital buffer — not applicable to ASB		0.625	% 1.25	% 1.875	% 2.50	%

The final rule is effective January 1, 2015 for ASB. Subject to the timing and final outcome of the FRB's SLHC intermediate holding company proposal, HEI anticipates that the capital requirements in the final rule will be effective for HEI or ASHI on January 1, 2015 as well. If the fully phased-in capital requirements were currently applicable to HEI and ASB, management believes HEI and ASB would satisfy the capital requirements, including the fully phased-in capital conservation buffer. Management cannot predict what final rule the FRB may adopt concerning intermediate holding companies or their impact on ASHI, if any.

Commitments and contingencies. See Note 4 of the Consolidated Financial Statements.

Potential impact of lava flows. In June 2014, lava from the Kilauea Volcano on the island of Hawaii began flowing toward the town of Pahoa. ASB has been monitoring its loan exposure on properties most likely to be impacted by the projected path of the lava flow. At September 30, 2014, the outstanding amount of the residential, commercial real estate and home equity lines of credit loans collateralized by property in areas most likely affected by the lava flow totaled \$13 million. For residential 1-4 mortgages in the area, ASB required lava insurance to cover the dwelling replacement cost as a condition of making the loan. The impact to property values and borrowers' ability to repay their loans as a result of the lava flow cannot be determined at this time, but ASB does not expect the impact to be material.

#### FINANCIAL CONDITION

Liquidity and capital resources.

(dollars in millions)	September 30, 2014	December 31, 2013	% change
Total assets	\$5,442	\$5,244	4
Available-for-sale investment and mortgage-related securities	532	529	—
Loans receivable held for investment, net	4,292	4,110	4
Deposit liabilities	4,534	4,372	4
Other bank borrowings	263	245	8

As of September 30, 2014, ASB was one of Hawaii's largest financial institutions based on assets of \$5.4 billion and deposits of \$4.5 billion.

As of September 30, 2014, ASB's unused FHLB borrowing capacity was approximately \$1.2 billion. As of September 30, 2014, ASB had commitments to borrowers for loan commitments and unused lines and letters of credit of \$1.8 billion. There were no commitments to lend to borrowers whose loan terms have been impaired or modified in troubled debt restructurings. Management believes ASB's current sources of funds will enable it to meet these obligations while maintaining liquidity at satisfactory levels.

For the nine months ended September 30, 2014, net cash provided by ASB's operating activities was \$38 million. Net cash used during the same period by ASB's investing activities was \$170 million, primarily due to a net increase in loans receivable of \$185 million, purchases of investment and mortgage-related securities of \$131 million and additions to premises and equipment of \$7 million, partly offset by proceeds from the sale of investment securities of

\$80 million, repayments of investment and mortgage-related securities of \$53 million, redemption of stock from the FHLB of Seattle of \$17 million and proceeds from the

81

---

sale of real estate owned of \$3 million. Net cash provided by financing activities during this period was \$148 million, primarily due to increases in deposit liabilities of \$161 million, proceeds from securities sold under agreements to repurchase of \$15 million and a net increase in FHLB advances of \$10 million, partly offset by a net decrease in retail repurchase agreements and mortgage escrow deposits of \$6 million and \$5 million, respectively, and the payment of \$27 million in common stock dividends to HEI (through ASHI).

ASB believes that maintaining a satisfactory regulatory capital position provides a basis for public confidence, affords protection to depositors, helps to ensure continued access to capital markets on favorable terms and provides a foundation for growth. FDIC regulations restrict the ability of financial institutions that are not well-capitalized to compete on the same terms as well-capitalized institutions, such as by offering interest rates on deposits that are significantly higher than the rates offered by competing institutions. As of September 30, 2014, ASB was well-capitalized (minimum ratio requirements noted in parentheses) with a leverage ratio of 9.1% (5.0%), a Tier-1 risk-based capital ratio of 11.5% (6.0%) and a total risk-based capital ratio of 12.6% (10.0%). FRB approval is required before ASB can pay a dividend or otherwise make a capital distribution to HEI (through ASHI).

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company considers interest-rate risk (a non-trading market risk) to be a very significant market risk for ASB as it could potentially have a significant effect on the Company's results of operations, financial condition and liquidity. For additional quantitative and qualitative information about the Company's market risks, see pages 74 to 76, HEI's and Hawaiian Electric's Quantitative and Qualitative Disclosures About Market Risk, in Part II, Item 7A of HEI's 2013 Form 10-K.

ASB's interest-rate risk sensitivity measures as of September 30, 2014 and December 31, 2013 constitute "forward-looking statements" and were as follows:

Change in interest rates (basis points)	Change in NII (gradual change in interest rates)		Change in EVE (instantaneous change in interest rates)	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
+300	1.5	% 1.3	% (10.7	)% (10.7
+200	0.4	0.3	(6.4	) (6.9
+100	—	—	(2.7	) (3.3
-100	(0.5	) (0.5	) (0.8	) 0.6

Management believes that ASB's interest rate risk position as of September 30, 2014 represents a reasonable level of risk. The net interest income (NII) profile under the rising interest rate scenarios was flat for small rate changes and more asset sensitive for larger rate increases as of September 30, 2014 compared to December 31, 2013 due to changes in the mix of assets.

ASB's base economic value of equity (EVE) increased to \$931 million as of September 30, 2014 compared to \$906 million as of December 31, 2013 due to the increase in capital.

The change in EVE was less sensitive in the increasing rate scenarios as of September 30, 2014 compared to December 31, 2013 due to the decrease in long rates resulting in a shorter duration for mortgage-related assets and growth in the short duration consumer and commercial loan portfolios.

The computation of the prospective effects of hypothetical interest rate changes on the NII sensitivity and the percentage change in EVE is based on numerous assumptions, including relative levels of market interest rates, loan prepayments, balance changes and pricing strategies, and should not be relied upon as indicative of actual results. To the extent market conditions and other factors vary from the assumptions used in the simulation analysis, actual results may differ materially from the simulation results. Furthermore, NII sensitivity analysis measures the change in ASB's twelve-month, pretax NII in alternate interest rate scenarios, and is intended to help management identify potential exposures in ASB's current balance sheet and formulate appropriate strategies for managing interest rate risk. The simulation does not contemplate any actions that ASB management might undertake in response to changes in interest rates. Further, the changes in NII vary in the twelve-month simulation period and are not necessarily evenly distributed over the period. These analyses are for analytical purposes only and do not represent management's views of future market movements, the level of future earnings, or the timing of any changes in earnings within the twelve



month analysis horizon. The actual impact of changes in interest rates on NII will depend on the magnitude and speed with which rates change, actual changes in ASB's balance sheet, and management's responses to the changes in interest rates.

Item 4. Controls and Procedures

HEI:

Changes in Internal Control over Financial Reporting

During the third quarter of 2014, there were no changes 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 September 30, 2014 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 September 30, 2014. Based on their evaluations, as of September 30, 2014, 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.

Hawaiian Electric:

Changes in Internal Control over Financial Reporting

During the third quarter of 2014, there were no changes in internal control over financial reporting identified in connection with management's evaluation of the effectiveness of Hawaiian Electric and its subsidiaries' internal control over financial reporting as of September 30, 2014 that has materially affected, or is reasonably likely to materially affect, Hawaiian Electric and its subsidiaries' internal control over financial reporting.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Alan M. Oshima, Hawaiian Electric Chief Executive Officer, and Tayne S. Y. Sekimura, Hawaiian Electric Chief Financial Officer, have evaluated the disclosure controls and procedures of Hawaiian Electric as of September 30, 2014. Based on their evaluations, as of September 30, 2014, 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 Hawaiian Electric in reports Hawaiian Electric 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 Hawaiian Electric management, including Hawaiian Electric's principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings

The descriptions of legal proceedings (including judicial proceedings and proceedings before the PUC and environmental and other administrative agencies) in HEI's and Hawaiian Electric's 2013 Form 10-K (see "Part I. Item 3. Legal Proceedings" and proceedings referred to therein) and this Form 10-Q (see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 3 and 4 of the Consolidated Financial Statements) are incorporated by reference in this Item 1. With regard to any pending legal proceeding, alternative dispute resolution, such as mediation or settlement, may be pursued where appropriate, with such efforts typically maintained in confidence unless and until a resolution is achieved. Certain HEI subsidiaries (including Hawaiian Electric and its subsidiaries and ASB) may also be involved in ordinary routine PUC proceedings, environmental proceedings and litigation incidental to their respective businesses.

## Item 1A. Risk Factors

For information about Risk Factors, see pages 24 to 32 of HEI's and Hawaiian Electric's 2013 Form 10-K, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures about Market Risk" and the Consolidated Financial Statements herein. Also, see "Forward-Looking Statements" on pages iv and v herein.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Purchases of HEI common shares were made during the first quarter to satisfy the requirements of certain plans as follows:

## ISSUER PURCHASES OF EQUITY SECURITIES

Period*	(a) Total Number of Shares Purchased **	(b) Average Price Paid per Share **	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d)
				Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 to 31, 2014	58,170	\$24.31	—	NA
August 1 to 31, 2014	19,350	\$24.09	—	NA
September 1 to 30, 2014	319,827	\$25.66	—	NA

NA Not applicable.

\* Trades (total number of shares purchased) are reflected in the month in which the order is placed.

\*\* The purchases were made to satisfy the requirements of the DRIP, the HEIRSP and the ASB 401(k) Plan for shares purchased for cash or by the reinvestment of dividends by participants under those plans and none of the purchases were made under publicly announced repurchase plans or programs. Average prices per share are calculated exclusive of any commissions payable to the brokers making the purchases for the DRIP, the HEIRSP and the ASB 401(k) Plan. Of the shares listed in column (a), all of the 58,170 shares, all of the 19,350 shares and 286,627 of the 319,827 shares were purchased for the DRIP, none of the 58,170 shares, none of the 19,350 shares and 28,500 of the 319,827 shares were purchased for the HEIRSP and the remainder was purchased for the ASB 401(k) Plan. The repurchased shares were issued for the accounts of the participants under registration statements registering the shares issued under these plans.

## Item 5. Other Information

## A. Ratio of earnings to fixed charges.

	Nine months ended September 30		Years ended December 31				
	2014	2013	2013	2012	2011	2010	2009
	HEI and Subsidiaries						
Excluding interest on ASB deposits	3.89	3.56	3.53	3.28	3.22	2.89	2.29
Including interest on ASB deposits	3.75	3.43	3.40	3.14	3.03	2.64	1.95

Hawaiian Electric and Subsidiaries 4.19 3.68 3.72 3.37 3.52 2.88 2.99  
See HEI Exhibit 12.1 and Hawaiian Electric Exhibit 12.2.

84

---

Item 6. Exhibits

HEI Exhibit 4	Letter Amendment effective October 1, 2014 to Trust Agreement (dated as of September 4, 2012) between HEI and ASB and Fidelity Management Trust Company
HEI Exhibit 12.1	Hawaiian Electric Industries, Inc. and Subsidiaries Computation of ratio of earnings to fixed charges, nine months ended September 30, 2014 and 2013 and years ended December 31, 2013, 2012, 2011, 2010 and 2009
HEI Exhibit 31.1	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Constance H. Lau (HEI Chief Executive Officer)
HEI Exhibit 31.2	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of James A. Ajello (HEI Chief Financial Officer)
HEI Exhibit 32.1	HEI Certification Pursuant to 18 U.S.C. Section 1350
HEI Exhibit 101.INS	XBRL Instance Document
HEI Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
HEI Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
HEI Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
HEI Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
HEI Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Hawaiian Electric Exhibit 10.1	First Amendment, dated August 27, 2014, to Low Sulfur Fuel Oil Supply Contract by and between Chevron Products Company and Hawaiian Electric, dated August 24, 2012 (confidential treatment has been requested for portions of this exhibit, which has been redacted accordingly)
Hawaiian Electric Exhibit 10.2	Third Amendment, dated August 27, 2014, to the Inter-Island Industrial Fuel Oil and Diesel Fuel Supply Contract, dated November 14, 1997, as amended, between Hawaiian Electric, Maui Electric and Hawaii Electric Light and Chevron Products Company
Hawaiian Electric Exhibit 12.2	Hawaiian Electric Company, Inc. and Subsidiaries Computation of ratio of earnings to fixed charges, nine months ended September 30, 2014 and 2013 and years ended December 31, 2013, 2012, 2011, 2010 and 2009
Hawaiian Electric Exhibit 31.3	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Alan M. Oshima (Hawaiian Electric Chief Executive Officer)
Hawaiian Electric Exhibit 31.4	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Tayne S. Y. Sekimura (Hawaiian Electric Chief Financial Officer)
	Hawaiian Electric Certification Pursuant to 18 U.S.C. Section 1350

Hawaiian Electric  
Exhibit 32.2

85

---

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized. The signature of the undersigned companies shall be deemed to relate only to matters having reference to such companies and any subsidiaries thereof.

HAWAIIAN ELECTRIC INDUSTRIES, INC.  
(Registrant)

HAWAIIAN ELECTRIC COMPANY, INC.  
(Registrant)

By /s/ Constance H. Lau  
Constance H. Lau  
President and Chief Executive Officer  
(Principal Executive Officer of HEI)

By /s/ Alan M. Oshima  
Alan M. Oshima  
President and Chief Executive Officer  
(Principal Executive Officer of Hawaiian Electric)

By /s/ James A. Ajello  
James A. Ajello  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting  
Officer of HEI)

By /s/ Tayne S. Y. Sekimura  
Tayne S. Y. Sekimura  
Senior Vice President  
and Chief Financial Officer  
(Principal Financial Officer of Hawaiian Electric)

Date: November 6, 2014

Date: November 6, 2014