

HAWAIIAN ELECTRIC INDUSTRIES INC  
 Form 10-K/A  
 November 16, 2015

UNITED STATES  
 SECURITIES AND EXCHANGE COMMISSION  
 Washington, D. C. 20549  
 FORM 10-K/A  
 Amendment No. 1

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

For the fiscal year ended December 31, 2014  
 OR

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

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	I.R.S. Employer Identification No.
1-8503	HAWAIIAN ELECTRIC INDUSTRIES, INC., a Hawaii corporation 1001 Bishop Street, Suite 2900, Honolulu, Hawaii 96813 Telephone (808) 543-5662	99-0208097
1-4955	HAWAIIAN ELECTRIC COMPANY, INC., a Hawaii corporation 900 Richards Street, Honolulu, Hawaii 96813 Telephone (808) 543-7771	99-0040500

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

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

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

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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  No  Hawaiian Electric Company, Inc. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Hawaiian Electric Industries Inc.	Large accelerated filer <input checked="" type="checkbox"/> Accelerated filer <input type="checkbox"/> Non-accelerated filer (Do not check if a smaller reporting company) <input type="checkbox"/> Smaller reporting company <input type="checkbox"/>	Hawaiian Electric Company, Inc.	Large accelerated filer <input type="checkbox"/> Accelerated filer <input type="checkbox"/> Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company) <input type="checkbox"/> Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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

	Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrants as of June 30, 2014	Number of shares of common stock outstanding of the registrants as of	
		June 30, 2014	February 13, 2015
Hawaiian Electric Industries, Inc. (HEI)	\$2,571,503,656	101,560,176 (Without par value)	102,710,867 (Without par value)
Hawaiian Electric Company, Inc. (Hawaiian Electric)	None	15,429,105 (\$6 2/3 par value)	15,805,327 (\$6 2/3 par value)

DOCUMENTS INCORPORATED BY REFERENCE

Hawaiian Electric's Exhibit 99.1, consisting of:  
 Hawaiian Electric's Directors, Executive Officers and Corporate Governance—Part III

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Hawaiian Electric's Executive Compensation—Part III

Hawaiian Electric's Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters—

Part III

Hawaiian Electric's Certain Relationships and Related Transactions, and Director Independence—Part III

Hawaiian Electric's Principal Accounting Fees and Services—Part III

This combined Amendment No. 1 on Form 10-K/A represents separate filings by Hawaiian Electric Industries, Inc. and Hawaiian Electric Company, Inc. Information contained herein relating to any individual registrant is filed by each registrant on its own behalf. Hawaiian Electric makes no representations as to any information not relating to it or its subsidiaries.

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## EXPLANATORY NOTE

HEI and Hawaiian Electric are filing this Amendment No. 1 on Form 10-K/A (the Amended Filing) to amend certain parts of their Annual Report on 2014 Form 10-K, originally filed with the Securities and Exchange Commission (SEC) on February 26, 2015 (the Original Filing).

### Background and Effects of the Restatement

The Audit Committees of the Boards of Directors of HEI and Hawaiian Electric, after consultation with management, concluded on November 4, 2015 that it is necessary to restate HEI's and Hawaiian Electric's Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014, the six months ended June 30, 2015 and 2014, and the years ended December 31, 2013 and 2012 and to revise HEI's and Hawaiian Electric's Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and the year ended December 31, 2014 for the correction of misstatements related to capital expenditures, changes in accounts payable, changes in deferred income taxes, changes in accrued income taxes, and changes in other assets and liabilities as described below and other immaterial items. This Amended Filing restates HEI's and Hawaiian Electric's Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012 and revises HEI's and Hawaiian Electric's Consolidated Statements of Cash Flows for the year ended December 31, 2014 and makes other conforming changes (see "Items Amended in This Filing" below). This restatement does not impact HEI's and Hawaiian Electric's previously reported overall net change in cash and cash equivalents in their Consolidated Statements of Cash Flows for any period presented. Additionally, this restatement does not impact HEI's and Hawaiian Electric's Consolidated Balance Sheets or Consolidated Statements of Income for any period presented.

Management discovered that the Utilities' capital expenditures on HEI's and Hawaiian Electric's Consolidated Statements of Cash Flows did not correctly account for the beginning of period unpaid invoices and accruals (that were paid in cash during the period) and is restating its previously filed Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012 and revising its previously filed Consolidated Statements of Cash Flows for the year ended December 31, 2014 to correct for such misstatement by adjusting cash used for "Capital expenditures" (investing activity) and the change in accounts payable (operating activity).

Management also discovered that the eliminating journal entry to offset the Hawaiian Electric consolidated net operating loss deferred tax asset did not properly reflect the adjustment on the components of income taxes (current and deferred federal income taxes) and is revising its previously filed Consolidated Statements of Cash Flows to correct for such misstatement by adjusting "Increase in deferred income taxes," "Change in prepaid and accrued income taxes and utility revenue taxes" and "Change in other assets and liabilities" for the year ended December 31, 2014 (operating activities).

The impact of the revision and restatements on the consolidated financial statements for the years ended December 31, 2014, 2013 and 2012 is summarized in Note 1, "Summary of significant accounting policies - Revision and restatements of previously issued financial statements" to HEI's and Hawaiian Electric's consolidated financial statements included in Part II, Item 8.

### Internal Control Over Financial Reporting

Management reassessed its evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2014, based on the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of that reassessment, management identified a material weakness and, accordingly, has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2014. Management has restated its report on internal control over financial reporting as of December 31, 2014. For a description of the material weakness in internal control over financial reporting and actions taken, and to be taken, to remediate the material weakness, see Part II, Item 9A. "Controls and Procedures" of this 2014 Annual Report on Form 10-K/A.

Items Amended in This Filing

This Amended Filing amends and restates the following items of the Company's Original Filing as of, and for the years ended December 31, 2014, 2013 and 2012.

Part I - Item 1A. Risk Factors

Part II - Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations

Part II - Item 8. Financial Statements and Supplementary Data

Part II - Item 9A. Controls and Procedures

Part IV - Item 15. Exhibits and Financial Statement Schedules

In accordance with applicable SEC rules, this Amended Filing includes certifications as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act) from HEI's and Hawaiian Electric's Principal Executive Officers and Principal Financial Officers dated as of the date of this amended filing.

Except for the items noted above, no other information included in the Original Filing is being amended by this Amended Filing. The Amended Filing speaks as of the date of the Original Filing and HEI and Hawaiian Electric have not updated the Original Filing to reflect events occurring subsequent to the date of the Original Filing. Accordingly, this Amended Filing should be read in conjunction with HEI's and Hawaiian Electric's filings made with the SEC subsequent to the date of the Original Filing.

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GLOSSARY OF TERMS

Defined below are certain terms used in this report:

Terms	Definitions
ABO	Accumulated benefit obligation
AES Hawaii	AES Hawaii, Inc.
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income (loss)
AOS	Adequacy of supply
APBO	Accumulated postretirement benefit obligation
ARO	Asset retirement obligations
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of American Savings Holdings, Inc.
ASB Hawaii	ASB Hawaii, Inc. (formerly American Savings Holdings, Inc.), a wholly-owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Btu	British thermal unit
CAA	Clean Air Act
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
Chevron	Chevron Products Company, a fuel oil supplier
CIP	Campbell Industrial Park
CIS	Customer Information System
Company	When used in Hawaiian Electric Industries, Inc. sections and in the Notes to Consolidated Financial Statements, “Company” refers to Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation, Hawaiian Electric Company, Inc. and its subsidiaries (listed under Hawaiian Electric); ASB Hawaii, Inc. and its subsidiary, American Savings Bank, F.S.B.; HEI Properties, Inc.; Hawaiian Electric Industries Capital Trust II and Hawaiian Electric Industries Capital Trust III (inactive financing entities); and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.). When used in Hawaiian Electric Company, Inc. sections, “Company” refers to Hawaiian Electric Company, Inc. and its direct subsidiaries.
Consolidated Financial Statements	HEI’s and Hawaiian Electric’s combined Consolidated Financial Statements, including notes, in Item 8 of this Form 10-K
Consumer Advocate	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii
CT-1	Combustion turbine No. 1
D&O	Decision and order
DBEDT	State of Hawaii Department of Business Economic Development and Tourism
DBF	State of Hawaii Department of Budget and Finance
DG	Distributed generation
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOH	Department of Health of the State of Hawaii
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
ECAC	Energy cost adjustment clause
EGU	Electrical generating unit
EIP	2010 Executive Incentive Plan, as amended

Energy Agreement Agreement, dated October 20, 2008, 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. In September 2014, the parties to the Energy Agreement concluded that the agreements and policy directives in the Energy Agreement had been advanced or superseded by subsequent events, as well as by decisions and orders issued by the PUC, and accordingly ended the Energy Agreement as of September 14, 2014.

EOTP East Oahu Transmission Project  
EPA Environmental Protection Agency - federal  
EPS Earnings per share



## GLOSSARY OF TERMS (continued)

Terms	Definitions
ERISA	Employee Retirement Income Security Act of 1974, as amended
ERL	Environmental Response Law of the State of Hawaii
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
federal	U.S. Government
FERC	Federal Energy Regulatory Commission
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FICO	Financing Corporation
Fitch	Fitch Ratings, Inc.
FNMA	Federal National Mortgage Association
FRB	Federal Reserve Board
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse gas
GNMA	Government National Mortgage Association
Gramm Act	Gramm-Leach-Bliley Act of 1999
HCEI	Hawaii Clean Energy Initiative
HC&S	Hawaiian Commercial & Sugar Company, a division of A&B-Hawaii, Inc.
Hawaii Electric Light	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
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.
Hawaiian Electric's MD&A	Hawaiian Electric Company, Inc.'s Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., ASB Hawaii, Inc., HEI Properties, Inc., Hawaiian Electric Industries Capital Trust II, Hawaiian Electric Industries Capital Trust III and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.).
HEI's MD&A	Hawaiian Electric Industries, Inc.'s Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K
HEIPI	HEI Properties, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HEP	Hamakua Energy Partners, L.P., formerly known as Encogen Hawaii, L.P.
HTB	Hawaiian Tug & Barge Corp. On November 10, 1999, HTB sold substantially all of its operating assets and the stock of its subsidiary, Young Brothers, Limited, and changed its name to The Old Oahu Tug Services, Inc.
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 plan
IRR	Interest rate risk

Kalaeloa	Kalaeloa Partners, L.P.
kV	Kilovolt
kW	Kilowatt/s (as applicable)
KWH	Kilowatthour/s (as applicable)
LSFO	Low sulfur fuel oil
LTIP	Long-term incentive plan
Maui Electric	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
MBtu	Million British thermal unit
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Merger	As provided in the Merger Agreement, merger of Merger Sub I with and into HEI, with HEI surviving, and then merger of HEI with and into Merger Sub II, with Merger Sub II surviving as a wholly owned subsidiary of NEE

## GLOSSARY OF TERMS (continued)

Terms	Definitions
Merger Agreement	Agreement and Plan of Merger by and among HEI, NEE, Merger Sub II and Merger Sub I, dated December 3, 2014
Merger Sub I	NEE Acquisition Sub II, Inc., a Delaware corporation and a wholly owned subsidiary of NEE
Merger Sub II	NEE Acquisition Sub I, LLC, a Delaware limited liability company and a wholly owned subsidiary of NEE
Moody's	Moody's Investors Service's
MSFO	Medium sulfur fuel oil
MOU	Memorandum of Understanding
MW	Megawatt/s (as applicable)
NA	Not applicable
NAAQS	National Ambient Air Quality Standard
NEE	NextEra Energy, Inc.
NII	Net interest income
NM	Not meaningful
NPBC	Net periodic benefits costs
NQSO	Nonqualified stock options
O&M	Other operation and maintenance
OCC	Office of the Comptroller of the Currency
OPEB	Postretirement benefits other than pensions
OTS	Office of Thrift Supervision, Department of Treasury
OTTI	Other-than-temporary impairment
PBO	Projected benefit obligation
PCB	Polychlorinated biphenyls
PGV	Puna Geothermal Venture
PPA	Power purchase agreement
PPAC	Purchased power adjustment clause
PSD	Prevention of Significant Deterioration
PUC	Public Utilities Commission of the State of Hawaii
PURPA	Public Utility Regulatory Policies Act of 1978
QF	Qualifying Facility under the Public Utility Regulatory Policies Act of 1978
QTL	Qualified Thrift Lender
RAM	Rate adjustment mechanism
RBA	Revenue balancing account
Registrant	Each of Hawaiian Electric Industries, Inc. and Hawaiian Electric Company, Inc.
REIP	Renewable Energy Infrastructure Program
RFP	Request for proposals
RHI	Renewable Hawaii, Inc., a wholly-owned nonregulated subsidiary of Hawaiian Electric Company, Inc.
ROA	Return on assets
ROACE	Return on average common equity
RORB	Return on rate base
RPS	Renewable portfolio standards
S&P	Standard & Poor's
SAR	Stock appreciation right

SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference (or means refer to the referenced section in this document or the referenced exhibit or other document)
SLHCs	Savings & Loan Holding Companies
SOIP	1987 Stock Option and Incentive Plan, as amended
Spin-Off	The distribution to HEI shareholders of all of the common stock of ASB Hawaii immediately prior to the Merger
SPRBs	Special Purpose Revenue Bonds
ST	Steam turbine
state	State of Hawaii
TDR	Troubled debt restructuring

GLOSSARY OF TERMS (continued)

Terms	Definitions
Tesoro	Tesoro Hawaii Corporation dba BHP Petroleum Americas Refining Inc., a fuel oil supplier
TOOTS	The Old Oahu Tug Service, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
Trust III	HECO Capital Trust III
UBC	Uluwehiokama Biofuels Corp., a wholly-owned nonregulated subsidiary of Hawaiian Electric Company, Inc.
Utilities	Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited
VIE	Variable interest entity

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### 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:

- the successful and timely completion of the proposed Merger with NextEra Energy, Inc. (NEE), which could be materially and adversely affected by, among other things, resolving the litigation brought in connection with the proposed Merger, the timing and terms and conditions of required governmental and regulatory approvals, the ability to obtain the required shareholder approval and the ability to maintain relationships with employees, customers or suppliers, as well as the ability to integrate the businesses;
- the ability of ASB to operate successfully after the Spin-Off of its parent ASB Hawaii;
- 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 PUC's potential delay in considering (and potential disapproval of actual or proposed) Hawaii Clean Energy Initiative (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 Public Utilities Commission of the State of Hawaii (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), rate 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 kilowatthour 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, 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 RAMs;

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 (e.g., Item 1A. Risk Factors) and in other reports 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.

## PART I

### ITEM 1A. RISK FACTORS

The businesses of HEI and its subsidiaries involve numerous risks which, if realized, could have a material and adverse effect on the Company's financial statements. In addition, there are numerous risks relating to the Merger and Spin-Off. For additional information for certain risk factors enumerated below and other risks of the Company and its operations, see "Forward-Looking Statements" above and HEI's MD&A, HEI's "Quantitative and Qualitative Disclosures about Market Risk", the Notes to the Consolidated Financial Statements, Hawaiian Electric's MD&A, Hawaiian Electric's "Quantitative and Qualitative Disclosures About Market Risk."

#### Risk Factors Relating to the Merger.

Failure to complete the Merger could negatively impact the stock price and the future business and financial results of HEI. If the Merger is not completed, the ongoing business of HEI may be adversely affected and HEI will be subject to several risks, including the following:

- having to pay certain costs relating to the proposed Merger and the Spin-Off, such as legal, accounting, financial advisor, filing, printing and mailing fees;
- focusing HEI's management on the Merger, which could lead to the disruption of HEI's ongoing business or inconsistencies in its services, standards, controls, procedures and policies, any of which could adversely affect the ability of HEI to maintain relationships with customers, regulators, vendors and employees, or could otherwise adversely affect the business and financial results of HEI, without realizing any of the benefits of having the Merger completed; and
- focusing HEI's management on the Merger instead of on pursuing other opportunities that could be beneficial to HEI, without realizing any of the benefits of having the Merger completed.

In addition to the above risks, HEI may be required, under certain circumstances, to pay to NEE a termination fee of \$90 million, plus NEE's expenses up to \$5 million.

If the Merger is not completed, HEI cannot assure its shareholders that these risks will not materialize and will not materially affect its business, financial results and stock price.

The pendency of the Merger could adversely affect the business and operations of HEI. In connection with the pending Merger, some customers or vendors of HEI's utilities may delay or defer decisions, which could negatively impact the revenues, earnings, cash flows and expenses of HEI, regardless of whether the Merger is completed. Similarly, current and prospective employees of HEI and its utilities may experience uncertainty about their future roles following the Merger, which may materially adversely affect the ability of HEI and its utilities to attract and retain key personnel during the pendency of the Merger. In addition, due to operating covenants in the Merger Agreement, HEI and its utilities may be unable, during the pendency of the Merger, to pursue strategic transactions, undertake significant capital projects, undertake certain significant financing or other specified transactions or pursue actions that are not in the ordinary course of business, even if such actions would prove beneficial.

If the Merger is completed, NEE may be unable to successfully integrate HEI's business. NEE and HEI currently operate as independent public companies. After the Merger, NEE will be required to devote significant management attention and resources to integrating HEI's business. Potential difficulties NEE may encounter in the integration process include the following:

- the complexities associated with integrating HEI and its utility business, while at the same time continuing to provide consistent, high quality services;
- the additional complexities of integrating a company with different core services, markets and customers;
- the inability to retain key employees;
- unknown liabilities and unforeseen expenses, delays or regulatory conditions associated with the Merger; and
- performance shortfalls as a result of the diversion of management's attention caused by completing the Merger and integrating HEI's utility business.

For these reasons, the integration process following the Merger could result in the distraction of NEE's management, the disruption of NEE's ongoing business or inconsistencies in its services, standards, controls, procedures and policies, any of which could adversely affect the ability of NEE to maintain relationships with customers, vendors and employees or could otherwise adversely affect the business and financial results of NEE.

HEI may be materially adversely affected by negative publicity related to the proposed Merger and in connection with other matters. From time to time, political and public sentiment in connection with the proposed Merger and in connection

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with other matters may result in a significant amount of adverse press coverage and other adverse public statements affecting NEE and HEI. Adverse press coverage and other adverse statements, whether or not driven by political or public sentiment, may also result in investigations by regulators, legislators and law enforcement officials or in legal claims. Responding to these investigations and lawsuits, regardless of the ultimate outcome of the proceeding, can divert the time and effort of senior management from the management of HEI's businesses.

Addressing any adverse publicity, governmental scrutiny or enforcement or other legal proceedings is time consuming and expensive and, regardless of the factual basis for the assertions being made, can have a negative impact on HEI's reputation, on the morale and performance of its employees and on its relationships with its regulators. It may also have a negative impact on HEI's ability to take timely advantage of various business and market opportunities. The direct and indirect effects of negative publicity, and the demands of responding to and addressing it, may have a material adverse effect on HEI's business, financial condition, results of operations and prospects.

Pending litigation against HEI and NEE could result in an injunction preventing completion of the merger, the payment of damages in the event the merger is completed and/or may adversely affect the combined company's business, financial condition or results of operations following the Merger.

**Holding Company and Company-Wide Risks.**

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

- the provisions of an HEI agreement with the PUC, which could limit the ability of HEI's principal electric public utility subsidiary, Hawaiian Electric, to pay dividends to HEI in the event that the consolidated common stock equity of the Utilities falls below 35% of total capitalization of the electric utilities;
- the provisions of an HEI agreement entered into with federal bank regulators in connection with its acquisition of its bank subsidiary, ASB, which require HEI to contribute additional capital to ASB (up to a maximum amount of additional capital of \$28.3 million as of December 31, 2014) upon request of the regulators in order to maintain ASB's regulatory capital at the level required by regulation;
- the minimum capital and capital distribution regulations of the OCC that are applicable to ASB and capital regulations that become applicable to HEI and ASB Hawaii;
- the receipt of a letter of non-objection or prior approval from the OCC and FRB to the payment of any dividend ASB proposes to declare and pay to ASB Hawaii and HEI; and
- the provisions of preferred stock resolutions and debt instruments of HEI and its subsidiaries.

The Company is subject to risks associated with the Hawaii economy (in the aggregate and on an individual island basis), volatile U.S. capital markets and changes in the interest rate and credit market environment that have and/or could result in higher retirement benefit plan funding requirements, declines in electric utility KWH sales, declines in ASB's interest rate margins and investment values, higher delinquencies and charge-offs in ASB's loan portfolio and restrictions on the ability of HEI or its subsidiaries to borrow money or issue securities. The two largest components of Hawaii's economy are tourism and the federal government (including the military). Because the core businesses of HEI's subsidiaries are providing local public electric utility services (through Hawaiian Electric and its subsidiaries) and banking services (through ASB) in Hawaii, the Company's operating results are significantly influenced by Hawaii's economy, which in turn is influenced by economic conditions in the mainland U.S. (particularly California) and Asia (particularly Japan) as a result of the impact of those conditions on tourism, by the impact of interest rates on the construction and real estate industries and by the impact of world conditions (e.g., U.S. withdrawal of troops from Afghanistan) on federal government spending in Hawaii. For example, the turmoil in the financial markets and declines in the national and global economies had a negative effect on the Hawaii economy in 2009. In 2009, declines in the Hawaii, U.S. and Asian economies in part led to declines in KWH sales, an increase in uncollected billings of

the Utilities, higher delinquencies in ASB's loan portfolio and other adverse effects on HEI's businesses. If Fitch, Moody's or S&P were to downgrade HEI's or Hawaiian Electric's long-term debt ratings because of past adverse effects, or if future events were to adversely affect the availability of capital to the Company, HEI's and Hawaiian Electric's ability to borrow and raise capital could be constrained and their future borrowing costs would likely increase with resulting reductions in HEI's consolidated net income in future periods. Further, if HEI's or Hawaiian Electric's commercial paper ratings were to be downgraded, HEI and Hawaiian Electric might not be able to sell commercial paper and might be required to draw on more expensive bank lines of credit or to defer capital or other expenditures.

Changes in the U.S. capital markets can also have significant effects on the Company. For example, pension funding requirements are affected by the market performance of the assets in the master pension trust maintained for pension plans, and by the discount rate used to estimate the service and interest cost components of net periodic pension cost and value obligations. The Utilities' pension tracking mechanisms help moderate pension expense; however, the significant decline in 2008 in the value of the Company's defined benefit pension plan assets resulted in a substantial gap between the projected benefit obligations under the plans and the value of plan assets, resulting in increases in funding requirements. The increases have moderated in recent years as investment performance has improved. Because the earnings of ASB depend primarily on net interest income, interest rate risk is a significant risk of ASB's operations. HEI and the Utilities are also exposed to interest rate risk primarily due to their periodic borrowing requirements, the discount rate used to determine pension funding requirements and the possible effect of interest rates on the electric utilities' rates of return. Interest rates are sensitive to many factors, including general economic conditions and the policies of government and regulatory authorities. HEI cannot predict future changes in interest rates, nor be certain that interest rate risk management strategies it or its subsidiaries have implemented will be successful in managing interest rate risk.

Interest rate risk also represents a market risk factor affecting the fair value of ASB's investment securities. Increases and decreases in prevailing interest rates generally translate into decreases and increases in the fair values of those instruments, respectively. Disruptions in the credit markets, a liquidity crisis in the banking industry or increased levels of residential mortgage delinquencies and defaults may result in decreases in the fair value of ASB's investment securities and an impairment that is other-than-temporary, requiring ASB to write down its investment securities. As of December 31, 2014, all of ASB's investment securities were securities and obligations issued by a federal agency or government sponsored entity that have an implicit guarantee from the U.S. government.

HEI and Hawaiian Electric and their subsidiaries may incur higher retirement benefits expenses and have and will likely continue to recognize substantial liabilities for retirement benefits. Retirement benefits expenses and cash funding requirements could increase in future years depending on numerous factors, including the performance of the U.S. equity markets, trends in interest rates and health care costs, plan amendments, new laws relating to pension funding and changes in accounting principles. For the Utilities, however, retirement benefits expenses, as adjusted by the pension and postretirement benefits other than pensions (OPEB) tracking mechanisms, have been an allowable expense for rate-making purposes.

The Company is subject to the risks associated with the geographic concentration of its businesses and current lack of interconnections that could result in service interruptions at the Utilities or higher default rates on loans held by ASB. The business of the Utilities is concentrated on the individual islands they serve in the State of Hawaii. Their operations are more vulnerable to service interruptions than are many U.S. mainland utilities because none of the systems of the Utilities are interconnected with the systems on the other islands they serve. Because of this lack of interconnections, it is necessary to maintain higher generation reserve margins than are typical for U.S. mainland utilities to help ensure reliable service. Service interruptions, including in particular extended interruptions that could result from a natural disaster or terrorist activity, could adversely impact the KWH sales of some or all of the Utilities. Substantially all of ASB's consumer loan customers are Hawaii residents. A significant portion of the commercial loan customers are located in Hawaii. While a majority of customers are on Oahu, ASB also has customers on the neighbor islands (whose economies have been weaker than Oahu during the recent economic downturn). Substantially all of the real estate underlying ASB's residential and commercial real estate loans are located in Hawaii. These assets may be subject to a greater risk of default than other comparable assets held by financial institutions with other geographic concentrations in the event of adverse economic, political or business developments or natural disasters affecting Hawaii and the ability of ASB's customers to make payments of principal and interest on their loans.

Increasing competition and technological advances could cause HEI's businesses to lose customers or render their operations obsolete. The banking industry in Hawaii, and certain aspects of the electric utility industry, are competitive. The success of HEI's subsidiaries in meeting competition and responding to technological advances will continue to have a direct impact on HEI's consolidated financial performance. For example:

- ASB, one of the largest financial institutions in the state, is in direct competition for deposits and loans not only with two larger institutions that have substantial capital, technology and marketing resources, but also

with smaller Hawaii institutions and other U.S. institutions, including credit unions, mutual funds, mortgage brokers, finance companies and investment banking firms. Larger financial institutions may have greater access to capital at lower costs, which could impair ASB's ability to compete effectively. Significant advances in technology could render the operations of ASB less competitive or obsolete.

The Utilities face competition from IPPs; customer self-generation, with or without cogeneration; customer energy storage; and the potential formation of community-based, cooperative ownership structures for electrical service on the neighbor islands. With the exception of certain identified projects, the Utilities are required to use competitive bidding

to acquire a future generation resource unless the PUC finds competitive bidding to be unsuitable. The PUC set policies for distributed generation (DG) interconnection agreements and standby rates, and established conditions under which electric utilities can provide DG services on customer-owned sites as a regulated service. The results of competitive bidding, competition from IPPs, customer self-generation, and potential cooperative ownership structures for electric utility service, and the rate at which technological developments facilitating nonutility generation of electricity and customer energy storage occur may adversely affect the Utilities and the results of their operations.

New technological developments, such as the commercial development of energy storage and microgrids, may render the operations of the Utilities less competitive or outdated.

The Company may be subject to information technology system failures, network disruptions and breaches in data security that could adversely affect its businesses and reputation. The Company is subject to cyber security risks and the potential for cyber incidents, including potential incidents at ASB branches and at the the Utilities' plants and the related electricity transmission and distribution infrastructure, 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. ASB and the Utilities are highly dependent on their ability to process, on a daily basis, a large number of transactions. ASB and the Utilities rely heavily on numerous data processing systems. If any of these systems fails to operate properly or becomes disabled even for a brief period of time, the Company could suffer financial loss, business disruptions, liability to customers, regulatory intervention or damage to its reputation. The Utilities and ASB have disaster recovery plans in place to protect their businesses against natural disasters, security breaches, military or terrorist actions, power or communication failures or similar events. The disaster recovery plans, however, may not be successful in preventing the loss of customer data, service interruptions, disruptions to operations or damage to important facilities.

HEI's businesses could suffer losses that are uninsured due to a lack of affordable insurance coverage, unavailability of insurance coverage or limitations on the insurance coverage the Company does have. In the ordinary course of business, HEI and its subsidiaries purchase insurance coverages (e.g., property and liability coverages) to protect against loss of, or damage to, their properties and against claims made by third parties and employees for property damage or personal injuries. However, the protection provided by such insurance is limited in significant respects and, in some instances, there is no coverage. Certain of the insurance has substantial deductibles or has limits on the maximum amounts that may be recovered. For example, the Utilities' overhead and underground transmission and distribution systems (with the exception of substation buildings and contents) have a replacement value roughly estimated at \$6 billion and are largely not insured against loss or damage because the amount of transmission and distribution system insurance available is limited and the premiums are cost prohibitive. Similarly, the Utilities have no business interruption insurance as the premiums for such insurance would be cost prohibitive, particularly since the Utilities are not interconnected to other systems. If a hurricane or other uninsured catastrophic natural disaster were to occur, and if the PUC were not to allow the affected Utilities to recover from ratepayers restoration costs and revenues lost from business interruption, the lost revenues and repair expenses could result in a significant decrease in HEI's consolidated net income or in significant net losses for the affected periods.

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

Increased federal and state environmental regulation will require an increasing commitment of resources and funds and could result in construction delays or penalties and fines for non-compliance. HEI and its subsidiaries are subject to federal, state and local environmental laws and regulations relating to air quality, water quality, hazardous substances, waste management, natural resources and health and safety, which regulate, among other matters, the operation of existing facilities, the construction and operation of new facilities and the proper cleanup and disposal of hazardous and toxic wastes and substances. HEI or its subsidiaries are currently involved in investigatory or remedial actions at current, former or third-party sites and there is no assurance that the Company will not incur material costs relating to these sites. In addition, compliance with these legal requirements requires the Utilities to commit significant resources and funds toward, among other things, environmental monitoring, installation of pollution



control equipment and payment of emission fees. These laws and regulations, among other things, require that certain environmental permits be obtained in order to construct or operate certain facilities, and obtaining such permits can entail significant expense and cause substantial construction delays. Also, these laws and regulations may be amended from time to time, including amendments that increase the burden and expense of compliance. For example, emission and/or discharge limits may be tightened, more extensive permitting requirements may be imposed and additional substances may become regulated. In addition, significant regulatory uncertainty exists regarding the impact of federal or state greenhouse gas (GHG) emission limits and reductions.

If HEI or its subsidiaries fail to comply with environmental laws and regulations, even if caused by factors beyond their control, that failure may result in civil or criminal penalties and fines or the cessation of operations.

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

Governmental taxing authorities could challenge a tax return position taken by HEI or its subsidiaries and, if the taxing authorities prevail, HEI's consolidated tax payments and/or expense, including applicable penalties and interest, could increase significantly.

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

Changes in accounting principles and estimates could affect the reported amounts of the Company's assets and liabilities or revenues and expenses. HEI's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S. Changes in accounting principles (including the possible adoption of International Financial Reporting Standards or new U.S. accounting standards), or changes in the Company's application of existing accounting principles, could materially affect the financial statement presentation of HEI's or the Utilities' consolidated results of operations and/or financial condition. Further, in preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change include the amounts reported for pension and other postretirement benefit obligations; contingencies and litigation; income taxes; property, plant and equipment; regulatory assets and liabilities; electric utility revenues; allowance for loan losses; nonperforming loans; troubled debt restructurings; and fair value.

The Utilities' financial statements reflect assets and costs based on cost-based rate-making regulations. Continued accounting in this manner requires that certain criteria relating to the recoverability of such costs through rates be met. If events or circumstances should change so that the criteria are no longer satisfied, the Utilities' expect that their regulatory assets (amounting to \$905 million as of December 31, 2014), net of regulatory liabilities (amounting to \$345 million as of December 31, 2014), would be charged to the statement of income in the period of discontinuance. Changes in accounting principles can also impact HEI's consolidated financial statements. For example, if management determines that a PPA requires the consolidation of the IPP in the Consolidated Financial Statements, the consolidation could have a material effect on Hawaiian Electric's and HEI's consolidated financial statements, including the recognition of a significant amount of assets and liabilities and, if such a consolidated IPP were operating at a loss and had insufficient equity, the potential recognition of such losses. Also, if management determines that a PPA requires the classification of the agreement as a capital lease, a material effect on HEI's consolidated balance sheet may result, including the recognition of significant capital assets and lease obligations. A proposed standard on accounting for expected credit losses was issued by the FASB which would replace existing impairment models, including replacing an "incurred loss" model for loans with a "current expected credit loss" model. There are a number of questions and issues around the expected credit loss model. ASB cannot predict whether or when a final standard will be issued, when it will be effective or what its final provisions will be. It is possible that the final standard could have a material adverse impact on the bank's results of operations once it is issued and becomes effective.

A standard on accounting for revenues from contracts with customers was issued by the FASB in May 2014. The Company plans to adopt this standard in the first quarter of 2017, but has not determined the impact of adoption on its financial statements.

The Company has identified a material weakness in its internal control over financial reporting. If the Company fails to maintain effective internal control over financial reporting at a reasonable assurance level, HEI and Hawaiian Electric may not be able to accurately report their financial results, which could have a material adverse effect on their operations, investor confidence in their businesses and the trading prices of their securities. HEI's and Hawaiian

Electric's management is responsible for establishing and maintaining adequate internal control over their financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

In connection with the preparation of HEI's and Hawaiian Electric's consolidated financial statements for the nine months ended September 30, 2015, management along with its independent registered public accounting firm identified a material weakness in the internal control over financial reporting.

The material weakness management identified specifically related to the fact that controls were not designed to ensure that non-cash transactions were properly identified and recorded, and management's review process was not effective.

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deficiency resulted in restatements of HEI's and Hawaiian Electric's Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014, the six months ended June 30, 2015 and 2014, and the years ended December 31, 2013 and 2012 and revisions of HEI's and Hawaiian Electric's Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and the year ended December 31, 2014.

The Company will initiate remediation efforts of the material weakness in the internal control over financial reporting. The remediation includes, but is not limited to, Hawaiian Electric and its subsidiaries instituting a control that requires a roll forward reconciliation and review of the capital expenditures amount included in the Consolidated Statement of Cash Flows and enhancing templates to facilitate the preparation and review of cash flows.

If the Company's remediation efforts are insufficient to address the identified material weakness or if additional material weaknesses in internal controls are discovered in the future, they may adversely affect the Company's ability to record, process, summarize and report financial information timely and accurately and, as a result, the Company's financial statements may contain material misstatements or omissions.

#### Electric Utility Risks.

Actions of the PUC are outside the control of the Utilities and could result in inadequate or untimely rate increases, in rate reductions or refunds or in unanticipated delays, expenses or writedowns in connection with the construction of new projects. The rates the Utilities are allowed to charge for their services and the timeliness of permitted rate increases are among the most important items influencing the Utilities' results of operations, financial condition and liquidity. The PUC has broad discretion over the rates that the Utilities charge their customers. As part of the decoupling mechanism that the Utilities have implemented, each of the Utilities will file a rate case once every three years. Any adverse decision by the PUC concerning the level or method of determining electric utility rates, the items and amounts that may be included in rate base, the returns on equity or rate base found to be reasonable, the potential consequences of exceeding or not meeting such returns, or any prolonged delay in rendering a decision in a rate or other proceeding could have a material adverse effect on Hawaiian Electric's consolidated results of operations, financial condition and liquidity.

To improve the timing and certainty of the recovery of their costs, the Utilities have proposed and received approval of various cost recovery mechanisms including an ECAC and pension and OPEB tracking mechanisms, as well as a decoupling mechanism, a PPAC, and a renewable energy infrastructure program (REIP) surcharge. A change in, or the elimination of, any of these cost recovery mechanisms, including in the current proceeding in which the PUC is examining the decoupling mechanism, could have a material adverse effect on the Utilities.

The Utilities could be required to refund to their customers, with interest, revenues that have been or may be received under interim rate orders in their rate case proceedings, integrated resource plan cost recovery dockets and other proceedings, if and to the extent they exceed the amounts allowed in final orders.

Many public utility projects require PUC approval and various permits (e.g., environmental and land use permits) from other governmental agencies. Difficulties in obtaining, or the inability to obtain, the necessary approvals or permits, or any adverse decision or policy made or adopted, or any prolonged delay in rendering a decision, by an agency with respect to such approvals and permits, can result in significantly increased project costs or even cancellation of projects. In the event a project does not proceed, or if the PUC disallows cost recovery for all or part of a project, project costs may need to be written off in amounts that could result in significant reductions in Hawaiian Electric's consolidated net income. For example, in January 2013, the Utilities and the Consumer Advocate signed a settlement agreement to write off \$40 million of costs in lieu of conducting PUC-ordered regulatory audits of the CIP CT-1 and the CIS projects.

Energy cost adjustment clauses. The rate schedules of each of the Utilities include ECACs under which electric rates charged to customers are automatically adjusted for changes in the weighted-average price paid for fuel oil and certain components of purchased power, and the relative amounts of company-generated power and purchased power.

ECACs are subject to periodic review by the PUC. As part of the review, the Energy Agreement had provided that the PUC may examine whether there are renewable energy projects from which the Utilities should have, but did not, purchase energy or whether alternative fuel purchase strategies were appropriately used or not used.

In the most recent rate cases, the PUC allowed the current ECAC to continue. However, in the decoupling reexamination proceeding, certain parties recommended modifying the ECAC to allow only partial pass-through of

fuel costs and eventual phasing out of the ECAC. The Consumer Advocate stated that there should be no significant change to the existing ECAC without first undertaking a new regulatory proceeding that would provide time and resources for the careful study of the potential effects of each ECAC change considered, but that there should be significantly greater ECAC audit and regulatory review of the Utilities' incurred fuel costs should be implemented to encourage cost control and to identify and deny recovery of any imprudently incurred energy costs through the ECAC. The Utilities suggested ways of improving the ECAC but stated

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that the partial pass through of fuel costs would not be proper regulatory policy since the Utilities have no control over world oil markets, that 42 of the 50 states provide dollar-for-dollar pass through of market-driven changes in fuel or purchase power costs, and that modifying the ECAC to allow only partial pass-through of fuel costs could severely impact the Utilities' credit rating. A change in, or the elimination of, the ECAC could have a material adverse effect on the Utilities.

Electric utility operations are significantly influenced by weather conditions. The Utilities' results of operations can be affected by the weather. Weather conditions, particularly temperature and humidity, directly influence the demand for electricity. In addition, severe weather and natural disasters, such as hurricanes, earthquakes, tsunamis and lightning storms, which may become more severe or frequent as a result of global climate changes, can cause outages and property damage and require the Utilities to incur significant additional expenses that may not be recoverable.

Electric utility operations depend heavily on third-party suppliers of fuel and purchased power. The Utilities rely on fuel oil suppliers and shippers and IPPs to deliver fuel oil and power, respectively, in accordance with contractual agreements. Approximately 69% of the net energy generated or purchased by the Utilities in 2014 was generated from the burning of fossil fuel oil, and purchases of power by the Utilities provided about 46% of their total net energy generated and purchased for the same period. Failure or delay by oil suppliers and shippers to provide fuel pursuant to existing contracts, or failure by a major IPP to deliver the firm capacity anticipated in its PPA, could disrupt the ability of the Utilities to deliver electricity and require the Utilities to incur additional expenses to meet the needs of their customers that may not be recoverable. In addition, as the IPP contracts near the end of their terms, there may be less economic incentive for the IPPs to make investments in their units to ensure the availability of their units. Also, as these contractual agreements end, the Utilities may not be able to purchase fuel and power on terms equivalent to the current contractual agreements. As the use of biofuels in generating units increases, the same risks will exist with suppliers of biofuels.

Electric utility generating facilities are subject to operational risks that could result in unscheduled plant outages, unanticipated and/or increased operation and maintenance expenses and increased power purchase costs. Operation of electric generating facilities involves certain risks which can adversely affect energy output and efficiency levels. Included among these risks are facility shutdowns or power interruptions due to insufficient generation or a breakdown or failure of equipment or processes. In January 2015, Hawaiian Electric experienced a generation shortfall event due to unexpected concurrent outages of a utility generating unit and several IPPs. In addition, operations could be negatively impacted by interruptions in fuel supply, inability to negotiate satisfactory collective bargaining agreements when existing agreements expire or other labor disputes, inability to comply with regulatory or permit requirements, disruptions in delivery of electricity, operator error and catastrophic events such as earthquakes, tsunamis, hurricanes, fires, explosions, floods or other similar occurrences affecting the Utilities' generating facilities or transmission and distribution systems.

The Utilities may be adversely affected by new legislation. Congress, the Hawaii legislature and governmental agencies periodically consider legislation and other initiatives that could have uncertain or negative effects on the Utilities and their customers. Congress, the Hawaii legislature and governmental agencies have adopted, or are considering adopting, a number of measures that will significantly affect the Utilities, as described below.

**Renewable Portfolio Standards law.** In 2009, Hawaii's RPS law was amended to require electric utilities to meet an RPS of 10%, 15%, 25% and 40% by December 31, 2010, 2015, 2020 and 2030, respectively. Energy savings resulting from energy efficiency programs do not count toward the RPS after 2014. The Utilities are committed to achieving these goals and met the 2010 RPS; however, due to the exclusion of energy savings in calculating RPS after 2014 and risks such as potential delays in IPPs being able to deliver contracted renewable energy, it is possible the Utilities may not attain the required renewable percentages in the future, and management cannot predict the future consequences of failure to do so (including potential penalties to be assessed by the PUC). On December 19, 2008, the PUC approved a penalty of \$20 for every MWh that an electric utility is deficient under Hawaii's RPS law. The PUC noted, however, that this penalty may be reduced, in the PUC's discretion, due to events or circumstances that are outside an electric utility's reasonable control, to the extent the event or circumstance could not be reasonably foreseen and ameliorated, as described in the RPS law and in an RPS framework adopted by the PUC. In addition, the PUC ordered that the Utilities will be prohibited from recovering any RPS penalty costs through rates.

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

Global climate change and greenhouse gas emissions reduction. National and international concern about climate change and the contribution of GHG emissions to climate change have led to action by the state of Hawaii and 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 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 to GHG emission reduction (including "cap and trade") have been either introduced or discussed in Congress; however, no legislation has yet been enacted.

In response to the 2007 U.S. Supreme Court decision in *Massachusetts v. Environmental Protection Agency*, which ruled that the EPA has the authority to regulate GHG emissions from motor vehicles under the CAA, the EPA has accelerated rulemaking addressing GHG emissions from both mobile and stationary sources. On September 22, 2009, the EPA issued the Final Mandatory Reporting of Greenhouse Gases Rule. The rule, which applies to the Utilities, requires that sources above certain threshold levels monitor and report GHG emissions.

On June 3, 2010, the EPA's final GHG Tailoring Rule was published. It created a new emissions threshold for GHG emissions from new and existing facilities and requires certain facilities to obtain PSD and Title V operating permits. 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. On December 19, 2014, EPA released two memorandums outlining the Agency's plan for addressing the U.S. Supreme Court's decision. Hawaiian Electric, Hawaii Electric Light and Maui Electric are evaluating the potential impacts of the Agency's plan on utility operations and permitting. 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 by mid-summer 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 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 of these various measures to reduce GHG emissions.

The foregoing legislation or legislation that now is, or may in the future be, proposed present risks and uncertainties for the Utilities.

The Utilities may be subject to increased operational challenges and their results of operations, financial condition and liquidity may be adversely impacted in meeting the commitments and objectives of clean energy initiatives and Renewable Portfolio Standards (RPS). The far-reaching nature of the Utilities' renewable energy commitments and the RPS goals present risks to the Company. Among such risks are: (1) the dependence on third party suppliers of renewable purchased energy, which if the Utilities are unsuccessful in negotiating purchased power agreements with such IPPs or if a major IPP fails to deliver the anticipated capacity in its purchased power agreement, could impact the Utilities' achievement of their commitments to RPS goals and/or the Utilities' ability to deliver reliable service; (2) delays in acquiring or unavailability of non-fossil fuel supplies for renewable generation; (3) the impact of intermittent power to the electrical grid and reliability of service if appropriate supporting infrastructure is not installed or does not operate effectively; (4) the likelihood that the Utilities may need to make substantial investments in related infrastructure, which could result in increased borrowings and, therefore, materially impact the financial condition and liquidity of the Utilities; and (5) the commitment to support a variety of initiatives, which, if approved by the PUC, may have a material impact on the results of operations and financial condition of the Utilities depending on their design and implementation.

#### Bank Risks.

Fluctuations in interest rates could result in lower net interest income, impair ASB's ability to originate new loans or impair the ability of ASB's adjustable-rate borrowers to make increased payments. Interest rate risk is a significant risk of ASB's operations. ASB's net interest income consists primarily of interest income received on fixed-rate and adjustable-rate loans, mortgage-related securities and investments and interest expense consisting primarily of interest paid on deposits and other borrowings. Interest rate risk arises when earning assets mature or when their interest rates change in a time frame different from that of the costing liabilities. Changes in market interest rates, including changes in the relationship between short-term and long-term market interest rates or between different interest rate indices, can impact ASB's net interest margin.

Although ASB pursues an asset-liability management strategy designed to mitigate its risk from changes in market interest rates, unfavorable movements in interest rates could result in lower net interest income. Residential 1-4 family fixed-rate mortgage loans comprised about 43% of ASB's loan portfolio as of December 31, 2014 and do not re-price with movements in interest rates. ASB continues to face a challenging interest rate environment. Interest rates declined in 2014 and new loan production rates remained at historically low levels and below ASB's loan portfolio yields. This placed additional pressure on ASB's asset yields and net interest margin. The degree to which compression of ASB's margin continues is uncertain if interest rates rise.

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

ASB's operations are affected by many disparate factors, some of which are beyond its control, that could result in lower net interest income or decreased demand for its products and services. ASB's results of operations depend primarily on the level of interest income generated by ASB's earning assets in excess of the interest expense on its costing liabilities and the supply of and demand for its products and services (i.e., loans and deposits). ASB's net income may also be adversely affected by various other factors, such as:

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

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the ability of borrowers to obtain insurance and the ability of ASB to place insurance where borrowers fail to do so, particularly in the event of catastrophic damage to collateral securing loans made by ASB;  
faster than expected loan prepayments that can cause an acceleration of the amortization of premiums on loans and investments and the impairment of mortgage servicing assets of ASB;  
changes in ASB's loan portfolio credit profiles and asset quality, which may increase or decrease the required level of allowance for loan losses;

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

the impact of legislative and regulatory changes affecting capital requirements and increasing oversight of, and reporting by, banks;

additional legislative changes regulating the assessment of overdraft, interchange and credit card fees, which will have a negative impact on noninterest income;

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

increases in operating costs (including employee compensation expense and benefits), inflation and other factors, that exceed increases in ASB's net interest, fee and other income; and

the ability of ASB to maintain or increase the level of deposits, ASB's lowest costing funds.

Banking and related regulations could result in significant restrictions being imposed on ASB's business or in a requirement that HEI divest ASB. ASB is subject to examination and comprehensive regulation by the Department of Treasury, the OCC and the FDIC, and is subject to reserve requirements established by the Board of Governors of the Federal Reserve System. In addition, the FRB is responsible for regulating ASB's holding companies, HEI and ASB Hawaii. The regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities and examination policies to address not only ASB's compliance with applicable banking laws and regulations, but also capital adequacy, asset quality, management ability and performance, earnings, liquidity and various other factors.

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

Recent legislative and regulatory initiatives could have an adverse effect on ASB's business. The Dodd-Frank Act, which became law in July 2010, has had a substantial impact on the financial services industry. The Dodd-Frank Act establishes a framework through which regulatory reform will be written and changes to statutes, regulations or regulatory policies could affect HEI and ASB in substantial and unpredictable ways. A major component of the Dodd-Frank Act is the creation of the Consumer Financial Protection Bureau that has the responsibility for setting and enforcing clear, consistent rules relating to consumer financial products and services and has the authority to prohibit practices it finds to be unfair, deceptive or abusive. Compliance with any such directives could have adverse effects on ASB's revenues or operating costs. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on ASB's business, results of operations, financial condition and liquidity.

A large percentage of ASB's loans and securities are collateralized by real estate, and adverse changes in the real estate market and/or general economic or other conditions may result in loan losses and adversely affect the Company's profitability. As of December 31, 2014 approximately 79% of ASB's loan portfolio was comprised of loans primarily collateralized by real estate, most of which was concentrated in the State of Hawaii. ASB's HELOC (home equity line of credit) portfolio grew by 11% during 2014 and now comprises 23% of total real estate loans. ASB's financial results may be adversely affected by changes in prevailing economic conditions, either nationally or in the state of Hawaii,

including decreases in real estate values, adverse employment conditions, the monetary and fiscal policies of the federal and state government and other significant external events. Adverse changes in the economy may have a negative effect on the ability of borrowers to make timely repayments of their loans. A deterioration of the economic environment in Hawaii, including a material decline in the real estate market, further declines in home resales, or a material external shock, or any environmental clean-up obligation, may also significantly impair the value of ASB's collateral and ASB's ability to sell the collateral upon foreclosure. In the event of a default, amounts received upon sale of the collateral may be insufficient to recover outstanding principal and interest. In addition, if poor economic conditions result in decreased demand for real estate loans, ASB's profits may decrease if its alternative investments earn less income than real estate loans.

ASB's strategy to expand its commercial and commercial real estate lending activities may result in higher service costs and greater credit risk than residential lending activities due to the unique characteristics of these markets. ASB has been aggressively pursuing a strategy that includes expanding its commercial and commercial real estate lines of business. These types of loans generally entail higher underwriting and other service costs and present greater credit risks than traditional residential mortgages.

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

ASB has grown its national syndicated lending portfolio where ASB is a participant in credit facilities agented by established and reputable national lenders. Management selectively chooses each deal based on conservative credit criteria to ensure a high quality, well diversified portfolio.

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

## PART II

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Restatement

As described in Note 1, "Summary of significant accounting policies - Revision and restatements of previously issued financial statements," to HEI's and Hawaiian Electric's consolidated financial statements included in Part II, Item 8 "Financial Statements and Supplementary Data," and Part II, Item 9A "Controls and Procedures," HEI and Hawaiian Electric have revised or restated certain financial statements and other information, including this management's discussion and analysis of financial condition and results of operations.

HEI and Hawaiian Electric (in the case of Hawaiian Electric, only the information related to Hawaiian Electric and its subsidiaries):

The following discussion should be read in conjunction with the Consolidated Financial Statements. The general discussion of HEI's consolidated results should be read in conjunction with the electric utility and bank segment discussions that follow.

#### HEI Consolidated

**Proposed Merger.** On December 3, 2014, HEI, NEE, Merger Sub II and Merger Sub I entered into an Agreement and Plan of Merger. The Merger Agreement provides for Merger Sub I to merge with and into HEI, with HEI surviving, and then for HEI to merge with and into Merger Sub II, with Merger Sub II surviving as a wholly owned subsidiary of NEE (the Merger). The Merger Agreement provides that, prior to completion of the Merger, HEI will distribute to its shareholders, on a pro-rata basis, all of the issued and outstanding shares of ASB Hawaii, parent company of ASB (the Spin-Off). The closing of the Merger is subject to various conditions, including federal and state regulatory approvals and the approval of holders of 75% of the outstanding shares of HEI common stock. For additional information concerning the proposed merger, see Note 2 of the Consolidated Financial Statements.

**Executive overview and strategy.** HEI is a holding company that operates subsidiaries (collectively, the Company), principally in Hawaii's electric utility and banking sectors. HEI's strategy is to build fundamental earnings and profitability of



its electric utilities and bank in a controlled risk manner to support its current dividend and improve operating and capital efficiency in order to build shareholder value.

HEI, through its electric utility subsidiaries (Hawaiian Electric and its subsidiaries, Hawaii Electric Light and Maui Electric), provides the only electric public utility service to approximately 95% of Hawaii's population. HEI also provides a wide array of banking and other financial services to consumers and businesses through its bank subsidiary, ASB, one of Hawaii's largest financial institutions based on total assets. Together, HEI's unique combination of electric utilities and a bank continues to provide the Company with a strong balance sheet and the financial resources to invest in the strategic growth of its subsidiaries while providing an attractive dividend for investors.

In 2014, net income for HEI common stock was \$168 million, up 4% from \$162 million in 2013 primarily due to the Utilities' 12% higher net income. ASB had 11% lower net income in 2014 compared to 2013 and the "other" segment had a \$2 million higher net loss. Basic earnings per share were \$1.65 per share in 2014, up 1% from \$1.63 per share in 2013.

The Utilities' strategic focus has been to meet Hawaii's energy needs by modernizing and adding needed infrastructure through capital investment, placing emphasis on energy efficiency and conservation, pursuing renewable energy generation and taking the necessary steps to secure regulatory support for their plans. Electric utility net income for common stock in 2014 of \$138 million increased 12% from the prior year due primarily to the increase in revenues in 2014 for the recovery of costs for clean energy and reliability investments and reduction of earnings in 2013 due to the Maui Electric refund to customers, offset in part due to higher O&M expenses, depreciation expense, interest costs, and a favorable deferred tax adjustment in 2013.

ASB continues to develop and introduce new products and services in order to meet the needs of both consumer and commercial customers. Additionally, ASB is making the investments in people and technology necessary to adapt to a constantly changing banking industry and remain competitive. ASB's earnings in 2014 of \$51 million decreased \$6 million compared to prior year net income due primarily to lower noninterest income and a higher provision for loan losses. In 2014, ASB earnings were impacted by lower debit card interchange fees as a result of being non-exempt from the Durbin Amendment from July 1, 2013, and the settlement of a lawsuit. ASB's future financial results will continue to be impacted by the interest rate environment and the quality of ASB's loan portfolio. If the Spin-Off occurs as contemplated by the Merger Agreement, ASB expects to be exempt from the Durbin Amendment. HEI's "other" segment had a net loss in 2014 of \$20.8 million, compared to a net loss of \$18.9 million in 2013. In 2014, HEI incurred \$5 million of expenses related to the proposed merger and \$3 million lower interest expense (each net of taxes).

Shareholder dividends are declared and paid quarterly by HEI at the discretion of HEI's Board of Directors. HEI and its predecessor company, Hawaiian Electric, have paid dividends continuously since 1901. The dividend has been stable at \$1.24 per share annually since 1998. The indicated dividend yield as of December 31, 2014 was 3.7%. The dividend payout ratios based on net income for common stock for 2014, 2013 and 2012 were 75%, 76% and 87%, respectively. The HEI Board of Directors considers many factors in determining the dividend quarterly, 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.

HEI's subsidiaries from time to time consider various strategies designed to enhance their competitive positions and to maximize shareholder value. Management cannot predict whether any of these strategies or transactions will be carried out or, if so, whether they will be successfully implemented. See "Proposed merger" above.

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, reached record highs in both visitor spending and arrivals for the third consecutive year in 2014. Visitor expenditures increased 2.3% and arrivals increased 1.3% compared to 2013. Looking ahead, the Hawaii Tourism Authority expects scheduled nonstop seats to Hawaii for the first quarter of 2015 to increase by 6.1% over the first quarter of 2014 driven primarily by a 9.2% increase in domestic



seats.

Hawaii's unemployment rate was relatively stable at 4.0% in December 2014, lower than the state's 4.7% rate in December 2013 and the December 2014 national unemployment rate of 5.6%.

Hawaii real estate activity, as indicated by the home resale market, experienced growth in median sales prices in 2014. Median sales prices for single family residential homes and condominiums on Oahu increased 3.8% and 5.4%, respectively, over 2013. However, the number of closed sales was down slightly in 2014. Closed sales for single family residential homes were down 0.8% and condominiums were down 1.3% compared to 2013.

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Hawaii's petroleum product prices reflect supply and demand in the Asia-Pacific region and the price of crude oil in international markets. In 2014, prices of all petroleum fuels plateaued during the first three quarters of the year before falling strongly over the course of 2014's final quarter.

At its January 2015 meeting, the Federal Open Market Committee (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 following the end of the asset purchase program in October 2014.

Overall, Hawaii's economy is expected to see positive growth in 2015. Tourism had another record year in 2014, but future gains will be restrained due to limited capacity. Lower energy costs could also provide a boost to the economy if energy costs remain near the low levels experienced in the latter part of 2014. Risks to local economic growth include planned reductions in active duty military personnel and weak Japanese visitor arrivals and spending.

Recent tax developments. The Tax Increase Prevention Act of 2014 provided a one year extension of 50% bonus depreciation, increasing the Company's 2014 federal tax depreciation by an estimated \$162 million, primarily attributable to the Utilities. Previously, the American Taxpayer Relief Act of 2012 provided 50% bonus depreciation through 2013, resulting in an increase in 2013 federal tax depreciation of \$160 million, primarily attributable to the Utilities.

Also, see Note 12 and Hawaiian Electric's consolidated income taxes refunded in Note 13 of the Consolidated Financial Statements.

Results of operations.

(dollars in millions, except per share amounts)	2014	% change	2013	% change	2012
Revenues	\$3,240	—	\$3,238	(4 )	\$3,375
Operating income	329	4	315	11	284
Net income for common stock	168	4	162	16	139
Net income (loss) by segment:					
Electric utility	\$138	12	\$123	24	\$99
Bank	51	(11 )	58	(2 )	59
Other	(21 )	NM	(19 )	NM	(19 )
Net income for common stock	\$168	4	\$162	16	\$139
Basic earnings per share	\$1.65	1	\$1.63	14	\$1.43
Diluted earnings per share	\$1.64	1	\$1.62	14	\$1.42
Dividends per share	\$1.24	—	\$1.24	—	\$1.24
Weighted-average number of common shares outstanding (millions)	102.0	3	99.0	2	96.9
Dividend payout ratio	75 %		76 %		87 %

NM Not meaningful.

See "Executive overview and strategy" above and the "Other segment," "Electric utility" and "Bank" sections below for discussions of results of operations.

Retirement benefits. The Company's reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions about future experience. For example, retirement benefits costs are impacted by actual employee demographics (including age and compensation levels), the level of contributions to the plans, plus earnings and realized and unrealized gains and losses on plan assets, and changes made to the provisions of the plans. (See Note 10 of the Consolidated Financial Statements.) Costs may also be significantly affected by changes in key actuarial assumptions, including the expected return on plan assets, the discount rate and mortality. The Company's accounting for retirement benefits under the plans in which the employees of the Utilities participate is also adjusted to account for the impact of decisions by the Public Utilities Commission of the State of Hawaii (PUC). Changes in obligations associated with the factors noted above may not be immediately recognized as costs on the income statement, but generally are recognized in future years over the remaining average service period of plan participants.

The assumptions used by management in making benefit and funding calculations are based on current economic conditions. Changes in economic conditions will impact the underlying assumptions in determining retirement benefits costs on a prospective basis.

For 2014, the Company's retirement benefit plans' assets generated a gain of 6.8%, net of investment management and trustee fees, resulting in net earnings and unrealized gains of \$90 million, compared to net earnings and unrealized gains of

\$223 million for 2013 and \$134 million for 2012. The market value of the retirement benefit plans' assets for December 31, 2014 and 2013 were \$1.4 billion and \$1.4 billion, respectively.

The Company intends to make contributions to the qualified pension plan for HEI and Hawaiian Electric equal to the calculated net periodic pension cost for the year. However, if the minimum required contribution determined under the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Pension Protection Act of 2006, for the year is greater than the net periodic pension cost, then the Company will contribute the minimum required contribution and the Utilities' difference between the minimum required contribution and the net periodic pension cost will increase their regulatory asset. In the next rate case, the regulatory asset will be amortized over five years and used to reduce the cash funding requirement based on net periodic pension cost. The regulatory asset may not be applied against the ERISA minimum required contribution.

The net periodic pension cost is expected to be higher than the ERISA minimum required contribution for 2015.

Therefore, to satisfy the requirements of the electric utilities' pension tracking mechanism, net periodic pension cost will be the basis of the cash funding for 2015. Based on plan assets as of December 31, 2014 and various assumptions in Note 10 of the Consolidated Financial Statements, the Company estimates the net periodic pension cost contribution for 2015 will be \$85 million (\$2 million for HEI and \$83 million for the Utilities).

Based on various assumptions in Note 10 of the Consolidated Financial Statements and assuming no further changes in retirement benefit plan provisions, information regarding consolidated HEI's and consolidated Hawaiian Electric's retirement benefits was, or is estimated to be, as follows, and constitutes "forward-looking statements:"

(in millions)	AOCI debit/(credit), net of taxes (benefits), related to retirement benefits liability December 31		Retirement benefits expense, net of tax benefits Years ended December 31 (Estimated) 2015			Retirement benefits paid and plan expenses Years ended December 31			
	2014	2013	2014	2013	2012	2014	2013	2012	
	Consolidated HEI	\$28	\$13	\$23	\$20	\$21	\$22	\$71	\$70
Consolidated Hawaiian Electric	—	(1	) 19	19	18	20	66	65	63

Based on various assumptions in Note 10 of the Consolidated Financial Statements, sensitivities of the projected benefit obligation (PBO) and accumulated postretirement benefit obligation (APBO) as of December 31, 2014, associated with a change in certain actuarial assumptions, were as follows and constitute "forward-looking statements."

Actuarial assumption	Change in assumption in basis points	Impact on HEI Consolidated PBO or APBO	Impact on Consolidated Hawaiian Electric PBO or APBO
(dollars in millions)			
Pension benefits			
Discount rate	' +/- 50	\$(139)/\$157	\$(128)/\$145
Other benefits			
Discount rate	' +/- 50	(14)/16	(14)/15
Health care cost trend rate	' +/- 100	4/(5)	4/(4)

See Note 10 of the Consolidated Financial Statements for further retirement benefits information.

Other segment.

(dollars in millions)	2014	% change	2013	% change	2012	
Revenues <sup>1</sup>	\$—	NM	\$—	NM	\$—	
Operating loss	(22	) NM	(17	) NM	(17	)
Net loss	(21	) NM	(19	) NM	(19	)

<sup>1</sup> Including writedowns of and net gains and losses from investments.

NM Not meaningful.

The “other” business segment includes results of the stand-alone corporate operations of HEI and ASB Hawaii, both holding companies; HEI Properties, Inc., a company holding passive, venture capital investments (venture capital investments

with a carrying value of \$0.1 million as of December 31, 2014); and The Old Oahu Tug Service, Inc., a maritime freight transportation company that ceased operations in 1999; as well as eliminations of intercompany transactions. HEI corporate-level operating, general and administrative expenses were \$21 million in 2014 compared to \$16 million in 2013 and \$16 million in 2012. In 2014, HEI had approximately \$5 million of expenses related to the proposed merger. In 2013, HEI had higher administrative and general expenses, including retirement benefits, partly offset by lower executive compensation.

The “other” segment’s interest expenses were \$12 million in 2014, \$16 million in 2013 and \$16 million in 2012. In 2014, HEI had lower average interest rates, partly offset by the impact of higher average borrowings. In 2014, a 6.51% medium-term note of \$100 million was paid off and a \$125 million Eurodollar term loan (at rates ranging from 1.12% to 1.14% through December 31, 2014) was drawn. In 2013, \$50 million of long-term debt was refinanced at a lower interest rate. The “other” segment’s income tax benefits were \$13 million in 2014, \$14 million in 2013 and \$15 million in 2012.

Effects of inflation. U.S. inflation, as measured by the U.S. Consumer Price Index (CPI), averaged 1.6% in 2014, 1.5% in 2013 and 2.1% in 2012. Hawaii inflation, as measured by the Honolulu CPI, was 1.8% in 2013, 2.4% in 2012 and 3.7% in 2011. DBEDT estimates average Honolulu CPI to have been 1.5% in 2014 and forecasts it to be 2.2% for 2015.

Inflation continues to have an impact on HEI’s operations. Inflation increases operating costs and the replacement cost of assets. Subsidiaries with significant physical assets, such as the electric utilities, replace assets at much higher costs and must request and obtain rate increases to maintain adequate earnings. In the past, the PUC has granted rate increases in part to cover increases in construction costs and operating expenses due to inflation.

Recent accounting pronouncements. See “Recent accounting pronouncements and interpretations” in Note 1 of the Consolidated Financial Statements.

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 in the foreseeable future.

The Company’s total assets were \$11.2 billion as of December 31, 2014 and \$10.3 billion as of December 31, 2013.

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

December 31	2014		2013			
(dollars in millions)						
Short-term borrowings—other than bank	\$ 119	3	%	\$ 105	3	%
Long-term debt, net—other than bank	1,507	44		1,493	45	
Preferred stock of subsidiaries	34	1		34	1	
Common stock equity	1,791	52		1,727	51	
	\$3,451	100	%	\$3,359	100	%

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

(in millions)	Year ended		
	December 31, 2014		December 31, 2013
	Average balance	End-of-period balance	
Short-term borrowings <sup>1</sup>			
Commercial paper	\$71	\$119	\$105
Line of credit draws	—	—	—
Undrawn capacity under HEI’s line of credit facility		150	125

This table does not include Hawaiian Electric’s separate commercial paper issuances and line of credit facilities, <sup>1</sup> which are disclosed below under “Electric utility—Financial Condition—Liquidity and capital resources.” At February 13, 2015, HEI’s outstanding commercial paper balance was \$105 million and its line of credit facility was undrawn. The maximum amount of HEI’s short-term borrowings in 2014 was \$119 million.



HEI utilizes short-term debt, typically commercial paper, to support normal operations, to refinance commercial paper, to retire long-term debt, to pay dividends and for other temporary requirements. HEI also periodically makes short-term loans to Hawaiian Electric to meet Hawaiian Electric's cash requirements, including the funding of loans by Hawaiian Electric to Hawaii Electric Light and Maui Electric, but no such short-term loans to Hawaiian Electric were outstanding as of December 31, 2014. HEI periodically utilizes long-term debt, historically consisting of medium-term notes and other unsecured indebtedness, to fund investments in and loans to its subsidiaries to support their capital improvement or other requirements, to repay long-term and short-term indebtedness and for other corporate purposes. 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 9 of the Consolidated Financial Statements.

On May 2, 2014, HEI closed a two-year term loan from three banks for \$125 million. See Note 8 of the Consolidated Financial Statements for a brief description of the loan agreement and the application of the proceeds of the loan. In December 2014, HEI filed an omnibus shelf registration statement to register an indeterminate amount of debt and equity securities.

HEI has a line of credit facility, as amended and restated on April 2, 2014, of \$150 million. See Note 7 of the Consolidated Financial Statements.

The rating of HEI's commercial paper and debt securities could significantly impact the ability of HEI to sell its commercial paper and issue debt securities and/or the cost of such debt. The rating agencies use a combination of qualitative measures (i.e., assessment of business risk that incorporates an analysis of the qualitative factors such as management, competitive positioning, operations, markets and regulation) as well as quantitative measures (e.g., cash flow, debt, interest coverage and liquidity ratios) in determining the ratings of HEI securities.

Following the announcement that HEI has agreed to merge with NextEra Energy, Inc., on December 4, 2014, Fitch Ratings (Fitch) placed the 'BBB' long-term issuer default rating of HEI on Rating Watch Positive and noted "Fitch will likely resolve the Rating Watch on the conclusion of the transaction and could upgrade HEI by one notch given its ownership by a higher rated company. In such a scenario, the ratings of HEI will be equalized with that of its wholly-owned subsidiary, Hawaiian Electric Company (HECO), given the transaction contemplates the spin-off of the bank." The key ratings drivers cited were (1) modest improvement in business risk, (2) structural challenges in Hawaii, (3) regulatory approvals required, and (4) credit metrics trajectory unchanged. Fitch also noted that "[f]uture developments that may, individually or collectively, lead to negative rating action include:-- [a]n inability to earn an adequate and timely recovery on invested capital; -- [a]ccelerating competitive inroads by distributed generation and energy efficiency; and -- [f]ailure to consummate acquisition by Nextera [sic] and material deterioration in regulatory environment."

On December 4, 2014, Moody's affirmed the ratings of HEI (Baa2 stable). Moody's views "NextEra's acquisition as potentially beneficial to HECO which has been experiencing numerous operational challenges due to pressure from regulators and other stakeholders to reduce costs and expand the use of renewable generation." Moody's also noted that the "rating could be downgraded or placed on negative outlook should the company's relationship with the regulators deteriorate to a point where it might affect the company's credit metrics in a meaningful way, or if HECO's cash flow to debt metric declined to 13% or below on a sustained basis."

On December 4, 2014, S&P placed the 'BBB-' issuer credit rating for HEI on CreditWatch with positive implications. S&P indicated that "[i]n light of the level of NextEra's investment in HEI, NextEra's proposed method of funding the acquisition, opportunities for growth, and stated commitment from management, we assess HEI and HECO as "core" subsidiaries of NextEra. As a result, upon the close of the transaction, we expect to raise our issuer credit ratings on HEI and HECO to be aligned with that of the ultimate parent NextEra." S&P issued a subsequent report on January 26, 2015, stating "[t]he ratings of HEI and its subsidiaries are on CreditWatch with positive implications because of the proposed merger with higher-rated NextEra Energy Inc."



As of February 13, 2015, the Fitch, Moody's and S&P ratings of HEI were as follows:

	Fitch	Moody's	S&P
Long-term issuer default and senior unsecured; senior unsecured; and corporate credit; respectively	BBB	Baa2	BBB-
Commercial paper	F3	P-2	A-3
Outlook	Watch-Positive	Stable	Watch-Positive

The above ratings reflect only the view, at the time the ratings are issued, of the applicable rating agency, from whom an explanation of the significance of such ratings may be obtained. Such ratings are not recommendations to buy, sell or hold any securities; such ratings may be subject to revision or withdrawal at any time by the rating agencies; and each rating should be evaluated independently of any other rating.

Management believes that, if HEI's commercial paper ratings were to be downgraded, or if credit markets for commercial paper with HEI's ratings or in general were to tighten, it could be more difficult and/or expensive for HEI to sell commercial paper or HEI might not be able to sell commercial paper in the future. Such limitations could cause HEI to draw on its syndicated credit facility instead, and the costs of such borrowings could increase under the terms of the credit agreement as a result of any such ratings downgrades. Similarly, if HEI's long-term debt ratings were to be downgraded, it could be more difficult and/or expensive for HEI to issue long-term debt. Such limitations and/or increased costs could materially adversely affect the results of operations, financial condition and liquidity of HEI and its subsidiaries.

Issuances of common stock through the Hawaiian Electric Industries, Inc. Dividend Reinvestment and Stock Purchase Plan (DRIP), Hawaiian Electric Industries Retirement Savings Plan (HEIRSP) and the ASB 401(k) Plan provided new capital of \$3 million (approximately 0.1 million shares) in 2014, \$48 million (approximately 1.8 million shares) in 2013 and \$47 million (approximately 1.8 million shares) in 2012. From March 6, 2014 to date and from August 18, 2011 to January 8, 2012, HEI satisfied the share purchase requirements of the DRIP, HEIRSP and ASB 401(k) Plan through open market purchases of its common stock rather than new issuances.

Operating activities provided net cash of \$325 million in 2014, \$362 million in 2013 and \$279 million in 2012.

Investing activities used net cash of \$592 million in 2014, \$598 million in 2013 and \$471 million in 2012. In 2014, net cash used in investing activities was primarily due to a net increase in loans held for investment, Hawaiian Electric's consolidated capital expenditures (net of contributions in aid of construction) and ASB's purchases of investment securities, partly offset by the repayments of investment securities and the proceeds from sales of investment securities, redemption of stock from Federal Home Loan Bank of Seattle and real estate acquired in settlement of ASB loans. Financing activities provided net cash of \$223 million in 2014, \$237 million in 2013 and \$142 million in 2012.

In 2014, net cash provided by financing activities included net increases in deposits, other bank borrowings, long-term debt and short-term borrowings and proceeds from the issuance of common stock, offset by the payment of common and preferred 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 2014, Hawaiian Electric and ASB (via ASB Hawaii) paid cash dividends to HEI of \$88 million and \$36 million, respectively.

A portion of the net assets of Hawaiian Electric and ASB is not available for transfer to HEI in the form of dividends, loans or advances without regulatory approval. One of the conditions to the PUC's approval of the Merger and corporate restructuring of Hawaiian Electric and HEI requires that Hawaiian Electric maintain a consolidated common equity to total capitalization ratio of not less than 35% (actual ratio of 58% at December 31, 2014), and restricts Hawaiian Electric from making distributions to HEI to the extent it would result in that ratio being less than 35%. In the absence of an unexpected material adverse change in the financial condition of the electric utilities or ASB, such restrictions are not expected to significantly affect the operations of HEI, its ability to pay dividends on its common stock or its ability to meet its debt or other cash obligations. See Note 14 of the Consolidated Financial Statements. Forecasted HEI consolidated "net cash used in investing activities" (excluding "investing" cash flows from ASB) for 2015 through 2017 consists primarily of the net capital expenditures of the Utilities. In addition to the funds required for the

Utilities' construction programs (see "Electric utility—Liquidity and capital resources"), approximately \$200 million will be required during 2015 through 2017 to repay HEI senior notes of \$75 million maturing in March 2016 and HEI's \$125 million two-year term loan maturing in May 2016, which are expected to be repaid with the proceeds from the issuance of commercial paper, bank borrowings, other medium- or long-term debt, common stock and/or dividends from subsidiaries (assuming that the proposed Merger has not closed by the maturity dates). Additional debt and/or equity financing may be utilized to invest in the Utilities and bank; to pay down commercial paper or other short-term borrowings; or to fund unanticipated expenditures not

included in the 2015 through 2017 forecast, such as increases in the costs of or an acceleration of the construction of capital projects of the Utilities, unanticipated utility capital expenditures that may be required by the HCEI or new environmental laws and regulations, unbudgeted acquisitions or investments in new businesses, significant increases in retirement benefit funding requirements and higher tax payments that would result if certain tax positions taken by the Company do not prevail or if taxes are increased by federal or state legislation. In addition, existing debt may be refinanced prior to maturity with additional debt or equity financing (or both). Further, in anticipation of the possible completion of the Merger, the Company will make financing arrangements for the funding of the special dividend of \$0.50 per share through some combination of the accumulation of dividends from subsidiaries and/or equity financing and for payment of additional transaction advisory fees and contingent payments (approximately \$30 million) through additional debt and/or equity financing.

As further explained in “Retirement benefits” above and Notes 1 and 10 of the Consolidated Financial Statements, the Company maintains pension and OPEB plans. The Company’s contributions to the retirement benefit plans totaled \$60 million in 2014 (\$59 million by the Utilities, \$1 million by HEI and nil by ASB), \$83 million in 2013 (\$81 million by the Utilities, \$2 million by HEI and nil by ASB) and \$78 million in 2012 (\$63 million by the Utilities, \$2 million by HEI and \$13 million by ASB) and are expected to total \$86 million in 2015 (\$84 million by the Utilities, \$2 million by HEI and nil by ASB). These contributions satisfied the minimum funding requirements pursuant to ERISA, including changes promulgated by the Pension Protection Act of 2006, and the requirements of the electric utilities’ pension and OPEB tracking mechanisms. In addition, the Company paid directly \$2 million of benefits in 2014, \$2 million in 2013 and \$1 million in 2012 and expects to pay \$2 million of benefits in 2015. Depending on the performance of the assets held in the plans’ trusts and numerous other factors, additional contributions may be required in the future to meet the minimum funding requirements of ERISA or to pay benefits to plan participants. The Company believes it will have adequate cash flow or access to capital resources to support any necessary funding requirements.

Selected contractual obligations and commitments. Information about payments under the specified contractual obligations and commercial commitments of HEI and its subsidiaries was as follows:

December 31, 2014

(in millions)	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Contractual obligations					
Time certificates	\$256	\$100	\$72	\$3	\$431
Other bank borrowings	—	156	50	—	206
Long-term debt	—	200	50	1,257	1,507
Interest on certificates of deposit, other bank borrowings and long-term debt	79	143	131	760	1,113
Operating leases, service bureau contract and maintenance agreements	29	47	31	39	146
Open purchase order obligations <sup>1</sup>	55	26	2	3	86
Fuel oil purchase obligations (estimate based on December 31, 2014 fuel oil prices)	427	349	—	—	776
Power purchase obligations—minimum fixed capacity charges	124	197	184	531	1,036
Total (estimated)	\$970	\$1,218	\$520	\$2,593	\$5,301

<sup>1</sup> Includes contractual obligations and commitments for capital expenditures and expense amounts.

The tables above do not include other categories of obligations and commitments, such as deferred taxes, trade payables, amounts that will become payable in future periods under collective bargaining and other employment agreements and employee benefit plans, obligations that may arise under indemnities provided to purchasers of discontinued operations, potential refunds of amounts collected from ratepayers (e.g., under the earnings sharing mechanism) and additional transaction advisory fees and contingent payments related to the proposed merger (approximately \$30 million). As of December 31, 2014, the fair value of the assets held in trusts to satisfy the obligations of the Company’s retirement benefit plans did not exceed the retirement benefit plans’ benefit obligation.

Minimum funding requirements for retirement benefit plans have not been included in the tables above; however, see “Retirement benefits” above for estimated minimum required contributions for 2015.

See Note 4 of the Consolidated Financial Statements for a discussion of fuel and power purchase commitments. See Note 5 of the Consolidated Financial Statements for a further discussion of ASB's commitments.

Off-balance sheet arrangements. Although the Company has off-balance sheet arrangements, management has determined that it has no off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors, including the following types of off-balance sheet arrangements:

1. obligations under guarantee contracts,
2. retained or contingent interests in assets transferred to an unconsolidated entity or similar arrangements that serve as credit, liquidity or market risk support to that entity for such assets,
3. obligations under derivative instruments, and
4. obligations under a material variable interest held by the Company in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or engages in leasing, hedging or research and development services with the Company.

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 its control and could cause future results of operations to differ materially from historical results. The following is a discussion of certain of these factors. Also see "Forward-Looking Statements" and "Risk Factors" above and "Certain factors that may affect future results and financial condition" in each of the electric utility and bank segment discussions below.

Proposed Merger. On December 3, 2014, HEI, NEE, Merger Sub II and Merger Sub I entered into an Agreement and Plan of Merger. The Merger Agreement provides that, prior to completion of the Merger, HEI will distribute to its shareholders, on a pro-rata basis, all of the issued and outstanding shares of ASB Hawaii (parent company of ASB). In addition, the Merger Agreement contemplates that, immediately prior to the closing of the Merger, HEI will pay its shareholders a special dividend of \$0.50 per share. At the effective time of the Merger, shares of HEI common stock will be converted into shares of NEE common stock and HEI shareholders will become stockholders of NEE. The closing of the Merger is subject to various conditions, including federal and state regulatory approvals and the approval of holders of 75% of the outstanding shares of HEI common stock. See Note 2 of the Consolidated Financial Statements and "Risk Factors Related to the Merger" above.

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

If Fitch, Moody's or S&P were to downgrade HEI's or Hawaiian Electric's debt ratings, or if future events were to adversely affect the availability of capital to the Company, HEI's and Hawaiian Electric's ability to borrow and raise capital could be constrained and their future borrowing costs would likely increase.

Changes in the U.S. capital markets can also have significant effects on the Company. For example, pension funding requirements are affected by the market performance of the assets in the master pension trust, and by the discount rate used to estimate the service and interest cost components of net periodic pension cost and value obligations. The Utilities' pension tracking mechanisms help moderate pension expense; however, a decline in the value of the Company's defined benefit pension plan assets may increase the unfunded status of the Company's pension plans and result in increases in future funding requirements.

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

Limited insurance. In the ordinary course of business, the Company purchases insurance coverages (e.g., property and liability coverages) to protect itself against loss of or damage to its properties and against claims made by third-parties and employees for property damage or personal injuries. However, the protection provided by such insurance is limited in significant respects and, in some instances, the Company has no coverage. The Utilities' transmission and

distribution systems (excluding substation buildings and contents) have a replacement value roughly estimated at \$6 billion and are largely uninsured. Similarly, the Utilities have no business interruption insurance. If a hurricane or other uninsured catastrophic natural disaster were to occur, and if the PUC were not to allow the Utilities to recover from ratepayers restoration costs and revenues lost from business interruption, their results of operations, financial condition and liquidity could be materially adversely impacted. Certain of the Company's insurance has substantial "deductibles" or has limits on the maximum amounts that may be recovered. Insurers also have exclusions or limitations of coverage for claims related to certain perils. If a series of losses

occurred, such as from a series of lawsuits in the ordinary course of business each of which were subject to an insurance deductible amount, or if the maximum limit of the available insurance were substantially exceeded, the Company could incur uninsured losses in amounts that would have a material adverse effect on the Company's results of operations, financial condition and liquidity.

**Environmental matters.** HEI and its subsidiaries 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. These laws and regulations, among other things, may require that certain environmental permits be obtained and maintained as a condition to constructing or operating certain facilities. Obtaining such permits can entail significant expense and cause substantial construction delays. Also, these laws and regulations may be amended from time to time, including amendments that increase the burden and expense of compliance.

**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.

Material estimates that are particularly susceptible to significant change include the amounts reported for pension and other postretirement benefit obligations; contingencies and litigation; income taxes; property, plant and equipment; regulatory assets and liabilities; electric utility revenues; allowance for loan losses; nonperforming loans; troubled debt restructurings; and fair value. Management considers an accounting estimate to be material if it requires assumptions to be made that were uncertain at the time the estimate was made and changes in the assumptions selected could have a material impact on the estimate and on the Company's results of operations or financial condition.

In accordance with SEC Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," management has identified accounting policies it believes to be the most critical to the Company's financial statements—that is, management believes that the policies discussed below 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. The policies affecting both of the Company's two principal segments are discussed below and the policies affecting just one segment are discussed in the respective segment's section of "Material estimates and critical accounting policies." Management has reviewed the material estimates and critical accounting policies with the HEI Audit Committee and, as applicable, the Hawaiian Electric Audit Committee.

For additional discussion of the Company's accounting policies, see Note 1 of the Consolidated Financial Statements and for additional discussion of material estimates and critical accounting policies, see the electric utility and bank segment discussions below under the same heading.

**Pension and other postretirement benefits obligations.** For a discussion of material estimates related to pension and other postretirement benefits (collectively, retirement benefits), including costs, major assumptions, plan assets, other factors affecting costs, accumulated other comprehensive income (loss) (AOCI) charges and sensitivity analyses, see "Retirement benefits" in "Consolidated—Results of operations" above and Notes 1 and 10 of the Consolidated Financial Statements.

**Contingencies and litigation.** The Company is subject to proceedings (including PUC proceedings), lawsuits and other claims. Management assesses the likelihood of any adverse judgments in or outcomes of these matters as well as potential ranges of probable losses, including costs of investigation. A determination of the amount of reserves required, if any, for these contingencies is based on an analysis of each individual case or proceeding often with the assistance of outside counsel. The required reserves may change in the future due to new developments in each matter or changes in approach in dealing with these matters, such as a change in settlement strategy.

In general, environmental contamination treatment costs are charged to expense, unless it is probable that the PUC would allow such costs to be recovered through future rates, in which case such costs would be capitalized as regulatory assets. Also, environmental costs are capitalized if the costs extend the life, increase the capacity, or improve the safety or efficiency of property; the costs mitigate or prevent future environmental contamination; or the costs are incurred in preparing the property for sale.

See Notes 2, 4 and 5 of the Consolidated Financial Statements.

Income taxes. Deferred income tax assets and liabilities are established for the temporary differences between the financial reporting bases and the tax bases of the Company's assets and liabilities using tax rates expected to be in effect when such deferred tax assets or liabilities are realized or settled. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.



Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations and rules. Management considers the possibility of alternative outcomes based upon past experience, previous actions by taxing authorities (e.g., actions taken in other jurisdictions) and advice from its tax advisors. Management believes that the Company's provision for tax contingencies is reasonable. However, the ultimate resolution of tax treatments disputed by governmental authorities may adversely affect the Company's current and deferred income tax amounts.

See Note 12 of the Consolidated Financial Statements.

Following are discussions of the electric utility and bank segments. Additional segment information is shown in Note 2 of the Consolidated Financial Statements. The discussion concerning Hawaiian Electric should be read in conjunction with its consolidated financial statements and accompanying notes.

#### Electric utility

**Executive overview and strategy.** The Utilities provide electricity on all the principal islands in the state other than Kauai and operate on five separate grids. The Utilities' strategic focus is meeting Hawaii's energy needs in a reliable, economical and environmentally sound way by modernizing the electric grid, maximizing the use of low-cost, clean energy sources, sustaining an effective asset management program and promoting smart use of energy by customers through information and choices. The Utilities are focused on helping Hawaii achieve its statutory goal of 40% of electricity from clean, locally-generated sources by 2030.

**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 assisting the State of Hawaii in achieving or exceeding its 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 in the final stage of selecting an LNG supplier. Also, see "Liquefied natural gas" in Note 4 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 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 rate 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:

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 was previously approved. The second part of this proceeding continued with panel hearings held in October 2014. The proceeding is currently pending a PUC order instructing the parties regarding the issues and scope for limited briefs and reply briefs. See "Decoupling" in Note 4 of the Consolidated Financial Statements.

Actual and PUC-allowed (as of December 31, 2014) returns were as follows:

%	Return on 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
Year ended December 31, 2014									
Utility returns	7.76	6.28	7.50	8.74	6.71	8.81	9.85	6.65	9.44
PUC-allowed returns	8.11	8.31	7.34	10.00	10.00	9.00	10.00	10.00	9.00
Difference	(0.35 )	(2.03 )	0.16	(1.26 )	(3.29 )	(0.19 )	(0.15 )	(3.35 )	0.44

\* 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 incentive compensation and certain 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 4 of the Consolidated Financial Statements), and
- the PUC's consistent exclusion of certain expenses from rates.

The structural gap in 2015 to 2017 is expected to be 100 to 120 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 2014 and 2013, the earnings sharing mechanism was triggered for Maui Electric, and Maui Electric will credit \$0.5 million and credited \$0.4 million, respectively, to its customers for their portion of the earnings sharing. For 2012, the earnings sharing mechanism was triggered for Hawaiian Electric, and Hawaiian Electric credited its customers \$2.6 million for their portion of the earnings sharing. Hawaiian Electric's 2012 rate-making ROACE of 10.70% included various adjustments to Hawaiian Electric's actual ROACE of 7.57% such as the exclusion of the \$40 million of CIS project costs pursuant to the 2013 Agreement, and other expenses not considered in establishing electric rates (e.g., executive incentive compensation and certain advertising). Earnings sharing credits are included in the annual decoupling filing for the following year.

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, 2014 (and associated revenue taxes) to be collected:

(in millions)	Hawaiian Electric	Hawaii Electric Light	Maui Electric
Annual incremental RAM adjusted revenues			
Operations and maintenance	\$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, 2014 (and associated revenue taxes) to be collected	\$72.6	\$8.2	\$9.6

## Results of operations.

2014 vs. 2013

2014	2013	Increase (decrease)	(dollars in millions, except per barrel amounts)
\$2,987	\$2,980	\$7	Revenues. Increase largely due to:
		\$52	Higher rate base and O&M RAM
		8	Higher purchased power costs
		5	Maui Electric refund in 2013 due to final 2012 rate case decision
		(32)	) Lower KWH generated
		(28)	) Lower fuel prices
1,132	1,186	(54)	) Fuel oil expense. Decrease largely due to lower KWHs generated and lower fuel costs
			Purchased power expense. Increase due to higher KWHs purchased as a result of decreased availability of AES in 2013 and expanded capacity of HPower in 2014, partly offset by lower purchased energy costs due to lower fuel prices
722	711	11	
		8	Operation and maintenance expense. Increase largely due to:
		8	Smart Grid initial phase
		8	Consultant costs associated with energy transformation plans
		4	Storm restoration
		4	Customer information system upgrade
		(9)	) Lower customer service costs that were elevated in 2013 during the stabilization period for the new customer information system
		(5)	) Lower overhaul costs due to reduced scope of overhauls
		(5)	) Lower production costs due to deactivation of HPP
447	435	12	Other expenses. Increase primarily due to depreciation expense for plant investments
276	246	30	Operating income. Increase due to higher revenues and a decrease in overall expenses
138	123	15	Net income for common stock. Increase due to higher operating income
8.4	% 8.0	% 0.4	% Return on average common equity
129.65	131.10	(1.45)	) Average fuel oil cost per barrel <sup>1</sup>
8,976	9,070	(94)	) Kilowatthour sales (millions) <sup>2</sup>
4,909	4,506	403	Cooling degree days (Oahu)
2,759	2,764	(5)	) Number of employees (at December 31)

## 2013 vs. 2012

2013	2012	Increase (decrease)	(dollars in millions, except per barrel amounts)
\$2,980	\$3,109	\$(129 )	Revenues. Decrease largely due to:
		\$(150 )	Lower fuel prices and lower KWH sales
		(12 )	Maui Electric test year 2012 final D&O
		35	Higher decoupling revenues
1,186	1,297	(111 )	Fuel oil expense. Decrease largely due to lower fuel costs and less KWHs generated
711	725	(14 )	Purchased power expense. Decrease due to lower purchased power energy costs offset by higher KWHs purchased
403	397	6	Operation and maintenance expense. Increase largely due to:
		11	Higher customer service expenses (CIS and customer service support) offset by
		(8 )	Lower costs in overhauls, substation maintenance costs at Maui Electric and overhead line maintenance costs at Maui Electric and Hawaii Electric Light
435	480	(45 )	Other expenses. Decrease largely due to:
		(40 )	Write down of CIS project costs in 2012
		(12 )	Lower revenues in 2013 (which resulted in lower taxes, other than income taxes)
		9	Increase in depreciation due to increase in plant investments
246	213	33	Operating income. Increase largely due to write down of CIS project costs in 2012 offset by higher customer service expenses
8	11	(3 )	Allowance for funds used during construction
123	99	24	Net income for common stock. Increase largely due to write down of CIS project costs recognized in 2012
8.0	% 6.9	% 1.1	% Return on average common equity
131.10	138.09	(6.99 )	Average fuel oil cost per barrel <sup>1</sup>
9,070	9,206	(136 )	Kilowatthour sales (millions) <sup>2</sup>
4,506	4,532	(26 )	Cooling degree days (Oahu)
2,764	2,658	106	Number of employees (at December 31)

<sup>1</sup> The rate schedules of the electric utilities currently contain energy cost adjustment clauses (ECACs) through which changes in fuel oil prices and certain components of purchased energy costs are passed on to customers.

<sup>2</sup> KWH sales were lower in 2014 and 2013 when compared to the prior year due largely to continued energy efficiency and conservation efforts by customers and increasing levels of customer-sited renewable generation. 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.





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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	
2015 (6)								
12/30/14								

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.

(3) 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, 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 4 of the Consolidated Financial Statements.

(6) See "Maui Electric 2015 test year rate case" below.

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 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 allowance for funds used during construction (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. See "Commitments and contingencies—Utility projects" in Note 4 of the Consolidated Financial Statements for additional information on the 2013 Agreement and the 2013 D&O and their effects.

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 4 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 rate 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 test year 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. On December 30, 2014, Maui Electric filed its abbreviated 2015 test year rate case filing. In recognition that its customers have been enduring a high bill environment, Maui Electric proposed no change to its base rates, thereby foregoing the opportunity to seek a general

rate increase. If Maui Electric were to seek an increase in base rates, its requested increase in revenue, based on its revenue requirement for a normalized 2015 test year, would have been \$11.6 million, or 2.8%, over revenues at current effective rates with estimated 2015 rate adjustment mechanism (RAM) revenues. The normalized 2015 test year revenue requirement is based on an estimated cost of common equity of 10.75%. Management cannot predict any actions by the PUC as a result of this filing.

Integrated resource planning and April 2014 regulatory orders. See “April 2014 regulatory orders” in Note 4 to the Consolidated Financial Statements.

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 2014, the Utilities achieved an RPS without DSM energy savings of an estimated 21%, primarily through a comprehensive portfolio of renewable energy power purchase agreements (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 (also see the projects discussed under “Renewable Energy Projects” in Note 4 of the Consolidated Financial Statements):

In July 2011, the PUC directed Hawaiian Electric to submit a draft request for proposals (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. (see Note 4 of the Consolidated Financial Statements for additional information).

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. Bids were received in January 2015, and

in February 2015, Ormat Technologies, Inc. was selected to provide 25 MW of additional geothermal energy, subject to successful contract negotiations and PUC approval of the final agreement.

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 Power Purchase Agreement.

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 certain projects, subject to certain conditions. In the fourth quarter of 2014, Hawaiian Electric filed applications requesting PUC approval of power purchase agreements for renewable as-available energy for seven projects that were granted waivers from the Competitive Bidding Framework.

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. The parties did not execute a PPA by the PUC deadline, but continue to negotiate.

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. In November 2014, the PUC denied the request for a waiver from the competitive bidding process.

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 December 2014, the PUC approved both the waiver request and the PPA.

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 December 31, 2014, there were 11 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 December 31, 2014, there were approximately 214 MW, 46 MW and 48 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 2014 was about 32% lower than the amount installed in 2013, principally due to higher circuit saturations (resulting in the need for further technical reviews and potential equipment modification and/or upgrades).



Other regulatory matters. In addition to the items below, also see “Hawaii Clean Energy Initiative” and “Utility projects” in Note 4 of the Consolidated Financial Statements.

Adequacy of supply.

Hawaiian Electric. In January 2015, Hawaiian Electric filed its 2015 Adequacy of Supply (AOS) letter, which indicated that based on its February 2014 sales and peak forecast for the 2015 to 2017 time period, Hawaiian Electric’s generation capacity will be sufficient to meet reasonably expected demands for service and provide reasonable reserves for emergencies through 2016, notwithstanding a generation shortfall event in January 2015, due to unexpected concurrent outages of a utility generating unit and several IPPs.

In accordance to its planning criteria, 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 in 2015, and with the U.S. Department of the Army for a utility owned and operated renewable, dispatchable, including black start capabilities, generation security project on federal lands, which may be in service in the 2018 timeframe. 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 2015, Hawaii Electric Light filed its 2015 AOS letter, which indicated that Hawaii Electric Light’s generation capacity through 2017 is sufficient to meet reasonably expected demands for service and provide for reasonable reserves for emergencies.

Hawaii Electric Light is anticipating the addition of the Hu Honua Bioenergy, LLC plant in 2016, and potentially additional generation in the 2020-2025 timeframe. The addition of the Hu Honua Bioenergy plant will provide Hawaii Electric Light with the opportunity to deactivate existing fossil fueled generating capacity.

Maui Electric. In January 2015, Maui Electric filed its 2015 AOS letter, which indicated that Maui Electric’s generation capacity through 2018 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 2019 timeframe. In February 2014, Maui Electric deactivated two fossil fuel generating units at its Kahului Power Plant. In January 2015, the two deactivated units at Kahului Power Plant were reactivated for a 3-day period based on forecasts of insufficient total system capacity due to scheduled maintenance for other generating units. 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 4 of the Consolidated Financial Statements.

Legislation and regulation. Congress and the Hawaii legislature periodically consider legislation that could have positive or negative effects on the Utilities and their customers. Also see “Hawaii Clean Energy Initiative” and “Environmental regulation” in Note 4 of the Consolidated Financial Statements and “Recent tax developments” above.

Renewable energy. In 2011, a Hawaii law was enacted that gives the PUC the authority to allow those electric utilities (including the Utilities) that aggregate their renewable portfolios in measuring whether they achieve the renewable portfolio standards under the Hawaii RPS law discussed above under “Renewable energy strategy” to distribute the costs and expenses of renewable energy projects among those utilities. The bill also allows the PUC to establish a surcharge for such costs and expenses without a rate case filing. Also passed in 2011, Act 10 provides for continued inclusion of customer-sited, grid-connected renewable energy generation in the RPS calculations after 2015. This is the current practice in calculating RPS levels, which provides electric utility ratepayers with a clear value from a program such as net energy metering.

Commitments and contingencies. See “Commitments and contingencies” in 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. 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).

Recent accounting pronouncements. See “Recent accounting pronouncements and interpretations” in Note 1 of the Consolidated Financial Statements.

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 and commercial paper and draws on 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:

December 31 (dollars in millions)	2014		2013		
Short-term borrowings	\$—	—	% \$—	—	%
Long-term debt, net	1,207	41	1,218	43	
Preferred stock	34	1	34	1	
Common stock equity	1,682	58	1,594	56	
	\$2,923	100	% \$2,846	100	%

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

(in millions)	Year ended December 31, 2014		
	Average balance	End-of-period balance	December 31, 2013
Short-term borrowings <sup>1</sup>			
Commercial paper	\$56	\$—	\$—
Line of credit draws		—	—
Borrowings from HEI		—	—
Undrawn capacity under line of credit facility		200	175

The maximum amount of external short-term borrowings in 2014 was \$103 million. At December 31, 2014, Hawaii Electric Light and Maui Electric had short-term borrowings from Hawaiian Electric of \$11 million and \$6 million, respectively, which intercompany borrowings are eliminated in consolidation. At February 13, 2015, Hawaiian Electric had \$52 million of outstanding commercial paper, its line of credit facility was undrawn, it had no borrowings from HEI and it had loans to Hawaii Electric Light and Maui Electric of \$21 million and \$9 million, respectively.

Hawaiian Electric utilizes short-term debt, typically commercial paper, to support normal operations, to refinance short-term debt and for other temporary requirements. Hawaiian Electric also borrows short-term from HEI for itself and on behalf of Hawaii Electric Light and Maui Electric, and Hawaiian Electric may borrow from or loan to Hawaii Electric Light and Maui Electric short-term. The intercompany borrowings among the Utilities, but not the borrowings from HEI, are eliminated in the consolidation of Hawaiian Electric's financial statements. The Utilities periodically utilize long-term debt, historically borrowings of the proceeds of special purpose revenue bonds (SPRBs) issued by the Department of Budget and Finance of the State of Hawaii (DBF) and more recently the issuance of privately placed taxable unsecured senior notes, to finance the Utilities' capital improvement projects, or to repay short-term borrowings used to finance such projects. The PUC must approve issuances, if any, of equity and long-term debt securities by the Utilities.

Hawaiian Electric has a line of credit facility, as amended and restated on April 2, 2014, of \$200 million. In January 2015, the PUC approved Hawaiian Electric's request to extend the term of the credit facility to April 2, 2019. See Note 7 of the Consolidated Financial Statements.

The ratings of Hawaiian Electric's commercial paper and debt securities could significantly impact the ability of Hawaiian Electric to sell its commercial paper and issue debt securities and/or the cost of such debt. The rating agencies use a combination of qualitative measures (e.g., assessment of business risk that incorporates an analysis of the qualitative factors such as management, competitive positioning, operations, markets and regulation) as well as quantitative measures (e.g., cash flow, debt, interest coverage and liquidity ratios) in determining the ratings of Hawaiian Electric securities.

Following the announcement that HEI has agreed to merge with NextEra Energy, Inc., on December 4, 2014, Fitch affirmed the 'BBB+' long-term issuer default rating of Hawaiian Electric with a stable rating outlook. Fitch noted that "HECO will benefit significantly from Nextera's [sic] ownership, in Fitch's view, given access to Nextera's [sic] expertise in developing renewable projects, superior operational performance and portfolio transformation to cleaner fuels in addition to access to capital. However, the structural weakness in its service territory due to rising penetration of roof top solar compounded by the uncertainty around the fleet modernization plan limits any positive rating actions at this time." The key ratings drivers cited

were (1) modest improvement in business risk, (2) structural challenges in Hawaii, (3) regulatory approvals required, and (4) credit metrics trajectory unchanged. Fitch also noted that “[f]uture developments that may, individually or collectively, lead to negative rating action include:-- [a]n inability to earn an adequate and timely recovery on invested capital; -- [a]ccelerating competitive inroads by distributed generation and energy efficiency; and -- [f]ailure to consummate acquisition by Nextera [sic] and material deterioration in regulatory environment.”

On December 4, 2014, Moody’s affirmed the ratings of Hawaiian Electric (Baa1 stable). Moody’s views “NextEra’s acquisition as potentially beneficial to HECO which has been experiencing numerous operational challenges due to pressure from regulators and other stakeholders to reduce costs and expand the use of renewable generation.” Moody’s also noted that the “rating could be downgraded or placed on negative outlook should the company’s relationship with the regulators deteriorate to a point where it might affect the company’s credit metrics in a meaningful way, or if HECO’s cash flow to debt metric declined to 13% or below on a sustained basis.”

On December 4, 2014, S&P placed the ‘BBB-’ issuer credit rating for Hawaiian Electric on CreditWatch with positive implications. S&P indicated that “[i]n light of the level of NextEra’s investment in HEI, NextEra’s proposed method of funding the acquisition, opportunities for growth, and stated commitment from management, we assess HEI and HECO as “core” subsidiaries of NextEra. As a result, upon the close of the transaction, we expect to raise our issuer credit ratings on HEI and HECO to be aligned with that of the ultimate parent NextEra.” S&P issued a subsequent report on January 26, 2015, stating “the outlook on HECO mirrors the outlook on parent HEI. The ratings on HEI and its subsidiaries are on CreditWatch with positive implications because of the proposed merger with higher-rated NextEra Energy Inc.”

As of February 13, 2015, the Fitch, Moody’s and S&P ratings of Hawaiian Electric were as follows:

	Fitch	Moody’s	S&P
Long-term issuer default, long-term issuer and corporate credit, respectively	BBB+	Baa1	BBB-
Commercial paper	F2	P-2	A-3
Special purpose revenue bonds	*	Baa1	BBB-
Hawaiian Electric-obligated preferred securities of trust subsidiary	*	Baa2	BB
Cumulative preferred stock (selected series)	*	Baa3	*
Senior unsecured debt	A-	Baa1	*
Subordinated debt	BBB	*	*
Outlook	Stable	Stable	Watch-Positive

\* Not rated.

The above ratings reflect only the view, at the time the ratings are issued, of the applicable rating agency, from whom an explanation of the significance of such ratings may be obtained. Such ratings are not recommendations to buy, sell or hold any securities; such ratings may be subject to revision or withdrawal at any time by the rating agencies; and each rating should be evaluated independently of any other rating.

Management believes that, if Hawaiian Electric’s commercial paper ratings were to be downgraded or if credit markets were to further tighten, it could be more difficult and/or expensive to sell commercial paper or secure other short-term borrowings. Similarly, 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 for DBF and/or the Company to sell SPRBs and other debt securities, respectively, for the benefit of the Utilities in the future. Such limitations and/or increased costs could materially adversely affect the results of operations, financial condition and liquidity of the Utilities.

SPRBs have been issued by the 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 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 FGIC, 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.

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 December 2014, Hawaiian Electric sold \$40 million of its common stock to HEI pursuant to this approval. Hawaii Electric Light and Maui Electric did not issue common stock in 2014.

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.

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. In 2014 and 2013, net cash provided by operating activities decreased by \$20 million and increased by \$105 million, respectively, compared to the prior year. In 2014, noncash depreciation and amortization amounted to \$173 million due to an increase in plant and equipment and deferred income taxes increased \$83 million. Further, net cash provided by operating activities included a decrease of \$33 million in accounts receivable and accrued unbilled revenues due to timing of customer payments, a \$28 million decrease in fuel oil stock, offset by a \$66 million decrease in accounts payable due to timing of vendor payments. In 2013, noncash depreciation and amortization amounted to \$159 million due to an increase in plant and equipment and deferred income taxes increased \$65 million. Further, net cash provided by operating activities included a net decrease of \$40 million in accounts receivable and accrued unbilled revenues due to more cash receipts from customers as a result of improved collections, a \$27 million decrease in fuel oil stock due to lower payments to fuel suppliers, and a \$15 million increase in accounts payable due to timing of vendor payments.

In 2014 and 2013, net cash used in investing activities decreased by \$51 million and increased by \$36 million, respectively, compared to the prior year. In 2014 and 2013, cash used for capital expenditures amounted to \$337 million and \$378 million, respectively, offset by contributions in aid of construction of \$42 million and \$32 million, respectively.

Financing activities provide supplemental cash for both day-to-day operations and capital requirements as needed. In 2014 and 2013, cash flows from financing activities decreased by \$126 million and increased by \$9 million, respectively, compared to the prior year. In 2014, cash used financing activities consisted primarily of the payment of \$90 million of common and preferred stock dividends and the redemption of \$11 million of special purpose revenue bonds, partially offset by net proceeds received from the issuance of \$40 million of common stock. In 2013, cash provided by financing activities consisted primarily of net proceeds received from the issuance of \$236 million of taxable unsecured senior notes and \$79 million of common stock, partially offset by the redemption of \$166 million of special purpose revenue bonds and the payment of \$84 million of common and preferred stock dividends.

For the three-year period 2015 through 2017, the Utilities forecast \$1.9 billion of net capital expenditures, which could change over time based upon external factors such as the timing and scope of environmental regulations,

unforeseen delays in permitting and the outcome of competitive bidding for new generation. Hawaiian Electric's consolidated cash flows from operating activities (net income for common stock, adjusted for non-cash income and expense items such as depreciation, amortization and deferred taxes), after the payment of common stock and preferred stock dividends, are currently not expected to provide sufficient cash to cover the forecasted net capital expenditures. Debt and equity financing are expected to be required to fund this estimated shortfall and to fund any unanticipated expenditures not included in the 2015 through 2017 forecast, such as increases in the costs or acceleration of the construction of capital projects, unbudgeted acquisitions or investments in new businesses and significant increases in retirement benefit funding requirements.

Proceeds from the issuance of equity, cash flows from operating activities, temporary increases in short-term borrowings and existing cash and cash equivalents are expected to provide the forecasted \$420 million needed for the net capital expenditures and deferred software costs in 2015. For 2015, net capital expenditures and deferred software costs include



approximately \$255 million for transmission and distribution projects, approximately \$80 million for generation projects and approximately \$85 million for general plant and other projects.

Management periodically reviews capital expenditure estimates and the timing of construction projects. These estimates may change significantly as a result of many considerations, including changes in economic conditions, changes in forecasts of KWH sales and peak load, the availability of purchased power and changes in expectations concerning the construction and ownership of future generation units, the availability of generating sites and transmission and distribution corridors, the need for fuel infrastructure investments, the ability to obtain adequate and timely rate increases, escalation in construction costs, the effects of opposition to proposed construction projects and requirements of environmental and other regulatory and permitting authorities.

For a discussion of funding for the electric utilities' retirement benefits plans, see Notes 1 and 10 of the Consolidated Financial Statements and "Retirement benefits" above. The electric utilities were required to make contributions of \$56 million for 2014, \$61 million for 2013 and \$53 million for 2012 to the qualified pension plans to meet minimum funding requirements pursuant to ERISA, including changes promulgated by the Pension Protection Act of 2006. The electric utilities made additional voluntary contributions in 2014, 2013 and 2012. Contributions by the electric utilities to the retirement benefit plans for 2014, 2013 and 2012 totaled \$59 million, \$81 million and \$63 million, respectively, and are expected to total \$84 million in 2015. In addition, the electric utilities paid directly \$1 million of benefits in 2014, \$1 million of benefits in 2013 and \$1 million of benefits in 2012 and expect to pay \$1 million of benefits in 2015. Depending on the performance of the assets held in the plans' trusts and numerous other factors, additional contributions may be required in the future to meet the minimum funding requirements of ERISA or to pay benefits to plan participants. The electric utilities believe they will have adequate cash flow or access to capital resources to support any necessary funding requirements.

Selected contractual obligations and commitments. The following table presents aggregated information about total payments due from the Utilities during the indicated periods under the specified contractual obligations and commitments:

December 31, 2014 (in millions)	Payments due by period				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
Long-term debt	\$—	\$—	50	\$1,157	\$1,207
Interest on long-term debt	61	121	119	750	1,051
Operating leases	8	11	7	14	40
Open purchase order obligations <sup>1</sup>	55	26	2	3	86
Fuel oil purchase obligations (estimate based on December 31, 2014 fuel oil prices)	427	349	—	—	776
Purchase power obligations—minimum fixed capacity charges	124	197	184	531	1,036
Total (estimated)	\$675	\$704	\$362	\$2,455	\$4,196

<sup>1</sup> Includes contractual obligations and commitments for capital expenditures and expense amounts.

The table above does not include other categories of obligations and commitments, such as deferred taxes, trade payables, amounts that will become payable in future periods under collective bargaining and other employment agreements and employee benefit plans and potential refunds of amounts collected from ratepayers (e.g., under the earnings sharing mechanism). As of December 31, 2014, the fair value of the assets held in trusts to satisfy the obligations of the Utilities' retirement benefit plans did not exceed the retirement benefit plans' benefit obligation. Minimum funding requirements for retirement benefit plans have not been included in the table above, but retirement benefit plan obligations, including estimated minimum required contributions for 2015 are discussed in the section "Retirement benefits" in Hawaiian Electric's MD&A and Note 10 of the Consolidated Financial Statements.

See Note 4 of the Consolidated Financial Statements for a discussion of fuel and power purchase commitments. Certain factors that may affect future results and financial condition. Also see "Forward-Looking Statements" and "Certain factors that may affect future results and financial condition" for Consolidated HEI above.

Clean energy initiatives and Renewable Portfolio Standards (RPS). The far-reaching nature of the Utilities' renewable energy commitments and the RPS goals presents risks to the Company. Among such risks are: (1) the dependence on third party suppliers of renewable purchased energy, which if the Utilities are unsuccessful in negotiating purchased power agreements with such IPPs or if a major IPP fails to deliver the anticipated capacity in its purchased power agreement, could impact the Utilities' achievement of their commitments to RPS goals and/or the Utilities' ability to deliver reliable service; (2) delays in acquiring or unavailability of non-fossil fuel supplies for renewable generation; (3) the impact of intermittent power to the electrical grid and reliability of service if appropriate supporting infrastructure is not installed or does not operate effectively;

(4) the likelihood that the Utilities may need to make substantial investments in related infrastructure, which could result in increased borrowings and, therefore, materially impact the financial condition and liquidity of the Utilities; and (5) the commitment to support a variety of initiatives, which, if approved by the PUC, may have a material impact on the results of operations and financial condition of the Utilities depending on their design and implementation. These initiatives include, but are not limited to, removing the system-wide caps on net energy metering (but studying distributed generation interconnections on a per-circuit basis); and developing an Energy Efficiency Portfolio Standard. The implementation of these or other programs may adversely impact the results of operations, financial condition and liquidity of the Utilities.

**Regulation of electric utility rates.** The rates the electric utilities are allowed to charge for their services, and the timeliness of permitted rate increases, are among the most important items influencing their results of operations, financial condition and liquidity. The PUC has broad discretion over the rates the electric utilities charge and other matters. Any adverse decision by the PUC concerning the level or method of determining electric utility rates, the items and amounts permitted to be included in rate base, the authorized returns on equity or rate base found to be reasonable, the potential consequences of exceeding or not meeting such returns, or any prolonged delay in rendering a decision in a rate or other proceeding could have a material adverse effect on the Company's and Hawaiian Electric's consolidated results of operations, financial condition and liquidity. Upon a showing of probable entitlement, the PUC is required to issue an interim D&O in a rate case within 10 months from the date of filing a completed application if the evidentiary hearing is completed (subject to extension for 30 days if the evidentiary hearing is not completed). There is no time limit for rendering a final D&O and interim rate increases are subject to refund with interest if the interim increase is greater than the increase approved in the final D&O.

**Fuel oil and purchased power.** The electric utilities rely on fuel oil suppliers and IPPs to deliver fuel oil and power, respectively. See "Fuel contracts" and "Power purchase agreements" in Note 4 of the Consolidated Financial Statements. The Company estimates that 68% of the net energy the Utilities generate and purchase in 2015 will be from the burning of fossil fuel oil as compared to 69% in 2014. Purchased KWHs provided approximately 46%, 44%, and 42% of the total net energy generated and purchased in 2014, 2013 and 2012, respectively.

Failure or delay by the electric utilities' oil suppliers and shippers to provide fuel pursuant to existing supply contracts, or failure by a major IPP to deliver the firm capacity anticipated in its PPA, could interrupt the ability of the electric utilities to deliver electricity, thereby materially adversely affecting the Company's results of operations and financial condition. Hawaiian Electric generally maintains an average system fuel inventory level equivalent to 47 days of forward consumption. Hawaii Electric Light and Maui Electric generally maintain an inventory level equivalent to one month's supply of both medium sulfur fuel oil and diesel fuel. Some, but not all, of the Utilities' PPAs require that the IPPs maintain minimum fuel inventory levels and all of the firm capacity PPAs include provisions imposing substantial penalties for failure to produce the firm capacity anticipated by those agreements.

**Other operation and maintenance expenses.** O&M expenses increased by 2% in 2014, 1% in 2013 and 4% in 2012 when compared to the prior year. The change in O&M expenses (excluding expenses covered by surcharges or by third parties) was 1%, 1% and 4% for 2014, 2013 and 2012, respectively, when compared to the prior year. O&M expenses (excluding expenses covered by surcharges or by third parties) for 2015 are projected to be approximately 2% higher than 2014.

**Other regulatory and permitting contingencies.** Many public utility projects require PUC approval and various permits (e.g., environmental and land use permits) from other agencies. Delays in obtaining PUC approval or permits can result in increased costs. If a project does not proceed or if the PUC disallows costs of the project, the project costs may need to be written off in amounts that could have a material adverse effect on the Company. For example, two major capital improvement utility projects, the Keahole project (consisting of CT-4, CT-5 and ST-7) and the East Oahu Transmission Project, encountered opposition and were seriously delayed before being placed in service, with a writedown being required for both the Keahole and EOTP projects in 2007 and 2011, respectively. More recently, the Utilities and the Consumer Advocate signed a settlement agreement, subject to approval by the PUC, to write off \$40 million of costs in 2012 in lieu of conducting the regulatory audits of the CIP CT-1 and the CIS projects. See Note 4 of the Consolidated Financial Statements for a discussion of additional regulatory contingencies.

Competition. Although competition in the generation sector in Hawaii is moderated by the scarcity of generation sites, various permitting processes and lack of interconnections to other electric utilities, the PUC has promoted a more competitive electric industry environment through its decisions concerning competitive bidding and distributed generation (DG). An increasing amount of generation is provided by IPPs and customer distributed generation. Competitive bidding. In December 2006, the PUC issued a decision that included a final competitive bidding framework, which became effective immediately. The final framework states, among other things, that: (1) a utility is required to use competitive bidding to acquire a future generation resource or a block of generation resources unless the PUC finds bidding to be unsuitable; (2) the framework does not apply in certain situations identified in the framework; (3) waivers from competitive bidding for certain circumstances will be considered; (4) the utility is required to select an independent observer

from a list approved by the PUC whenever the utility or its affiliate seeks to advance a project proposal (i.e., in competition with those offered by bidders); (5) the utility may consider its own self-bid proposals in response to generation needs identified in its RFP; and (6) for any resource to which competitive bidding does not apply (due to waiver or exemption), the utility retains its traditional obligation to offer to purchase capacity and energy from a Qualifying Facility (QF) at avoided cost upon reasonable terms and conditions approved by the PUC.

The Kalaeloa Solar Two photovoltaic energy PPA and the Kawaihoa Wind windfarm PPA are two renewable projects that resulted from Hawaiian Electric's Renewable Energy RFP under the Competitive Bidding Framework.

The Utilities received PUC approval for exemptions from the competitive framework to negotiate modifications to existing PPAs that generate electricity from renewable resources, including the City & County of Honolulu's HPower facility expansion and the Puna Geothermal Venture geothermal facility expansion. Also, certain renewable energy projects were "grandfathered" from the competitive bidding process, including the Kahuku Wind Power, Auwahi Wind Energy LLC, and Kaheawa Wind Power II wind farms. The PUC can also grant waivers to renewable energy projects that are not exempt from the Competitive Bidding Framework such as for the Hu Honua biomass facility.

Distributed generation. In January 2006, the PUC issued a D&O indicating that its policy is to promote the development of a market structure that assures DG is available at the lowest feasible cost, DG that is economical and reliable has an opportunity to come to fruition and DG that is not cost-effective does not enter the system. The D&O affirmed the ability of the Utilities to procure and operate DG for utility purposes at utility sites. The PUC also indicated its desire to promote the development of a competitive market for customer-sited DG. The D&O allows the utility to provide DG services on a customer-owned site as a regulated service when (1) the DG resolves a legitimate system need, (2) the DG is the lowest cost alternative to meet that need and (3) it can be shown that, in an open and competitive process acceptable to the PUC, the customer operator was unable to find another entity ready and able to supply the proposed DG service at a price and quality comparable to the utility's offering.

Environmental matters. The Utilities' generating stations operate under air pollution control permits issued by the Hawaii Department of Health (DOH) and, in a limited number of cases, by the federal Environmental Protection Agency (EPA). Hawaii law requires an environmental assessment for proposed waste-to-energy facilities, landfills, oil refineries, power-generating facilities greater than 5 MW and wastewater facilities, except individual wastewater systems. Meeting this requirement results in increased project costs.

The 1990 amendments to the Clean Air Act (CAA), changes to the National Ambient Air Quality Standard (NAAQS) for ozone, and adoption of a NAAQS for fine particulate matter resulted in substantial changes for the electric utility industry such as the installation of additional emissions controls, retirements of older generating units and switches to lower emissions fuels. Further significant impacts may occur under newly adopted rules (e.g., one-hour NAAQS for sulfur dioxide and nitrogen dioxide, control of GHGs under the GHG PSD Rule), under rules deemed applicable to the Utilities' facilities (e.g., Regional Haze Rule), if currently proposed legislation, rules and standards are adopted (e.g., GHG emission reduction rules), or if new legislation, rules or standards are adopted in the future. Similarly, recently issued rules governing cooling water intake may significantly impact Hawaiian Electric's steam generating facilities on Oahu.

Management believes that the recovery through rates of most, if not all, of any costs incurred by the Utilities in complying with environmental requirements would be allowed by the PUC, but no assurance can be given that this will in fact be the case. In addition, there can be no assurance that a significant environmental liability will not be incurred by the Utilities or that the related costs will be recoverable through rates. See "Environmental regulation" in Note 4 of the Consolidated Financial Statements.

Technological developments. New technological developments (e.g., the commercial development of energy storage, fuel cells, DG and generation from renewable sources) may impact the Utilities' future competitive position, results of operations, financial condition and liquidity.

Material estimates and critical accounting policies. Also see "Material estimates and critical accounting policies" for Consolidated HEI above.

Property, plant and equipment. Property, plant and equipment are reported at cost. Self-constructed electric utility plant includes engineering, supervision, and administrative and general costs, and an allowance for the cost of funds used during the construction period. These costs are recorded in construction in progress and are transferred to

property, plant and equipment when construction is completed and the facilities are either placed in service or become useful for public utility purposes. Upon the retirement or sale of electric utility plant, no gain or loss is recognized. The cost of the plant retired is charged to accumulated depreciation. Amounts collected from customers for cost of removal (expected to exceed salvage value in the future) are included in regulatory liabilities.

The Utilities evaluate the impact of applying lease accounting standards to their new PPAs, PPA amendments and other arrangements they enter into. A possible outcome of the evaluation is that an arrangement results in its classification as a capital lease, which could have a material effect on Hawaiian Electric's consolidated balance sheet if a significant amount of capital assets of the IPP and lease obligations needed to be recorded.

Management believes that the PUC will allow recovery of property, plant and equipment in its electric rates. If the PUC does not allow recovery of any such costs, the electric utility would be required to write off the disallowed costs at that time. See the discussion under "Utility projects" in Note 4 of the Consolidated Financial Statements concerning costs of major projects that have not yet been approved for inclusion in the applicable utility's rate base.

**Regulatory assets and liabilities.** The Utilities are regulated by the PUC. In accordance with accounting standards for regulatory operations, the Company's financial statements reflect assets, liabilities, revenues and costs of the Utilities based on current cost-based rate-making regulations. The actions of regulators can affect the timing of recognition of revenues, expenses, assets and liabilities.

Regulatory liabilities represent amounts collected from customers for costs that are expected to be incurred in the future. Regulatory assets represent incurred costs that have been deferred because their recovery in future customer rates is probable. As of December 31, 2014, the consolidated regulatory liabilities and regulatory assets of the Utilities amounted to \$345 million and \$905 million, respectively, compared to \$349 million and \$576 million as of December 31, 2013, respectively. Regulatory liabilities and regulatory assets are itemized in Note 4 of the Consolidated Financial Statements. Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory environment. Because current rates include the recovery of regulatory assets existing as of the last rate case and rates in effect allow the Utilities to earn a reasonable rate of return, management believes that the recovery of the regulatory assets as of December 31, 2014 is probable. This determination assumes continuation of the current political and regulatory climate in Hawaii, and is subject to change in the future.

Management believes that the operations of the Utilities currently satisfy the criteria for regulatory accounting. If events or circumstances should change so that those criteria are no longer satisfied, the Utilities expect that their regulatory assets, net of regulatory liabilities, would be charged to the statement of income in the period of discontinuance, which may result in a material adverse effect on the Company's results of operations, financial condition and liquidity.

**Revenues.** Electric utility revenues are based on rates authorized by the PUC and include revenues applicable to energy consumed in the accounting period, but not yet billed to customers, and RBA revenues or refunds for the difference between PUC-approved target revenues and recorded adjusted revenues, which delinks revenues from kilowatthour sales. As of December 31, 2014, revenues applicable to energy consumed, but not yet billed to customers, amounted to \$138 million and the RBA revenues recognized in 2014 amounted to \$69 million.

Revenue amounts recorded pursuant to a PUC interim order are subject to refund, with interest, pending a final order. The rate schedules of the Utilities include ECACs under which electric rates are adjusted for changes in the weighted-average price paid for fuel oil and certain components of purchased power, and the relative amounts of company-generated power and purchased power. The rate schedules of the Utilities also include PPACs under which electric rates are more closely aligned with purchase power costs incurred. Management believes that a material adverse effect on the Company's results of operations, financial condition and liquidity may result if the ECACs, PPACs or RBAs were lost.

**Consolidation of variable interest entities.** A business enterprise must evaluate whether it should consolidate a variable interest entity (VIE). The Company evaluates the impact of applying accounting standards for consolidation to its relationships with IPPs with whom the Utilities execute new PPAs or execute amendments of existing PPAs. A possible outcome of the analysis is that Hawaiian Electric or its subsidiaries may be found to meet the definition of a primary beneficiary of a VIE which finding may result in the consolidation of the IPP in the Consolidated Financial Statements. The consolidation of IPPs 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. The Utilities do not know how the consolidation of IPPs would be treated for regulatory or credit ratings purposes. See Notes 1 and 6 of the

Consolidated Financial Statements.

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## Bank

Executive overview and strategy. When ASB was acquired by HEI in 1988, it was a traditional thrift with assets of \$1 billion and net income of about \$13 million. ASB has grown by both acquisition and internal growth, but has been optimizing its balance sheet in recent years as a result of its multi-year performance improvement project, which has resulted in a reduction in asset size and a concomitant improvement in profitability and capital efficiency. ASB ended 2014 with assets of \$5.6 billion and net income of \$51 million, compared to assets of \$5.2 billion as of December 31, 2013 and net income of \$58 million in 2013.

ASB is a full-service community bank serving both consumer and commercial customers. In order to remain competitive and continue building core franchise value, ASB continues to develop and introduce new products and services in order to meet the needs of those markets such as mobile banking. Additionally, the banking industry is constantly changing and ASB is making the investments in people and technology necessary to adapt and remain competitive. ASB's ongoing challenge is to continue to increase revenues and control expenses.

The interest rate environment and the quality of ASB's assets will continue to impact its financial results.

ASB continues to face a challenging interest rate environment. The persistent, low level of interest rates and excess liquidity in the financial system have impacted new loan production rates and made it challenging to find investments with adequate risk-adjusted returns, which resulted in a negative impact on ASB's asset yields and net interest margin.

The potential for compression of ASB's margin when interest rates rise is an ongoing concern.

As part of its interest rate risk management process, ASB uses simulation analysis to measure net interest income sensitivity to changes in interest rates (see "Quantitative and Qualitative Disclosures about Market Risk"). ASB then employs strategies to limit the impact of changes in interest rates on net interest income. ASB's key strategies include:

1. attracting and retaining low-cost, core deposits, particularly those in non-interest bearing transaction accounts; reducing the overall exposure to fixed-rate residential mortgage loans and diversifying the loan portfolio with
2. higher-spread, shorter-maturity loans and/or variable-rate loans such as commercial, commercial real estate and consumer loans;
3. managing costing liabilities to optimize cost of funds and manage interest rate sensitivity; and
4. focusing new investments on shorter duration or variable rate securities.

ASB's loan quality improved in 2014 as a result of stabilized or increasing property values, more financial flexibility of borrowers, and overall general economic improvement in the state of Hawaii. ASB's annualized net charge-offs as a percentage of total average loans improved to 0.01% for 2014 compared to 0.09% for 2013. However, ASB's provision for loan losses for 2014 was \$6.1 million compared to \$1.5 million for 2013 primarily due to loan loss reserves needed for growth in the loan portfolio.

Effective July 2013, ASB became non-exempt from the Durbin Amendment to the Dodd-Frank Act which resulted in lower debit card interchange fees. For 2014 and 2013, the estimated net income impact of the lower debit card interchange fees was \$6 million and \$3 million, respectively. If the spin-off of ASB occurs as contemplated by the Merger Agreement, ASB expects to be exempt from the Durbin Amendment.

## Results of operations.

2014 vs. 2013

(in millions)	2014	2013	Increase (decrease)	Primary reason(s)
Interest income	\$ 191	\$ 186	\$ 5	The impact of higher average earning asset balances was partly offset by lower yields on earning assets. ASB's average loan portfolio balance for 2014 was \$327 million higher than 2013 as the average HELOC, residential, commercial real estate and commercial loan balances increased by \$110 million, \$53 million, \$116 million and \$57 million, respectively. The growth in these loan portfolios was consistent with ASB's portfolio mix targets and loan growth strategy. The loan portfolio yield continued to be impacted by the interest rate environment as new loan production yields were lower than the average portfolio yield. The average investment and mortgage-related securities portfolio balance decreased by \$51 million as ASB sold its \$79 million municipal bond portfolio. ASB used excess liquidity to fund the loan growth.
Noninterest income	61	72	(11)	Lower debit card interchange fees as a result of ASB being non-exempt from the Durbin Amendment and lower mortgage banking income as a result of a slowdown in refinance activity. 2013 noninterest income included the gain from the sale of the credit card portfolio of \$2.3 million.
Revenues	252	258	(6)	
Interest expense	11	10	1	The impact of higher average interest-bearing liabilities was partly offset by lower rates resulting from the low interest rate environment. Average deposit balances for 2014 increased by \$224 million compared to 2013 due to an increase in core deposits of \$243 million, partly offset by a decrease in term certificates of \$19 million. Also, the other borrowings average balance increased by \$44 million.
Provision for loan losses	6	1	5	Loan loss reserves established for the growth in the loan portfolio. The 2013 provision for loan losses included the release of loan loss reserves related to the sale of ASB's credit card portfolio.
Noninterest expense	160	160	—	Higher printing expenses as the printing function was outsourced beginning in the fourth quarter of 2013 and additional consulting expenses for ASB's mobile banking product and technology security, offset by lower compensation and benefits expense related to the frozen defined benefit plan and lower payroll taxes.
Expenses	177	171	6	
Operating income	75	87	(12)	Lower noninterest income.
Net income	51	58	(7)	Lower operating income, partly offset by lower taxes.
	9.6	% 11.4	% (1.8)	)%

Return on average  
common equity <sup>1</sup>

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## 2013 vs. 2012

(in millions)	2013	2012	Increase (decrease)	Primary reason(s)
Interest income	\$ 186	\$ 190	\$(4)	The impact of higher average earning asset balances was more than offset by lower yields on earning assets. ASB's average loan portfolio balance for 2013 was \$221 million higher than 2012 as the average HELOC, residential and commercial real estate loan balances increased by \$95 million, \$76 million and \$39 million, respectively. The growth in these loan portfolios was consistent with ASB's portfolio mix targets and loan growth strategy. The loan portfolio yield continued to be impacted by the interest rate environment as new loan production yields were lower than the average portfolio yield. The average investment and mortgage-related securities portfolio balance decreased by \$35 million as ASB sold \$70 million of agency obligations. ASB used excess liquidity to fund the loan growth.
Noninterest income	72	76	(4)	Lower gains on sales of loans as residential loan production has decreased in 2013 compared to 2012 with the upward movement of loan rates and a decrease in debit card fees as a result of being non-exempt from the Durbin Amendment, partly offset by higher fee income from other financial products and the gain on sale of the credit card portfolio.
Revenues	258	266	(8)	
Interest expense	10	11	(1)	Lower funding costs as a result of the low interest rate environment. Average deposit balances for 2013 increased by \$166 million compared to 2012 due to an increase in core deposits of \$230 million, partly offset by a decrease in term certificates of \$64 million. The other borrowings average balance decreased by \$11 million due to lower retail repurchase agreements, partly offset by higher outstanding FHLB advances.
Provision for loan losses	1	13	(12)	The provision for loan losses benefited from lower net charge-offs and improved credit quality associated with the continued improvement in Hawaii's economy, partly offset by loan loss reserves established for the growth in the loan portfolio.
Noninterest expense	160	153	7	Higher compensation and benefits expenses related to increased business volume, sales and performance incentives and higher inflation-related employee benefit costs.
Expenses	171	177	(6)	
Operating income	87	89	(2)	Lower net interest and noninterest income, and higher noninterest expenses, partly offset by a lower provision for loan losses.

Net income	58		59		(1	)	Lower operating income, partly offset by lower taxes.
Return on average common equity <sup>1</sup>	11.4	%	11.7	%	(0.3	)%	

<sup>1</sup> Calculated using the average daily balances.

See Note 5 of the Consolidated Financial Statements for a discussion of guarantees and further information about ASB.

Average balance sheet and net interest margin. The following table provides a summary of our consolidated average balances including major categories of interest-earning assets and interest-bearing liabilities:

(dollars in thousands)	2014			2013			2012		
	Average balance	Interest <sup>1</sup> income/expense	Yield/rate (%)	Average balance	Interest <sup>1</sup> income/expense	Yield/rate (%)	Average balance	Interest <sup>1</sup> income/expense	Yield/rate (%)
Assets:									
Other investments <sup>2</sup>	\$ 171,142	\$ 310	0.18	\$ 170,695	\$ 239	0.14	\$ 203,751	\$ 269	0.13
Securities purchased under resale agreements	5,096	20	0.39	11,370	43	0.38	—	—	—
Available-for-sale investment securities									
Taxable	525,949	11,336	2.16	519,220	11,192	2.16	560,102	12,040	2.15
Non-taxable	11,600	429	3.69	69,377	2,494	3.60	63,336	2,328	3.68
Total available-for-sale investment securities	537,549	11,765	2.19	588,597	13,686	2.33	623,438	14,368	2.30
Loans									
Residential 1-4 family	2,023,816	90,591	4.48	1,970,918	93,293	4.73	1,894,603	99,056	5.23
Commercial real estate	557,924	23,904	4.28	441,734	19,547	4.42	402,410	18,387	4.57
Home equity line of credit	790,701	25,716	3.25	680,445	20,442	3.00	585,797	16,106	2.75
Residential land	16,276	1,106	6.79	20,985	1,308	6.23	34,744	2,097	6.04
Commercial	783,670	29,294	3.74	726,597	29,188	4.02	714,679	30,925	4.33
Consumer	110,440	8,730	7.90	114,871	9,191	8.00	101,933	9,486	9.31
Total loans <sup>3,4</sup>	4,282,827	179,341	4.19	3,955,550	172,969	4.37	3,734,166	176,057	4.71
Total interest-earning assets	4,996,614	191,436	3.83	4,726,212	186,937	3.96	4,561,355	190,694	4.18
Allowance for loan losses	(42,242 )			(42,114 )			(39,323 )		
Non-interest-earning assets	460,923			426,608			433,521		
Total Assets	\$ 5,415,295			\$ 5,110,706			\$ 4,955,553		
Liabilities and Stockholder's Equity:									
Savings	\$ 1,879,373	1,134	0.06	\$ 1,805,363	1,052	0.06	\$ 1,727,754	1,128	0.07
Interest-bearing checking	738,651	126	0.02	665,941	106	0.02	612,629	111	0.02
Money market	171,889	214	0.12	182,343	232	0.13	202,539	319	0.16
Time certificates	434,934	3,603	0.83	454,021	3,702	0.82	517,752	4,865	0.94
Total interest-bearing deposits	3,224,847	5,077	0.16	3,107,668	5,092	0.16	3,060,674	6,423	0.21
Advances from Federal Home Loan Bank	100,389	3,146	3.13	64,630	2,432	3.76	50,014	2,176	4.35
Securities sold under agreements to repurchase	155,012	2,585	1.67	146,758	2,553	1.74	172,683	2,693	1.56
Total interest-bearing liabilities	3,480,248	10,808	0.31	3,319,056	10,077	0.30	3,283,371	11,292	0.34

Non-interest bearing liabilities:			
Deposits	1,285,964	1,179,559	1,060,121
Other	112,314	104,906	108,692
Stockholder's equity	536,769	507,185	503,369
Total Liabilities and Stockholder's Equity	\$5,415,295	\$5,110,706	\$4,955,553
Net interest income	\$180,628	\$176,860	\$179,402
Net interest margin (%) <sup>5</sup>	3.62	3.74	3.93

<sup>1</sup> Interest income includes taxable equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of \$0.2 million, \$0.9 million and \$0.8 million for 2014, 2013 and 2012, respectively.

<sup>2</sup> Includes federal funds sold, interest bearing deposits and stock in the Federal Home Loan Bank of Seattle (\$83 million, \$95 million and \$97 million as of December 31, 2014, 2013 and 2012, respectively).

<sup>3</sup> Includes loans held for sale, at lower of cost or fair value.

<sup>4</sup> Includes loan fees of \$3.7 million, \$5.2 million and \$4.9 million for 2014, 2013 and 2012, respectively, together with interest accrued prior to suspension of interest accrual on nonaccrual loans.

<sup>5</sup> Defined as net interest income, on a fully taxable equivalent basis, as a percentage of average total interest-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 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. See Note 5 of the Consolidated Financial Statements for the composition of ASB's loans receivable.

The increase in the total loan portfolio from \$4.1 billion at the end of 2013 to \$4.4 billion at the end of 2014 was primarily due to growth in the commercial real estate, HELOC and residential 1-4 family loan portfolios, which was consistent with ASB's portfolio mix targets and loan growth strategy.

Home equity — key credit statistics.

December 31	2014	2013		
Outstanding balance (in thousands)	\$818,815	\$739,331		
Percent of portfolio in first lien position	40.9	% 38.2		%
Net charge-off ratio	(0.07	)% 0.06		%
Delinquency ratio	0.25	% 0.28		%

December 31, 2014	Total	Interest only	End of draw period – interest only			Current amortizing	
			2014-2015	2016-2018	Thereafter		
Outstanding balance (in thousands)	\$818,815	\$607,064	\$885	\$100,269	\$505,910	\$211,751	
% of total	100	% 74	% —	% 12	% 62	% 26	%

The home equity line of credit (HELOC) portfolio makes up 18% 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 December 31, 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. When a borrower fails to make a required payment on a loan and does not cure the delinquency promptly, the loan is classified as delinquent. If delinquencies are not cured promptly, ASB normally commences a collection action, including foreclosure proceedings in the case of secured loans. In a foreclosure action, the property securing the delinquent debt is sold at a public auction in which ASB may participate as a bidder to protect its interest. If ASB is the successful bidder, the property is classified as real estate owned until it is sold. See "Allowance for loan losses" in Note 5 of the Consolidated Financial Statements for information with respect to nonperforming assets. The level of nonperforming loans has continued to decrease with the improving Hawaii economy.

Allowance for loan losses. See "Allowance for loan losses" in Note 5 of the Consolidated Financial Statements for the tables which sets forth the allocation of ASB's allowance for loan losses. For 2014, the allowance for loan losses increased by \$5.5 million primarily due to loan loss reserves for the growth in the loan portfolio and higher loss rates for loan portfolios with higher risk such as commercial real estate and unsecured personal loans.

Available-for-sale investment securities. ASB's investment portfolio was comprised as follows:

December 31 (dollars in thousands)	2014		2013	
	Balance	% of total	Balance	% of total
U.S. Treasury and federal agency obligations	\$119,560	22	% \$80,973	15
Mortgage-related securities — FNMA, FHLMC and GNMA	430,834	78	369,444	70
Municipal bonds	—	—	78,590	15



Total available-for-sale investment securities	\$550,394	100	%	\$529,007	100	%
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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. The increase in investment securities was due to the purchase of federal agency obligations and mortgage-related securities to replace the municipal bond portfolio that was sold in 2014.

The net unrealized gains on ASB's investment securities were primarily caused by lower interest rates. All contractual cash flows of those investments are guaranteed by an agency of the U.S. government. See "Investment securities" in Note 1 for a discussion of securities impairment assessment.

As of December 31, 2014, 2013 and 2012, ASB did not have any private-issue mortgage-related securities.

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 December 31, 2014, ASB's costing liabilities consisted of 94% deposits and 6% other borrowings. As of December 31, 2013, ASB's costing liabilities consisted of 95% deposits and 5% other borrowings. See Note 5 of the Consolidated Financial Statements for the composition of ASB's deposit liabilities and other borrowings.

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 December 31, 2014 and 2013, ASB had an unrealized gain, net of taxes, on available-for-sale investment securities (including securities pledged for repurchase agreements) in AOCI of \$0.5 million compared to an unrealized loss, net of taxes, of \$4 million as of December 31, 2013. See "Quantitative and qualitative disclosures about market risk."

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." Also see "Federal Deposit Insurance Corporation restoration plan" and "Deposit insurance coverage" in Note 5 of the Consolidated Financial Statements.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Regulation of the financial services industry, including regulation of HEI, ASB Hawaii 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, ASB Hawaii 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 ASB Hawaii, 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. If the Spin-Off of ASB Hawaii occurs as contemplated by the Merger Agreement, HEI (or its successor) will no longer be required to serve as a source of strength to ASB. 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.

Also, the Dodd-Frank Act directs the Bureau to publish rules and forms that combine certain disclosures that consumers receive in connection with applying for and closing on a mortgage loan under the Truth in Lending Act and the Real Estate Settlement Procedures Act. Consistent with this requirement, the Bureau amended Regulation X (Real Estate Settlement Procedures Act) and Regulation Z (Truth in Lending) to establish new disclosure requirements and forms in Regulation Z for most closed-end consumer credit transactions secured by real property. In addition to combining the existing disclosure requirements and implementing new requirements, the final rule provides extensive guidance regarding compliance with those requirements. This rule is effective August 1, 2015.

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’s debit card interchange fees were impacted as a result of the application of this Amendment, by approximately \$6 million after tax in 2014.

**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 ASB Hawaii). The FRB indicated that it would release a proposal on intermediate holding companies 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. The FRB has not yet issued such a proposal, nor a proposal on how to apply the Basel III capital rules to SLHCs that are substantially engaged in commercial or insurance underwriting activities, such as grandfathered unitary SLHCs like HEI.

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:

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## 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 eventually be effective for HEI or ASB Hawaii as well. If the Spin-Off of ASB Hawaii occurs as contemplated by the Merger Agreement, HEI (or its successor) will no longer be subject to the final capital rules as applied to SLHCs. If the fully phased-in capital requirements were currently applicable to HEI, management believes HEI 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 ASB Hawaii, if any.

Stock in FHLB of Seattle. As of December 31, 2014, ASB's stock in FHLB of Seattle of \$69.3 million was carried at cost because it can only be redeemed at par. There is a minimum required investment in such stock based on measurements of ASB's capital, assets and/or borrowing levels, and ASB's investment is substantially in excess of that requirement. In 2014 and 2013, the FHLB of Seattle paid ASB cash dividends of \$88,000 and \$47,000, respectively. FHLB of Seattle did not pay any cash dividends in 2012.

In September 2012, the Federal Housing Finance Agency (Finance Agency) classified the FHLB of Seattle as "adequately capitalized." After receiving approval from the Finance Agency, the FHLB of Seattle began repurchasing excess stock, repurchasing a total of \$23.2 million and \$3.5 million of excess stock from ASB in 2014 and 2013, respectively.

In September 2014, the FHLB of Seattle announced that it had entered into an agreement to merge with the FHLB of Des Moines and in December 2014, the Finance Agency approved the banks' application to merge. The merger agreement is pending approval and the voting process is scheduled to begin in mid-January and conclude in late February. The impact of this merger on ASB is uncertain at this time.

Commitments and contingencies. See Note 5 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 December 31, 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. As of December 31, 2014, ASB provided \$1.8 million reserves for a commercial real estate loan impacted by the lava flows. 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 on ASB's financial condition or results of operations to be material.

Recent accounting pronouncements. See "Recent accounting pronouncements and interpretations" in Note 1 of the Consolidated Financial Statements.

Liquidity and capital resources.

December 31	2014	% change	2013	% change
(dollars in millions)				
Total assets	\$5,565	6	\$5,244	4
Available-for-sale investment and mortgage-related securities	550	4	529	(21)
Loans receivable held for investment, net	4,389	7	4,110	10
Deposit liabilities	4,623	6	4,372	3
Other bank borrowings	291	19	245	25

As of December 31, 2014, ASB was one of Hawaii's largest financial institutions based on assets of \$5.6 billion and deposits of \$4.6 billion.

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ASB's principal sources of liquidity are customer deposits, borrowings and the maturity and repayment of portfolio loans and securities. ASB's deposits as of December 31, 2014 were \$251 million higher than December 31, 2013. ASB's principal sources of borrowings are advances from the FHLB and securities sold under agreements to repurchase from broker/dealers and commercial account holders. As of December 31, 2014, FHLB borrowings totaled \$100 million, representing 1.8% of assets. ASB is approved to borrow from the FHLB up to 35% of ASB's assets to the extent it provides qualifying collateral and holds sufficient FHLB stock. As of December 31, 2014, ASB's unused FHLB borrowing capacity was approximately \$1.2 billion. As of December 31, 2014, securities sold under agreements to repurchase totaled \$191 million, representing 3.4% of assets. ASB utilizes deposits, advances from the FHLB and securities sold under agreements to repurchase to fund maturing and withdrawn deposits, repay maturing borrowings, fund existing and future loans and purchase investment and mortgage-related securities. As of December 31, 2014, ASB had commitments to borrowers for loans and unused lines and letters of credit of \$1.7 billion, including commitments to lend \$0.5 million 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.

As of December 31, 2014 and 2013, ASB had \$36.9 million and \$48.5 million of loans on nonaccrual status, respectively, or 0.8% and 1.2% of net loans outstanding, respectively. As of December 31, 2014 and 2013, ASB had \$0.9 million and \$1.2 million, respectively, of real estate acquired in settlement of loans

In 2014, operating activities provided cash of \$42 million. Net cash of \$299 million was used by investing activities primarily due to a net increase in loans held for investment of \$284 million, purchases of investment securities of \$184 million and capital expenditures of \$28 million, partly offset by repayments of investment securities of \$91 million, proceeds from the sales of investment securities of \$80 million, redemption of FHLB stock of \$23 million and proceeds from the sale of real estate acquired in settlement of loans of \$3 million. Financing activities provided net cash of \$261 million primarily due to a net increase in deposits of \$251 million and proceeds from securities sold under agreements to repurchase of \$56 million, partly offset by the payment of common stock dividends of \$36 million and a net decrease in retail repurchase agreements of \$9 million.

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 December 31, 2014, ASB was well-capitalized (see "Regulation—Capital requirements" below for ASB's capital ratios).

For a discussion of ASB dividends, see "Common stock equity" in Note 5 of the Consolidated Financial Statements. Certain factors that may affect future results and financial condition. Also see "Forward-Looking Statements" and "Certain factors that may affect future results and financial condition" for Consolidated HEI above.

**Competition.** The banking industry in Hawaii is highly competitive. ASB is one of Hawaii's largest financial institutions, based on total assets, and is in direct competition for deposits and loans, not only with larger institutions, but also with smaller institutions that are heavily promoting their services in certain niche areas, such as providing financial services to small- and medium-sized businesses, and national organizations offering financial services. ASB's main competitors are banks, savings associations, credit unions, mortgage brokers, finance companies and securities brokerage firms. These competitors offer a variety of lending, deposit and investment products to retail and business customers.

The primary factors in competing for deposits are interest rates, the quality and range of services offered, marketing, convenience of locations, hours of operation and perceptions of the institution's financial soundness and safety. To meet competition, ASB offers a variety of savings and checking accounts at competitive rates, convenient business hours, convenient branch locations with interbranch deposit and withdrawal privileges at each branch and convenient automated teller machines. ASB also conducts advertising and promotional campaigns.

The primary factors in competing for first mortgage and other loans are interest rates, loan origination fees and the quality and range of lending and other services offered. ASB believes that it is able to compete for such loans primarily through the competitive interest rates and loan fees it charges, the type of mortgage loan programs it offers



and the efficiency and quality of the services it provides to individual borrowers and the business community. ASB is a full-service community bank serving both consumer and commercial customers and has been diversifying its loan portfolio from single-family home mortgages to higher-spread, shorter-duration consumer, commercial and commercial real estate loans. The origination of consumer, commercial and commercial real estate loans involves risks and other considerations different from those associated with originating residential real estate loans. For example, the sources and level of competition may be different and credit risk is generally higher than for residential mortgage loans. These different risk factors are

considered in the underwriting and pricing standards and in the allowance for loan losses established by ASB for its consumer, commercial and commercial real estate loans.

U.S. capital markets and credit and interest rate environment. Volatility in U.S. capital markets may negatively impact the fair values of investment and mortgage-related securities held by ASB. As of December 31, 2014, the fair value and carrying value of the investment and mortgage-related securities held by ASB were \$0.6 billion.

Interest rate risk is a significant risk of ASB's operations. ASB actively manages this risk, including managing the relationship of its interest-sensitive assets to its interest-sensitive liabilities. Persistent low levels of interest rates have made it challenging to find investments with adequate risk-adjusted returns and had a negative impact on ASB's asset yields and net interest margin. If the current interest rate environment persists, the potential for compression of ASB's net interest margin will continue. ASB also manages the credit risk associated with its lending and securities portfolios, but a deep and prolonged recession led by a material decline in housing prices could materially impair the value of its portfolios. See "Quantitative and Qualitative Disclosures about Market Risk" below.

Technological developments. New technological developments (e.g., significant advances in internet banking) may impact ASB's future competitive position, results of operations and financial condition.

Environmental matters. Prior to extending a loan collateralized by real property, ASB conducts due diligence to assess whether or not the property may present environmental risks and potential cleanup liability. In the event of default and foreclosure of a loan, ASB may become the owner of the mortgaged property. For that reason, ASB seeks to avoid lending upon the security of, or acquiring through foreclosure, any property with significant potential environmental risks; however, there can be no assurance that ASB will successfully avoid all such environmental risks.

Regulation. ASB is subject to examination and comprehensive regulation by the Department of Treasury, OCC and the FDIC, and is subject to reserve requirements established by the Board of Governors of the Federal Reserve System. Regulation by these agencies focuses in large measure on the adequacy of ASB's capital and the results of periodic "safety and soundness" examinations conducted by the OCC.

Capital requirements. The OCC, which is ASB's principal regulator, administers two sets of capital standards—minimum regulatory capital requirements and prompt corrective action requirements. The FDIC also has prompt corrective action capital requirements. As of December 31, 2014, ASB was in compliance with OCC minimum regulatory capital requirements and was "well-capitalized" within the meaning of OCC prompt corrective action regulations and FDIC capital regulations, as follows:

ASB met applicable minimum regulatory capital requirements (noted in parentheses) as of December 31, 2014 with a tangible capital ratio of 8.9% (1.5%), a core capital ratio of 8.9% (4.0%) and a total risk-based capital ratio of 12.3% (8.0%).

ASB met the capital requirements to be generally considered "well-capitalized" (noted in parentheses) as of December 31, 2014 with a leverage ratio of 8.9% (5.0%), a Tier-1 risk-based capital ratio of 11.3% (6.0%) and a total risk-based capital ratio of 12.3% (10.0%).

The purpose of the prompt corrective action capital requirements is to establish thresholds for varying degrees of oversight and intervention by regulators. Declines in levels of capital, depending on their severity, will result in increasingly stringent mandatory and discretionary regulatory consequences. Capital levels may decline for any number of reasons, including reductions that would result if there were losses from operations, deterioration in collateral values or the inability to dispose of real estate owned (typically acquired by foreclosure). The regulators have substantial discretion in the corrective actions they might direct and could include restrictions on dividends and other distributions that ASB may make to HEI (through ASB Hawaii) and the requirement that ASB develop and implement a plan to restore its capital. Under an agreement with regulators entered into by HEI when it acquired ASB, HEI currently could be required to contribute to ASB up to an additional \$28.3 million of capital, if necessary, to maintain ASB's capital position.

Examinations. ASB is subject to periodic "safety and soundness" examinations and other examinations by the OCC. In conducting its examinations, the OCC utilizes the Uniform Financial Institutions Rating System adopted by the Federal Financial Institutions Examination Council, which system utilizes the "CAMELS" criteria for rating financial institutions. The six components in the rating system are: Capital adequacy, Asset quality, Management, Earnings,

Liquidity and Sensitivity to market risk. The OCC examines and rates each CAMELS component. An overall CAMELS rating is also given, after taking into account all of the component ratings. A financial institution may be subject to formal regulatory or administrative direction or supervision such as a “memorandum of understanding” or a “cease and desist” order following an examination if its CAMELS rating is not satisfactory. An institution is prohibited from disclosing the OCC’s report of its safety and soundness examination or the component and overall CAMELS rating to any person or organization not officially connected with the

institution as an officer, director, employee, attorney or auditor, except as provided by regulation. The OCC also regularly examines ASB's information technology practices and its performance under Community Reinvestment Act measurement criteria.

The Federal Deposit Insurance Act, as amended, addresses the safety and soundness of the deposit insurance system, supervision of depository institutions and improvement of accounting standards. Pursuant to this Act, federal banking agencies have promulgated regulations that affect the operations of ASB and its holding companies (e.g., standards for safety and soundness, real estate lending, accounting and reporting, transactions with affiliates and loans to insiders). FDIC regulations restrict the ability of financial institutions that fail to meet relevant capital measures to engage in certain activities, such as offering interest rates on deposits that are significantly higher than the rates offered by competing institutions. As of December 31, 2014, ASB was "well-capitalized" and thus not subject to these restrictions. Qualified Thrift Lender status. ASB is a "qualified thrift lender" (QTL) under its federal thrift charter and, in order to maintain this status, ASB is required to maintain at least 65% of its assets in "qualified thrift investments," which include housing-related loans (including mortgage-related securities) as well as certain small business loans, education loans, loans made through credit card accounts and a basket (not exceeding 20% of total assets) of other consumer loans and other assets. Institutions that fail to maintain QTL status are subject to various penalties, including limitations on their activities. In ASB's case, the activities of HEI, ASB Hawaii and HEI's other subsidiaries would also be subject to restrictions if ASB failed to maintain its QTL status, and a failure or inability to comply with those restrictions could effectively result in the required divestiture of ASB. As of December 31, 2014, ASB was a qualified thrift lender.

Unitary savings and loan holding company. The Gramm-Leach-Bliley Act of 1999 (Gramm Act) permitted banks, insurance companies and investment firms to compete directly against each other, thereby allowing "one-stop shopping" for an array of financial services. Although the Gramm Act further restricted the creation of so-called "unitary savings and loan holding companies" (i.e., companies such as HEI whose subsidiaries include one or more savings associations and one or more nonfinancial subsidiaries), the unitary savings and loan holding company relationship among HEI, ASB Hawaii and ASB is "grandfathered" under the Gramm Act so that HEI and its subsidiaries will be able to continue to engage in their current activities so long as ASB maintains its QTL status. Under the Gramm Act, any proposed sale of ASB would have to satisfy applicable statutory and regulatory requirements and potential acquirers of ASB would most likely be limited to companies that are already qualified as, or capable of qualifying as, either a traditional savings and loan association holding company or a bank holding company, or as one of the authorized financial holding companies permitted under the Gramm Act. There have been legislative proposals in the past which would operate to eliminate the thrift charter or the grandfathered status of HEI as a unitary thrift holding company and effectively require the divestiture of ASB.

Material estimates and critical accounting policies. Also see "Material estimates and critical accounting policies" for Consolidated HEI above.

Allowance for loan losses. See Note 1 of the Consolidated Financial Statements and the discussion above under "Earning assets, costing liabilities and other factors." ASB maintains an allowance for loan losses believed to be 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 (for example, 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 the loan portfolio into loan segments for purposes of determining the allowance for loan losses. Commercial and commercial real estate loans are defined as non-homogeneous loans. ASB utilizes a risk rating system for evaluating the credit quality of such 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 ("TDR") 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 supplements 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 HELOC and unsecured consumer products, the bankruptcy score. Current FICO and bankruptcy 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'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 loan. ASB believes that these enhancements 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 2014 and 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 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 loss given default 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. Additionally, qualitative factors may be included in the estimation process.

The reserve for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to unfunded credit facilities and is included in accounts payable and other liabilities in the consolidated balance sheets. The determination of the adequacy of the reserve is based upon an evaluation of the unfunded credit facilities, including an assessment of historical commitment utilization experience, credit risk grading and historical loss rates. This process takes into consideration the same risk elements that are analyzed in the determination of the adequacy of the allowance for loan losses, as discussed above. Net adjustments to the reserve for unfunded commitments are included in other noninterest expense in the consolidated statements of income.

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.

Nonperforming loans. Loans are generally placed on nonaccrual status when contractually past due 90 days or more, or earlier if management believes that the probability of collection is insufficient to warrant further accrual. A loan may be returned to accrual status if (i) principal and interest payments have been brought current and ASB expects repayment of the remaining contractual principal and interest, (ii) the loan has otherwise become well-secured and

collection efforts are reasonably expected to result in repayment of the debt, or (iii) the borrower has been making regularly scheduled payments in full for the prior six months and it is reasonably assured that the loan will be brought fully current within a reasonable period. Cash receipts on nonaccruing loans are generally applied to reduce the unpaid principal balance.

Loans considered to be uncollectible are charged-off against the allowance. The amount and timing of charge-offs on loans includes consideration of the loan type, length of delinquency, insufficiency of collateral value, lien priority and the overall financial condition of the borrower. Recoveries on loans previously charged-off are credited back to the allowance. Loans that

have been charged-off against the allowance are periodically monitored to evaluate whether further adjustments to the allowance are necessary. Loans in the commercial and commercial real estate portfolio are charged-off when the loan is risk rated “doubtful” or “loss”. The loan or a portion thereof is determined to be uncollectible after considering the borrower’s overall financial condition and collateral deficiency. A loan is considered uncollectible when: (a) the borrower is delinquent in principal or interest 90 days or more; (b) significant improvement in the borrower’s repayment capacity is doubtful; and/or (c) collateral value is insufficient to cover outstanding indebtedness and no other viable assets exist.

Loans in the residential mortgage and home equity portfolios are charged-off when the loan or a portion thereof is determined to be uncollectible after considering the borrower’s overall financial condition and collateral deficiency. A loan is considered uncollectible when: (a) the borrower is delinquent in principal or interest 180 days or more; (b) it is probable that collateral value is insufficient to cover outstanding indebtedness and no other viable assets exist; (c) notification of the borrower’s bankruptcy is received; or (d) in cases where ASB is in a subordinate position to other debt, the senior lien holder has foreclosed and extinguished the junior lien.

Other consumer loans are generally charged-off when the balance becomes 120 days delinquent.

See "Nonperforming loans" in Note 1 of the Consolidated Financial Statements for additional information regarding ASB's nonperforming loans.

Troubled debt restructurings. A loan modification is deemed to be a TDR when ASB grants a concession ASB would not otherwise consider if it were 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 their financial position to eventually be able to repay the loan fully, 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 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 TDR modifications. Residential loan modifications generally involve interest rate reduction, extending the amortization period, or interest only payments for a period of time. 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 payments. Commercial loan modifications generally involve extensions of maturity dates, extending the amortization period, and temporary deferral of principal payments. ASB generally do not reduce the interest rate on commercial loan TDR modifications. Occasionally, additional collateral and/or guaranties are obtained.

Certain TDRs that are current in payment status are classified as nonaccrual in accordance with regulatory guidance. These nonaccruing TDRs can be returned to accrual status when principal and interest have been current for at least six months and a well-documented evaluation of the borrower’s financial condition has been performed and indicates future payments are reasonably assured.

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. The financial impact of the calculated impairment amount is an increase to the allowance for loan losses 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.

Fair value. 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 third party sources. However, in certain cases, ASB uses its own assumptions based on the best information available in certain 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 ASB were to sell its entire holdings of a particular financial instrument at one time. Because no active trading market exists for a portion of its 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.

ASB classifies its financial assets and liabilities that are measured at fair value in accordance with the three level valuation hierarchy 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.

Classification in the hierarchy is based upon the lowest level input that is significant to the fair value measurement of the asset or liability. For instruments classified in Level 1 and 2 where inputs are primarily based upon observable market data, there is less judgment applied in arriving at the fair value. For instruments classified in Level 3, management judgment is more significant due to the lack of observable market data.

Significant assets measured at fair value on a recurring basis include ASB's mortgage-related securities available for sale. These instruments are priced using an external pricing service and are classified as Level 2 within the fair value hierarchy. The third-party pricing services use a variety of methods to determine fair value including quoted prices for similar securities in an active market, yield spreads for similar trades, adjustments for liquidity, size, collateral characteristics, historic and generic prepayment speeds, and other observable market factors. To enhance the robustness of the pricing process, ASB compares its standard third-party vendor's price with that of another third-party vendor. If the prices are within an acceptable tolerance range, the price of the standard vendor will be accepted. If the variance is beyond the tolerance range, an evaluation will be conducted by the investment manager and a challenge to the price may be made. Fair value in such cases will be based on the value that best reflects the data and observable characteristics of the security. In all cases, the fair value used will have been independently determined by a third-party pricing vendor or non-affiliated broker.

Fair value is also used on a nonrecurring basis to evaluate certain assets for impairment or for disclosure purposes.

Examples of nonrecurring uses of fair value include loan impairments for certain loans and goodwill.

See "Investment securities" and "Derivative financial instruments" in Note 5 and Note 16 of the Consolidated Financial Statements for additional information regarding ASB's fair value measurements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HEI and Hawaiian Electric:

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Report of Independent Registered Public Accounting Firm  
To the Board of Directors and Shareholders of  
Hawaiian Electric Industries, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Hawaiian Electric Industries, Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Management and we previously concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014. However, management has subsequently determined that a material weakness in internal control over financial reporting related to the preparation and review of the consolidated statement of cash flows existed as of that date. Accordingly, management's report has been restated and our present opinion on internal control over financial reporting, as presented herein, is different from that expressed in our previous report. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to the preparation and review of the consolidated statement of cash flows existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the December 31, 2014 consolidated financial statements and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements and as discussed in the financial statement schedule, Schedule I, the Company has restated its 2013 and 2012 financial statements and financial statement schedule to correct errors.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that

transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
Los Angeles, California

February 26, 2015, except for the effects of the restatement and revision as discussed in Note 1 to the consolidated financial statements, the effects of the restatement and revision as discussed in the financial statement schedule, Schedule I, and the matter described in the penultimate paragraph of Management's Report on Internal Control Over Financial Reporting, as to which the date is November 16, 2015

Report of Independent Registered Public Accounting Firm  
To the Board of Directors and Shareholder  
of Hawaiian Electric Company, Inc.

In our opinion, the accompanying consolidated balance sheets and consolidated statements of capitalization and the related consolidated statements of income, comprehensive income, changes in common stock equity and cash flows present fairly, in all material respects, the financial position of Hawaiian Electric Company, Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company has restated its 2013 and 2012 financial statements to correct errors.

/s/ PricewaterhouseCoopers LLP  
Los Angeles, California

February 26, 2015, except for the effects of the restatement and revision as discussed in Note 1 to the consolidated financial statements, as to which the date is November 16, 2015

## Consolidated Statements of Income

Hawaiian Electric Industries, Inc. and Subsidiaries

Years ended December 31

(in thousands, except per share amounts)

	2014	2013	2012
Revenues			
Electric utility	\$2,987,323	\$2,980,172	\$3,109,439
Bank	252,497	258,147	265,539
Other	(278	) 151	17
Total revenues	3,239,542	3,238,470	3,374,995
Expenses			
Electric utility	2,711,555	2,734,659	2,896,427
Bank	176,878	171,090	177,106
Other	22,185	17,302	17,266
Total expenses	2,910,618	2,923,051	3,090,799
Operating income (loss)			
Electric utility	275,768	245,513	213,012
Bank	75,619	87,057	88,433
Other	(22,463	) (17,151	) (17,249
Total operating income	328,924	315,419	284,196
Interest expense, net – other than on deposit liabilities and other bank borrowings	(76,352	) (75,479	) (78,151
Allowance for borrowed funds used during construction	2,579	2,246	4,355
Allowance for equity funds used during construction	6,771	5,561	7,007
Income before income taxes	261,922	247,747	217,407
Income taxes	91,712	84,341	76,859
Net income	170,210	163,406	140,548
Preferred stock dividends of subsidiaries	1,890	1,890	1,890
Net income for common stock	\$168,320	\$161,516	\$138,658
Basic earnings per common share	\$1.65	\$1.63	\$1.43
Diluted earnings per common share	\$1.64	\$1.62	\$1.42
Dividends per common share	\$1.24	\$1.24	\$1.24
Weighted-average number of common shares outstanding	101,968	98,968	96,908
Net effect of potentially dilutive shares	969	655	430
Adjusted weighted-average shares	102,937	99,623	97,338

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

## Consolidated Statements of Comprehensive Income

Hawaiian Electric Industries, Inc. and Subsidiaries

Years ended December 31

(in thousands)

	2014	2013	2012
Net income for common stock	\$ 168,320	\$ 161,516	\$ 138,658
Other comprehensive income (loss), net of taxes:			
Net unrealized gains (losses) on available-for sale investment securities:			
Net unrealized gains (losses) on available-for sale investment securities arising during the period, net of (taxes) benefits of \$(3,856), \$9,037 and (\$631) for 2014, 2013 and 2012, respectively	5,840	(13,686 )	956
Less: reclassification adjustment for net realized gains included in net income, net of taxes of \$1,132, \$488 and \$53 for 2014, 2013 and 2012, respectively	(1,715 )	(738 )	(81 )
Derivatives qualified as cash flow hedges:			
Less: reclassification adjustment to net income, net of tax benefits of \$150, \$150 and \$150 for 2014, 2013 and 2012, respectively	236	235	236
Retirement benefit plans:			
Net gains (losses) arising during the period, net of (taxes) benefits of \$149,364, (\$142,478) and \$63,303 for 2014, 2013 and 2012, respectively	(234,166 )	223,177	(99,159 )
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 \$7,245, \$14,870 and \$9,764 for 2014, 2013 and 2012, respectively	11,344	23,280	15,291
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of (taxes) benefits of (\$132,373), \$141,777 and (\$48,299) for 2014, 2013 and 2012, respectively	207,833	(222,595 )	75,471
Other comprehensive income (loss), net of taxes	(10,628 )	9,673	(7,286 )
Comprehensive income attributable to Hawaiian Electric Industries, Inc.	\$ 157,692	\$ 171,189	\$ 131,372

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



## Consolidated Balance Sheets

Hawaiian Electric Industries, Inc. and Subsidiaries

December 31

(dollars in thousands)

## ASSETS

	2014	2013
Cash and cash equivalents	\$175,542	\$220,036
Accounts receivable and unbilled revenues, net	313,696	346,785
Available-for-sale investment securities	550,394	529,007
Stock in Federal Home Loan Bank of Seattle, at cost	69,302	92,546
Loans receivable held for investment, net	4,389,033	4,110,113
Loans held for sale, at lower of cost or fair value	8,424	5,302
Property, plant and equipment, net		
Land	\$94,093	\$74,272
Plant and equipment	6,137,417	5,836,922
Construction in progress	168,214	146,742
	6,399,724	6,057,936
Less – accumulated depreciation	(2,250,950 )	(2,192,422 )
Regulatory assets	905,264	575,924
Other	541,542	512,627
Goodwill	82,190	82,190
Total assets	\$11,184,161	\$10,340,044

## LIABILITIES AND SHAREHOLDERS' EQUITY

## Liabilities

Accounts payable	\$186,425	\$212,331
Interest and dividends payable	25,336	26,716
Deposit liabilities	4,623,415	4,372,477
Short-term borrowings—other than bank	118,972	105,482
Other bank borrowings	290,656	244,514
Long-term debt, net—other than bank	1,506,546	1,492,945
Deferred income taxes	631,734	529,260
Regulatory liabilities	344,849	349,299
Contributions in aid of construction	466,432	432,894
Defined benefit pension and other postretirement benefit plans liability	632,845	288,539
Other	531,230	524,224
Total liabilities	9,358,440	8,578,681
Preferred stock of subsidiaries - not subject to mandatory redemption	34,293	34,293
Commitments and contingencies (Notes 4 and 5)		
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: 102,565,266 shares and 101,259,800 shares at December 31, 2014 and 2013, respectively	1,521,297	1,488,126
Retained earnings	297,509	255,694
Accumulated other comprehensive income (loss), net of taxes		

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Net unrealized gains (losses) on securities	\$462			\$(3,663	)		
Unrealized losses on derivatives	(289	)		(525	)		
Retirement benefit plans	(27,551	)	(27,378	)	(12,562	) (16,750	)
Total shareholders' equity			1,791,428		1,727,070		
Total liabilities and shareholders' equity			\$11,184,161		\$10,340,044		

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

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

	Common stock		Retained	Accumulated other comprehensive	Total
(in thousands, except per share amounts)	Shares	Amount	earnings	income (loss)	
Balance, December 31, 2011	96,038	\$1,349,446	\$198,397	\$(19,137)	\$1,528,706
Net income for common stock	—	—	138,658	—	138,658
Other comprehensive loss, net of tax benefits	—	—	—	(7,286)	(7,286)
Issuance of common stock:					
Dividend reinvestment and stock purchase plan	1,560	41,295	—	—	41,295
Retirement savings and other plans	330	8,196	—	—	8,196
Expenses and other, net	—	4,547	—	—	4,547
Dividend equivalents paid on equity-classified awards	—	—	(101)	—	(101)
Common stock dividends (\$1.24 per share)	—	—	(120,150)	—	(120,150)
Balance, December 31, 2012	97,928	1,403,484	216,804	(26,423)	1,593,865
Net income for common stock	—	—	161,516	—	161,516
Other comprehensive income, net of taxes	—	—	—	9,673	9,673
Issuance of common stock:					
Partial settlement of equity forward	1,300	33,409	—	—	33,409
Dividend reinvestment and stock purchase plan	1,612	41,692	—	—	41,692
Retirement savings and other plans	420	9,203	—	—	9,203
Expenses and other, net	—	338	—	—	338
Common stock dividends (\$1.24 per share)	—	—	(122,626)	—	(122,626)
Balance, December 31, 2013	101,260	\$1,488,126	\$255,694	\$(16,750)	\$1,727,070
Net income for common stock	—	—	168,320	—	168,320
Other comprehensive loss, net of tax benefits	—	—	—	(10,628)	(10,628)
Issuance of common stock:					
Partial settlement of equity forward	1,000	24,873	—	—	24,873
Dividend reinvestment and stock purchase plan	95	2,461	—	—	2,461
Retirement savings and other plans	210	6,816	—	—	6,816
Expenses and other, net	—	(979)	—	—	(979)
Common stock dividends (\$1.24 per share)	—	—	(126,505)	—	(126,505)
Balance, December 31, 2014	102,565	\$1,521,297	\$297,509	\$(27,378)	\$1,791,428

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

## Consolidated Statements of Cash Flows

Hawaiian Electric Industries, Inc. and Subsidiaries

Years ended December 31

	2014	2013 As restated (1)	2012 As restated (1)
(in thousands)			
Cash flows from operating activities			
Net income	\$170,210	\$163,406	\$140,548
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation of property, plant and equipment	172,762	160,061	150,389
Other amortization	6,795	4,667	7,958
Provision for loan losses	6,126	1,507	12,883
Impairment of utility assets	—	—	40,000
Loans receivable originated and purchased, held for sale	(155,755 )	(249,022 )	(519,622 )
Proceeds from sale of loans receivable, held for sale	155,030	273,775	513,000
Gain on sale of credit card portfolio	—	(2,251 )	—
Increase in deferred income taxes	103,916	80,399	90,848
Share-based compensation expense	9,287	7,780	6,698
Excess tax benefits from share-based payment arrangements	(277 )	(430 )	(61 )
Allowance for equity funds used during construction	(6,771 )	(5,561 )	(7,007 )
Change in cash overdraft	(1,038 )	1,038	—
Changes in assets and liabilities			
Decrease (increase) in accounts receivable and unbilled revenues, net	33,089	16,038	(18,501 )
Decrease in fuel oil stock	28,041	27,332	10,129
Increase in regulatory assets	(17,000 )	(65,461 )	(72,401 )
Increase (decrease) in accounts, interest and dividends payable	(67,189 )	12,406	5,497
Change in prepaid and accrued income taxes and utility revenue taxes	(39,091 )	(19,406 )	21,079
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	22,251	(33,014 )	(228 )
Change in other assets and liabilities	(94,966 )	(11,696 )	(102,275 )
Net cash provided by operating activities	325,420	361,568	278,934
Cash flows from investing activities			
Available-for-sale investment securities purchased	(183,778 )	(112,654 )	(243,633 )
Principal repayments on available-for-sale investment securities	91,013	158,558	191,253
Proceeds from sale of available-for-sale investment securities	79,564	71,367	3,548
Redemption of stock from Federal Home Loan Bank of Seattle	23,244	3,476	1,742
Net increase in loans held for investment	(283,810 )	(398,426 )	(112,730 )
Proceeds from sale of real estate acquired in settlement of loans	3,213	9,212	11,336
Capital expenditures	(364,826 )	(389,438 )	(370,715 )
Contributions in aid of construction	41,806	32,160	45,982
Proceeds from sale of credit card portfolio	—	26,386	—
Other	1,125	1,177	1,778
Net cash used in investing activities	(592,449 )	(598,182 )	(471,439 )
Cash flows from financing activities			
Net increase in deposit liabilities	250,938	142,561	159,884
Net increase in short-term borrowings with original maturities of three months or less	13,490	21,789	14,872

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Net decrease in retail repurchase agreements	(9,465 )	(1,418 )	(37,291 )
Proceeds from other bank borrowings	130,601	130,000	5,000
Repayments of other bank borrowings	(75,000 )	(80,000 )	(5,000 )
Proceeds from issuance of long-term debt	125,000	286,000	457,000
Repayment of long-term debt	(111,400 )	(216,000 )	(375,500 )
Excess tax benefits from share-based payment arrangements	277	430	61
Net proceeds from issuance of common stock	26,898	55,086	23,613
Common stock dividends	(126,458 )	(98,383 )	(96,202 )
Preferred stock dividends of subsidiaries	(1,890 )	(1,890 )	(1,890 )
Other	(456 )	(1,187 )	(2,645 )
Net cash provided by financing activities	222,535	236,988	141,902
Net increase (decrease) in cash and cash equivalents	(44,494 )	374	(50,603 )
Cash and cash equivalents, January 1	220,036	219,662	270,265
Cash and cash equivalents, December 31	\$175,542	\$220,036	\$219,662

(1) As restated - See Note 1, "Summary of significant accounting policies - Revision and restatements of previously issued financial statements."

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

## Consolidated Statements of Income

Hawaiian Electric Company, Inc. and Subsidiaries

Years ended December 31 (in thousands)	2014	2013	2012
Revenues	\$2,987,323	\$2,980,172	\$3,109,439
Expenses			
Fuel oil	1,131,685	1,185,552	1,297,419
Purchased power	722,008	710,681	724,240
Other operation and maintenance	410,612	403,270	397,429
Depreciation	166,387	154,025	144,498
Taxes, other than income taxes	280,863	281,131	292,841
Impairment of utility assets	—	—	40,000
Total expenses	2,711,555	2,734,659	2,896,427
Operating income	275,768	245,513	213,012
Allowance for equity funds used during construction	6,771	5,561	7,007
Interest expense and other charges, net	(64,757)	(59,279)	(62,055)
Allowance for borrowed funds used during construction	2,579	2,246	4,355
Income before income taxes	220,361	194,041	162,319
Income taxes	80,725	69,117	61,048
Net income	139,636	124,924	101,271
Preferred stock dividends of subsidiaries	915	915	915
Net income attributable to Hawaiian Electric	138,721	124,009	100,356
Preferred stock dividends of Hawaiian Electric	1,080	1,080	1,080
Net income for common stock	\$137,641	\$122,929	\$99,276

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

## Consolidated Statements of Comprehensive Income

Hawaiian Electric Company, Inc. and Subsidiaries

Years ended December 31 (in thousands)	2014	2013	2012
Net income for common stock	\$137,641	\$122,929	\$99,276
Other comprehensive income (loss), net of taxes:			
Retirement benefit plans:			
Net gains (losses) arising during the period, net of (taxes) benefits of \$139,236, (\$129,601) and \$57,375 for 2014, 2013 and 2012, respectively	(218,608)	203,479	(90,082)
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 \$6,504, \$13,180 and \$8,709 for 2014, 2013 and 2012, respectively	10,212	20,694	13,673
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of (taxes) benefits of (\$132,373), \$141,777 and (\$48,069) for 2014, 2013 and 2012, respectively	207,833	(222,595)	75,471
Other comprehensive income (loss), net of taxes	(563)	1,578	(938)
Comprehensive income attributable to Hawaiian Electric Company, Inc.	\$137,078	\$124,507	\$98,338

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

## Consolidated Balance Sheets

Hawaiian Electric Company, Inc. and Subsidiaries

December 31 (in thousands)	2014	2013
Assets		
Property, plant and equipment		
Utility property, plant and equipment		
Land	\$52,299	\$51,883
Plant and equipment	6,009,482	5,701,875
Less accumulated depreciation	(2,175,510 )	(2,111,229 )
Construction in progress	158,616	143,233
Utility property, plant and equipment, net	4,044,887	3,785,762
Nonutility property, plant and equipment, less accumulated depreciation of \$1,227 and \$1,223 at respective dates	6,563	6,567
Total property, plant and equipment, net	4,051,450	3,792,329
Current assets		
Cash and equivalents	13,762	62,825
Customer accounts receivable, net	158,484	175,448
Accrued unbilled revenues, net	137,374	144,124
Other accounts receivable, net	4,283	14,062
Fuel oil stock, at average cost	106,046	134,087
Materials and supplies, at average cost	57,250	59,044
Prepayments and other	66,383	52,857
Regulatory assets	71,421	69,738
Total current assets	615,003	712,185
Other long-term assets		
Regulatory assets	833,843	506,186
Unamortized debt expense	8,323	9,003
Other	81,838	67,426
Total other long-term assets	924,004	582,615
Total assets	\$5,590,457	\$5,087,129
Capitalization and liabilities		
Capitalization (see Consolidated Statements of Capitalization)		
Common stock equity	\$1,682,144	\$1,593,564
Cumulative preferred stock – not subject to mandatory redemption	34,293	34,293
Commitments and contingencies (Note 4)		
Long-term debt, net	1,206,546	1,206,545
Total capitalization	2,922,983	2,834,402
Current liabilities		
Current portion of long-term debt	—	11,400
Accounts payable	163,934	189,559
Interest and preferred dividends payable	22,316	21,652
Taxes accrued	250,402	249,445
Regulatory liabilities	632	1,916
Other	65,146	63,881
Total current liabilities	502,430	537,853
Deferred credits and other liabilities		
Deferred income taxes	602,872	507,161
Regulatory liabilities	344,217	347,383

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Unamortized tax credits	79,492	73,539
Defined benefit pension and other postretirement benefit plans liability	595,395	262,162
Other	76,636	91,735
Total deferred credits and other liabilities	1,698,612	1,281,980
Contributions in aid of construction	466,432	432,894
Total capitalization and liabilities	\$5,590,457	\$5,087,129

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



## Consolidated Statements of Capitalization

Hawaiian Electric Company, Inc. and Subsidiaries

December 31

2014

2013

(dollars in thousands, except par value)

Common stock equity

Common stock of \$6 2/3 par value

Authorized: 50,000,000 shares. Outstanding:

2014, 15,805,327 shares and 2013, 15,429,105 shares

\$ 105,388

\$ 102,880

Premium on capital stock

578,938

541,452

Retained earnings

997,773

948,624

Accumulated other comprehensive income, net of taxes - retirement benefit plans

45

608

Common stock equity

1,682,144

1,593,564

Cumulative preferred stock not subject to mandatory redemption

Authorized: 5,000,000 shares of \$20 par value and 7,000,000 shares of \$100 par value.

Series	Par Value	Par Value	Shares outstanding December 31, 2014 and 2013	2014	2013
(dollars in thousands, except par value and shares outstanding)					
C-4 1/4%	\$20	(Hawaiian Electric)	150,000	\$3,000	\$3,000
D-5%	20	(Hawaiian Electric)	50,000	1,000	1,000
E-5%	20	(Hawaiian Electric)	150,000	3,000	3,000
H-5 1/4%	20	(Hawaiian Electric)	250,000	5,000	5,000
I-5%	20	(Hawaiian Electric)	89,657	1,793	1,793
J-4 3/4%	20	(Hawaiian Electric)	250,000	5,000	5,000
K-4.65%	20	(Hawaiian Electric)	175,000	3,500	3,500
G-7 5/8%	100	(Hawaii Electric Light)	70,000	7,000	7,000
H-7 5/8%	100	(Maui Electric)	50,000	5,000	5,000
			1,234,657	34,293	34,293

(continued)

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

## Consolidated Statements of Capitalization (continued)

Hawaiian Electric Company, Inc. and Subsidiaries

December 31

2014

2013

(in thousands)

Long-term debt

Obligations to the State of Hawaii for the repayment of Special Purpose Revenue Bonds

(subsidiary obligations unconditionally guaranteed by Hawaiian Electric):

Hawaiian Electric, 6.50%, series 2009, due 2039	\$90,000	\$90,000
Hawaii Electric Light, 6.50%, series 2009, due 2039	60,000	60,000
Hawaiian Electric, 4.60%, refunding series 2007B, due 2026	62,000	62,000
Hawaii Electric Light, 4.60%, refunding series 2007B, due 2026	8,000	8,000
Maui Electric, 4.60%, refunding series 2007B, due 2026	55,000	55,000
Hawaiian Electric, 4.65%, series 2007A, due 2037	100,000	100,000
Hawaii Electric Light, 4.65%, series 2007A, due 2037	20,000	20,000
Maui Electric, 4.65%, series 2007A, due 2037	20,000	20,000
Hawaiian Electric, 4.80%, refunding series 2005A, due 2025	40,000	40,000
Hawaii Electric Light, 4.80%, refunding series 2005A, due 2025	5,000	5,000
Maui Electric, 4.80%, refunding series 2005A, due 2025	2,000	2,000
Hawaii Electric Light, 5.50%, refunding series 1999A, paid in 2014	—	11,400
Total obligations to the State of Hawaii	462,000	473,400
Other long-term debt – unsecured:		
Taxable senior notes:		
Hawaii Electric Light, 3.83%, Series 2013A, due 2020	14,000	14,000
Hawaiian Electric, 4.45%, Series 2013A, due 2022	40,000	40,000
Hawaii Electric Light, 4.45%, Series 2013B, due 2022	12,000	12,000
Hawaiian Electric, 4.84%, Series 2013B, due 2027	50,000	50,000
Hawaii Electric Light, 4.84%, Series 2013C, due 2027	30,000	30,000
Maui Electric, 4.84%, Series 2013A, due 2027	20,000	20,000
Hawaiian Electric, 5.65%, Series 2013C, due 2043	50,000	50,000
Maui Electric, 5.65%, Series 2013B, due 2043	20,000	20,000
Hawaiian Electric, 3.79%, Series 2012A, due 2018	30,000	30,000
Hawaii Electric Light, 3.79%, Series 2012A, due 2018	11,000	11,000
Maui Electric, 3.79%, Series 2012A, due 2018	9,000	9,000
Hawaiian Electric, 4.03%, Series 2012B, due 2020	62,000	62,000
Maui Electric, 4.03%, Series 2012B, due 2020	20,000	20,000
Hawaiian Electric, 4.55%, Series 2012C, due 2023	50,000	50,000
Hawaii Electric Light, 4.55%, Series 2012B, due 2023	20,000	20,000
Maui Electric, 4.55%, Series 2012C, due 2023	30,000	30,000
Hawaiian Electric, 4.72%, Series 2012D, due 2029	35,000	35,000
Hawaiian Electric, 5.39%, Series 2012E, due 2042	150,000	150,000
Hawaiian Electric, 4.53%, Series 2012F, due 2032	40,000	40,000
Total taxable senior notes	693,000	693,000
6.50 %, series 2004, Junior subordinated deferrable interest debentures, due 2034	51,546	51,546
Total other long-term debt – unsecured	744,546	744,546
Total long-term debt	1,206,546	1,217,946
Less unamortized discount	—	1
Less current portion long-term debt	—	11,400
Long-term debt, net	1,206,546	1,206,545
Total capitalization	\$2,922,983	\$2,834,402

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

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

(in thousands)	Common stock		Premium	Retained	Accumulated	Total
	Shares	Amount	on capital stock	earnings	other comprehensive income (loss)	
Balance, December 31, 2011	14,234	\$94,911	\$426,921	\$881,041	\$(32)	\$1,402,841
Net income for common stock	—	—	—	99,276	—	99,276
Other comprehensive loss, net of tax benefits	—	—	—	—	(938)	(938)
Issuance of common stock, net of expenses	431	2,877	41,124	—	—	44,001
Common stock dividends	—	—	—	(73,044)	—	(73,044)
Balance, December 31, 2012	14,665	97,788	468,045	907,273	(970)	1,472,136
Net income for common stock	—	—	—	122,929	—	122,929
Other comprehensive income, net of taxes	—	—	—	—	1,578	1,578
Issuance of common stock, net of expenses	764	5,092	73,407	—	—	78,499
Common stock dividends	—	—	—	(81,578)	—	(81,578)
Balance, December 31, 2013	15,429	102,880	541,452	948,624	608	1,593,564
Net income for common stock	—	—	—	137,641	—	137,641
Other comprehensive loss, net of tax benefits	—	—	—	—	(563)	(563)
Issuance of common stock, net of expenses	376	2,508	37,486	—	—	39,994
Common stock dividends	—	—	—	(88,492)	—	(88,492)
Balance, December 31, 2014	15,805	\$105,388	\$578,938	\$997,773	\$45	\$1,682,144

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

## Consolidated Statements of Cash Flows

Hawaiian Electric Company, Inc. and Subsidiaries

Years ended December 31

	2014	2013 As restated (1)	2012 As restated (1)
(in thousands)			
Cash flows from operating activities			
Net income	\$ 139,636	\$ 124,924	\$ 101,271
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation of property, plant and equipment	166,387	154,025	144,498
Other amortization	6,410	5,077	6,998
Impairment of utility assets	—	—	40,000
Increase in deferred income taxes	82,947	64,507	86,878
Change in tax credits, net	6,062	7,017	6,075
Allowance for equity funds used during construction	(6,771)	(5,561)	(7,007)
Change in cash overdraft	(1,038)	1,038	—
Changes in assets and liabilities			
Decrease (increase) in accounts receivable	26,743	49,445	(47,004)
Decrease (increase) in accrued unbilled revenues	6,750	(9,826)	3,528
Decrease in fuel oil stock	28,041	27,332	10,129
Decrease (increase) in materials and supplies	1,794	(7,959)	(7,897)
Increase in regulatory assets	(17,000)	(65,461)	(72,401)
Increase (decrease) in accounts payable	(65,527)	14,731	6,322
Change in prepaid and accrued income taxes and revenue taxes	(4,036)	(2,028)	25,239
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	(961)	2,240	(744)
Change in other assets and liabilities	(62,442)	(32,636)	(74,262)
Net cash provided by operating activities	306,995	326,865	221,623
Cash flows from investing activities			
Capital expenditures	(336,679)	(378,044)	(355,326)
Contributions in aid of construction	41,806	32,160	45,982
Other	1,164	907	843
Net cash used in investing activities	(293,709)	(344,977)	(308,501)
Cash flows from financing activities			
Common stock dividends	(88,492)	(81,578)	(73,044)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(1,995)	(1,995)	(1,995)
Proceeds from issuance of common stock	40,000	78,500	44,000
Proceeds from issuance of long-term debt	—	236,000	457,000
Repayment of long-term debt	(11,400)	(166,000)	(368,500)
Other	(462)	(1,149)	(2,230)
Net cash provided by (used in) financing activities	(62,349)	63,778	55,231
Net increase (decrease) in cash and cash equivalents	(49,063)	45,666	(31,647)
Cash and cash equivalents, January 1	62,825	17,159	48,806
Cash and cash equivalents, December 31	\$ 13,762	\$ 62,825	\$ 17,159

(1) As restated - See Note 1, "Summary of significant accounting policies - Revision and restatements of previously issued financial statements."

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



Notes to Consolidated Financial Statements

1 · Summary of significant accounting policies

General

Hawaiian Electric Industries, Inc. (HEI) is a holding company with direct and indirect subsidiaries principally engaged in electric utility and banking businesses, primarily in the State of Hawaii. HEI is the parent holding company of Hawaiian Electric Company, Inc. (Hawaiian Electric) and indirect parent holding company of American Savings Bank, F. S. B. (ASB). HEI's common stock is traded on the New York Stock Exchange.

Hawaiian Electric and its wholly-owned operating subsidiaries, Hawaii Electric Light Company, Inc. (Hawaii Electric Light) and Maui Electric Company, Limited (Maui Electric), are regulated public electric utilities (collectively, the Utilities) in the business of generating, purchasing, transmitting, distributing and selling electric energy on all major islands in Hawaii other than Kauai. Hawaiian Electric also owns Renewable Hawaii, Inc. (RHI), Uluwehiokama Biofuels Corp. (UBC) and HECO Capital Trust III. See Note 3.

ASB is a federally chartered savings bank providing a full range of banking services to individual and business customers through its branch system in Hawaii.

**Basis of presentation.** In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change for the Company include the amounts reported for investment and mortgage-related securities (ASB only); property, plant and equipment; pension and other postretirement benefit obligations; contingencies and litigation; income taxes; regulatory assets and liabilities (Utilities only); electric utility revenues (Utilities only); and allowance for loan losses (ASB only).

**Revision and restatements of previously issued financial statements.** Management discovered that the Utilities' capital expenditures on HEI's and Hawaiian Electric's Consolidated Statements of Cash Flows did not correctly account for the beginning of period unpaid invoices and accruals (that were paid in cash during the period) and is restating its previously filed Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012 and revising its previously filed Consolidated Statements of Cash Flow for the year ended December 31, 2014 to correct for such misstatement by adjusting cash used for "Capital expenditures" (investing activity) and change in accounts payable (operating activity).

Management also discovered that the eliminating journal entry to offset the Hawaiian Electric consolidated net operating loss deferred tax asset did not properly reflect the adjustment on the components of income taxes (current and deferred federal income taxes) and is restating its previously filed Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012 and revising its previously filed Consolidated Statements of Cash Flow for the year ended December 31, 2014 to correct for such misstatement by adjusting "Increase in deferred income taxes," "Change in prepaid and accrued income taxes and utility revenue taxes" and "Change in other assets and liabilities" (operating activities).

Management determined it needed to correct the presentation for share-based compensation expense on the Company's Consolidated Statement of Cash Flows, resulting in a corresponding change in the "Change in other assets and liabilities" amount.

This revision and restatements to correct for such misstatements and other immaterial items do not impact HEI's and Hawaiian Electric's previously reported overall net change in cash and cash equivalents in their Consolidated Statements of Cash Flows for any period presented. Additionally, the revision and restatements do not impact HEI's and Hawaiian Electric's Consolidated Balance Sheets or Consolidated Statements of Income for any period presented. The Company and Hawaiian Electric have concluded that the impact of the misstatements is not material to the previously issued Consolidated Statements of Cash Flow for the year ended December 31, 2014.

The table below illustrates the effects of the revision or restatements on the previously filed financial statements:

(in thousands)	2014			2013		
	As previously filed	As revised	Difference	As previously filed	As restated	Difference
Consolidated Statements of Cash Flows and Note 3						
HEI consolidated						
Cash flows from operating activities						
Other amortization	\$8,476	\$6,795	\$(1,681)	N/A	N/A	N/A
Increase in deferred income taxes	59,184	103,916	44,732	N/A	N/A	N/A
Share-based compensation expense	—	9,287	9,287	\$—	\$7,780	\$7,780
Increase/(decrease) in accounts, interest and dividends payable	(92,294)	(67,189)	25,105	(23,153)	12,406	35,559
Change in prepaid and accrued income taxes and utility revenue taxes	12,845	(39,091)	(51,936)	N/A	N/A	N/A
Change in other assets and liabilities	(93,400)	(94,966)	(1,566)	(2,779)	(11,696)	(8,917)
Net cash provided by operating activities	301,479	325,420	23,941	327,146	361,568	34,422
Cash flows from investing activities						
Capital expenditures	(339,721)	(364,826)	(25,105)	(353,879)	(389,438)	(35,559)
Cash flows from investing activities-Other	(39)	1,125	1,164	40	1,177	1,137
Net cash used in investing activities	(568,508)	(592,449)	(23,941)	(563,760)	(598,182)	(34,422)
Hawaiian Electric consolidated						
Cash flows from operating activities						
Other amortization	8,091	6,410	(1,681)	N/A	N/A	N/A
Increase/(decrease) in accounts payable	(90,632)	(65,527)	25,105	(20,828)	14,731	35,559
Change in other assets and liabilities	(62,959)	(62,442)	517	(31,499)	(32,636)	(1,137)
Net cash provided by operating activities	283,054	306,995	23,941	292,443	326,865	34,422
Cash flows from investing activities						
Capital expenditures	(311,574)	(336,679)	(25,105)	(342,485)	(378,044)	(35,559)
Cash flows from investing activities-Other	—	1,164	1,164	(230)	907	1,137
Net cash used in investing activities	(269,768)	(293,709)	(23,941)	(310,555)	(344,977)	(34,422)
Note 12						
HEI consolidated						
Federal current taxes	33,762	(10,970)	(44,732)	N/A	N/A	N/A
Federal deferred taxes	46,427	91,159	44,732	N/A	N/A	N/A
Note 13						
HEI consolidated						
Property, plant and equipment - unpaid invoices and accruals (in millions)	68	43	(25)	24	(12)	(36)
Hawaiian Electric consolidated						
Electric utility property, plant and equipment - unpaid invoices and	65	40	(25)	24	(12)	(36)



accruals (in millions)  
N/A - Not applicable.

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(in thousands)	2012 As previously filed	As restated	Difference
Consolidated Statements of Cash Flows and Note 3			
HEI consolidated			
Cash flows from operating activities			
Share-based compensation expense	\$—	\$6,698	\$6,698
Increase/(decrease) in accounts, interest and dividends payable	(39,738	) 5,497	45,235
Change in other assets and liabilities	(94,734	) (102,275	) (7,541 )
Net cash provided by operating activities	234,542	278,934	44,392
Cash flows from investing activities			
Capital expenditures	(325,480	) (370,715	) (45,235 )
Cash flows from investing activities-Other	935	1,778	843
Net cash used in investing activities	(427,047	) (471,439	) (44,392 )
Hawaiian Electric consolidated			
Cash flows from operating activities			
Increase/(decrease) in accounts payable	(38,913	) 6,322	45,235
Change in other assets and liabilities	(73,419	) (74,262	) (843 )
Net cash provided by operating activities	177,231	221,623	44,392
Cash flows from investing activities			
Capital expenditures	(310,091	) (355,326	) (45,235 )
Cash flows from investing activities-Other	—	843	843
Net cash used in investing activities	(264,109	) (308,501	) (44,392 )
Note 13			
HEI consolidated			
Property, plant and equipment - unpaid invoices and accruals (in millions)	37	(8	) (45 )
Hawaiian Electric consolidated			
Electric utility property, plant and equipment - unpaid invoices and accruals (in millions)	37	(8	) (45 )

Consolidation. The HEI consolidated financial statements include the accounts of HEI and its subsidiaries (collectively, the Company). The Hawaiian Electric consolidated financial statements include the accounts of Hawaiian Electric and its subsidiaries. The consolidated financial statements exclude subsidiaries which are variable interest entities (VIEs) when the Company or the Utilities are not the primary beneficiaries. Investments in companies over which the Company or the Utilities have the ability to exercise significant influence, but not control, are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated in consolidation. See Note 6 for information regarding unconsolidated VIEs.

Cash and cash equivalents. The Utilities consider cash on hand, deposits in banks, money market accounts, certificates of deposit, short-term commercial paper of non-affiliates and liquid investments (with original maturities of three months or less) to be cash and cash equivalents. The Company considers the same items to be cash and cash equivalents as well as ASB's deposits with the Federal Home Loan Bank (FHLB) of Seattle, federal funds sold (excess funds that ASB loans to other banks overnight at the federal funds rate) and securities purchased under resale agreements.

Equity method. Investments in up to 50%-owned affiliates over which the Company or the Utilities have the ability to exercise significant influence over the operating and financing policies and investments in unconsolidated subsidiaries (e.g. HECO Capital Trust III) are accounted for under the equity method, whereby the investment is carried at cost, plus (or minus) the equity in undistributed earnings (or losses) and minus distributions since acquisition. Equity in earnings or losses is reflected in operating revenues. Equity method investments are also evaluated for OTTI. Also see Note 6 below.

Property, plant and equipment. Property, plant and equipment are reported at cost. Self-constructed electric utility plant includes engineering, supervision, administrative and general costs and an allowance for the cost of funds used during the construction period. These costs are recorded in construction in progress and are transferred to utility plant when construction is completed and the facilities are either placed in service or become useful for public utility purposes. Costs for betterments that

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make utility plant more useful, more efficient, of greater durability or of greater capacity are also capitalized. Upon the retirement or sale of electric utility plant, generally no gain or loss is recognized. The cost of the plant retired is charged to accumulated depreciation. Amounts collected from customers for cost of removal (expected to exceed salvage value in the future) are included in regulatory liabilities.

**Depreciation.** Depreciation is computed primarily using the straight-line method over the estimated lives of the assets being depreciated. Electric utility plant additions in the current year are depreciated beginning January 1 of the following year in accordance with rate-making. Electric utility plant has lives ranging from 20 to 88 years for production plant, from 25 to 65 years for transmission and distribution plant and from 5 to 65 years for general plant. The Utilities' composite annual depreciation rate, which includes a component for cost of removal, was 3.1% in 2014, 2013 and 2012.

**Leases.** HEI, the Utilities and ASB have entered into lease agreements for the use of equipment and office space. The provisions of some of the lease agreements contain renewal options.

The Company's operating lease expense was \$19 million in 2014, 2013 and 2012. The Utilities' operating lease expense was \$9 million, \$8 million and \$8 million in 2014, 2013 and 2012, respectively. The Company's and the Utilities' future minimum lease payments are as follows:

(in millions)	HEI	Hawaiian Electric
2015	\$17	\$8
2016	15	6
2017	12	5
2018	9	4
2019	7	3
Thereafter	23	14
	\$83	\$40

**Retirement benefits.** Pension and other postretirement benefit costs are charged primarily to expense and electric utility plant (in the case of the Utilities). Funding for the Company's qualified pension plans (Plans) is based on actuarial assumptions adopted by the Pension Investment Committee administering the Plans on the advice of an enrolled actuary. The participating employers contribute amounts to a master pension trust for the Plans in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA), including changes promulgated by the Pension Protection Act of 2006, and considering the deductibility of contributions under the Internal Revenue Code. The Company generally funds at least the net periodic pension cost during the year, subject to limits and targeted funded status as determined with the consulting actuary. Under a pension tracking mechanism approved by the Public Utilities Commission of the State of Hawaii (PUC), the Utilities generally will make contributions to the pension fund at the greater of the minimum level required under the law or net periodic pension cost.

Certain health care and/or life insurance benefits are provided to eligible retired employees and the employees' beneficiaries and covered dependents. The Company generally funds the net periodic postretirement benefit costs other than pensions (except for executive life) and the amortization of the regulatory asset for postretirement benefits other than pensions (OPEB), while maximizing the use of the most tax advantaged funding vehicles, subject to cash flow requirements and reviews of the funded status with the consulting actuary. The Utilities must fund OPEB costs as specified in the OPEB tracking mechanisms, which were approved by the PUC. Future decisions in rate cases could further impact funding amounts.

The Company and the Utilities recognize on their respective balance sheets the funded status of their defined benefit pension and other postretirement benefit plans, as adjusted by the impact of decisions of the PUC.

**Environmental expenditures.** The Company and the Utilities are subject to numerous federal and state environmental statutes and regulations. In general, environmental contamination treatment costs are charged to expense, unless it is probable that the PUC would allow such costs to be recovered in future rates, in which case such costs would be capitalized as regulatory assets. Also, environmental costs are capitalized if the costs extend the life, increase the capacity, or improve the safety or efficiency of property; the costs mitigate or prevent future environmental

contamination; or the costs are incurred in preparing the property for sale. Environmental costs are either capitalized or charged to expense when environmental assessments and/or remedial efforts are probable and the cost can be reasonably estimated.

Financing costs. Financing costs related to the registration and sale of HEI common stock are recorded in shareholders' equity.

HEI uses the straight-line method, which approximates the effective interest method, to amortize the long-term debt financing costs of the holding company over the term of the related debt.

The Utilities use the straight-line method, which approximates the effective interest method, to amortize long-term debt financing costs and premiums or discounts over the term of the related debt. Unamortized financing costs and premiums or discounts on the Utilities' long-term debt retired prior to maturity are classified as regulatory assets (costs and premiums) or liabilities (discounts) and are amortized on a straight-line basis over the remaining original term of the retired debt. The method and periods for amortizing financing costs, premiums and discounts, including the treatment of these items when long-term debt is retired prior to maturity, have been established by the PUC as part of the rate-making process.

HEI and the Utilities use the straight-line method to amortize the fees and related costs paid to secure a firm commitment under their line-of-credit arrangements.

Income taxes. Deferred income tax assets and liabilities are established for the temporary differences between the financial reporting bases and the tax bases of the Company's and the Utilities' assets and liabilities at federal and state tax rates expected to be in effect when such deferred tax assets or liabilities are realized or settled. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized.

The Company recognizes investment tax credits as a reduction of income tax expense in the period the assets giving rise to such credits are placed in service, except for the Utilities' investment tax credits, which are deferred and amortized over the estimated useful lives of the properties to which the credits relate, in accordance with Accounting Standards Codification (ASC) Topic 980, "Regulated Operations."

The Utilities are included in the consolidated income tax returns of HEI. However, income tax expense has been computed for financial statement purposes as if the Utilities filed separate consolidated Hawaiian Electric income tax returns.

Governmental tax authorities could challenge a tax return position taken by management. If the Company's position does not prevail, the Company's results of operations and financial condition may be adversely affected as the related deferred or current income tax asset might be impaired and written down or an unanticipated tax liability might be incurred.

The Company and the Utilities use a "more-likely-than-not" recognition threshold and measurement standard for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Fair value measurements. Fair value estimates are estimates of 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 their 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 Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets;
- 2: 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 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3
- 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.

Classification in the hierarchy is based upon the lowest level input that is significant to the fair value measurement of the asset or liability. For instruments classified in Level 1 and 2 where inputs are primarily based upon observable market data, there is less judgment applied in arriving at the fair value. For instruments classified in Level 3, management judgment is more significant due to the lack of observable market data.

Fair value is also used on a nonrecurring basis to evaluate certain assets for impairment or for disclosure purposes. Examples of nonrecurring uses of fair value include mortgage servicing rights accounted for by the amortization method, loan impairments for certain loans, goodwill and asset retirement obligations (AROs).

Earnings per share (HEI only). Basic earnings per share (EPS) is computed by dividing net income for common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed similarly, except that dilutive common shares for stock compensation and the equity forward transactions are added to the denominator. HEI uses the two-class method of computing EPS as restricted stock grants include non-forfeitable rights to dividends and are participating securities.

Under the two-class method, HEI's EPS was comprised as follows for both participating securities and unrestricted common stock:

	2014		2013		2012	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Distributed earnings	\$1.24	\$1.24	\$1.24	\$1.24	\$1.24	\$1.24
Undistributed earnings	0.41	0.40	0.39	0.38	0.19	0.18
	\$1.65	\$1.64	\$1.63	\$1.62	\$1.43	\$1.42

As of December 31, 2014 there were no shares that were antidilutive. As of December 31, 2013 and December 31, 2012, the antidilutive effect of stock appreciation rights (SARs) on 102,000 shares of HEI common stock (for which the exercise prices were greater than the closing market prices of HEI's common stock on such dates), was not included in the computation of diluted EPS.

Share-based compensation. The Company and the Utilities apply the fair value based method of accounting to account for its stock compensation, including the use of a forfeiture assumption. See Note 11.

Impairment of long-lived assets and long-lived assets to be disposed of. The Company and the Utilities review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

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.

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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 adopt ASU No. 2014-01 in the first quarter of 2015.

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 expect the adoption to 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 plans to 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 plans to adopt ASU No. 2014-11 in the first quarter of 2015 and does not expect the adoption to have a material impact on the Company's results of operations, financial condition or liquidity.

Reclassifications. Hawaiian Electric changed its consolidated statements of income for each quarter in 2013 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. On HEI's consolidated balance sheet as of December 31, 2013, non-utility plant, net, amounting to \$7 million was reclassified from "Other" assets to "Plant and equipment" (including related amounts of accumulated depreciation). These and other reclassifications made to prior years' financial statements to conform to the 2014 presentation did not affect previously reported results of operations.

Electric utility

Regulation by the Public Utilities Commission of the State of Hawaii (PUC). The Utilities are regulated by the PUC and account for the effects of regulation under FASB ASC Topic 980, "Regulated Operations." As a result, the actions of regulators can affect the timing of recognition of revenues, expenses, assets and liabilities. Management believes the Utilities' operations

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currently satisfy the ASC Topic 980 criteria. If events or circumstances should change so that those criteria are no longer satisfied, the Utilities expect that their regulatory assets, net of regulatory liabilities, would be charged to the statement of income in the period of discontinuance.

**Accounts receivable.** Accounts receivable are recorded at the invoiced amount. The Utilities generally assess a late payment charge on balances unpaid from the previous month. The allowance for doubtful accounts is the Utilities' best estimate of the amount of probable credit losses in the Utilities existing accounts receivable. On a monthly basis, the Utilities adjust their allowance, with a corresponding charge (credit) on the statement of income, based on its historical write-off experience. Account balances are charged off against the allowance after collection efforts have been exhausted and the potential for recovery is considered remote. At both December 31, 2014 and 2013, the allowance for customer accounts receivable, accrued unbilled revenues and other accounts receivable was \$2 million.

**Contributions in aid of construction.** The Utilities receive contributions from customers for special construction requirements. As directed by the PUC, contributions are amortized on a straight-line basis over 30 to 55 years as an offset against depreciation expense.

**Electric utility revenues.** Electric utility revenues are based on rates authorized by the PUC. Prior to the implementation of decoupling, revenues related to the sale of energy were generally recorded when service was rendered or energy was delivered to customers and included revenues applicable to energy consumed in the accounting period but not yet billed to the customers.

The rate schedules of the Utilities include energy cost adjustment clauses (ECACs) under which electric rates are adjusted for changes in the weighted-average price paid for fuel oil and certain components of purchased power, and the relative amounts of company-generated power and purchased power. The rate schedules also include purchased power adjustment clauses (PPACs) under which the remaining purchase power expenses are recovered through surcharge mechanisms. The amounts collected through the ECACs and PPACs are required to be reconciled quarterly. Upon the implementation of decoupling (Hawaiian Electric on March 1, 2011, Hawaii Electric Light on April 9, 2012 and Maui Electric on May 4, 2012), the Utilities: (1) recognize monthly revenue balancing account (RBA) revenues or refunds for the difference between PUC-approved target revenues and recorded adjusted revenues, which delinks revenues from kilowatt-hour sales, (2) recognize a revenue escalation component via a rate adjustment mechanism (RAM) for certain operation and maintenance (O&M) expenses and rate base changes and (3) recognize (when applicable) an earnings sharing mechanism, which would provide for a reduction of revenues between rate cases in the event the utility's ratemaking return on average common equity (ROACE) exceeds the ROACE allowed in its most recent rate case.

The Utilities' revenues include amounts for various Hawaii state revenue taxes. Revenue taxes are generally recorded as an expense in the year 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). For 2014, 2013 and 2012, the Utilities included approximately \$267 million, \$266 million and \$280 million, respectively, of revenue taxes in "revenues" and in "taxes, other than income taxes" expense.

**Power purchase agreements.** If a power purchase agreement (PPA) falls within the scope of ASC Topic 840, "Leases," and results in the classification of the agreement as a capital lease, the Utilities would recognize a capital asset and a lease obligation. Currently, none of the PPAs are required to be recorded as a capital lease.

The Utilities evaluate PPAs to determine if the PPAs are VIEs, if the Utilities are primary beneficiaries and if consolidation is required. See Note 6.

**Repairs and maintenance costs.** Repairs and maintenance costs for overhauls of generating units are generally expensed as they are incurred.

**Allowance for funds used during construction (AFUDC).** AFUDC is an accounting practice whereby the costs of debt and equity funds used to finance plant construction are credited on the statement of income and charged to construction in progress on the balance sheet. If a project under construction is delayed for an extended period of time, AFUDC on the delayed project may be stopped after assessing the causes of the delay and probability of recovery. The weighted-average AFUDC rate was 7.7% in 2014, 7.6% in 2013 and 7.6% in 2012, and reflected quarterly compounding.

Bank (HEI only)

Investment securities. Investments in debt and equity securities are classified as held-to-maturity (HTM), trading or available-for-sale (AFS). ASB determines the appropriate classification at the time of purchase. Debt and equity securities that

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ASB intends to and has the ability to hold to maturity are classified as HTM securities and reported at cost. Marketable debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Marketable debt and equity securities not classified as either HTM or trading securities are classified as AFS and reported at fair value. Unrealized gains and losses, for AFS securities deemed other-than-temporary impairment (OTTI), not related to credit losses, are excluded from earnings and reported on a net basis in accumulated other comprehensive income (AOCI) until realized.

Interest income is recorded on an accrual basis. Discounts and premiums on securities are accreted or amortized into interest income over the remaining lives of the securities, adjusted for actual portfolio prepayments for investment securities or based on changes in anticipated prepayments for mortgage-related securities, using the interest method. The specific identification method is used in determining realized gains and losses on the sales of securities. ASB uses actual prepayment experience and estimates of future prepayments to determine the constant effective yield necessary to apply the interest method of income recognition. Estimates of future prepayments are based on the underlying collateral characteristics and historic prepayment behavior of each security.

For securities that are not trading securities, individual securities are assessed for impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant. A security is impaired if the fair value of the security is less than its carrying value at the financial statement date. When a security is impaired, ASB determines whether this impairment is temporary or other-than-temporary. If ASB does not expect to recover the entire amortized cost basis of the security, an OTTI exists. If ASB intends to sell the security, or will more likely than not be required to sell the security before recovery of its amortized cost, the OTTI must be recognized in earnings. If ASB does not intend to sell the security, and it is not more likely than not that ASB will be required to sell the security before recovery of its amortized cost, the OTTI must be separated into the amount representing the credit loss and the amount related to all other factors. The amount of OTTI related to the credit loss is recognized in earnings, while the remaining OTTI is recognized in AOCI.

Stock in Federal Home Loan Bank (FHLB) of Seattle is carried at cost and is reviewed at least periodically for impairment, with valuation adjustments recognized in noninterest income.

Loans receivable. ASB carries loans receivable at amortized cost less the allowance for loan losses, loan origination fees (net of direct loan origination costs), commitment fees and purchase premiums and discounts. Interest on loans is credited to income as it is earned. Discounts and premiums are accreted or amortized over the life of the loans using the interest method.

Loan origination fees (net of direct loan origination costs) are deferred and recognized as an adjustment in yield over the life of the loan using the interest method or taken into income when the loan is paid off or sold. Nonrefundable commitment fees (net of direct loan origination costs, if applicable) received for commitments to originate or purchase loans are deferred and, if the commitment is exercised, recognized as an adjustment of yield over the life of the loan using the interest method. Nonrefundable commitment fees received for which the commitment expires unexercised are recognized as income upon expiration of the commitment.

Mortgage loans held for sale are stated at the lower of cost or estimated fair value on an aggregate basis. A sale is recognized only when the consideration received is other than beneficial interests in the assets sold and control over the assets is transferred irrevocably to the buyer. Gains or losses on sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the allocated basis of the loans sold.

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. Impairments are charged to the provision for loan losses and included in the allowance for loan losses. However, 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 enhancements did not have a material effect on the total allowance for loan losses or the provision for loan losses for 2014. The enhancements 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.

The reserve for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to unfunded credit facilities and is included in accounts payable and other liabilities in the consolidated balance sheets. The determination of the adequacy of the reserve is based upon an evaluation of the unfunded credit facilities, including an assessment of historical commitment utilization experience, credit risk grading and historical loss rates. This process takes into consideration the same risk elements that are analyzed in the determination of the adequacy of the allowance for loan losses, as discussed above. Net adjustments to the reserve for unfunded commitments are included in other noninterest expense in the consolidated statements of income.

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.

**Nonperforming loans.** Loans are generally placed on nonaccrual status when contractually past due 90 days or more, or earlier if management believes that the probability of collection is insufficient to warrant further accrual. A loan may be returned to accrual status if (i) principal and interest payments have been brought current and repayment of the remaining contractual principal and interest is expected to be made, (ii) the loan has otherwise become well-secured and collection efforts are reasonably expected to result in repayment of the debt, or (iii) the borrower has been making regularly scheduled payments in full for the prior six months and it is reasonably assured that the loan will be brought fully current within a reasonable period. Cash receipts on nonaccruing loans are generally applied to reduce the unpaid principal balance.

Loans considered to be uncollectible are charged-off against the allowance for loan losses. The amount and timing of charge-offs on loans includes consideration of the loan type, length of delinquency, insufficiency of collateral value, lien priority and the overall financial condition of the borrower. Recoveries on loans previously charged-off are credited back to the allowance for loan losses. Loans that have been charged-off against the allowance for loan losses are periodically monitored to evaluate whether further adjustments to the allowance are necessary. Loans in the commercial and commercial real estate portfolio are charged-off when the loan is risk-rated "Doubtful" or "Loss". The loan or a portion thereof is determined to be uncollectible after considering the borrower's overall financial condition and collateral deficiency. A loan is considered uncollectible when: (a) the borrower is delinquent in principal or interest 90 days or more; (b) significant improvement in the borrower's repayment capacity is doubtful; and/or (c) collateral value is insufficient to cover outstanding indebtedness and no other viable assets exist.

Loans in the residential mortgage and home equity portfolios are charged-off when the loan or a portion thereof is determined to be uncollectible after considering the borrower's overall financial condition and collateral deficiency. A loan is considered uncollectible when: (a) the borrower is delinquent in principal or interest 180 days or more; (b) it is probable that collateral value is insufficient to cover outstanding indebtedness and no other viable assets exist; (c) notification of the borrower's bankruptcy is received; or (d) in cases where ASB is in a subordinate position to other debt, the senior lien holder has foreclosed and ASB's the junior lien is extinguished.

Other consumer loans are generally charged-off when the balance becomes 120 days delinquent.

**Loans modified in a troubled debt restructuring.** Loans are considered to have been modified in a troubled debt restructuring (TDR) when, due to a borrower's financial difficulties, ASB makes concessions to the borrower that it would not otherwise consider for a non-troubled borrower. Modifications may include interest rate reductions, interest only payments for an extended period of time, protracted terms such as amortization and maturity beyond the customary length of time found in the normal market place, and other actions intended to minimize economic loss and to provide alternatives to foreclosure or repossession of collateral. Generally, a nonaccrual loan that has been modified in a TDR remains on nonaccrual status until the borrower has demonstrated sustained repayment performance for a period of six consecutive months. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, or there is reasonable doubt over the full collectability of principal and interest, the loan remains on nonaccrual status.

Real estate acquired in settlement of loans. ASB records real estate acquired in settlement of loans at fair value, less estimated selling expenses. ASB obtains appraisals based on recent comparable sales to assist management in estimating the fair value of real estate acquired in settlement of loans. Subsequent declines in value are charged to expense through a valuation allowance. Costs related to holding real estate are charged to operations as incurred.

Goodwill. At December 31, 2014 and 2013, the amount of goodwill was \$82.2 million. The goodwill is with respect to ASB and is the Company's only intangible asset with an indefinite useful life and is tested for impairment annually at December 31 using data as of September 30.

FASB ASU No. 2011-8, "Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment"(ASU No. 2011-8) permits an entity to first assess qualitative factors (Step 0) to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform Step 1 of a two-step goodwill impairment test. An entity has an unconditional option to bypass the qualitative assessment and proceed directly to performing the first step of the goodwill impairment test. In evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount under ASU No. 2011-8, an entity shall assess relevant events and circumstances such as:

- macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, or other developments in equity and credit markets;
- industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a change in the market for an entity's products or services, or a regulatory or political development;
- cost factors that have a negative effect on earnings and cash flows;
- overall financial performance such as a decline in actual or planned revenues or earnings compared with actual and projected results of relevant prior periods;
- other relevant entity-specific events such as changes in management, key personnel, strategy, or customers;
- contemplation of bankruptcy; or litigation;
- events affecting a reporting unit such as a change in the composition or carrying amount of its net assets;
- if applicable, a sustained decrease in share price (consider in both absolute terms and relative to peers).

If, after assessing the totality of events or circumstances, an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the first and second steps of the goodwill impairment test under ASC Topic 350, "Intangibles-Goodwill and Other" (ASC 350), are unnecessary. We performed a Step 0 analysis and determined that it was not more likely than not that the fair value of the Company was less than its carrying value and a Step 1 goodwill impairment analysis was not considered necessary. The most recent Step 1 goodwill impairment analysis under ASC 350 was performed at December 31, 2013 and the estimated fair value of the Company exceeded its carrying value by 60%. For the three years ended December 31, 2014, there has been no impairment of goodwill.

Mortgage banking. Mortgage loans held for sale are stated at the lower of cost or estimated fair value on an aggregate basis. A sale is recognized only when the consideration received is other than beneficial interests in the assets sold and control over the assets is transferred irrevocably to the buyer. Gains or losses on sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the allocated basis of the loans sold. ASB is obligated to subsequently repurchase a loan if the purchaser discovers a standard representation or warranty violation such as noncompliance with eligibility requirements, customer fraud, or servicing violations. This primarily occurs during a loan file review.

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. Mortgage servicing assets or liabilities are included as a component of gain on sale of loans. Under ASC Topic 860, "Transfers and Servicing," we amortize the MSR in proportion to and over the period of estimated net servicing income and assess for impairment at each reporting date.

ASB's MSR is stratified 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 "Other income, net" in the consolidated statements of income. A direct write-down is recorded when the recoverability of the valuation allowance is deemed to be unrecoverable.

ASB compares the fair value of MSR to an estimated value calculated by an independent third-party. The third-party relies on both published and unpublished sources of market related assumptions and their own experience and expertise to arrive at a value. ASB uses the third-party value only to assess the reasonableness of fair value.

Loan servicing fee income represents income earned for servicing mortgage loans owned by investors. It includes mortgage servicing fees and other ancillary servicing income, net of guaranty fees. Servicing fees are generally calculated on the outstanding principal balances of the loans serviced and are recorded as income when earned.

**Tax Credit Investments.** ASB invests in limited liability entities formed to operate qualifying affordable housing projects.

The affordable housing investments provide tax benefits to investors in the form of tax deductions from operating losses and tax credits. As a limited partner, ASB has no significant influence over the operations. These investments are initially recorded at the initial capital contribution with a liability recognized for the commitment to contribute additional capital over the term of the investment.

Under the equity method of accounting, ASB recognized its share of the project's pre-tax operating losses in "Other expense" in the statements of income.

For these limited liability entities, ASB assesses whether it is the primary beneficiary of the limited liability entity, which is a variable interest entity (VIE). The primary beneficiary of a VIE is determined to be the party that meets both of the following criteria: (i) has the power to make decisions that most significantly affect the economic performance of the VIE; and (ii) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Generally, ASB, as a limited partner, is not deemed to be the primary beneficiary as it does not meet the power criterion, i.e., no power to direct the activities of a VIE that most significantly impact the VIE's economic performance and no direct ability to unilaterally remove the general partner. All tax credit investments are evaluated for potential impairment at least annually, or more frequently, when events or conditions indicate that it is deemed probable that ASB will not recover its investment. Potential indicators of impairment might arise when there is evidence that some or all tax credits previously claimed would be recaptured, or that expected remaining credits would no longer be available to the limited liability entities. If an investment is determined to be impaired, it is written down to its estimated fair value and the new cost basis of the investment is not adjusted for subsequent recoveries in value.

At December 31, 2014 and 2013, the carrying amount of qualifying affordable housing investments was \$32.5 million and \$14.5 million, respectively, and included in other assets in the consolidated balance sheets.

ASB's unfunded commitments to fund to its affordable housing investments were \$14.8 million and \$0.6 million as of December 31, 2014 and 2013, respectively. These unfunded commitments are unconditional and legally binding and are recorded in accounts payable and other liabilities with an increase in other assets in the consolidated balance sheets.

## 2 · Proposed Merger

On December 3, 2014, HEI, NextEra Energy, Inc., a Florida corporation (NEE), NEE Acquisition Sub I, LLC, a Delaware limited liability company and a wholly owned subsidiary of NEE (Merger Sub II) and NEE Acquisition Sub II, Inc., a Delaware corporation and a wholly owned subsidiary of NEE (Merger Sub I), entered into an Agreement and Plan of Merger (the Merger Agreement). The Merger Agreement provides for Merger Sub I to merge with and into HEI (the Initial Merger), with HEI surviving, and then for HEI to merge with and into Merger Sub II, with Merger Sub II surviving as a wholly owned subsidiary of NEE (the Merger). The Merger is intended to qualify as a tax-free reorganization under the Internal Revenue Code of 1986, as amended, and be tax-free to HEI shareholders. Pursuant to the Merger Agreement, upon the closing of the Merger, each issued and outstanding share of HEI common stock will automatically be converted into the right to receive 0.2413 shares of common stock of NEE (the Exchange Ratio). No adjustment to the Exchange Ratio is made in the Merger Agreement for any changes in the market prices of either HEI or NEE common stock between December 3, 2014 and the closing of the Merger.

The Merger Agreement contemplates that, immediately prior to the closing of the Merger, HEI will distribute to its shareholders all of the issued and outstanding shares of common stock of ASB Hawaii, the direct parent company of ASB (such distribution referred to as the Spin-Off), with ASB Hawaii becoming a new public company. In addition, the Merger Agreement contemplates that, immediately prior to the closing of the Merger, HEI will pay its shareholders a special dividend of \$0.50 per share.

The closing of the Merger is subject to various conditions, including, among others, (i) the approval of holders of 75% of the outstanding shares of HEI common stock, (ii) effectiveness of the registration statement for the NEE common stock to be issued in the Initial Merger and the listing of such shares on the New York Stock Exchange, (iii) expiration or termination of the applicable Hart-Scott-Rodino Act waiting period, (iv) receipt of all required regulatory approvals from, among others, the Federal Energy Regulatory Commission (FERC), the Federal Communications Commission and the Hawaii Public Utilities Commission, (v) the absence of any law or judgment in effect or pending in which a governmental entity has imposed or is seeking to impose a legal restraint that would prevent or make illegal the closing of the Merger, (vi) the absence of any material adverse effect with respect to either HEI or NEE, (vii) subject to certain exceptions, the accuracy of the representations and warranties of, and compliance with covenants by, each of the parties to the Merger Agreement, (viii) receipt by each of HEI and NEE of a tax opinion of its counsel regarding the tax treatment of the transactions contemplated by the Merger Agreement, (ix) effectiveness of the ASB Hawaii registration statement necessary to consummate the Spin-Off, and (x) the determination by each of HEI and NEE that, upon completion of the Spin-Off, HEI will no longer be a savings and loan holding company or be deemed to control ASB for purposes of the Home Owners' Loan Act. The Spin-Off will be subject to various conditions, including, among others, the approval of the Federal Reserve Board (FRB).

The Merger Agreement contains customary representations, warranties and covenants of HEI and NEE.

HEI is also subject to a “no shop” restriction that limits its ability to solicit alternative acquisition proposals, provide information or engage in discussion with third parties, except under limited circumstances to permit HEI’s board of directors to comply with its fiduciary duties.

The Merger Agreement contains certain termination rights for both HEI and NEE, including the right of either party to terminate the Merger Agreement if the Merger has not been consummated by December 3, 2015 (subject to a 6-month extension if required to obtain necessary regulatory approvals), and further provides that upon termination of the Merger Agreement under specified circumstances, HEI or NEE, as the case may be, would be required to pay the other party a termination fee of \$90 million and reimburse the other party for up to \$5 million of its documented out-of-pocket expenses incurred in connection with the Merger Agreement.

PUC application. In January 2015, NEE and Hawaiian Electric filed an application with the PUC requesting approval of the proposed Merger of Hawaiian Electric. The application also requests modification of certain conditions agreed to by HEI and the PUC in 1982 for the merger and corporate restructuring of Hawaiian Electric, and confirmation that with approval of the Merger Agreement, the recommendations in the 1995 Dennis Thomas Report (resulting from a proceeding to review the relationship between HEI and Hawaiian Electric and any impact of HEI’s then diversified activities on the Utilities) will no longer be applicable. The application includes a commitment that, for at least four years following the completion of the transaction, Hawaiian Electric will not submit any applications seeking a

general base rate increase and will forego recovery of the incremental operations and maintenance rate adjustment under decoupling during that period, which amounts to approximately \$60 million in cumulative savings for customers, subject to certain exceptions and conditions, including that the following remain in effect: the RBA tariff provisions, the Rate Base RAM, the Renewable Energy Infrastructure Program, and Renewable Energy Infrastructure Surcharge, the IRP/DSM Recovery tariff provisions, the ECAC tariff provisions, the PPA tariff provision and the Pension and OPEB tracker mechanism. Various parties, including governmental, environmental and



commercial interests, have moved to intervene in the proceeding. A PUC decision on the intervention motions and establishing a procedural schedule for the docket is pending.

Other requests. On January 29, 2015, HEI submitted its application to the FERC requesting all necessary authorization to consummate the transactions contemplated by the Merger Agreement. On February 1, 2015, HEI submitted a letter to FRB requesting deregistration as a Savings & Loan Holding Company (SLHC).

Pending litigation and other matters.

Litigation. HEI and its subsidiaries are subject to various legal proceedings that arise from time to time. Some of these proceedings may seek relief or damages in amounts that may be substantial. Because these proceedings are complex, many years may pass before they are resolved, and it is not feasible to predict their outcomes. Some of these proceedings involve claims HEI and Hawaiian Electric believe may be covered by insurance, and HEI and Hawaiian Electric have advised their insurance carriers accordingly.

Since the December 3, 2014 announcement of the merger agreement, eight purported class action complaints were filed in the Circuit Court of the First Circuit for the State of Hawaii by alleged stockholders of HEI against HEI, Hawaiian Electric (in one complaint), the individual directors of HEI, NEE and NEE's acquisition subsidiaries. The lawsuits are captioned as follows: *Miller v. Hawaiian Electric Industries, Inc., et al.*, Case No. 14-1-2531-12 KTN (December 15, 2014) (the Miller Action); *Walsh v. Hawaiian Electric Industries, Inc., et al.*, Case No. 14-1-2541-12 JHC (December 15, 2014) (the Walsh Action); *Stein v. Hawaiian Electric Industries, Inc., et al.*, Case No. 14-1-2555-12 KTN (December 17, 2014) (the Stein Action); *Brown v. Hawaiian Electric Industries, Inc., et al.*, Case No. 14-1-2643-12 RAN (December 30, 2014) (the Brown Action); *Cohn v. Hawaiian Electric Industries, Inc., et al.*, Case No. 14-1-2642-12 KTN (December 30, 2014) (the Cohn State Action); *Guenther v. Watanabe, et al.*, Case No. 15-1-003-01 ECN (January 2, 2015) (the Guenther Action); *Hudson v. Hawaiian Electric Industries, Inc., et al.*, Case No. 15-1-0013-01 JHC (January 5, 2015) (the Hudson Action); *Grieco v. Hawaiian Electric Industries, Inc., et al.*, Case No. 15-1-0094-01 KKS (January 21, 2015) (the Grieco Action). On January 12, 2015, plaintiffs in the Miller Action, the Walsh Action, the Stein Action, the Brown Action, the Guenther Action, and the Hudson Action filed a motion to consolidate their actions and to appoint co-lead counsel. On February 13, 2015, the Court held a hearing on this motion. On January 23, 2015, the Cohn State Action was voluntarily dismissed. Thereafter, the same alleged stockholder plaintiff filed a purported class action complaint in the United States District Court for the District of Hawaii against HEI, the individual directors of HEI, NEE and NEE's acquisition subsidiaries. The lawsuit is captioned as *Cohn v. Hawaiian Electric Industries, Inc. et al.*, 15-cv-00029-JMS-KSC (January 27, 2015) (the Cohn Federal Action).

All eight actions allege, among other things, that members of HEI's Board breached their fiduciary duties in connection with the proposed transaction, and that the Merger Agreement involves an unfair price, was the product of an inadequate sales process, and contains unreasonable deal protection devices that purportedly preclude competing offers. The complaints further allege that HEI, NEE and/or its acquisition subsidiaries aided and abetted the purported breaches of fiduciary duty. The plaintiffs in these lawsuits seek, among other things, (i) a declaration that the Merger Agreement was entered into in breach of HEI's directors' fiduciary duties, (ii) an injunction enjoining the HEI Board from consummating the Merger, (iii) an order directing the HEI Board to exercise their duties to obtain a transaction which is in the best interests of HEI's stockholders, (iv) a rescission of the Merger to the extent that it is consummated, and/or (v) damages suffered as a result of the defendants' alleged actions. In addition, the Cohn Federal Action alleges that the HEI board of directors violated its fiduciary duties and federal securities laws by omitting material facts from the Registration Statement on Form S-4.

HEI and Hawaiian Electric believe the allegations of the complaints are without merit and intends to defend these lawsuits vigorously.

Other matters. In January 2015, various clean energy and environmental groups filed a motion and applications with the PUC to delay consideration of the Company's proposed Merger pending its decision on the Power Supply Improvement Plans, Distributed Generation Interconnection Plan, Integrated Demand Response Portfolio Plan, decoupling, and issues regarding customer-based distributed energy resources. The Utilities and NEE filed oppositions to these applications with the PUC and asked for their dismissal.



### 3 · Segment financial information

The electric utility and bank segments are strategic business units of the Company that offer different products and services and operate in different regulatory environments. The accounting policies of the segments are the same as those described for the Company in the summary of significant accounting policies, except as otherwise indicated and except that federal and state income taxes for each segment are calculated on a “stand-alone” basis. HEI evaluates segment performance based on net income. Each segment accounts for intersegment sales and transfers as if the sales and transfers were to third parties, that is, at current market prices. Intersegment revenues consist primarily of interest, rent and preferred stock dividends.

#### Electric utility

Hawaiian Electric and its wholly-owned operating subsidiaries, Hawaii Electric Light and Maui Electric, are public electric utilities in the business of generating, purchasing, transmitting, distributing and selling electric energy on all major islands in Hawaii other than Kauai, and are regulated by the PUC. The Utilities have been aggregated into the electric utility segment primarily because all three entities: (1) are involved in the business of supplying electric energy in the same geographical location (i.e., the State of Hawaii), (2) have similar production processes that include electric generators (e.g., conventional oil-fired steam units and combustion turbines), (3) serve similar customers within their franchise territories (e.g., residential, commercial and industrial customers), (4) use similar electric grids to distribute the energy to their customers, (5) are regulated by the PUC and undergo similar rate-making processes, (6) have similar economic characteristics, and (7) perform financial reporting oversight and management of the business at the consolidated level. Hawaiian Electric also owns the following nonregulated subsidiaries: Renewable Hawaii, Inc. (RHI), which was formed to invest in renewable energy projects; HECO Capital Trust III, which is a financing entity; and Uluwehiokama Biofuels Corp. (UBC), which was formed to own a new biodiesel refining plant to be built on the island of Maui, which project has been terminated.

#### Bank

ASB is a federally chartered savings bank providing a full range of banking services to individual and business customers through its branch system in Hawaii. ASB is subject to examination and comprehensive regulation by the Office of the Comptroller of the Currency (OCC) (previously by the Department of Treasury, Office of Thrift Supervision (OTS)) and the Federal Deposit Insurance Corporation (FDIC), and is subject to reserve requirements established by the Board of Governors of the Federal Reserve System.

#### Other

“Other” includes amounts for the holding companies (HEI and ASB Hawaii, Inc.), other subsidiaries not qualifying as reportable segments and intercompany eliminations.

Segment financial information was as follows:

(in thousands)	Electric utility	Bank	Other	Total
2014				
Revenues from external customers	\$2,987,299	\$252,497	\$(254)	) \$3,239,542
Intersegment revenues (eliminations)	24	—	(24)	) —
Revenues	2,987,323	252,497	(278)	) 3,239,542
Depreciation and amortization, as revised (1)	172,797	5,399	1,361	179,557
Interest expense, net	64,757	10,808	11,595	87,160
Income (loss) before income taxes	220,361	75,619	(34,058)	) 261,922
Income taxes (benefit)	80,725	24,127	(13,140)	) 91,712
Net income (loss)	139,636	51,492	(20,918)	) 170,210
Preferred stock dividends of subsidiaries	1,995	—	(105)	) 1,890
Net income (loss) for common stock	137,641	51,492	(20,813)	) 168,320
Capital expenditures, as revised (1)	336,679	28,073	74	364,826
Assets (at December 31, 2014)	5,590,457	5,565,241	28,463	11,184,161
2013				
Revenues from external customers	\$2,980,139	\$258,147	\$184	) \$3,238,470
Intersegment revenues (eliminations)	33	—	(33)	) —
Revenues	2,980,172	258,147	151	3,238,470
Depreciation and amortization	159,102	4,230	1,396	164,728
Interest expense, net	59,279	10,077	16,200	85,556
Income (loss) before income taxes	194,041	87,059	(33,353)	) 247,747
Income taxes (benefit)	69,117	29,525	(14,301)	) 84,341
Net income (loss)	124,924	57,534	(19,052)	) 163,406
Preferred stock dividends of subsidiaries	1,995	—	(105)	) 1,890
Net income (loss) for common stock	122,929	57,534	(18,947)	) 161,516
Capital expenditures, as restated (1)	378,044	11,193	201	389,438
Assets (at December 31, 2013)	5,087,129	5,243,824	9,091	10,340,044
2012				
Revenues from external customers	\$3,109,353	\$265,539	\$103	) \$3,374,995
Intersegment revenues (eliminations)	86	—	(86)	) —
Revenues	3,109,439	265,539	17	3,374,995
Depreciation and amortization	151,496	5,334	1,517	158,347
Interest expense, net	62,055	11,292	16,096	89,443
Income (loss) before income taxes	162,319	89,021	(33,933)	) 217,407
Income taxes (benefit)	61,048	30,384	(14,573)	) 76,859
Net income (loss)	101,271	58,637	(19,360)	) 140,548
Preferred stock dividends of subsidiaries	1,995	—	(105)	) 1,890
Net income (loss) for common stock	99,276	58,637	(19,255)	) 138,658
Capital expenditures, as restated (1)	355,326	14,979	410	370,715
Assets (at December 31, 2012)	5,108,793	5,041,673	(1,334)	) 10,149,132

(1) As revised or restated - See Note 1, "Summary of significant accounting policies - Revision and restatements of previously issued financial statements."

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.

#### 4 · Electric utility segment

Regulatory assets and liabilities. In accordance with ASC Topic 980, “Regulated Operations,” the Utilities’ financial statements reflect assets, liabilities, revenues and expenses based on current cost-based rate-making regulations. Their continued accounting under ASC Topic 980 generally requires that rates are established by an independent, third-party regulator; rates are designed to recover the costs of providing service; and it is reasonable to assume that rates can be charged to and collected from customers. Management believes the Utilities’ operations currently satisfy the ASC Topic 980 criteria. If events or circumstances should change so that those criteria are no longer satisfied, the Utilities expect that the regulatory assets, net of regulatory liabilities, would be charged to the statement of income in the period of discontinuance, which may result in a material adverse effect on the Company’s and the Utilities’ financial condition, results of operations and/or liquidity.

Regulatory assets represent deferred costs expected to be fully recovered through rates over PUC-authorized periods. Generally, the Utilities do not earn a return on their regulatory assets; however, they have been allowed to recover interest on certain regulatory assets and to include certain regulatory assets in rate base. Regulatory liabilities represent amounts included in rates and collected from ratepayers for costs expected to be incurred in the future. For example, the regulatory liability for cost of removal in excess of salvage value represents amounts that have been collected from ratepayers for costs that are expected to be incurred in the future to retire utility plant. Generally, the Utilities include regulatory liabilities in rate base or are required to apply interest to certain regulatory liabilities. In the table below, noted in parentheses are the original PUC authorized amortization or recovery periods and, if different, the remaining amortization or recovery periods as of December 31, 2014 are noted.

Regulatory assets were as follows:

December 31 (in thousands)	2014	2013
Retirement benefit plans (balance primarily varies with plans’ funded statuses)	\$683,243	\$350,821
Income taxes, net (1 to 55 years)	86,836	85,430
Decoupling revenue balancing account (1 to 2 years)	80,183	90,386
Unamortized expense and premiums on retired debt and equity issuances (19 to 30 years; 6 to 18 years remaining)	15,569	17,342
Vacation earned, but not yet taken (1 year)	10,248	9,149
Postretirement benefits other than pensions (18 years; less than 1 year remaining)	18	62
Other (1 to 50 years; 1 to 46 years remaining)	29,167	22,734
	\$905,264	\$575,924
Included in:		
Current assets	\$71,421	\$69,738
Long-term assets	833,843	506,186
	\$905,264	\$575,924

Regulatory liabilities were as follows:

December 31 (in thousands)	2014	2013
Cost of removal in excess of salvage value (1 to 60 years)	\$331,000	\$315,164
Retirement benefit plans (5 years beginning with respective utility’s next rate case)	12,413	31,546
Other (5 years; 1 to 2 years remaining)	1,436	2,589
	\$344,849	\$349,299
Included in:		
Current liabilities	\$632	\$1,916
Long-term liabilities	344,217	347,383

\$344,849 \$349,299

The regulatory asset and liability relating to retirement benefit plans was recorded as a result of pension and OPEB tracking mechanisms adopted by the PUC in rate case decisions for the Utilities in 2007 (see Note 10).

Major customers. The Utilities received 12% (\$350 million), 11% (\$340 million) and 11% (\$349 million) of their operating revenues from the sale of electricity to various federal government agencies in 2014, 2013 and 2012, respectively.

Cumulative preferred stock. The following series of cumulative preferred stock are redeemable only at the option of the respective company at the following prices in the event of voluntary liquidation or redemption:

December 31, 2014	Voluntary liquidation price	Redemption price
Series		
C, D, E, H, J and K (Hawaiian Electric)	\$ 20	\$21
I (Hawaiian Electric)	20	20
G (Hawaii Electric Light)	100	100
H (Maui Electric)	100	100

Hawaiian Electric is obligated to make dividend, redemption and liquidation payments on the preferred stock of each of its subsidiaries if the respective subsidiary is unable to make such payments, but this obligation is subordinated to Hawaiian Electric's obligation to make payments on its own preferred stock.

Related-party transactions. HEI charged the Utilities \$7 million, \$6.2 million and \$6.1 million for general management and administrative services in 2014, 2013 and 2012, respectively. The amounts charged by HEI to its subsidiaries for services provided by HEI employees are allocated primarily on the basis of time expended in providing such services.

Hawaiian Electric's short-term borrowings totaled nil at December 31, 2014 and 2013. The interest charged on short-term borrowings from HEI is based on the lower of HEI's or Hawaiian Electric's effective weighted average short-term external borrowing rate. If both HEI and Hawaiian Electric do not have short-term external borrowings, the interest is based on the average of the effective rate for 30-day dealer-placed commercial paper quoted by the Wall Street Journal plus 0.15%.

Borrowings among the Utilities are eliminated in consolidation. Interest charged by HEI to Hawaiian Electric was nil in each of 2014 and 2013 and de minimis in 2012.

Commitments and contingencies.

Fuel contracts. The Utilities have contractual agreements to purchase minimum quantities of fuel oil, diesel fuel and biodiesel for multi-year periods, some through October 2017. Fossil fuel prices are tied to the market prices of crude oil and petroleum products in the Far East and U.S. West Coast and the biodiesel price is tied to the market prices of animal fat feedstocks in the U.S. West Coast and U.S. Midwest. Based on the average price per barrel as of December 31, 2014, the estimated cost of minimum purchases under the fuel supply contracts is \$0.4 billion in 2015, \$0.3 billion in 2016 and \$6.4 million in 2017. The actual cost of purchases in 2015 and future years could vary substantially from this estimate as a result of changes in market prices, quantities actually purchased and/or other factors. The Utilities purchased \$1.1 billion, \$1.1 billion and \$1.3 billion of fuel under contractual agreements in 2014, 2013 and 2012, respectively.

Hawaiian Electric and Chevron Products Company (Chevron), a division of Chevron USA, Inc., are parties to the Low Sulfur Fuel Oil Supply Contract (LSFO Contract) for the purchase/sale of low sulfur fuel oil (LSFO), which terminates on December 31, 2016 and may automatically renew for annual terms thereafter unless earlier terminated by either party. The PUC approved the recovery of costs incurred under this contract on April 30, 2013.

On August 27, 2014, Chevron and Hawaiian Electric entered into a first amendment of the LSFO Contract. 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 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.



Hawaiian Electric and Hawaii Independent Energy, LLC, (HIE) a wholly owned subsidiary of Par Petroleum Corporation of Houston Texas, were parties to an amended LSFO supply contract (assigned to HIE pursuant to its purchase of the Hawaii refinery and related assets of Tesoro Hawaii Corp), which ran through December 31, 2014, with a provision that it would automatically renew for annual terms thereafter unless earlier terminated by either party. On August 28, 2014, Hawaiian Electric provided notice to HIE that it would not renew the LSFO supply contract.

The Utilities are parties to amended contracts for the supply of industrial fuel oil and diesel fuels with Chevron and HIE, respectively, which end December 31, 2015. Both agreements may be automatically renewed for annual terms thereafter unless earlier terminated by either of the respective parties. In August 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 provided for automatic renewal for annual terms thereafter unless earlier terminated by either party. In February 2015, Hawaiian Electric executed a similar extension, through December 31, 2016, of the corresponding Inter-Island Industrial Fuel Oil and Diesel Fuel Supply Contract with HIE.

The energy charge for energy purchased from Kalaeloa Partners, L.P. (Kalaeloa) under Hawaiian Electric's PPA with Kalaeloa is based, in part, on the price Kalaeloa pays HIE for LSFO under a Facility Fuel Supply Contract (fuel contract) between them (assigned to HIE upon its purchase of the assets of Tesoro Hawaii Corp. as described above). The term of the fuel contract between Kalaeloa and HIE ends May 31, 2016 and may be extended for terms thereafter unless terminated by one of the parties.

The costs incurred under the Utilities' fuel contracts are included in their respective ECACs, to the extent such costs are not recovered through the Utilities' base rates.

Power purchase agreements. As of December 31, 2014, the Utilities had seven firm capacity PPAs for a total of 575 megawatts (MW) of firm capacity. Purchases from these seven independent power producers (IPPs) and all other IPPs totaled \$0.7 billion for each of 2014, 2013 and 2012. The PUC allows rate recovery for energy and firm capacity payments to IPPs under these agreements. Assuming that each of the agreements remains in place for its current term (and as amended) and the minimum availability criteria in the PPAs are met, aggregate minimum fixed capacity charges are expected to be approximately \$0.1 billion per year for 2015 through 2019 and a total of \$0.5 billion in the period from 2020 through 2035.

In general, the Utilities base their payments under the PPAs upon available capacity and actually supplied energy and they are generally not required to make payments for capacity if the contracted capacity is not available, and payments are reduced, under certain conditions, if available capacity drops below contracted levels. In general, the payment rates for capacity have been predetermined for the terms of the agreements. Energy payments will vary over the terms of the agreements. The Utilities pass on changes in the fuel component of the energy charges to customers through the ECAC in their rate schedules. The Utilities do not operate, or participate in the operation of, any of the facilities that provide power under the agreements. Title to the facilities does not pass to Hawaiian Electric or its subsidiaries upon expiration of the agreements, and the agreements do not contain bargain purchase options for the facilities.

Purchase power adjustment clause. The PUC has approved purchased power adjustment clauses (PPACs) for the Utilities. Purchased power capacity, O&M and other non-energy costs previously recovered through base rates are now recovered in the PPACs and, subject to approval by the PUC, such costs resulting from new purchased power agreements can be added to the PPACs outside of a rate case. Purchased energy costs continue to be recovered through the ECAC to the extent they are not recovered through base rates.

Hawaii Clean Energy Initiative. In January 2008, the State of Hawaii (State) and the U.S. Department of Energy signed a memorandum of understanding establishing the Hawaii Clean Energy Initiative (HCEI). In October 2008, the Governor of the State, the State Department of Business, Economic Development and Tourism (DBEDT), the Division of Consumer Advocacy of the State Department of Commerce and Consumer Affairs and the Utilities (collectively, the parties), signed an agreement setting forth goals and objectives under the HCEI and the related commitments of the parties (the Energy Agreement), including pursuing a wide range of actions to decrease the State's dependence on imported fossil fuels through substantial increases in renewable energy and programs intended to secure greater energy efficiency and conservation. Many of the actions and programs included in the Energy Agreement required approval of the PUC.

The parties to the Energy Agreement concluded that the agreements and policy directives in the Energy Agreement had been advanced or superseded by subsequent events, as well as by decisions and orders issued by the PUC, and accordingly ended the Energy Agreement on September 14, 2014. On September 15, 2014, the State of Hawaii and the U.S. Department of Energy executed a MOU recognizing that Hawaii is embarking on the next phase of its clean energy future. The MOU provides the framework for a comprehensive, sustained effort to better realize Hawaii's vast

renewable energy potential and allow it to push forward in three main areas: the power sector, transportation and energy efficiency. This next phase will focus on stimulating deployment of clean energy infrastructure as a catalyst for economic growth, energy system innovation and test bed investments.

Utility projects. Many public utility projects require PUC approval and various permits from other governmental agencies. Difficulties in obtaining, or the inability to obtain, the necessary approvals or permits can result in significantly increased project costs or even cancellation of projects. Further, completion of projects is subject to various risks, such as problems or disputes with vendors. In the event a project does not proceed, or if it becomes probable the PUC will disallow cost recovery

for all or part of a project, project costs may need to be written off in amounts that could result in significant reductions in Hawaiian Electric's consolidated net income.

In May 2011, the PUC ordered independently conducted regulatory audits on the reasonableness of costs incurred for Hawaiian Electric's East Oahu Transmission Project (EOTP), Campbell Industrial Park (CIP) combustion turbine No. 1 (CT-1) project, and Customer Information System (CIS) project. However, in March 2012, the PUC eliminated the requirement for a regulatory audit for the EOTP Phase I in connection with an approved settlement of the EOTP Phase I project cost issues and, in March 2013, the PUC eliminated the requirement for an audit of the CIP CT-1 and CIS project costs as described below.

On January 28, 2013, the Utilities and the Consumer Advocate signed a settlement agreement (2013 Agreement), subject to PUC approval, to write off \$40 million of costs in lieu of conducting the regulatory audits of the CIP CT-1 project and the CIS project. Based on the 2013 Agreement, as of December 31, 2012, the Utilities recorded an after-tax charge to net income of approximately \$24 million — \$17.1 million for Hawaiian Electric, \$3.4 million for Hawaii Electric Light, and \$3.2 million for Maui Electric. The remaining recoverable costs for these projects of \$52 million were included in rate base as of December 31, 2012.

As part of the 2013 Agreement, Hawaii Electric Light would withdraw its 2013 test year rate case, and delay filing a new rate case until a 2016 test year. Additionally, Hawaiian Electric would delay the filing of its scheduled 2014 test year rate case to no earlier than January 2, 2014. For both Utilities, the existing terms of the last rate case decisions would continue. Hawaiian Electric would also be allowed to record Rate Adjustment Mechanism (RAM) revenues starting on January 1 of 2014, 2015 and 2016. The cash collection of RAM revenues would remain unchanged, starting June 1 of each year through May 31 of the following year.

On March 19, 2013, the PUC issued a decision and order (2013 D&O) approving the 2013 Agreement, with the following clarifications, none of which changed the financial impact of the settlement recorded as of December 31, 2012: (1) the PUC reiterated its authority to examine and ascertain what post go-live CIS costs would be subject to regulatory review in future rate cases; (2) the PUC discouraged requesting single issue cost deferral accounting and/or cost recovery mechanisms during the period of rate case deferral by Hawaiian Electric and Hawaii Electric Light; (3) the PUC approved the agreed-upon recovery of CIP CT-1 and CIS project costs through the RAM, as set forth in the 2013 Agreement, however not setting a precedent for future projects; and (4) the PUC reaffirmed its right to rule on the substance of the Maui Electric 2012 test year rate case in its ongoing rate case proceeding. On May 31, 2013, the PUC issued a final D&O in the Maui Electric 2012 test year rate case. See "Maui Electric 2012 test year rate case" below.

In March 2012, the PUC approved a settlement agreement reached among Hawaiian Electric, the Consumer Advocate and the Department of Defense, under which, in lieu of a regulatory audit, Hawaiian Electric would write off \$9.5 million of EOTP Phase 1 gross plant in service and associated adjustments. This resulted in an after-tax charge to net income in the fourth quarter of 2011 of approximately \$6 million and the elimination of the requirement for a Phase 1 regulatory audit. The PUC also provided for an additional increase of approximately \$5 million in Hawaiian Electric's 2011 test year rate case for the additional revenue requirements reflecting all remaining Phase 1 costs not previously included in rates or agreed to be written off.

Renewable energy projects. The Utilities are committed to achieving or exceeding the State's Renewable Portfolio Standard (RPS) goal of 40% renewable energy by 2030 and to decreasing the State's dependence on imported fossil fuels. The Utilities continue to evaluate and pursue opportunities with developers of proposed projects to integrate power into its grid from a variety of renewable energy sources, including solar, biomass, wind, ocean thermal energy conversion, wave, geothermal and others.

In November 2013, Hawaiian Electric and Maui Electric filed an application for recovery of its actual deferred costs totaling \$405,000 (split evenly between Hawaiian Electric and Maui Electric) for outside contractor services for additional studies to determine the value proposition of interconnecting the islands of Oahu and of Maui County (Maui, Lanai, and Molokai) through the Renewable Energy Infrastructure Program (REIP) surcharge. The application is currently pending before the PUC.

A revised draft Request for Proposals (RFP) for 200MW or more of renewable energy to be delivered to Oahu from any of the Hawaiian Islands was posted on Hawaiian Electric's website prior to the issuance of a proposed final RFP.

In February 2012, the PUC granted Hawaiian Electric's request for deferred accounting treatment for the inter-island project support costs. The amount of the deferred costs was limited to \$5.89 million. On July 11, 2013, the PUC issued orders related to the 200 MW RFP, including an order initiating 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 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, and in July 2012, Hawaii Electric Light filed an application to defer 2012 costs related to the Geothermal RFP. In February 2013, Hawaii Electric Light issued the Final Geothermal RFP. Six bids were received, but Hawaii Electric Light notified bidders that none of the submitted bids sufficiently met both the low-cost and technical requirements of the Geothermal RFP. In October 2014, Hawaii Electric Light issued Addendum No. 1 (Best and Final Offer) and Attachment A (Best and Final Offer Bidder's Response Package) directly to five eligible bidders. The submittals received in January 2015 will be considered for final selection of one project to proceed with PPA negotiations.

In the fourth quarter of 2014, Hawaiian Electric filed applications requesting PUC approval of power purchase agreements for renewable as-available energy for seven projects that were granted waivers from the Competitive Bidding Framework.

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 (CAA) 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. Due to the EPA's delay in taking action on Hawaiian Electric's Petition for Reconsideration submitted in April 2012, Hawaiian Electric submitted to the EPA, on February 20, 2015, a Notice of Intent to Sue as a prerequisite to bringing a civil 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 December 31, 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 has been revised to address the EPA and DOH comments and the final site investigation plan was submitted to the DOH and EPA in December 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 submitted comments on the Navy's study, including the further investigation and analyses that are necessary to identify appropriate remedial options and 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. In December 2014, Hawaiian Electric recorded a reserve of \$0.8 million for additional investigation of the PCBs in the sediment offshore from the Waiiau Power Plant; however, final costs of remediation will depend on the results of the additional investigation.

**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. On December 19, 2014, the EPA released two memorandums outlining the Agency’s plan for addressing the U.S. Supreme Court’s decision. Hawaiian Electric, Hawaii Electric Light and Maui Electric are evaluating the potential impacts of the Agency’s plan on utility operations and permitting. 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 by mid-summer 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.

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 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.

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.

Maui Electric 2012 test year rate case. On May 31, 2013, the PUC issued a final D&O in the Maui Electric 2012 test year rate case. Final rates became effective August 1, 2013. The final D&O approved an increase in annual revenues of \$5.3 million, which is \$7.8 million less than the interim increase in annual revenues that had been in effect since June 1, 2012. Reductions from the interim D&O related primarily to:

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(in millions)

Lower ROACE	\$4.0
Customer Information System expenses	0.3
Pension and OPEB expense based on 3-year average	1.5
Integrated resource planning expenses	0.9
Operational and Renewable Energy Integration study costs	1.1
Total adjustment	\$7.8

According to the PUC, the reduction in the allowed ROACE from the stipulated 10% to the final approved 9% is composed of 0.5% due to updated economic and financial market conditions manifested in lower interest rates in the 2012 test year and 0.5% for system inefficiencies reflected in over curtailment of renewable energy produced by independent power producers.

The reduction in the pension and OPEB expense is due to applying a 3-year average in the calculation of pension costs for the purpose of the 2012 test year. This is not a PUC decision to change the pension and OPEB tracking mechanisms, although the PUC emphasizes the need to evaluate alternatives to decrease or limit the growth in employee benefits costs.

The PUC also continued Maui Electric's existing energy cost adjustment clause (ECAC) and power purchase adjustment clause (PPAC) design. The PUC stated that it will consider the Utilities' future actions to reduce fuel costs and increase use of renewable energy as it continues to review the design of the ECAC in the future.

Since the final rate increase was lower than the interim increase previously in effect, Maui Electric recorded a charge, net of revenue taxes, of \$7.6 million in the second quarter of 2013 and refunded to customers approximately \$9.7 million (which includes interest accrued since June 1, 2012) between September 2013 and early November 2013. As a result of the D&O, in the second quarter of 2013 Maui Electric also recorded adjustments to reduce expenses by reducing employee benefits expenses by \$1.8 million for adjustments to pension and OPEB costs, and to reclassify \$0.7 million of IRP costs to deferred accounts.

As required by the final D&O, Maui Electric filed in September 2013 a System Improvement and Curtailment Reduction Plan (SICRP), which identified actions that Maui Electric had already implemented to increase the use of wind energy and further actions that it is committed to implement to benefit customers.

Maui Electric 2015 test year rate case. On December 30, 2014, Maui Electric filed its 2015 test year rate case in accordance with the three-year general rate case cycle established by the PUC in its Final D&O, issued on August 31, 2010, in the decoupling proceeding. This was an abbreviated rate case filing in which Maui Electric intends to forego the opportunity to seek a general rate increase in base rates, in recognition that its customers have been enduring a high bill environment. If Maui Electric were to seek an increase in base rates, the requested increase in revenue, based on its revenue requirement for a normalized 2015 test year, would have been \$11.6 million, or 2.8%, over revenues at current effective rates with estimated 2015 rate adjustment mechanism (RAM) revenues. The normalized 2015 test year revenue requirement is based on an estimated cost of common equity of 10.75%. Management cannot predict any actions by the PUC as a result of this filing.

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 Waiapu power plants. These removal projects are ongoing, with significant activity and expenditures occurring in 2014 in partial settlement of these liabilities. Both removal projects are expected to continue through 2015.

Changes to the ARO liability included in "Other liabilities" on Hawaiian Electric's balance sheet were as follows:

(in thousands)	2014	2013
Balance, January 1	\$43,106	\$48,431
Accretion expense	890	1,263

Liabilities incurred	—	—
Liabilities settled	(14,577	) (5,672 )
Revisions in estimated cash flows	—	(916 )
Balance, December 31	\$29,419	\$43,106

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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 rate adjustments for certain 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 rate 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 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 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.

In early December 2014, the PUC issued an order that amended the procedural schedule and issued information requests. On December 22, 2014, the Utilities and other parties filed their respective responses to PUC information requests. The proceeding is currently pending a PUC order instructing the parties regarding the issues and scope for limited briefs and reply briefs.

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:

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

2 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.

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

4 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 and the integrated interconnection queues were implemented in January 2015.

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, and a second status update is planned to be filed with the PUC in March 2015.

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 (SICRP) 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. Maui Electric filed its first annual SICRP status update in September 2014.

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.

Transitional Distributed Generation Tariff. Consistent with their Distributed Generation Interconnection Plan, on January 20, 2015, the Utilities filed a motion which requested the PUC in pertinent part to:

- (1) Reinstitute a program capacity threshold for the Utilities' existing Net Energy Metering (NEM) program;
- (2) Approve the Utilities' proposal to address both existing NEM program participants and those customers presently awaiting interconnection approval under the existing NEM program;
- (3) Approve a new Transitional Distributed Generation (TDG) tariff to be available to customers seeking interconnection after the NEM program capacity is reached, which tariff more fairly allocates fixed grid costs to DG customers and credits customers for the value of the excess energy produced by their systems; and
- (4) Approve a new standard form TDG contract to allow for the advanced technical capabilities required to integrate higher levels of distributed generation.

Once the requests in the motion are approved, it is contemplated that the Utilities will be able to increase existing circuit penetration limits based upon daytime minimum load, and identify strategic and cost effective investments to circuits and the system to support increased levels of DG. Such investments would be made for the benefit of all customers rather than charging costs only to those installing DG systems on the circuit.

The Utilities have requested approval of their motion within 60 days of filing or by March 20, 2015. On January 27, 2015, the Consumer Advocate opposed the Utilities' motion, contended that further analysis is required to determine whether the Utilities' requests are reasonable and in the public interest, and requested that the PUC hold the motion in abeyance until such further review can be conducted.

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.

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 HECO Capital Trust III (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 (see Hawaiian Electric and Subsidiaries' Consolidated Statements of Capitalization) and (c) relating to the trust preferred securities of Trust III (see Note 6). 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.

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Consolidating statement of income

Year ended December 31, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	\$2,142,245	422,200	422,965	—	(87 ) [1]	\$2,987,323
Expenses						
Fuel oil	821,246	117,215	193,224	—	—	1,131,685
Purchased power	537,821	123,226	60,961	—	—	722,008
Other operation and maintenance	283,532	65,471	61,609	—	—	410,612
Depreciation	109,204	35,904	21,279	—	—	166,387
Taxes, other than income taxes	201,426	39,521	39,916	—	—	280,863
Total expenses	1,953,229	381,337	376,989	—	—	2,711,555
Operating income	189,016	40,863	45,976	—	(87 )	275,768
Allowance for equity funds used during construction	6,085	472	214	—	—	6,771
Equity in earnings of subsidiaries	40,964	—	—	—	(40,964 ) [2]	—
Interest expense and other charges, net	(44,041 )	(11,030 )	(9,773 )	—	87 [1]	(64,757 )
Allowance for borrowed funds used during construction	2,306	182	91	—	—	2,579
Income before income taxes	194,330	30,487	36,508	—	(40,964 )	220,361
Income taxes	55,609	11,264	13,852	—	—	80,725
Net income	138,721	19,223	22,656	—	(40,964 )	139,636
Preferred stock dividends of subsidiaries	—	534	381	—	—	915
Net income attributable to Hawaiian Electric	138,721	18,689	22,275	—	(40,964 )	138,721
Preferred stock dividends of Hawaiian Electric	1,080	—	—	—	—	1,080
Net income for common stock	\$137,641	18,689	22,275	—	(40,964 )	\$137,641

Consolidating statement of comprehensive income

Year ended December 31, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	\$137,641	18,689	22,275	—	(40,964 )	\$137,641
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Net losses arising during the period, net of tax benefits	(218,608 )	(28,725 )	(29,352 )	—	58,077 [1]	(218,608 )
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	10,212	1,270	1,090	—	(2,360 ) [1]	10,212
	207,833	27,437	28,257	—	(55,694 ) [1]	207,833

Less: reclassification adjustment for  
 impact of D&Os of the PUC  
 included in regulatory assets, net of  
 taxes

Other comprehensive loss, net of tax benefits	(563	)	(18	)	(5	)	—	23	(563	)
Comprehensive income attributable to common shareholder	\$ 137,078	18,671	22,270	—	(40,941	)	\$ 137,078			

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Consolidating statement of income

Year ended December 31, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	\$2,124,174	431,517	424,603	—	(122 ) [1]	\$2,980,172
Expenses						
Fuel oil	851,365	125,516	208,671	—	—	1,185,552
Purchased power	527,839	128,368	54,474	—	—	710,681
Other operation and maintenance	283,768	61,418	58,081	3	—	403,270
Depreciation	99,738	34,188	20,099	—	—	154,025
Taxes, other than income taxes	200,962	40,092	40,077	—	—	281,131
Impairment of utility assets	—	—	—	—	—	—
Total expenses	1,963,672	389,582	381,402	3	—	2,734,659
Operating income (loss)	160,502	41,935	43,201	(3 )	(122 )	245,513
Allowance for equity funds used during construction	4,495	643	423	—	—	5,561
Equity in earnings of subsidiaries	41,410	—	—	—	(41,410 ) [2]	—
Interest expense and other charges, net	(39,107 )	(11,341 )	(8,953 )	—	122 [1]	(59,279 )
Allowance for borrowed funds used during construction	1,814	263	169	—	—	2,246
Income (loss) before income taxes	169,114	31,500	34,840	(3 )	(41,410 )	194,041
Income taxes	45,105	10,830	13,182	—	—	69,117
Net income (loss)	124,009	20,670	21,658	(3 )	(41,410 )	124,924
Preferred stock dividends of subsidiaries	—	534	381	—	—	915
Net income (loss) attributable to Hawaiian Electric	124,009	20,136	21,277	(3 )	(41,410 )	124,009
Preferred stock dividends of Hawaiian Electric	1,080	—	—	—	—	1,080
Net income (loss) for common stock	\$122,929	20,136	21,277	(3 )	(41,410 )	\$122,929

Consolidating statement of comprehensive income (loss)

Year ended December 31, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income (loss) for common stock	\$122,929	20,136	21,277	(3 )	(41,410 )	\$122,929
Other comprehensive income, net of taxes:						
Retirement benefit plans:						
Net gains arising during the period, net of taxes	203,479	30,542	27,820	—	(58,362 ) [1]	203,479
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net	20,694	2,880	2,557	—	(5,437 ) [1]	20,694

of tax benefits							
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of tax benefits	(222,595 )	(33,277 )	(30,254 )	—	63,531	[1]	(222,595 )
Other comprehensive income, net of tax benefits	1,578	145	123	—	(268 )		1,578
Comprehensive income (loss) attributable to common shareholder	\$ 124,507	20,281	21,400	(3 )	(41,678 )		\$ 124,507



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Consolidating statement of income

Year ended December 31, 2012

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	\$2,228,233	441,013	440,270	—	(77 ) [1]	\$3,109,439
Expenses						
Fuel oil	945,246	116,866	235,307	—	—	1,297,419
Purchased power	540,802	145,386	38,052	—	—	724,240
Other operation and maintenance	266,208	60,447	70,771	3	—	397,429
Depreciation	90,783	33,337	20,378	—	—	144,498
Taxes, other than income taxes	209,943	41,370	41,528	—	—	292,841
Impairment of utility assets	29,000	5,500	5,500	—	—	40,000
Total expenses	2,081,982	402,906	411,536	3	—	2,896,427
Operating income (loss)	146,251	38,107	28,734	(3 )	(77 )	213,012
Allowance for equity funds used during construction	5,735	585	687	—	—	7,007
Equity in earnings of subsidiaries	28,836	—	—	—	(28,836 ) [2]	—
Interest expense and other charges, net	(40,842 )	(12,066 )	(9,224 )	—	77 [1]	(62,055 )
Allowance for borrowed funds used during construction	3,642	235	478	—	—	4,355
Income (loss) before income taxes	143,622	26,861	20,675	(3 )	(28,836 )	162,319
Income taxes	43,266	10,115	7,667	—	—	61,048
Net income (loss)	100,356	16,746	13,008	(3 )	(28,836 )	101,271
Preferred stock dividends of subsidiaries	—	534	381	—	—	915
Net income (loss) attributable to Hawaiian Electric	100,356	16,212	12,627	(3 )	(28,836 )	100,356
Preferred stock dividends of Hawaiian Electric	1,080	—	—	—	—	1,080
Net income (loss) for common stock	\$99,276	16,212	12,627	(3 )	(28,836 )	\$99,276

Consolidating statement of comprehensive income (loss)

Year ended December 31, 2012

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income (loss) for common stock	\$99,276	16,212	12,627	(3 )	(28,836 )	\$99,276
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Net losses arising during the period, net of tax benefits	(90,082 )	(13,577 )	(10,935 )	—	24,512 [1]	(90,082 )
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax	13,673	2,101	1,771	—	(3,872 ) [1]	13,673

benefits

Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of tax benefits	75,471	11,442	9,093	—	(20,535	) [1]	75,471	
Other comprehensive loss, net of tax benefits	(938	) (34	) (71	) —	105		(938	)
Comprehensive income (loss) attributable to common shareholder	\$98,338	16,178	12,556	(3	) (28,731	)	\$98,338	

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Consolidating balance sheet  
December 31, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
<b>Assets</b>						
<b>Property, plant and equipment</b>						
<b>Utility property, plant and equipment</b>						
Land	\$43,819	5,464	3,016	—	—	\$52,299
Plant and equipment	3,782,438	1,179,032	1,048,012	—	—	6,009,482
Less accumulated depreciation	(1,253,866 )	(473,933 )	(447,711 )	—	—	(2,175,510 )
Construction in progress	134,376	12,421	11,819	—	—	158,616
Utility property, plant and equipment, net	2,706,767	722,984	615,136	—	—	4,044,887
<b>Nonutility property, plant and equipment, less accumulated depreciation</b>						
Total property, plant and equipment, net	2,711,717	723,066	616,667	—	—	4,051,450
Investment in wholly-owned subsidiaries, at equity	538,639	—	—	—	(538,639 ) [2]	0
<b>Current assets</b>						
Cash and equivalents	12,416	612	633	101	—	13,762
Advances to affiliates	16,100	—	—	—	(16,100 ) [1]	—
Customer accounts receivable, net	111,462	24,222	22,800	—	—	158,484
Accrued unbilled revenues, net	103,072	15,926	18,376	—	—	137,374
Other accounts receivable, net	9,980	981	2,246	—	(8,924 ) [1]	4,283
Fuel oil stock, at average cost	74,515	13,800	17,731	—	—	106,046
Materials and supplies, at average cost	33,154	6,664	17,432	—	—	57,250
Prepayments and other	44,680	8,611	13,567	—	(475 ) [3]	66,383
Regulatory assets	58,550	6,745	6,126	—	—	71,421
Total current assets	463,929	77,561	98,911	101	(25,499 )	615,003
<b>Other long-term assets</b>						
Regulatory assets	623,784	107,454	102,788	—	(183 ) [1]	833,843
Unamortized debt expense	5,640	1,438	1,245	—	—	8,323
Other	53,106	15,366	13,366	—	—	81,838
Total other long-term assets	682,530	124,258	117,399	—	(183 )	924,004
Total assets	\$4,396,815	924,885	832,977	101	(564,321 )	\$5,590,457
<b>Capitalization and liabilities</b>						
<b>Capitalization</b>						
Common stock equity	\$1,682,144	281,846	256,692	101	(538,639 ) [2]	\$1,682,144
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	2,534,983	478,846	447,692	101	(538,639 )	2,922,983
<b>Current liabilities</b>						
Current portion of long-term debt	—	—	—	—	—	—

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Short-term borrowings-affiliate	—	10,500	5,600	—	(16,100	) [1]	—
Accounts payable	122,433	23,728	17,773	—	—		163,934
Interest and preferred dividends payable	15,407	3,989	2,931	—	(11	) [1]	22,316
Taxes accrued	176,339	37,548	36,807	—	(292	) [3]	250,402
Regulatory liabilities	191	—	441	—	—		632
Other	48,282	9,866	16,094	—	(9,096	) [1]	65,146
Total current liabilities	362,652	85,631	79,646	—	(25,499	)	502,430
Deferred credits and other liabilities							
Deferred income taxes	429,515	90,119	83,238	—	—		602,872
Regulatory liabilities	236,727	77,707	29,966	—	(183	) [1]	344,217
Unamortized tax credits	49,865	14,902	14,725	—	—		79,492
Defined benefit pension and other postretirement benefit plans liability	446,888	72,547	75,960	—	—		595,395
Other	52,446	10,658	13,532	—	—		76,636
Total deferred credits and other liabilities	1,215,441	265,933	217,421	—	(183	)	1,698,612
Contributions in aid of construction	283,739	94,475	88,218	—	—		466,432
Total capitalization and liabilities	\$4,396,815	924,885	832,977	101	(564,321	)	\$5,590,457

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Consolidating balance sheet  
December 31, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating 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
<b>Nonutility property, plant and equipment, less accumulated depreciation</b>						
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 ) [2]	—
<b>Current assets</b>						
Cash and equivalents	61,245	1,326	153	101	—	62,825
Advances to affiliates	6,839	1,000	—	—	(7,839 ) [1]	—
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 ) [1]	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 ) [3]	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 ) [2]	\$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

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Short-term borrowings-affiliate	1,000	—	6,839	—	(7,839	) [1]	—
Accounts payable	145,062	24,383	20,114	—	—		189,559
Interest and preferred dividends payable	15,190	3,885	2,585	—	(8	) [1]	21,652
Taxes accrued	175,790	37,899	37,171	—	(1,415	) [3]	249,445
Regulatory liabilities	1,705	—	211	—	—		1,916
Other	48,443	9,033	15,424	—	(9,019	) [1]	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

## Consolidating statements of changes in common stock equity

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Balance, December 31, 2011	\$1,402,841	280,468	235,568	107	(516,143 )	\$1,402,841
Net income (loss) for common stock	99,276	16,212	12,627	(3 )	(28,836 )	99,276
Other comprehensive loss, net of tax benefits	(938 )	(34 )	(71 )	—	105	(938 )
Issuance of common stock, net of expenses	44,001	—	—	—	—	44,001
Common stock dividends	(73,044 )	(27,738 )	(19,197 )	—	46,935	(73,044 )
Balance, December 31, 2012	\$1,472,136	268,908	228,927	104	(497,939 )	\$1,472,136
Net income (loss) for common stock	122,929	20,136	21,277	(3 )	(41,410 )	122,929
Other comprehensive income, net of taxes	1,578	145	123	—	(268 )	1,578
Issuance of common stock, net of expenses	78,499	—	12,461	—	(12,461 )	78,499
Common stock dividends	(81,578 )	(14,387 )	(14,017 )	—	28,404	(81,578 )
Balance, December 31, 2013	\$1,593,564	274,802	248,771	101	(523,674 )	\$1,593,564
Net income for common stock	137,641	18,689	22,275	—	(40,964 )	137,641
Other comprehensive loss, net of tax benefits	(563 )	(18 )	(5 )	—	23	(563 )
Issuance of common stock, net of expenses	39,994	—	—	—	—	39,994
Common stock dividends	(88,492 )	(11,627 )	(14,349 )	—	25,976	(88,492 )
Balance, December 31, 2014	\$1,682,144	281,846	256,692	101	(538,639 )	\$1,682,144

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Consolidating statement of cash flows

Year ended December 31, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income	\$ 138,721	19,223	22,656	—	(40,964 ) [2]	\$ 139,636
Adjustments to reconcile net income to net cash provided by operating activities						
Equity in earnings	(41,064 )	—	—	—	40,964 [2]	(100 )
Common stock dividends received from subsidiaries	26,076	—	—	—	(25,976 ) [2]	100
Depreciation of property, plant and equipment	109,204	35,904	21,279	—	—	166,387
Other amortization (1)	1,749	2,596	2,065	—	—	6,410
Increase in deferred income taxes	56,901	12,083	13,963	—	—	82,947
Change in tax credits, net	4,998	680	384	—	—	6,062
Allowance for equity funds used during construction	(6,085 )	(472 )	(214 )	—	—	(6,771 )
Change in cash overdraft	—	—	(1,038 )	—	—	(1,038 )
Changes in assets and liabilities:						
Decrease in accounts receivable	16,213	7,150	3,483	—	(103 ) [1]	26,743
Decrease in accrued unbilled revenues	4,680	1,174	896	—	—	6,750
Decrease in fuel oil stock	25,098	378	2,565	—	—	28,041
Decrease (increase) in materials and supplies	4,223	219	(2,648 )	—	—	1,794
Increase in regulatory assets	(14,620 )	(3,357 )	977	—	—	(17,000 )
Decrease in accounts payable (2)	(56,044 )	(6,645 )	(2,838 )	—	—	(65,527 )
Change in prepaid and accrued income taxes and revenue taxes	(4,166 )	(3,251 )	3,381	—	—	(4,036 )
Decrease in defined benefit pension and other postretirement benefit plans liability	(562 )	—	(399 )	—	—	(961 )
Change in other assets and liabilities (3)	(46,636 )	(12,577 )	(3,332 )	—	103 [1]	(62,442 )
Net cash provided by operating activities	218,686	53,105	61,180	—	(25,976 )	306,995
Cash flows from investing activities						
Capital expenditures (4)	(237,970 )	(49,895 )	(48,814 )	—	—	(336,679 )
Contributions in aid of construction	30,021	7,695	4,090	—	—	41,806
Advances from affiliates	(9,261 )	1,000	—	—	8,261 [1]	—
Other (5)	604	492	68	—	—	1,164
Investment in consolidated subsidiary	—	—	—	—	—	—
Net cash used in investing activities	(216,606 )	(40,708 )	(44,656 )	—	8,261	(293,709 )
Cash flows from financing activities						
Common stock dividends	(88,492 )	(11,627 )	(14,349 )	—	25,976 [2]	(88,492 )
	(1,080 )	(534 )	(381 )	—	—	(1,995 )



Preferred stock dividends of Hawaiian Electric and subsidiaries						
Proceeds from issuance of common stock	40,000	—	—	—	—	40,000
Proceeds from issuance of long-term debt	—	—	—	—	—	—
Repayment of long-term debt	—	(11,400 )	—	—	—	(11,400 )
Net increase (decrease) in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	(1,000 )	10,500	(1,239 )	—	(8,261 )	[2] —
Other	(337 )	(50 )	(75 )	—	—	(462 )
Net cash used in financing activities	(50,909 )	(13,111 )	(16,044 )	—	17,715	(62,349 )
Net increase (decrease) in cash and cash equivalents	(48,829 )	(714 )	480	—	—	(49,063 )
Cash and cash equivalents, January 1	61,245	1,326	153	101	—	62,825
Cash and cash equivalents, December 31	\$12,416	612	633	101	—	\$13,762

(1) Prior to revision, other amortization for Maui Electric and Hawaiian Electric Consolidated were \$3,746 and \$8,091, respectively.

(2) Prior to revision, decrease in accounts payable for Hawaiian Electric, Hawaii Electric Light, Maui Electric and Hawaiian Electric Consolidated, were \$(74,276), \$(8,490), \$(7,866) and \$(90,632), respectively.

(3) Prior to revision, changes in other assets and liabilities for Hawaiian Electric, Hawaii Electric Light, Maui Electric, Consolidating adjustments and Hawaiian Electric Consolidated were \$(46,032), \$(12,085), \$(4,945), \$103 and \$(62,959), respectively.

(4) Prior to revision, capital expenditures for Hawaiian Electric, Hawaii Electric Light, Maui Electric and Hawaiian Electric Consolidated, were \$(219,738), \$(48,050), \$(43,786) and \$(311,574), respectively.

(5) Prior to revision, cash flows from investing activities-other for Hawaiian Electric, Hawaii Electric Light, Maui Electric and Hawaiian Electric Consolidated, were nil.

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Consolidating statement of cash flows  
Year ended December 31, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
	As restated	As restated	As restated			As restated
Cash flows from operating activities						
Net income (loss)	\$124,009	20,670	21,658	(3 )	(41,410 ) [2]	\$124,924
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities						
Equity in earnings	(41,510 )	—	—	—	41,410 [2]	(100 )
Common stock dividends received from subsidiaries	28,505	—	—	—	(28,405 ) [2]	100
Depreciation of property, plant and equipment	99,738	34,188	20,099	—	—	154,025
Other amortization	554	1,979	2,544	—	—	5,077
Increase in deferred income taxes	41,409	10,569	12,529	—	—	64,507
Change in tax credits, net	5,152	818	1,047	—	—	7,017
Allowance for equity funds used during construction	(4,495 )	(643 )	(423 )	—	—	(5,561 )
Change in cash overdraft	—	—	1,038	—	—	1,038
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	49,974	(1,459 )	1,178	—	(248 ) [1]	49,445
Decrease (increase) in accrued unbilled revenues	(7,152 )	(2,707 )	33	—	—	(9,826 )
Decrease in fuel oil stock	23,563	1,307	2,462	—	—	27,332
Increase in materials and supplies	(5,598 )	(1,547 )	(814 )	—	—	(7,959 )
Increase in regulatory assets	(46,047 )	(9,237 )	(10,177 )	—	—	(65,461 )
Increase (decrease) in accounts payable (1)	18,527	1,525	(5,321 )	—	—	14,731
Change in prepaid and accrued income taxes and revenue taxes	4,632	(4,114 )	(2,546 )	—	—	(2,028 )
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	2,325	(1 )	(84 )	—	—	2,240
Change in other assets and liabilities (2)	(18,618 )	(6,513 )	(7,753 )	—	248 [1]	(32,636 )
Net cash provided by (used in) operating activities	274,968	44,835	35,470	(3 )	(28,405 )	326,865
Cash flows from investing activities						
Capital expenditures (3)	(262,562 )	(58,416 )	(57,066 )	—	—	(378,044 )
Contributions in aid of construction	21,686	7,590	2,884	—	—	32,160
Advances from affiliates	2,561	17,050	—	—	(19,611 ) [1]	—
Other (4)	677	21	209	—	—	907
Investment in consolidated subsidiary	(12,461 )	—	—	—	12,461 [2]	—
Net cash used in investing activities	(250,099 )	(33,755 )	(53,973 )	—	(7,150 )	(344,977 )

Cash flows from financing activities							
Common stock dividends	(81,578 )	(14,388 )	(14,017 )	—	28,405	[2]	(81,578 )
Preferred stock dividends of Hawaiian Electric and subsidiaries	(1,080 )	(534 )	(381 )	—	—		(1,995 )
Proceeds from the issuance of common stock	78,500	—	12,461	—	(12,461 )	[2]	78,500
Proceeds from the issuance of long-term debt	140,000	56,000	40,000	—	—		236,000
Repayment of long-term debt	(90,000 )	(56,000 )	(20,000 )	—	—		(166,000 )
Net decrease in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	(17,050 )	—	(2,561 )	—	19,611	[1]	—
Other	(681 )	(273 )	(195 )	—	—		(1,149 )
Net cash provided by (used in) financing activities	28,111	(15,195 )	15,307	—	35,555		63,778
Net increase (decrease) in cash and cash equivalents	52,980	(4,115 )	(3,196 )	(3 )	—		45,666
Cash and cash equivalents, January 1	8,265	5,441	3,349	104	—		17,159
Cash and cash equivalents, December 31	\$61,245	1,326	153	101	—		\$62,825

(1) Prior to restatement, decrease in accounts payable for Hawaiian Electric, Hawaii Electric Light, Maui Electric and Hawaiian Electric Consolidated, were \$(6,136), \$(4,756), \$(9,936) and \$(20,828), respectively.

(2) Prior to restatement, changes in other assets and liabilities for Hawaiian Electric, Hawaii Electric Light, Maui Electric, Consolidating adjustments and Hawaiian Electric Consolidated were \$(17,941), \$(6,262), \$(7,544), \$248 and \$(31,499), respectively.

(3) Prior to restatement, capital expenditures for Hawaiian Electric, Hawaii Electric Light, Maui Electric and Hawaiian Electric Consolidated, were \$(237,899), \$(52,135), \$(52,451) and \$(342,485), respectively.

(4) Prior to restatement, cash flows from investing activities-other for Hawaiian Electric, Hawaii Electric Light, Maui Electric and Hawaiian Electric Consolidated, were nil, \$(230), nil and \$(230), respectively.

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Consolidating statement of cash flows  
Year ended December 31, 2012

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
	As restated	As restated	As restated			As restated
Cash flows from operating activities						
Net income (loss)	\$100,356	16,746	13,008	(3 )	(28,836 ) [2]	\$101,271
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities						
Equity in earnings	(28,936 )	—	—	—	28,836 [2]	(100 )
Common stock dividends received from subsidiaries	47,035	—	—	—	(46,935 ) [2]	100
Depreciation of property, plant and equipment	90,783	33,337	20,378	—	—	144,498
Other amortization	1,508	3,252	2,238	—	—	6,998
Impairment of utility assets	29,000	5,500	5,500	—	—	40,000
Increase in deferred income taxes	66,968	7,457	12,453	—	—	86,878
Change in tax credits, net	5,006	522	547	—	—	6,075
Allowance for equity funds used during construction	(5,735 )	(585 )	(687 )	—	—	(7,007 )
Changes in assets and liabilities:						
Increase in accounts receivable	(48,451 )	(1,106 )	(2,164 )	—	4,717 [1]	(47,004 )
Decrease (increase) in accrued unbilled revenues	2,728	4,106	(3,306 )	—	—	3,528
Decrease in fuel oil stock	4,861	3,732	1,536	—	—	10,129
Increase in materials and supplies	(6,683 )	(636 )	(578 )	—	—	(7,897 )
Increase in regulatory assets	(55,605 )	(9,649 )	(7,147 )	—	—	(72,401 )
Increase (decrease) in accounts payable (1)	6,329	(5,774 )	5,767	—	—	6,322
Change in prepaid and accrued income taxes and revenue taxes	19,871	1,935	3,433	—	—	25,239
Decrease in defined benefit pension and other postretirement benefits plans liability	(434 )	(191 )	(119 )	—	—	(744 )
Change in other assets and liabilities (2)	(45,366 )	(11,335 )	(12,843 )	(1 )	(4,717 ) [1]	(74,262 )
Net cash provided by (used in) operating activities	183,235	47,311	38,016	(4 )	(46,935 )	221,623
Cash flows from investing activities						
Capital expenditures (3)	(271,864 )	(43,396 )	(40,066 )	—	—	(355,326 )
Contributions in aid of construction	32,285	8,184	5,513	—	—	45,982
Other (4)	486	192	165	—	—	843
Advances from (to) affiliates	(9,400 )	28,100	18,500	—	(37,200 ) [1]	—
Net cash used in investing activities	(248,493 )	(6,920 )	(15,888 )	—	(37,200 )	(308,501 )
Cash flows from financing activities						
Common stock dividends	(73,044 )	(27,738 )	(19,197 )	—	46,935 [2]	(73,044 )

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Preferred stock dividends of Hawaiian Electric and subsidiaries	(1,080 )	(534 )	(381 )	—	—	(1,995 )
Proceeds from the issuance of long-term debt	367,000	31,000	59,000	—	—	457,000
Proceeds from issuance of common stock	44,000	—	—	—	—	44,000
Repayment of long-term debt	(259,580 )	(41,200 )	(67,720 )	—	—	(368,500 )
Net increase (decrease) in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	(46,600 )	—	9,400	—	37,200	[1] —
Other	(1,992 )	139	(377 )	—	—	(2,230 )
Net cash provided by (used in) financing activities	28,704	(38,333 )	(19,275 )	—	84,135	55,231
Net increase (decrease) in cash and cash equivalents	(36,554 )	2,058	2,853	(4 )	—	(31,647 )
Cash and cash equivalents, January 1	44,819	3,383	496	108	—	48,806
Cash and cash equivalents, December 31	\$8,265	5,441	3,349	104	—	\$17,159

(1) Prior to restatement, increase (decrease) in accounts payable for Hawaiian Electric, Hawaii Electric Light, Maui Electric and Hawaiian Electric Consolidated, were \$(31,743), \$(8,110), \$940 and \$(38,913), respectively.

(2) Prior to restatement, changes in other assets and liabilities for Hawaiian Electric, Hawaii Electric Light, Maui Electric, Other subsidiaries, Consolidating adjustments and Hawaiian Electric Consolidated were \$(44,880), \$(11,143), \$(12,678), \$(1), \$(4,717) and \$(73,419), respectively.

(3) Prior to restatement, capital expenditures for Hawaiian Electric, Hawaii Electric Light, Maui Electric and Hawaiian Electric Consolidated, were \$(233,792), \$(41,060), \$(35,239) and \$(310,091), respectively.

(4) Prior to restatement, cash flows from investing activities-other for Hawaiian Electric, Hawaii Electric Light, Maui Electric and Hawaiian Electric Consolidated, were nil.

Explanation of consolidating adjustments on consolidating schedules:

- [1] Eliminations of intercompany receivables and payables and other intercompany transactions.
- [2] Elimination of investment in subsidiaries, carried at equity.
- [3] Reclassification of accrued income taxes for financial statement presentation.

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## 5 · Bank segment (HEI only)

## Selected financial information

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

## Statements of Income Data

Years ended December 31

(in thousands)

	2014	2013	2012
Interest and dividend income			
Interest and fees on loans	\$ 179,341	\$ 172,969	\$ 176,057
Interest and dividends on investment securities	11,945	13,095	13,822
Total interest and dividend income	191,286	186,064	189,879
Interest expense			
Interest on deposit liabilities	5,077	5,092	6,423
Interest on other borrowings	5,731	4,985	4,869
Total interest expense	10,808	10,077	11,292
Net interest income	180,478	175,987	178,587
Provision for loan losses	6,126	1,507	12,883
Net interest income after provision for loan losses	174,352	174,480	165,704
Noninterest income			
Fees from other financial services	21,747	27,099	31,361
Fee income on deposit liabilities	19,249	18,363	17,775
Fee income on other financial products	8,131	8,405	6,577
Bank-owned life insurance	3,949	3,928	3,981
Mortgage banking income	2,913	8,309	14,628
Gains on sale of investment securities	2,847	1,226	134
Other income, net	2,375	4,753	1,204
Total noninterest income	61,211	72,083	75,660
Noninterest expense			
Compensation and employee benefits	79,885	82,910	75,979
Occupancy	17,197	16,747	17,179
Data processing	11,690	10,952	10,098
Services	10,269	9,015	9,866
Equipment	6,564	7,295	7,105
Office supplies, printing and postage	6,089	4,233	3,870
Marketing	3,999	3,373	3,260
FDIC insurance	3,261	3,253	3,307
Other expense	20,990	21,726	21,679
Total noninterest expense	159,944	159,504	152,343
Income before income taxes	75,619	87,059	89,021
Income taxes	24,127	29,525	30,384
Net income	\$ 51,492	\$ 57,534	\$ 58,637

## Statements of Comprehensive Income

Years ended December 31 (in thousands)	2014	2013	2012
Net income	\$51,492	\$57,534	\$58,637
Other comprehensive income (loss), net of taxes:			
Net unrealized gains (losses) on available-for sale investment securities:			
Net unrealized gains (losses) on available-for sale investment securities arising during the period, net of (taxes) benefits of \$(3,856), \$9,037 and (\$631), for 2014, 2013 and 2012, respectively	5,840	(13,686 )	956
Less: reclassification adjustment for net realized gains included in net income, net of taxes of \$1,132, \$488 and \$53 for 2014, 2013 and 2012, respectively	(1,715 )	(738 )	(81 )
Retirement benefit plans:			
Net gains (losses) arising during the period, net of (taxes) benefits of \$6,164, (\$10,450) and \$5,240 for 2014, 2013 and 2012, respectively	(9,336 )	15,826	(7,936 )
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 \$561, \$1,187 and \$684 for 2014, 2013 and 2012, respectively	850	1,797	1,036
Other comprehensive income (loss), net of taxes	(4,361 )	3,199	(6,025 )
Comprehensive income	\$47,131	\$60,733	\$52,612

## Balance Sheets Data

December 31 (in thousands)	2014	2013
Assets		
Cash and due from banks	\$107,233	\$108,998
Interest-bearing deposits	54,230	47,605
Available-for-sale investment securities, at fair value	550,394	529,007
Stock in Federal Home Loan Bank of Seattle, at cost	69,302	92,546
Loans receivable held for investment	4,434,651	4,150,229
Allowance for loan losses	(45,618 )	(40,116 )
Net loans	4,389,033	4,110,113
Loans held for sale, at lower of cost or fair value	8,424	5,302
Other	304,435	268,063
Goodwill	82,190	82,190
Total assets	\$5,565,241	\$5,243,824
Liabilities and shareholder's equity		
Deposit liabilities—noninterest-bearing	\$1,342,794	\$1,214,418
Deposit liabilities—interest-bearing	3,280,621	3,158,059
Other borrowings	290,656	244,514
Other	116,527	105,679
Total liabilities	5,030,598	4,722,670
Commitments and contingencies (see "Litigation" below)		
Common stock	1	1
Additional paid in capital	338,411	336,053
Retained earnings	212,789	197,297
Accumulated other comprehensive loss, net of tax benefits		
Net unrealized gains (losses) on securities	\$462	\$(3,663 )
Retirement benefit plans	(17,020 )	(16,558 )
Total shareholder's equity	534,643	521,154



Total liabilities and shareholder's equity	\$5,565,241	\$5,243,824
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December 31	2014	2013
(in thousands)		
Other assets		
Bank-owned life insurance	\$134,115	\$129,963
Premises and equipment, net	92,407	67,766
Prepaid expenses	3,196	3,616
Accrued interest receivable	13,632	13,133
Mortgage-servicing rights	11,540	11,687
Low-income housing equity investments	32,457	14,543
Real estate acquired in settlement of loans, net	891	1,205
Other	16,197	26,150
	\$304,435	\$268,063
Other liabilities		
Accrued expenses	\$37,880	\$19,989
Federal and state income taxes payable	26,806	37,807
Cashier's checks	20,509	21,110
Advance payments by borrowers	9,652	9,647
Other	21,680	17,126
	\$116,527	\$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.

Available-for-sale investment securities. The major components of investment securities were as follows:

(dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Gross unrealized losses					
					Less than 12 months	12 months or longer	Number of issues	Fair value Amount		
December 31, 2014										
Available-for-sale										
U.S. Treasury and federal agency obligations	\$119,507	\$1,092	\$(1,039)	\$119,560	6	\$41,970	\$(361)	5	\$29,168	\$(678)
Mortgage-related securities- FNMA, FHLMC and GNMA	430,120	5,653	(4,939)	430,834	6	47,029	(164)	29	172,623	(4,775)
	\$549,627	\$6,745	\$(5,978)	\$550,394	12	\$88,999	\$(525)	34	\$201,791	\$(5,453)
December 31, 2013										
Available-for-sale										
Federal agency obligations	\$83,193	\$174	\$(2,394)	\$80,973	10	\$70,799	\$(2,394)	—	\$—	\$—
Mortgage-related securities- FNMA, FHLMC and GNMA	374,993	4,911	(10,460)	369,444	36	228,543	(8,819)	4	19,655	(1,641)
Municipal bonds	76,904	1,826	(140)	78,590	3	14,478	(140)	—	—	—
	\$535,090	\$6,911	\$(12,994)	\$529,007	49	\$313,820	\$(11,353)	4	\$19,655	\$(1,641)

During 2014, ASB sold all of the municipal bonds held in its investment securities portfolio.

ASB does not believe that the investment securities that were in an unrealized loss position as of December 31, 2014, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to rising interest rates relative to when the investment securities were purchased and not due to the credit quality of the investment securities. The gross unrealized losses reported for mortgage-related securities are backed by the full faith and credit guaranty of the United States government or an agency of the government. ASB does not intend to sell the securities before the recovery of its amortized cost basis. ASB did not recognize OTTI for 2014, 2013 and 2012. U.S. Treasury and federal agency obligations have contractual terms to maturity. Mortgage-related securities have contractual terms to maturity, but require periodic payments to reduce principal. In addition, expected maturities will differ from contractual maturities because borrowers have the right to prepay the underlying mortgages.

The contractual maturities of available-for-sale investment securities were as follows:

	Amortized Cost	Fair value
December 31, 2014 (in thousands)		
Due in one year or less	\$—	\$—
Due after one year through five years	34,953	35,007
Due after five years through ten years	47,131	47,885
Due after ten years	37,423	36,668
	119,507	119,560
Mortgage-related securities-FNMA,FHLMC and GNMA	430,120	430,834
Total available-for-sale securities	\$549,627	\$550,394

The proceeds, gross gains and losses from sales of available-for-sale investment securities were as follows:

Years ended December 31 (in millions)	2014	2013	2012
Proceeds	\$79.6	\$71.4	\$3.5
Gross gains	2.8	1.2	—
Gross losses	—	—	—

Interest income from taxable and non-taxable investment securities were as follows:

Years ended December 31 (in thousands)	2014	2013	2012
Taxable	\$11,666	\$11,474	\$12,309
Non-taxable	279	1,621	1,513
	\$11,945	\$13,095	\$13,822

ASB pledged securities with a market value of approximately \$88.6 million and \$87.1 million as of December 31, 2014 and 2013, respectively, as collateral for public funds deposits, automated clearinghouse transactions with Bank of Hawaii, and deposits in ASB's bankruptcy account with the Federal Reserve Bank of San Francisco. As of December 31, 2014 and 2013, securities with a carrying value of \$230.2 million and \$187.1 million, respectively, were pledged as collateral for securities sold under agreements to repurchase.

Stock in FHLB of Seattle. As of December 31, 2014 and 2013, ASB's stock in FHLB of Seattle was carried at cost (\$69.3 million and \$92.5 million, respectively) because it can only be redeemed at par and it is a required investment based on measurements of ASB's capital, assets and borrowing levels. Periodically and as conditions warrant, ASB reviews its investment in the stock of the FHLB of Seattle for impairment. ASB evaluated its investment in FHLB stock for OTTI as of December 31, 2014, consistent with its accounting policy. ASB did not recognize an OTTI loss for 2014 based on its evaluation of the underlying investment, including:

- the net income and growth in retained earnings recorded by the FHLB of Seattle in the first nine months of 2014;
- compliance by the FHLB of Seattle with all of its regulatory capital requirements and being classified "adequately capitalized" by the Federal Housing Finance Agency (Finance Agency);
- being allowed by the Finance Agency to repurchase excess stock;
- commitments by the FHLB of Seattle to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB of Seattle;
- the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB of Seattle;
- the liquidity position of the FHLB of Seattle; and
- ASB's intent and assessment of whether it will more likely than not be required to sell the FHLB stock before recovery of its par value.

Deterioration in the FHLB of Seattle's financial position may result in future impairment losses.

## Loans receivable.

The components of loans receivable were summarized as follows:

December 31 (in thousands)	2014	2013
Real estate:		
Residential 1-4 family	\$2,044,205	\$2,006,007
Commercial real estate	531,917	440,443
Home equity line of credit	818,815	739,331
Residential land	16,240	16,176
Commercial construction	96,438	52,112
Residential construction	18,961	12,774
Total real estate	3,526,576	3,266,843
Commercial	791,757	783,388
Consumer	122,656	108,722
Total loans	4,440,989	4,158,953
Less: Deferred fees and discounts	(6,338)	(8,724)
Allowance for loan losses	(45,618)	(40,116)
Total loans, net	\$4,389,033	\$4,110,113

The Company's policy is to require private mortgage insurance on all real estate loans when the loan-to-value ratio of the property exceeds 80% of the lower of the appraised value or purchase price at origination. For non-owner occupied residential properties, the loan-to-value ratio may not exceed 80% of the lower of the appraised value or purchase price at origination. The Company is subject to the risk that the insurance company cannot satisfy the Company's claim on policies.

ASB services real estate loans for investors (principal balance of \$1.4 billion, \$1.4 billion and \$1.3 billion as of December 31, 2014, 2013 and 2012, respectively), which are not included in the accompanying consolidated balance sheets data. ASB reports fees earned for servicing such loans as income when the related mortgage loan payments are collected and charges loan servicing cost to expense as incurred.

As of December 31, 2014 and 2013, ASB had pledged loans with an amortized cost of approximately \$1.9 billion and \$1.7 billion, respectively, as collateral to secure advances from the FHLB of Seattle.

As of December 31, 2014 and 2013, the aggregate amount of loans to directors and executive officers of ASB and its affiliates and any related interests (as defined in Federal Reserve Board (FRB) Regulation O) of such individuals, was \$49.6 million and \$45.8 million, respectively. The \$3.8 million increase in such loans in 2014 was attributed to new commitments and loans of \$6.4 million to new and existing directors and executive officers, offset by closed lines of credits and repayments of \$2.6 million. As of December 31, 2014 and 2013, \$46.2 million and \$40.5 million of the loan balances, respectively, were to related interests of individuals who are directors of ASB. All such loans were made at ASB's normal credit terms. Management believes these loans do not represent more than a normal risk of collection.

Allowance for loan losses. As discussed in Note 1, ASB must maintain an allowance for loan losses that is adequate to absorb estimated probable credit losses associated with its loan portfolio.

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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	Consumer	Unallocated	Total
December 31, 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	(987)	—	(196)	(81)	—	—	(1,872)	(2,414)	—	(5,550)
Recoveries	1,180	—	752	469	—	—	1,636	889	—	4,926
Provision	(1,065)	3,895	1,197	(330)	3,074	9	(1,550)	2,787	(1,891)	6,126
Ending balance	\$4,662	\$8,954	\$6,982	\$1,875	\$5,471	\$28	\$14,017	\$3,629	\$—	\$45,618
Ending balance: individually evaluated for impairment	\$951	\$1,845	\$46	\$1,057	\$—	\$—	\$760	\$6		\$4,665
Ending balance: collectively evaluated for impairment	\$3,711	\$7,109	\$6,936	\$818	\$5,471	\$28	\$13,257	\$3,623	\$—	\$40,953
Financing Receivables:										
Ending balance	\$2,044,205	\$531,917	\$818,815	\$16,240	\$96,438	\$18,961	\$791,757	\$122,656		\$4,440,989
Ending balance: individually evaluated for impairment	\$22,981	\$5,112	\$779	\$7,850	\$—	\$—	\$13,108	\$16		\$49,846
Ending balance: collectively evaluated for impairment	\$2,021,224	\$526,805	\$818,036	\$8,390	\$96,438	\$18,961	\$778,649	\$122,640		\$4,391,143
December 31, 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)	(485)	—	—	(3,056)	(2,717)	—	(8,202)
Recoveries	1,881	—	358	868	—	—	1,089	630	—	4,826

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Provision	(1,253	) 2,094	1,160	(2,841	) 374	10	1,839	435	(311	) 1,507
Ending balance	\$5,534	\$5,059	\$5,229	\$1,817	\$2,397	\$19	\$15,803	\$2,367	\$1,891	\$40,116
Ending balance:										
individually evaluated for impairment	\$642	\$1,118	\$—	\$1,332	\$—	\$—	\$2,246	\$—		\$5,338
Ending balance: collectively evaluated for impairment	\$4,892	\$3,941	\$5,229	\$485	\$2,397	\$19	\$13,557	\$2,367	\$1,891	\$34,778
Financing Receivables:										
Ending balance	\$2,006,007	\$440,443	\$739,331	\$16,176	\$52,112	\$12,774	\$783,388	\$108,722		\$4,158,953
Ending balance:										
individually evaluated for impairment	\$20,317	\$4,604	\$1,179	\$10,577	\$—	\$—	\$21,225	\$19		\$57,921
Ending balance: collectively evaluated for impairment	\$1,985,690	\$435,839	\$738,152	\$5,599	\$52,112	\$12,774	\$762,163	\$108,703		\$4,101,032

Changes in the allowance for loan losses were as follows:

(dollars in thousands)

	2014	2013	2012
Allowance for loan losses, January 1	\$40,116	\$41,985	\$37,906
Provision for loan losses	6,126	1,507	12,883
Charge-offs, net of recoveries			
Real estate loans	(1,137	) (678	) 3,828
Other loans	1,761	4,054	4,976
Net charge-offs	624	3,376	8,804
Allowance for loan losses, December 31	\$45,618	\$40,116	\$41,985
Ratio of net charge-offs to average total loans	0.01	% 0.09	% 0.24

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, commercial real estate and commercial construction loans.

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

December 31 (in thousands)	2014			2013		
	Commercial real estate	Commercial construction	Commercial	Commercial real estate	Commercial construction	Commercial
Grade:						
Pass	\$493,105	\$79,312	\$743,334	\$375,217	\$52,112	\$703,053
Special mention	5,209	—	16,095	33,436	—	17,634
Substandard	33,603	17,126	31,665	28,020	—	59,663
Doubtful	—	—	663	3,770	—	3,038
Loss	—	—	—	—	—	—
Total	\$531,917	\$96,438	\$791,757	\$440,443	\$52,112	\$783,388

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

(in thousands)	30-59	60-89	Greater	Total past due	Current	Total financing receivables	Recorded Investment> 90 days and accruing
	days past due	days past due	than 90 days				
December 31, 2014							
Real estate:							
Residential 1-4 family	\$6,124	\$1,732	\$12,632	\$20,488	\$2,023,717	\$2,044,205	\$—
Commercial real estate	—	—	—	—	531,917	531,917	—
Home equity line of credit	1,341	501	194	2,036	816,779	818,815	—
Residential land	—	—	—	—	16,240	16,240	—
Commercial construction	—	—	—	—	96,438	96,438	—
Residential construction	—	—	—	—	18,961	18,961	—
Commercial	699	145	569	1,413	790,344	791,757	—
Consumer	829	333	403	1,565	121,091	122,656	—
Total loans	\$8,993	\$2,711	\$13,798	\$25,502	\$4,415,487	\$4,440,989	\$—
December 31, 2013							
Real estate:							
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	1,668	612	3,026	5,306	778,082	783,388	—
Consumer	436	158	304	898	107,824	108,722	—
Total loans	\$5,781	\$1,752	\$26,227	\$33,760	\$4,125,193	\$4,158,953	\$—





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

December 31 (in thousands)	2014	2013
Real estate:		
Residential 1-4 family	\$19,253	\$19,679
Commercial real estate	5,112	4,439
Home equity line of credit	1,087	2,060
Residential land	720	3,161
Commercial construction	—	—
Residential construction	—	—
Commercial	10,053	18,781
Consumer	661	401
Total nonaccrual loans	\$36,886	\$48,521
Real estate:		
Residential 1-4 family	\$—	\$—
Commercial real estate	—	—
Home equity line of credit	—	—
Residential land	—	—
Commercial construction	—	—
Residential construction	—	—
Commercial	—	—
Consumer	—	—
Total accruing loans 90 days or more past due	\$—	\$—
Real estate:		
Residential 1-4 family	\$13,525	\$9,744
Commercial real estate	—	—
Home equity line of credit	480	171
Residential land	7,130	7,476
Commercial construction	—	—
Residential construction	—	—
Commercial	2,972	1,649
Consumer	—	—
Total troubled debt restructured loans not included above	\$24,107	\$19,040

The total carrying amount and the total unpaid principal balance of impaired loans were as follows:

December 31	2014					2013				
(in thousands)	Recorded investment	Unpaid principal balance	Related Allowance	Average recorded investment	Interest income recognized*	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized*
With no related allowance recorded										
Real estate:										
Residential 1-4 family	\$ 11,654	\$ 12,987	\$—	\$ 9,056	\$ 227	\$ 9,708	\$ 12,144	\$—	\$ 11,674	\$ 386
Commercial real estate	571	626	—	194	—	—	—	—	802	—
Home equity line of credit	363	606	—	402	5	672	1,227	—	623	2
Residential land	2,344	3,200	—	2,728	172	2,622	3,612	—	6,675	482
Commercial construction	—	—	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—	—	—
Commercial	8,235	11,471	—	5,204	38	3,466	4,715	—	4,837	12
Consumer	—	—	—	8	—	19	19	—	20	—
	23,167	28,890	—	17,592	442	16,487	21,717	—	24,631	882
With an allowance recorded										
Real estate:										
Residential 1-4 family	11,327	11,347	951	8,822	419	6,216	6,236	642	6,455	372
Commercial real estate	4,541	4,541	1,845	3,415	478	4,604	4,686	1,118	5,745	152
Home equity line of credit	416	420	46	132	6	—	—	—	—	—
Residential land	5,506	5,584	1,057	6,415	484	7,452	7,623	1,332	6,844	409
Commercial construction	—	—	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—	—	—
Commercial	4,873	5,211	760	12,089	438	17,759	20,640	2,246	15,635	139
Consumer	16	16	6	9	—	—	—	—	—	—
	26,679	27,119	4,665	30,882	1,825	36,031	39,185	5,338	34,679	1,072
Total										
Real estate:										
Residential 1-4 family	22,981	24,334	951	17,878	646	15,924	18,380	642	18,129	758
Commercial real estate	5,112	5,167	1,845	3,609	478	4,604	4,686	1,118	6,547	152
Home equity line of credit	779	1,026	46	534	11	672	1,227	—	623	2

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Residential land	7,850	8,784	1,057	9,143	656	10,074	11,235	1,332	13,519	891
Commercial construction	—	—	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—	—	—
Commercial	13,108	16,682	760	17,293	476	21,225	25,355	2,246	20,472	151
Consumer	16	16	6	17	—	19	19	—	20	—
	\$49,846	\$56,009	\$4,665	\$48,474	\$2,267	\$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 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 cost 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 during 2014 and 2013 were as follows:

Years ended December 31	2014				2013			
	Number of contracts	Outstanding investment Pre-modification	recorded investment Post-modification	Net increase in ALLL (as of period end)	Number of contracts	Outstanding investment Pre-modification	recorded investment Post-modification	Net increase in ALLL (as of period end)
Troubled debt restructurings								
Real estate:								
Residential 1-4 family	38	\$ 10,680	\$ 10,737	\$ 163	34	\$ 8,876	\$ 8,957	\$ 297
Commercial real estate	—	—	—	—	—	—	—	—
Home equity line of credit	8	502	502	42	5	637	390	—
Residential land	18	4,304	4,304	242	20	6,215	6,206	131
Commercial construction	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—
Commercial	7	3,827	3,827	13	7	4,646	4,646	94
Consumer	—	—	—	—	—	—	—	—
	71	\$ 19,313	\$ 19,370	\$ 460	66	\$ 20,374	\$ 20,199	\$ 522

Loans modified in TDRs that experienced a payment default of 90 days or more in 2014 and 2013, and for which the payment default occurred within one year of the modification, were as follows:

Years ended December 31	2014		2013	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
(dollars in thousands)				
Troubled debt restructurings that subsequently defaulted				
Real estate:				
Residential 1-4 family	1	\$ 390	—	\$ —
Commercial real estate	—	—	—	—
Home equity line of credit	—	—	1	67
Residential land	—	—	—	—
Commercial construction	—	—	—	—
Residential construction	—	—	—	—
Commercial	1	14	2	660
Consumer	—	—	—	—
	2	\$ 404	3	\$ 727

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. Commitments to lend additional funds to borrowers whose loan terms have been impaired or modified in TDRs totaled \$0.5 million at December 31, 2014.

Mortgage servicing rights. In its mortgage banking business, ASB sells residential mortgage loans to government-sponsored entities and other parties, who may issue securities backed by pools of such loans. ASB retains no beneficial interests in these sales, but may retain the servicing rights of the loans sold.

ASB received \$155.0 million, \$273.8 million, and \$513.0 million of proceeds from the sale of residential mortgages in 2014, 2013, and 2012, respectively, and recognized gains on such loans of \$2.9 million, \$8.3 million, and \$14.6 million in

2014, 2013, and 2012, respectively. Repurchased mortgage loans in 2014, 2013, and 2012 were \$0.5 million, \$1.9 million and \$0.4 million, respectively.

Mortgage servicing fees, a component of other income, net, were \$3.5 million, \$3.3 million, and \$2.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Changes in carrying value of mortgage servicing rights were as follows:

(in thousands)	Gross carrying amount	Accumulated amortization	Valuation allowance	Net carrying amount
December 31, 2014	\$27,185	\$(15,436)	) \$(209)	) \$11,540
December 31, 2013	\$25,644	\$(13,706)	) \$(251)	) \$11,687

Changes related to mortgage servicing rights were as follows:

(in thousands)	2014	2013	2012
Mortgage servicing rights			
Balance, January 1	\$11,938	\$11,316	\$8,402
Amount capitalized	1,637	2,611	4,845
Amortization	(1,731)	(1,802)	(1,750)
Other-than-temporary impairment	(95)	(187)	(181)
Carrying amount before valuation allowance, December 31	11,749	11,938	11,316
Valuation allowance for mortgage servicing rights			
Balance, January 1	251	498	175
Provision (recovery)	53	(60)	504
Other-than-temporary impairment	(95)	(187)	(181)
Balance, December 31	209	251	498
Net carrying value of mortgage servicing rights	\$11,540	\$11,687	\$10,818

The estimated aggregate amortization expenses of mortgage servicing rights for 2015, 2016, 2017, 2018 and 2019 are \$1.7 million, \$1.5 million, \$1.3 million, \$1.1 million and \$1.0 million, respectively.

ASB capitalizes mortgage servicing rights acquired through either the purchase or origination of mortgage loans for sale with servicing rights retained. Changes in mortgage interest rates impact the value of ASB's mortgage servicing rights. Rising interest rates typically result in slower prepayment speeds in the loans being serviced for others which increases the value of mortgage servicing rights, whereas declining interest rates typically result in faster prepayment speeds which decrease the value of mortgage servicing rights and increase the amortization of the mortgage servicing rights.

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

December 31	2014	2013	
(dollars in thousands)			
Unpaid principal balance	\$1,391,030	\$1,357,003	
Weighted average note rate	4.07	% 4.07	%
Weighted average discount rate	9.6	% 9.8	%
Weighted average prepayment speed	9.5	% 8.6	%

The sensitivity analysis of fair value of MSR to hypothetical adverse changes of 25 and 50 basis points in certain key assumptions was as follows:

December 31 (in thousands)	2014		2013	
Prepayment rate:				
25 basis points adverse rate change	\$(757	)	\$(732	)
50 basis points adverse change	(1,524	)	(1,492	)
Discount rate:				
25 basis points adverse rate change	(140	)	(154	)
50 basis points adverse change	(278	)	(306	)

The effect of a variation in certain assumptions on fair value is calculated without changing any other assumptions. This analysis typically cannot be extrapolated because the relationship of a change in one key assumption to the changes in the fair value of MSRs typically is not linear.

Deposit liabilities. The summarized components of deposit liabilities were as follows:

December 31 (dollars in thousands)	2014		2013	
	Weighted-average stated rate	Amount	Weighted-average stated rate	Amount
Savings	0.06	% \$1,923,062	0.06	% \$1,826,907
Checking				
Interest-bearing	0.02	768,787	0.02	721,700
Noninterest-bearing	—	665,005	—	643,628
Commercial checking	—	677,789	—	570,790
Money market	0.12	158,010	0.13	182,546
Term certificates	0.83	430,762	0.80	426,906
	0.11	% \$4,623,415	0.11	% \$4,372,477

As of December 31, 2014 and 2013, term certificates of \$100,000 or more totaled \$120 million and \$102 million, respectively.

The approximate scheduled maturities of term certificates outstanding at December 31, 2014 were as follows:

(in thousands)	
2015	\$255,896
2016	55,614
2017	44,315
2018	16,949
2019	54,979
Thereafter	3,009
	\$430,762

Interest expense on deposit liabilities by type of deposit was as follows:

Years ended December 31 (in thousands)	2014	2013	2012
Term certificates	\$3,603	\$3,702	\$4,865
Savings	1,134	1,052	1,128
Money market	214	232	319
Interest-bearing checking	126	106	111
	\$5,077	\$5,092	\$6,423



## Other borrowings.

Securities sold under agreements to repurchase. 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			
December 31, 2014	\$ 191	\$—	\$ 191
December 31, 2013	145	—	145

(in millions)	Gross amount not offset in the Balance Sheet			Net amount
	Net amount of liabilities presented in the Balance Sheet	Financial instruments	Cash collateral pledged	
December 31, 2014				
Financial institution	\$ 50	\$ 50	\$—	\$—
Government entities	56	56	—	—
Commercial account holders	85	85	—	—
Total	\$ 191	\$ 191	\$—	\$—
December 31, 2013				
Financial institution	\$ 51	\$ 51	\$—	\$—
Commercial account holders	94	94	—	—
Total	\$ 145	\$ 145	\$—	\$—

The securities underlying the agreements to repurchase are book-entry securities and were delivered by appropriate entry into the counterparties' accounts and segregated safekeeping accounts at the FHLB of Seattle. 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 consolidated balance sheets. The securities underlying the agreements to repurchase continue to be reflected in ASB's asset accounts.

Information concerning securities sold under agreements to repurchase, which provided for the repurchase of identical securities, was as follows:

(dollars in millions)	2014	2013	2012		
Amount outstanding as of December 31	\$ 191	\$ 145	\$ 146		
Average amount outstanding during the year	\$ 155	\$ 147	\$ 173		
Maximum amount outstanding as of any month-end	\$ 195	\$ 151	\$ 189		
Weighted-average interest rate as of December 31	1.45	% 1.75	% 1.74	%	
Weighted-average interest rate during the year	1.67	% 1.74	% 1.56	%	
Weighted-average remaining days to maturity as of December 31	343	367	489		

As of December 31, 2014, securities sold under agreements to repurchase were summarized as follows:

Maturity	Repurchase liability	Weighted-average interest rate	Collateralized by mortgage-related securities and federal agency obligations at fair value plus accrued interest
(dollars in thousands)			
Overnight	\$84,758	0.15	% \$114,883
1 to 29 days	—	—	—
30 to 90 days	—	—	—
Over 90 days	105,898	<sup>1</sup> 2.50	115,842
	\$190,656	1.45	% \$230,725

<sup>1</sup> \$50.3 million callable quarterly at par until maturity in 2016.

Advances from Federal Home Loan Bank.

FHLB advances are fixed rate for a specific term and consist of the following:

December 31, 2014	Weighted-average stated rate	Amount
(dollars in thousands)		
Due in		
2015	—	% \$—
2016	—	—
2017	4.28	50,000 <sup>1</sup>
2018	1.95	50,000
2019	—	—
Thereafter	—	—
	3.12	% \$100,000

<sup>1</sup> Callable quarterly at par until maturity in 2017.

ASB and the FHLB of Seattle are parties to an Advances, Security and Deposit Agreement (Advances Agreement), which applies to currently outstanding and future advances, and governs the terms and conditions under which ASB borrows and the FHLB of Seattle makes loans or advances from time to time. Under the Advances Agreement, ASB agrees to abide by the FHLB of Seattle's credit policies, and makes certain warranties and representations to the FHLB of Seattle. Upon the occurrence of and during the continuation of an "Event of Default" (which term includes any event of nonpayment of interest or principal of any advance when due or failure to perform any promise or obligation under the Advances Agreement or other credit arrangements between the parties), the FHLB of Seattle may, at its option, declare all indebtedness and accrued interest thereon, including any prepayment fees or charges, to be immediately due and payable. Advances from the FHLB of Seattle are collateralized by loans and stock in the FHLB of Seattle. As of December 31, 2014 and 2013, ASB's available FHLB of Seattle borrowing capacity was \$1.2 billion and \$1.1 billion, respectively. ASB is required to obtain and hold a specific number of shares of capital stock of the FHLB of Seattle. ASB was in compliance with all Advances Agreement requirements as of December 31, 2014 and 2013.

Common stock equity. In 1988, HEI agreed with the OTS predecessor regulatory agency at the time, to contribute additional capital to ASB up to a maximum aggregate amount of approximately \$65.1 million (Capital Maintenance Agreement). As of December 31, 2014, as a result of capital contributions in prior years, HEI's maximum obligation to contribute additional capital under the Capital Maintenance Agreement has been reduced to approximately \$28.3 million. As of December 31, 2014, ASB was in compliance with the minimum capital requirements under OCC regulations.

In 2014, ASB paid cash dividends of \$36 million to HEI, compared to cash dividends of \$40 million in 2013. The FRB and OCC approved the dividends.

Related-party transactions. HEI charged ASB \$2.3 million, \$2.3 million and \$1.9 million for general management and administrative services in 2014, 2013 and 2012, respectively. The amounts charged by HEI for services performed by HEI employees to its subsidiaries are allocated primarily on the basis of time expended in providing such services.

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Derivative financial instruments. ASB enters into interest rate lock commitments (IRLCs) 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 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 were as follows:

December 31 (in thousands)	2014		2013	
	Notional amount	Fair value	Notional amount	Fair value
Interest rate lock commitments	\$29,330	\$390	\$25,070	\$464
Forward commitments	32,833	(106	) 26,018	139

ASB's derivative financial instruments, their fair values, and balance sheet location were as follows:

Derivative Financial Instruments Not Designated

as Hedging Instruments <sup>1</sup>

December 31 (in thousands)	2014		2013	
	Asset derivatives	Liability derivatives	Asset derivatives	Liability derivatives
Interest rate lock commitments	\$393	\$3	\$488	\$24
Forward commitments	5	111	141	2
	\$398	\$114	\$629	\$26

<sup>1</sup> Asset derivatives are included in other assets and liability derivatives 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:

Derivative Financial Instruments Not Designated as Hedging Instruments (in thousands)	Location of net gains (losses) recognized in the Statements of Income	Years ended December 31		
		2014	2013	2012
Interest rate lock commitments	Mortgage banking income	\$(74	) \$464	\$—
Forward commitments	Mortgage banking income	(245	) 139	—
		\$(319	) \$603	\$—

There were no significant gains or losses on derivatives in 2012.

Commitments. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitments. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain of the commitments are expected to expire

without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company minimizes its exposure to loss under these commitments by requiring that customers meet certain conditions prior to disbursing funds. The amount of collateral, if

any, is based on a credit evaluation of the borrower and may include residential real estate, accounts receivable, inventory and property, plant and equipment.

Letters of credit are conditional commitments issued by the Company to guarantee payment and performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting those commitments for which collateral is deemed necessary.

The following is a summary of outstanding off-balance sheet arrangements:

December 31 (in thousands)	2014	2013
Unfunded commitments to extend credit:		
Home equity line of credit	\$1,089,633	\$1,011,334
Commercial and commercial real estate	526,133	527,987
Consumer	56,312	58,080
Residential 1-4 family	20,524	14,241
Commercial and financial standby letters of credit	20,082	15,747
Total	\$1,712,684	\$1,627,389

Guarantees. In October 2007, ASB, as a member financial institution of Visa U.S.A. Inc., received restricted shares of Visa, Inc. (Visa) as a result of a restructuring of Visa U.S.A. Inc. in preparation for an initial public offering by Visa. As a part of the restructuring, ASB entered into a judgment and loss sharing agreement with Visa in order to apportion financial responsibilities arising from any potential adverse judgment or negotiated settlements related to indemnified litigation involving Visa. In November 2012, a federal judge granted preliminary approval to a proposed settlement between merchants and Visa over credit card fees and in December 2013, a federal judge granted final approval to the settlement. Some merchants and trade organizations filed a notice of appeal shortly after the approval was issued. As of December 31, 2014, ASB had accrued a reserve of \$1.1 million related to the agreement. Because the extent of ASB's obligations under this agreement depends entirely upon the occurrence of future events, ASB's maximum potential future liability under this agreement is not determinable.

Contingencies. 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 ASB's overdraft practices are governed by federal regulations established for federal savings banks which preempt the customer's state law claims. In July 2011, the Circuit Court denied ASB's motion without prejudice and ASB appealed that decision. ASB's appeal is pending before the Hawaii Supreme Court. However, in December 2014, through a voluntary mediation process, ASB reached a tentative settlement of the claims. The tentative settlement, which remains subject to final court approval, provides for a payment of \$2.0 million into a class settlement fund, the proceeds of which will be used to refund class members and pay attorneys' fees and administrative and other costs, in exchange for a complete release of all claims asserted against ASB. As of December 2014, the \$2.0 million tentative settlement amount was fully reserved by ASB.

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.

Federal Deposit Insurance Corporation assessment. In February 2011, the Federal Deposit Insurance Corporation (FDIC) finalized rules to change its assessment base from total domestic deposits to average total assets minus average tangible equity, as required in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Assessment rates were reduced to a range of 2.5 to 9 basis points on the new assessment base for financial institutions in the lowest risk category. Financial institutions in the highest risk category have assessment rates of 30 to 45 basis points. The new rate schedule was effective April 1, 2011. For the years ended December 31, 2014 and 2013, ASB's FDIC insurance assessments were \$3.0 million and \$2.9 million, respectively. The FDIC may impose special assessments in the future if it is deemed necessary to ensure the Deposit Insurance Fund ratio does not decline to a level that is close to zero or that could otherwise undermine public confidence in federal deposit

insurance.

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## 6 · Unconsolidated variable interest entities

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 sheet as of December 31, 2014 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 statement for 2014 consisted of \$3.4 million of interest income received from the 2004 Debentures; \$3.3 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. So 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 December 31, 2014, the Utilities had seven PPAs for firm capacity and other PPAs with smaller 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. Approximately 90% of the firm capacity is purchased from AES Hawaii, Inc. (AES Hawaii), Kalaeloa Partners, L.P. (Kalaeloa), Hamakua Energy Partners, L.P. (HEP) and HPOWER. Purchases from all IPPs were as follows:

Years ended December 31 (in millions)	2014	2013	2012
AES Hawaii	\$ 145	\$ 134	\$ 146
Kalaeloa	279	301	310
HEP	51	51	65
HPOWER	66	61	65
Other IPPs	181	164	138
Total IPPs	\$ 722	\$ 711	\$ 724

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 2014, 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 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 additives cost component, 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 December 31, 2014, Hawaiian Electric's accounts payable to Kalaeloa amounted to \$13 million.

## 7 · Short-term borrowings

As of December 31, 2014 and 2013, HEI had \$119 million and \$105 million of outstanding commercial paper, respectively, with a weighted-average interest rate of 0.7% and 0.7%, respectively, and Hawaiian Electric had no commercial paper outstanding.

As of December 31, 2014, HEI and Hawaiian Electric each maintained a syndicated credit facility of \$150 million and \$200 million, respectively. Both HEI and Hawaiian Electric had no borrowings under its facility during 2014 and 2013. None of the facilities are collateralized.

### 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 19% as of December 31, 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. In January 2015, the PUC approved Hawaiian Electric's request to extend the term of the credit facility to April 2, 2019. The Hawaiian Electric Facility provided improved pricing compared to its 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 42% for Maui Electric as of December 31, 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 58% as of December 31, 2014, as calculated under

the credit agreement), or if Hawaiian Electric is no longer owned by HEI. Under the proposed Merger Agreement, Hawaiian Electric will become a wholly-owned subsidiary of NextEra. The terms of the Hawaiian Electric Facility are such that the proposed Merger would constitute a “Change in Control.” Hawaiian Electric has requested, and the financial institutions providing the Hawaiian Electric Facility have consented and agreed, that the proposed Merger shall not constitute a “Change in Control,” as defined in the credit agreement, provided that (i) the Merger is consummated and (ii) Hawaiian Electric becomes and remains a wholly-owned subsidiary of NextEra.

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.

#### 8 · Long-term debt

December 31 (dollars in thousands)	2014	2013
Long-term debt of Utilities <sup>1</sup>	\$ 1,206,546	\$ 1,217,945
HEI term loan LIBOR + .90%, due 2016	125,000	—
HEI medium-term note 6.51%, paid 2014	—	100,000
HEI senior note 4.41%, due 2016	75,000	75,000
HEI senior note 5.67%, due 2021	50,000	50,000
HEI senior note 3.99%, due 2023	50,000	50,000
	\$ 1,506,546	\$ 1,492,945

<sup>1</sup> See components of "Total long-term debt" and unamortized discount in Hawaiian Electric and subsidiaries' Consolidated Statements of Capitalization.

As of December 31, 2014, the aggregate principal payments required on the Company's long-term debt for 2015 through 2019 are nil in 2015, \$200 million in 2016, nil in 2017, \$50 million in 2018 and nil in 2019. As of December 31, 2014, the aggregate payments of principal required on the Utilities' long-term debt for 2015 through 2019 are nil in 2015, 2016, 2017, \$50 million in 2018 and nil in 2019.

The HEI medium-term notes and 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). The HEI senior notes also contain provisions requiring the maintenance by HEI of certain financial ratios generally consistent with those in HEI's revolving noncollateralized credit agreement, expiring on April 2, 2019. Upon a change of control or certain dispositions of assets (as defined in the Master Note Purchase Agreement dated March 24, 2011), HEI is required to offer to prepay the senior notes. The Utilities' senior notes contain customary representations and warranties, affirmative and negative covenants, and events of default (the occurrence of which may result in some or all of the notes of each and all of the utilities then outstanding becoming immediately due and payable) and provisions requiring the maintenance by Hawaiian Electric, and each of Hawaii Electric Light and Maui Electric, of certain financial ratios generally consistent with those in Hawaiian Electric's existing amended revolving noncollateralized credit agreement, expiring on April 2, 2019 (See Note 7 of the Consolidated Financial Statements).

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 substantially 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 December 31, 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.

#### 9 · Shareholders' equity

Reserved shares. As of December 31, 2014, HEI had reserved (a) a total of 18,372,187 shares of common stock for future issuance under the HEI Dividend Reinvestment and Stock Purchase Plan (DRIP), the Hawaiian Electric Industries Retirement Savings Plan (HEIRSP), the 1987 Stock Option and Incentive Plan, the HEI 2011 Nonemployee Director Stock Plan, the ASB 401(k) Plan and the 2010 Executive Incentive Plan and (b) a total of 4.7 million shares of common stock for future issuance in connection with the equity forward transaction described below.

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 Topic 480, "Distinguishing Liabilities from Equity," and ASC Topic 815, "Derivatives and Hedging," and that they qualified for an exception from derivative accounting under ASC Topic 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 were ultimately used to purchase Hawaiian Electric shares.

At December 31, 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 \$106 million, (b) cash of approximately \$51 million (which amount includes \$5 million of underwriting discount), or (c) approximately 1.5 million 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 \$22.63 as of December 31, 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 2014 and 2013, the equity forward transactions did not have a material dilutive effect on HEI's EPS.

Accumulated other comprehensive income/(loss). 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, 2011	\$9,886	\$(996 )	\$(28,027 )	\$(19,137 )	\$(32 )
Current period other comprehensive income (loss)	875	236	(8,397 )	(7,286 )	(938 )
Balance, December 31, 2012	10,761	(760 )	(36,424 )	(26,423 )	(970 )
Current period other comprehensive income (loss)	(14,424 )	235	23,862	9,673	1,578
Balance, December 31, 2013	(3,663 )	(525 )	(12,562 )	(16,750 )	608
Current period other comprehensive income (loss)	4,125	236	(14,989 )	(10,628 )	(563 )
Balance, December 31, 2014	\$462	\$(289 )	\$(27,551 )	\$(27,378 )	\$45

Reclassifications out of AOCI were as follows:

Years ended December 31	Amount reclassified from AOCI			Affected line item in the Statement of Income
	2014	2013	2012	
(in thousands) HEI consolidated				
Net realized gains on securities	\$(1,715 )	\$(738 )	\$(81 )	Revenues-bank (net gains on sales of securities)
Derivatives qualified as cash flow hedges				
Interest rate contracts (settled in 2011)	236	235	236	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	11,344	23,280	15,291	See Note 10 for additional details
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets	207,833	(222,595 )	75,471	See Note 10 for additional details
Total reclassifications	\$217,698	\$(199,818)	\$90,917	
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	\$10,212	\$20,694	\$13,673	See Note 10 for additional details
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets	207,833	(222,595 )	75,471	See Note 10 for additional details
Total reclassifications	\$218,045	\$(201,901)	\$89,144	





#### 10 · Retirement benefits

Defined benefit plans. Substantially all of the employees of HEI and the Utilities participate in the Retirement Plan for Employees of Hawaiian Electric Industries, Inc. and Participating Subsidiaries (HEI Pension Plan). Substantially all of the employees of ASB and its subsidiaries participated in the American Savings Bank Retirement Plan (ASB Pension Plan) until it was frozen on December 31, 2007. The HEI Pension Plan and the ASB Pension Plan (collectively, the Plans) are qualified, noncontributory defined benefit pension plans and include, in the case of the HEI Pension Plan, benefits for utility union employees determined in accordance with the terms of the collective bargaining agreements between the Utilities and the union. The Plans are subject to the provisions of ERISA. In addition, some current and former executives and directors of HEI and its subsidiaries participate in noncontributory, nonqualified plans (collectively, Supplemental Plans). In general, benefits are based on the employees' or directors' years of service and compensation.

The continuation of the Plans and the Supplemental Plans and the payment of any contribution thereunder are not assumed as contractual obligations by the participating employers. The Supplemental Plan for directors has been frozen since 1996. The ASB Pension Plan was frozen as of December 31, 2007. The HEI Supplemental Executive Retirement Plan and ASB Supplemental Executive Retirement, Disability, and Death Benefit Plan (noncontributory, nonqualified, defined benefit plans) were frozen as of December 31, 2008. No participants have accrued any benefits under these plans after the respective plan's freeze and the plans will be terminated at the time all remaining benefits have been paid.

Each participating employer reserves the right to terminate its participation in the applicable plans at any time, and HEI and ASB reserve the right to terminate their respective plans at any time. If a participating employer terminates its participation in the Plans, the interest of each affected participant would become 100% vested to the extent funded. Upon the termination of the Plans, assets would be distributed to affected participants in accordance with the applicable allocation provisions of ERISA and any excess assets that exist would be paid to the participating employers. Participants' benefits in the Plans are covered up to certain limits under insurance provided by the Pension Benefit Guaranty Corporation.

To determine pension costs for HEI and its subsidiaries under the Plans and the Supplemental Plans, it is necessary to make complex calculations and estimates based on numerous assumptions, including the assumptions identified under "Defined benefit pension and other postretirement benefit plans information" below.

Postretirement benefits other than pensions. HEI and the Utilities provide eligible employees health and life insurance benefits upon retirement under the Postretirement Welfare Benefits Plan for Employees of Hawaiian Electric Company, Inc. and participating employers (Hawaiian Electric Benefits Plan). Eligibility of employees and dependents are based on eligibility to retire at termination, the retirement date and the date of hire. The plan was amended in 2011, changing eligibility for certain bargaining unit employees hired prior to May 1, 2011, based on new minimum age and service requirements effective January 1, 2012, per the collective bargaining agreement, and certain management employees hired prior to May 1, 2011 based on new eligibility minimum age and service requirements effective January 1, 2012. The minimum age and service requirements for management and bargaining unit employees hired May 1, 2011 and thereafter have increased and their dependents are not eligible to receive postretirement benefits. Employees may be eligible to receive benefits from the HEI Pension Plan but may not be eligible for postretirement welfare benefits if the different eligibility requirements are not met.

The executive death benefit plan was frozen on September 10, 2009 to participants and benefit levels as of that date. The electric discount was eliminated for management employees and retirees of Hawaiian Electric in August 2009, Hawaii Electric Light in November 2010, and Maui Electric in August 2010, and for bargaining unit employees and retirees on January 31, 2011 per the collective bargaining agreement.

The Company's and Utilities' cost for OPEB has been adjusted to reflect the plan amendments, which reduced benefits and created prior service credits to be amortized over average future service of affected participants. The amortization of the prior service credit will reduce benefit costs over the next few years until the various credit bases are fully recognized. Each participating employer reserves the right to terminate its participation in the Hawaiian Electric Benefits Plan at any time.

Balance sheet recognition of the funded status of retirement plans. Employers must recognize on their balance sheets the funded status of defined benefit pension and other postretirement benefit plans with an offset to AOCI in shareholders' equity (using the projected benefit obligation (PBO), to calculate the funded status). The PUC allowed the Utilities to adopt pension and OPEB tracking mechanisms in previous rate cases. The amount of the net periodic pension cost (NPPC) and net periodic benefits costs (NPBC) to be recovered in rates is established by the PUC in each rate case. Under the Utilities' tracking mechanisms, any actual costs determined in accordance with GAAP that are over/under amounts allowed in rates are charged/credited to a regulatory asset/liability. The regulatory asset/liability for each utility will then be amortized over 5 years beginning with the respective utility's next rate case. Accordingly, all retirement benefit

expenses (except for executive life and nonqualified pension plan expenses, which amounted to \$1.2 million in 2014 and 2013) determined in accordance with GAAP will be recovered.

Under the tracking mechanisms, amounts that would otherwise be recorded in AOCI (excluding amounts for executive life and nonqualified pension plans), which amounts include the prepaid pension asset, net of taxes, as well as other pension and OPEB charges, are allowed to be reclassified as a regulatory asset, as those costs will be recovered in rates through the NPPC and NPBC in the future. The Utilities have reclassified to a regulatory asset/(liability) charges for retirement benefits that would otherwise be recorded in AOCI (amounting to the elimination of a potential charge to AOCI of \$340 million pretax and \$(364) million pretax for 2014 and 2013, respectively).

In 2007, the PUC allowed Hawaii Electric Light to record a regulatory asset in the amount of \$12.8 million (representing Hawaii Electric Light's prepaid pension asset and reflecting the accumulated pension contributions to its pension fund in excess of accumulated NPPC), which is included in rate base, and allowed recovery of that asset over a period of five years. Hawaii Electric Light is required to make contributions to the pension trust in the amount of the actuarially calculated NPPC that would be allowed without penalty by the tax laws.

In 2007, the PUC declined to allow Hawaiian Electric and Maui Electric to include their pension assets (representing the accumulated contributions to their pension fund in excess of accumulated NPPC), in their rate bases. However, under the tracking mechanisms, Hawaiian Electric and Maui Electric are required to fund only the minimum level required under the law until their pension assets are reduced to zero, at which time Hawaiian Electric and Maui Electric will make contributions to the pension trust in the amount of the actuarially calculated NPPC, except when limited by the ERISA minimum contribution requirements or the maximum contribution limitations on deductible contributions imposed by the Internal Revenue Code.

The PUC's exclusion of Hawaiian Electric's and Maui Electric's pension assets from rate base does not allow Hawaiian Electric and Maui Electric to earn a return on the pension asset, but this exclusion does not result in the exclusion of any pension benefit costs from their rates. The pension asset is to be (and has been, in the case of Maui Electric) recovered in rates (as NPPC is recorded in excess of contributions). As of December 31, 2014, Hawaiian Electric's pension asset had been reduced to nil.

The OPEB tracking mechanisms generally require the Utilities to make contributions to the OPEB trust in the amount of the actuarially calculated NPBC, except when limited by material, adverse consequences imposed by federal regulations.

Retirement benefits expense for the Utilities for 2014,