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

[X] 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 X No Hawaiian Electric Company, Inc. Yes No X

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

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

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

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

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

Hawaiian Electric Industries Inc.	Large accelerated filer X Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company	Hawaiian Electric Company, Inc.	Large accelerated filer Accelerated filer Non-accelerated filer X (Do not check if a smaller reporting company) Smaller reporting company

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

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

	Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrants as of	Number of shares of common stock outstanding of the registrants as of	
	June 30, 2014	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

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.

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

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 it 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. The 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 CO2/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

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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.

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:"

	AOCI debit/(credit), net of taxes (benefits), related to retirement benefits liability		Retirement benefits expense, net of tax benefits				Retirement benefits paid and plan expenses		
	December 31		Years ended December 31				Years ended December 31		
(in millions)	2014	2013	(Estimated) 2015	2014	2013	2012	2014	2013	2012
Consolidated HEI	$28	$13	$23	$20	$21	$22	$71	$70	$68
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 [1]	$—	NM	$—	NM	$ –
Operating loss	(22)	NM	(17)	NM	(17)
Net loss	(21)	NM	(19)	NM	(19)

[1] 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 Average balance	End-of-period balance	December 31, 2013
Short-term borrowings [1]			
Commercial paper	$71	$119	$105
Line of credit draws	—	—	—
Undrawn capacity under HEI’s line of credit facility		150	125

1 This table does not include Hawaiian Electric’s separate commercial paper issuances and line of credit facilities, 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.

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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 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[1]	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

[1] 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***		
Year ended December 31, 2014	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Hawaiian Electric	Hawaii Electric Light	Maui Electric
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
722	711	11		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
411	403	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 [1]
8,976	9,070	(94)		Kilowatthour sales (millions) [2]
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 [1]
9,070	9,206	(136)		Kilowatthour sales (millions) [2]
4,506	4,532	(26)		Cooling degree days (Oahu)
2,764	2,658	106		Number of employees (at December 31)

1 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.

2 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 Waiau 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	2014			2013		
(dollars in millions)						
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[1]			
Commercial paper	$56	$—	$—
Line of credit draws		—	—
Borrowings from HEI		—	—
Undrawn capacity under line of credit facility		200	175

1 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	Payments due by period				
(in millions)	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
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 [1]	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

[1] 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 Kawailoa 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.

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;
2. reducing the overall exposure to fixed-rate residential mortgage loans and diversifying the loan portfolio with 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 [1]

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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 [1]	11.4	%	11.7	%	(0.3	)%	

[1] Calculated using the average daily balances.

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

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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 Average balance	Interest[1] income/ expense	Yield/ rate (%)	2013 Average balance	Interest[1] income/ expense	Yield/ rate (%)	2012 Average balance	Interest[1] income/ expense	Yield/ rate (%)
Assets:									
Other investments [2]	$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 [3,4]	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 (%)[5]			3.62			3.74		3.93

[1] 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.

[2] 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).

[3] Includes loans held for sale, at lower of cost or fair value.

[4] 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.

[5] 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	%

					End of draw period – interest only								Current	
December 31, 2014	Total		Interest only		2014-2015		2016-2018		Thereafter				amortizing	
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	2014			2013		
(dollars in thousands)	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:

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 (dollars in millions)	2014	% change	2013	% change
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.

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 t 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:

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	2014	2013	2012
(in thousands, except per share amounts)			
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	2014	2013	2012
(in thousands)			
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		2014		2013
(dollars in thousands)				
ASSETS				
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)	4,148,774	(2,192,422)	3,865,514
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				

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	
(in thousands, except per share amounts)	Shares	Amount	earnings	income (loss)	Total
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

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	2014	2013	2012
(in thousands)			
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	2014	2013	2012
(in thousands)			
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	2014	2013
(in thousands)		
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

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		