HAWAIIAN ELECTRIC INDUSTRIES INC
Form 10-Q
November 16, 2015

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

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

For the quarterly period ended September 30, 2015
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Exact Name of Registrant as Specified in Its Charter	Commission File Number	I.R.S. Employer Identification No.
HAWAIIAN ELECTRIC INDUSTRIES, INC. and Principal Subsidiary	1-8503	99-0208097
HAWAIIAN ELECTRIC COMPANY, INC.	1-4955	99-0040500

State of Hawaii
(State or other jurisdiction of incorporation or organization)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Hawaiian Electric Industries, Inc. Yes x No o Hawaiian Electric Company, Inc. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Hawaiian Electric Industries, Inc. Yes x No o Hawaiian Electric Company, Inc. Yes x No o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Hawaiian Electric Industries, Inc. Yes o No x Hawaiian Electric Company, Inc. Yes o No x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class of Common Stock	Outstanding October 31, 2015
Hawaiian Electric Industries, Inc. (Without Par Value)	107,458,641 Shares
Hawaiian Electric Company, Inc. ($6-2/3 Par Value)	15,805,327 Shares (not publicly traded)

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

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

Hawaiian Electric Industries, Inc. and Subsidiaries
Hawaiian Electric Company, Inc. and Subsidiaries
Form 10-Q—Quarter ended September 30, 2015

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Hawaiian Electric Company, Inc. and Subsidiaries
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GLOSSARY OF TERMS

Terms	Definitions
AES Hawaii	AES Hawaii, Inc.
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income/(loss)
ARO	Asset retirement obligation
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of ASB Hawaii, 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
CIP CT-1	Campbell Industrial Park 110 MW combustion turbine No. 1
CIS	Customer Information System
Company	Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation, Hawaiian Electric Company, Inc. and its subsidiaries (listed under Hawaiian Electric); 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.).
Consumer Advocate	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii
DER	Distributed Energy Resources
D&O	Decision and order
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 Equity and Incentive Plan, as amended and restated
EPA	Environmental Protection Agency — federal
EPS	Earnings per share
ERISA	Employee Retirement Income Security Act of 1974, as amended
EVE	Economic value of equity
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
federal	U.S. Government
FERC	Federal Energy Regulatory Commission
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
FRB	Federal Reserve Board
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse gas

GLOSSARY OF TERMS, continued

Terms	Definitions
GNMA	Government National Mortgage Association
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.
HIE	Hawaii Independent Energy, LLC
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.)
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HELOC	Home equity line of credit
Hpower	City and County of Honolulu with respect to a power purchase agreement for a refuse-fired plant
IPP	Independent power producer
Kalaeloa	Kalaeloa Partners, L.P.
KWH	Kilowatthour/s (as applicable)
LNG	Liquefied natural gas
LTIP	Long-term incentive plan
MATS	Mercury and Air Toxics Standards
Maui Electric	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
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
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
MW	Megawatt/s (as applicable)
NEE	NextEra Energy, Inc.
NEM	Net energy metering
NII	Net interest income
O&M	Other operation and maintenance
OCC	Office of the Comptroller of the Currency
OPEB	Postretirement benefits other than pensions
PPA	Power purchase agreement
PPAC	Purchased power adjustment clause
PSIPs	Power Supply Improvement Plans
PUC	Public Utilities Commission of the State of Hawaii
PV	Photovaltaic
RAM	Rate adjustment mechanism
RBA	Revenue balancing account
RFP	Request for proposals
ROACE	Return on average common equity
RORB	Return on rate base

RPS	Renewable portfolio standards
SAR	Stock appreciation right
SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference
Spin-Off	The distribution to HEI shareholders of all of the common stock of ASB Hawaii immediately prior to the Merger
TDR	Troubled debt restructuring
Trust III	HECO Capital Trust III
Utilities	Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited
VIE	Variable interest entity

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, obtaining (and the timing and terms and conditions of) required governmental and regulatory approvals, and 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 potential delay by the Public Utilities Commission of the State of Hawaii (PUC) in considering (and potential disapproval of actual or proposed) renewable energy proposals and related costs; reliance by the Utilities on outside parties such as the state, independent power producers (IPPs) and developers; and uncertainties surrounding technologies, solar power, wind power, proposed undersea cables, biofuels, environmental assessments required to meet RPS goals and the impacts of implementation of the renewable energy proposals 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 proposed and being developed in response to the four orders that the PUC issued in April 2014, in which the PUC: directed the Utilities to develop, among other things, Power Supply Improvement Plans, a Demand Response Portfolio Plan and a Distributed Generation Interconnection Plan; described the PUC's inclinations on the future of Hawaii's electric utilities and the vision, business strategies and regulatory policy changes required to align the Utilities' business model with customer interests and the state's public policy goals; and emphasized the need to "leap ahead" of other states in creating a 21st century generation system and modern transmission and distribution grids;
- capacity and supply constraints or difficulties, especially if generating units (utility-owned or IPP-owned) fail or measures such as demand-side management (DSM), distributed generation (DG), 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 or modifications 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 potential that, as 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;
- 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 the Utilities 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 and in other reports (e.g., “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K) previously and subsequently filed by HEI and/or Hawaiian Electric with the Securities and Exchange Commission (SEC).

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three months ended September 30		Nine months ended September 30	
(in thousands, except per share amounts)	2015	2014	2015	2014
Revenues				
Electric utility	$648,127	$803,565	$1,779,732	$2,262,056
Bank	69,091	63,536	199,222	187,771
Other	(42)	(5)	(4)	(325)
Total revenues	717,176	867,096	1,978,950	2,449,502
Expenses				
Electric utility	565,470	727,409	1,573,278	2,045,166
Bank	48,289	43,030	138,063	126,778
Other	6,322	4,621	28,278	13,125
Total expenses	620,081	775,060	1,739,619	2,185,069
Operating income (loss)				
Electric utility	82,657	76,156	206,454	216,890
Bank	20,802	20,506	61,159	60,993
Other	(6,364)	(4,626)	(28,282)	(13,450)
Total operating income	97,095	92,036	239,331	264,433
Interest expense, net—other than on deposit liabilities and other bank borrowings	(19,229)	(19,170)	(57,235)	(58,648)
Allowance for borrowed funds used during construction	737	740	1,918	1,877
Allowance for equity funds used during construction	2,057	1,937	5,366	4,933
Income before income taxes	80,660	75,543	189,380	212,595
Income taxes	29,516	27,264	70,406	76,302
Net income	51,144	48,279	118,974	136,293
Preferred stock dividends of subsidiaries	471	471	1,417	1,417
Net income for common stock	$50,673	$47,808	$117,557	$134,876
Basic earnings per common share	$0.47	$0.47	$1.11	$1.33
Diluted earnings per common share	$0.47	$0.46	$1.11	$1.32
Dividends per common share	$0.31	$0.31	$0.93	$0.93
Weighted-average number of common shares outstanding	107,457	102,416	106,067	101,768
Net effect of potentially dilutive shares	281	610	280	710
Adjusted weighted-average shares	107,738	103,026	106,347	102,478

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

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

	Three months ended September 30		Nine months ended September 30	
(in thousands)	2015	2014	2015	2014
Net income for common stock	$50,673	$47,808	$117,557	$134,876
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 ($2,543), $1,094, ($2,382) and ($2,249) for the respective periods	3,851	(1,657)	3,608	3,406
Less: reclassification adjustment for net realized gains included in net income, net of taxes of nil, nil, nil and $1,132 for the respective periods	—	—	—	(1,715)
Derivatives qualified as cash flow hedges:				
Less: reclassification adjustment to net income, net of tax benefits of $37, $37, $112 and $112 for the respective periods	59	59	177	177
Retirement benefit plans:				
Less: amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $3,583, $1,900, $10,760, and $5,438 for the respective periods	5,611	2,829	16,850	8,515
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $3,243, $1,619, $9,729 and $4,858 for the respective periods	(5,091)	(2,542)	(15,274)	(7,627)
Other comprehensive income (loss), net of taxes	4,430	(1,311)	5,361	2,756
Comprehensive income attributable to Hawaiian Electric Industries, Inc.	$55,103	$46,497	$122,918	$137,632

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

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

(dollars in thousands)	September 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$228,417	$175,542
Accounts receivable and unbilled revenues, net	305,448	313,696
Available-for-sale investment securities, at fair value	785,837	550,394
Stock in Federal Home Loan Bank, at cost	10,678	69,302
Loans receivable held for investment, net	4,487,130	4,389,033
Loans held for sale, at lower of cost or fair value	5,598	8,424
Property, plant and equipment, net of accumulated depreciation of $2,318,227 and $2,250,950 at the respective dates	4,317,121	4,148,774
Regulatory assets	897,948	905,264
Other	453,099	542,523
Goodwill	82,190	82,190
Total assets	$11,573,466	$11,185,142
Liabilities and shareholders' equity		
Liabilities		
Accounts payable	$152,896	$186,425
Interest and dividends payable	25,914	25,336
Deposit liabilities	4,825,954	4,623,415
Short-term borrowings—other than bank	171,992	118,972
Other bank borrowings	368,593	290,656
Long-term debt, net—other than bank	1,506,546	1,506,546
Deferred income taxes	643,951	633,570
Regulatory liabilities	362,251	344,849
Contributions in aid of construction	495,667	466,432
Defined benefit pension and other postretirement benefit plans liability	607,682	632,845
Other	456,726	531,230
Total liabilities	9,618,172	9,360,276
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: 107,458,641 shares and 102,565,266 shares at the respective dates	1,627,259	1,521,297
Retained earnings	315,759	296,654
Accumulated other comprehensive loss, net of tax benefits	(22,017)	(27,378)
Total shareholders' equity	1,921,001	1,790,573
Total liabilities and shareholders' equity	$11,573,466	$11,185,142

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

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

	Common stock		Retained	Accumulated other comprehensive	
(in thousands, except per share amounts)	Shares	Amount	Earnings	income (loss)	Total
Balance, December 31, 2014	102,565	$1,521,297	$296,654	$ (27,378)	$1,790,573
Net income for common stock	—	—	117,557	—	117,557
Other comprehensive income, net of taxes	—	—	—	5,361	5,361
Issuance of common stock, net	4,894	105,962	—	—	105,962
Common stock dividends ($0.93 per share)	—	—	(98,452)	—	(98,452)
Balance, September 30, 2015	107,459	$1,627,259	$315,759	$ (22,017)	$1,921,001
Balance, December 31, 2013	101,260	$1,488,126	$255,030	$ (16,750)	$1,726,406
Net income for common stock	—	—	134,876	—	134,876
Other comprehensive income, net of taxes	—	—	—	2,756	2,756
Issuance of common stock, net	1,302	31,130	—	—	31,130
Common stock dividends ($0.93 per share)	—	—	(94,711)	—	(94,711)
Balance, September 30, 2014	102,562	$1,519,256	$295,195	$ (13,994)	$1,800,457

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

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

Nine months ended September 30	2015	2014
(in thousands)		
Cash flows from operating activities		
Net income	$118,974	$136,293
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	137,721	129,574
Other amortization	12,080	5,081
Provision for loan losses	5,436	3,566
Loans receivable originated and purchased, held for sale	(226,081)	(102,523)
Proceeds from sale of loans receivable, held for sale	231,509	106,918
Increase in deferred income taxes	2,723	50,296
Share-based compensation expense	4,780	7,200
Excess tax benefits from share-based payment arrangements	(1,012)	(271)
Allowance for equity funds used during construction	(5,366)	(4,933)
Change in cash overdraft	—	(1,038)
Changes in assets and liabilities		
Decrease (increase) in accounts receivable and unbilled revenues, net	8,248	(18,943)
Decrease in fuel oil stock	35,942	15,784
Increase in regulatory assets	(23,458)	(17,531)
Decrease in accounts, interest and dividends payable	(34,171)	(51,199)
Change in prepaid and accrued income taxes and utility revenue taxes	(8,458)	(2,044)
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	418	(2,594)
Change in other assets and liabilities	(38,033)	(56,326)
Net cash provided by operating activities	221,252	197,310
Cash flows from investing activities		
Available-for-sale investment securities purchased	(326,965)	(130,578)
Principal repayments on available-for-sale investment securities	96,053	52,678
Proceeds from sale of available-for-sale investment securities	—	79,564
Purchase of stock from Federal Home Loan Bank	(1,600)	—
Redemption of stock from Federal Home Loan Bank	60,223	17,482
Net increase in loans held for investment	(101,771)	(184,766)
Proceeds from sale of real estate acquired in settlement of loans	1,258	2,930
Proceeds from sale of real estate held-for-sale	7,280	—
Capital expenditures	(276,186)	(260,616)
Contributions in aid of construction	34,627	21,740
Other	4,084	674
Net cash used in investing activities	(502,997)	(400,892)
Cash flows from financing activities		
Net increase in deposit liabilities	202,539	161,320
Net increase in short-term borrowings with original maturities of three months or less	53,020	45,094
Net increase (decrease) in retail repurchase agreements	67,934	(6,306)
Proceeds from other bank borrowings	50,000	90,000
Repayments of other bank borrowings	(40,000)	(65,000)
Proceeds from issuance of long-term debt	—	125,000
Repayment of long-term debt	—	(100,000)
Excess tax benefits from share-based payment arrangements	1,012	271

Net proceeds from issuance of common stock	104,437	26,910
Common stock dividends	(98,452)	(94,674)
Preferred stock dividends of subsidiaries	(1,417)	(1,417)
Other	(4,453)	(5,097)
Net cash provided by financing activities	334,620	176,101
Net increase (decrease) in cash and cash equivalents	52,875	(27,481)
Cash and cash equivalents, beginning of period	175,542	220,036
Cash and cash equivalents, end of period	$228,417	$192,555

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

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

(in thousands)	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Revenues	$648,127	$803,565	$1,779,732	$2,262,056
Expenses				
Fuel oil	195,633	309,432	518,670	865,989
Purchased power	160,518	192,882	445,809	546,121
Other operation and maintenance	103,653	108,313	306,519	295,483
Depreciation	44,356	41,594	132,840	124,790
Taxes, other than income taxes	61,310	75,188	169,440	212,783
Total expenses	565,470	727,409	1,573,278	2,045,166
Operating income	82,657	76,156	206,454	216,890
Allowance for equity funds used during construction	2,057	1,937	5,366	4,933
Interest expense and other charges, net	(16,557)	(16,414)	(49,170)	(48,989)
Allowance for borrowed funds used during construction	737	740	1,918	1,877
Income before income taxes	68,894	62,419	164,568	174,711
Income taxes	25,390	23,042	60,351	64,686
Net income	43,504	39,377	104,217	110,025
Preferred stock dividends of subsidiaries	228	228	686	686
Net income attributable to Hawaiian Electric	43,276	39,149	103,531	109,339
Preferred stock dividends of Hawaiian Electric	270	270	810	810
Net income for common stock	$43,006	$38,879	$102,721	$108,529

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

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

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

(in thousands)	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Net income for common stock	$43,006	$38,879	$102,721	$108,529
Other comprehensive income, net of taxes:				
Retirement benefit plans:				
Less: amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $3,245, $1,626, $9,735 and $4,878 for the respective periods	5,095	2,552	15,285	7,659
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $3,243, $1,619, $9,729 and $4,858 for the respective periods	(5,091)	(2,542)	(15,274)	(7,627)
Other comprehensive income, net of taxes	4	10	11	32
	$43,010	$38,889	$102,732	$108,561

Comprehensive income attributable to Hawaiian
Electric Company, Inc.

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

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

(dollars in thousands, except par value)	September 30, 2015	December 31, 2014
Assets		
Property, plant and equipment		
Utility property, plant and equipment		
Land	$52,283	$52,299
Plant and equipment	6,216,114	6,009,482
Less accumulated depreciation	(2,246,614)	(2,175,510)
Construction in progress	196,681	158,616
Utility property, plant and equipment, net	4,218,464	4,044,887
Nonutility property, plant and equipment, less accumulated depreciation of $1,228 and $1,227 at respective dates	6,562	6,563
Total property, plant and equipment, net	4,225,026	4,051,450
Current assets		
Cash and cash equivalents	10,704	13,762
Customer accounts receivable, net	162,468	158,484
Accrued unbilled revenues, net	123,578	137,374
Other accounts receivable, net	4,763	4,283
Fuel oil stock, at average cost	70,104	106,046
Materials and supplies, at average cost	58,973	57,250
Prepayments and other	46,891	66,383
Regulatory assets	79,950	71,421
Total current assets	557,431	615,003
Other long-term assets		
Regulatory assets	817,998	833,843
Unamortized debt expense	7,586	8,323
Other	75,951	81,838
Total other long-term assets	901,535	924,004
Total assets	$5,683,992	$5,590,457
Capitalization and liabilities		
Capitalization		
Common stock ($6 2/3 par value, authorized 50,000,000 shares; outstanding 15,805,327 shares)	$105,388	$105,388
Premium on capital stock	578,930	578,938
Retained earnings	1,032,690	997,773
Accumulated other comprehensive income, net of income taxes-retirement benefit plans	56	45
Common stock equity	1,717,064	1,682,144
Cumulative preferred stock — not subject to mandatory redemption	34,293	34,293
Long-term debt, net	1,206,546	1,206,546
Total capitalization	2,957,903	2,922,983
Commitments and contingencies (Note 4)		
Current liabilities		
Short-term borrowings from non-affiliates	94,995	—
Accounts payable	124,779	163,934
Interest and preferred dividends payable	25,078	22,316
Taxes accrued	193,575	250,402

Regulatory liabilities	347	632
Other	75,450	65,146
Total current liabilities	514,224	502,430
Deferred credits and other liabilities		
Deferred income taxes	625,422	602,872
Regulatory liabilities	361,904	344,217
Unamortized tax credits	83,648	79,492
Defined benefit pension and other postretirement benefit plans liability	570,028	595,395
Other	75,196	76,636
Total deferred credits and other liabilities	1,716,198	1,698,612
Contributions in aid of construction	495,667	466,432
Total capitalization and liabilities	$5,683,992	$5,590,457

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

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

(in thousands)	Common stock Shares	Amount	Premium on capital stock	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2014	15,805	$105,388	$578,938	$997,773	$45	$1,682,144
Net income for common stock	—	—	—	102,721	—	102,721
Other comprehensive income, net of taxes	—	—	—	—	11	11
Common stock dividends	—	—	—	(67,804)	—	(67,804)
Common stock issuance expenses	—	—	(8)	—	—	(8)
Balance, September 30, 2015	15,805	$105,388	$578,930	$1,032,690	$56	$1,717,064
Balance, December 31, 2013	15,429	$102,880	$541,452	$948,624	$608	$1,593,564
Net income for common stock	—	—	—	108,529	—	108,529
Other comprehensive income, net of taxes	—	—	—	—	32	32
Common stock dividends	—	—	—	(66,369)	—	(66,369)
Common stock issuance expenses	—	—	(5)	—	—	(5)
Balance, September 30, 2014	15,429	$102,880	$541,447	$990,784	$640	$1,635,751

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

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

Nine months ended September 30	2015	2014
(in thousands)		
Cash flows from operating activities		
Net income	$104,217	$110,025
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	132,840	124,790
Other amortization	9,827	4,289
Increase in deferred income taxes	58,211	67,392
Change in tax credits, net	4,247	5,816
Allowance for equity funds used during construction	(5,366)	(4,933)
Change in cash overdraft	—	(1,038)
Changes in assets and liabilities		
Increase in accounts receivable	(4,464)	(19,731)
Decrease in accrued unbilled revenues	13,796	971
Decrease in fuel oil stock	35,942	15,784
Increase in materials and supplies	(1,723)	(1,595)
Increase in regulatory assets	(23,458)	(17,531)
Decrease in accounts payable	(40,375)	(53,280)
Change in prepaid and accrued income taxes and revenue taxes	(61,635)	(18,075)
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	331	(748)
Change in other assets and liabilities	(20,804)	(41,969)
Net cash provided by operating activities	201,586	170,167
Cash flows from investing activities		
Capital expenditures	(265,521)	(253,718)
Contributions in aid of construction	34,627	21,740
Other	778	713
Net cash used in investing activities	(230,116)	(231,265)
Cash flows from financing activities		
Common stock dividends	(67,804)	(66,369)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(1,496)	(1,496)
Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	94,995	84,987
Other	(223)	(462)
Net cash provided by financing activities	25,472	16,660
Net decrease in cash and cash equivalents	(3,058)	(44,438)
Cash and cash equivalents, beginning of period	13,762	62,825
Cash and cash equivalents, end of period	$10,704	$18,387

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1 · Basis of presentation
The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim financial information, the instructions to SEC Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited consolidated financial statements and the following notes should be read in conjunction with the audited consolidated financial statements and the notes thereto in HEI's and Hawaiian Electric's Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, for the year ended December 31, 2014.
In the opinion of HEI's and Hawaiian Electric's management, the accompanying unaudited consolidated financial statements contain all material adjustments required by GAAP to fairly state consolidated HEI's and Hawaiian Electric's financial positions as of September 30, 2015 and December 31, 2014, the results of their operations for the three and nine months ended September 30, 2015 and 2014, and their cash flows for the nine months ended September 30, 2015 and 2014. All such adjustments are of a normal recurring nature, unless otherwise disclosed below or elsewhere in this Form 10-Q (see "Revision of previously issued financial statements" below) or other referenced material. Results of operations for interim periods are not necessarily indicative of results for the full year.
Prior period financial statements reflect the retrospective application of Accounting Standards Update (ASU) No. 2014-01, "Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects," which was adopted as of January 1, 2015 and did not have a material impact on the Company's financial condition or results of operations. See "Investments in qualified affordable housing projects" in Note 11.
Revision of previously issued financial statements. Management discovered that the Utilities' capital expenditures on HEI's and Hawaiian Electric's Consolidated Statements of Cash Flows did not correctly account for the beginning of period unpaid invoices and accruals (that were paid in cash during the period) and is revising its previously filed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 to correct for such misstatement by adjusting cash used for "Capital expenditures" (investing activity) and change in accounts payable (operating activity).
Management also discovered that the eliminating journal entry to offset the Hawaiian Electric consolidated net operating loss deferred tax asset did not properly reflect the adjustment on the components of income taxes (current and deferred federal income taxes) and is revising its previously filed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 to correct for such misstatement by adjusting "Increase in deferred income taxes" and "Change in other assets and liabilities" (operating activities).
Management determined it needed to correct the presentation for share-based compensation expense on the Company's Consolidated Statement of Cash Flows, resulting in a corresponding change in the "Change in other assets and liabilities" amount.
These revisions to correct for such misstatements and other immaterial items do not impact HEI's and Hawaiian Electric's previously reported overall net change in cash and cash equivalents in their Consolidated Statements of Cash Flows for any period presented. Additionally, these revisions do not impact HEI's and Hawaiian Electric's Consolidated Balance Sheets or Consolidated Statements of Income for any period presented. The Company and Hawaiian Electric have concluded that the impact of the misstatements is not material to the previously issued Consolidated Statements of Cash Flows for the nine months ended September 30, 2014.

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

(in thousands)	As previously filed	As revised	Difference
Nine months ended September 30, 2014			
Consolidated Statements of Cash Flows			
HEI consolidated			
Cash flows from operating activities			
Other amortization	$5,454	$5,081	$(373)
Increase in deferred income taxes (1)	49,270	50,296	1,026
Share-based compensation expense	—	7,200	7,200
Decrease in accounts, interest and dividends payable	(75,812)	(51,199)	24,613
Change in other assets and liabilities (1)	(47,760)	(56,326)	(8,566)
Net cash provided by operating activities	173,410	197,310	23,900
Cash flows from investing activities			
Capital expenditures	(236,003)	(260,616)	(24,613)
Cash flows from investing activities-Other	(39)	674	713
Net cash used in investing activities	(376,992)	(400,892)	(23,900)
Hawaiian Electric consolidated			
Cash flows from operating activities			
Other amortization	4,662	4,289	(373)
Decrease in accounts payable	(77,893)	(53,280)	24,613
Change in other assets and liabilities	(41,629)	(41,969)	(340)
Net cash provided by operating activities	146,267	170,167	23,900
Cash flows from investing activities			
Capital expenditures	(229,105)	(253,718)	(24,613)
Cash flows from investing activities-Other	—	713	713
Net cash used in investing activities	(207,365)	(231,265)	(23,900)
Note 10			
HEI consolidated and Hawaiian Electric consolidated			
Additions to electric utility property, plant and equipment - unpaid invoices and accruals (investing) (in millions)	40	15	(25)

(1) As previously filed and adjusted by ASU No. 2014-01 (see Note 11).

2 · Proposed Merger

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

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

shareholders a special dividend of $0.50 per share.

The closing of the Merger is subject to various conditions, including, among others, (i) the approval of holders of 75% of the outstanding shares of HEI common stock, (ii) effectiveness of the registration statement for the NEE common stock to be issued in the Initial Merger and the listing of such shares on the New York Stock Exchange, (iii) expiration or termination of the applicable Hart-Scott-Rodino Act waiting period, (iv) receipt of all required regulatory approvals from, among others, the Federal Energy Regulatory Commission (FERC), the Federal Communications Commission and the Hawaii Public Utilities

Commission, (v) the absence of any law or judgment in effect or pending in which a governmental entity has imposed or is seeking to impose a legal restraint that would prevent or make illegal the closing of the Merger, (vi) the absence of any material adverse effect with respect to either HEI or NEE, (vii) subject to certain exceptions, the accuracy of the representations and warranties of, and compliance with covenants by, each of the parties to the Merger Agreement, (viii) receipt by each of HEI and NEE of a tax opinion of its counsel regarding the tax treatment of the transactions contemplated by the Merger Agreement, (ix) effectiveness of the ASB Hawaii registration statement necessary to consummate the Spin-Off, and (x) the determination by each of HEI and NEE that, upon completion of the Spin-Off, HEI will no longer be a savings and loan holding company or be deemed to control ASB for purposes of the Home Owners' Loan Act. The Spin-Off will be subject to various conditions, including, among others, the approval of the Federal Reserve Board (FRB).

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

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

On March 26, 2015, NEE’s Form S-4, which registers NEE common stock expected to be issued in the Initial Merger, was declared effective. HEI Shareholders approved the proposed merger agreement with NEE on June 10, 2015.

On March 30, 2015, ASB Hawaii filed its Form 10, the registration statement for the ASB Hawaii shares expected to be distributed in the Spin-Off.

On August 7, 2015, each of HEI and NEE filed their respective notifications pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), with the U.S. Department of Justice and Federal Trade Commission. On September 8, 2015, the mandatory, pre-merger waiting period under the HSR Act expired. Accordingly, the condition to the closing of the Merger with respect to the expiration of the applicable waiting period under the HSR Act has been satisfied.

PUC application. In January 2015, NEE and Hawaiian Electric filed an application with the PUC requesting approval of the proposed Merger (under which Hawaiian Electric would become a wholly-owned indirect subsidiary of NEE). The application also requests modification of certain conditions agreed to by HEI and the PUC in 1982 for the merger and corporate restructuring of Hawaiian Electric, and confirmation that with approval of the Merger Agreement, the recommendations in the 1995 Dennis Thomas Report (resulting from a proceeding to review the relationship between HEI and Hawaiian Electric and any impact of HEI’s then diversified activities on the Utilities) will no longer be applicable. The application includes a commitment that, for at least four years following the completion of the transaction, Hawaiian Electric will not submit any applications seeking a general base rate increase and will reduce the RAM, which amounts to approximately $60 million in cumulative savings for customers, over the four-year base rate moratorium, subject to certain exceptions and conditions, including that the following remain in effect: the revenue balancing account (RBA) and RAM tariff provisions, the Renewable Energy Infrastructure Program, and Renewable Energy Infrastructure Surcharge, the integrated resource planning/DSM Recovery tariff provisions, the ECAC tariff provisions, the PPA tariff provision and the Pension and OPEB tracker mechanism. Various parties, including governmental, environmental and commercial interests, have been allowed to intervene in the proceeding. Twenty-eight interveners filed testimonies in the docket in July 2015. Eleven interveners recommended the merger not be approved, eleven recommended approval only with conditions, and six did not specifically make a recommendation either way. The Consumer Advocate filed its testimonies on August 10, 2015, stating that the Applicants have not justified that the proposed transaction is in the public interest but that if the Consumer Advocate’s recommended conditions were adopted, the results would reflect substantial net benefits that would support a finding that the proposed transaction is in the public interest. Among its recommended conditions was a rate plan to permanently reduce the Utilities’ rates by approximately $62 million annually. On August 31, 2015, the applicants filed their responsive testimonies, offering a number of additional commitments, including:

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subject to PUC approval, completing full smart meter deployment to all customers by December 31, 2019

- reflecting 100% of all net non-fuel O&M savings achieved by the Utilities and limiting non-fuel O&M expenses to levels no higher than the non-fuel O&M in 2014, adjusted for inflation, in the revenue requirements in the first rate case following the four-year rate case moratorium
- establishing a funding mechanism of $2.5 million per year during the four-year rate case moratorium to be used for purposes in the public interest at the PUC's discretion and direction
- commiting to corporate giving of at least $2.2 million for a minimum of 10 years post-closing

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• committing to not selling the Utilities or their holding company for at least 10 years post-closing

On October 7, 2015, the other parties filed rebuttal testimonies. On October 16, 2015, the Applicants filed surrebuttal testimonies. Evidentiary hearings are scheduled from November 30 to December 16, 2015.

Other requests. On January 29, 2015, HEI submitted its application to the FERC requesting all necessary authorization to consummate the transactions contemplated by the Merger Agreement. The FERC issued its order authorizing the proposed merger on March 27, 2015.

On February 1, 2015, HEI submitted a letter to the FRB advising the FRB of its intent to seek deregistration as a Savings & Loan Holding Company (SLHC).

Pending litigation and other matters.

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

Since the December 3, 2014 announcement of the merger agreement, eight purported class action complaints were filed in the Circuit Court of the First Circuit for the State of Hawaii by alleged stockholders of HEI against HEI, Hawaiian Electric (in one complaint), the individual directors of HEI, NEE and NEE's acquisition subsidiaries. The lawsuits are captioned as follows: Miller v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2531-12 KTN (December 15, 2014) (the Miller Action); Walsh v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2541-12 JHC (December 15, 2014) (the Walsh Action); Stein v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2555-12 KTN (December 17, 2014) (the Stein Action); Brown v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2643-12 RAN (December 30, 2014) (the Brown Action); Cohn v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2642-12 KTN (December 30, 2014) (the Cohn State Action); Guenther v. Watanabe, et al., Case No. 15-1-003-01 ECN (January 2, 2015) (the Guenther Action); Hudson v. Hawaiian Electric Industries, Inc., et al., Case No. 15-1-0013-01 JHC (January 5, 2015) (the Hudson Action); Grieco v. Hawaiian Electric Industries, Inc., et al., Case No. 15-1-0094-01 KKS (January 21, 2015) (the Grieco Action). On January 12, 2015, plaintiffs in the Miller Action, the Walsh Action, the Stein Action, the Brown Action, the Guenther Action, and the Hudson Action filed a motion to consolidate their actions and to appoint co-lead counsel. The Court held a hearing on this motion on February 13, 2015 and granted consolidation and appointment of co-lead counsel on March 6, 2015. On March 10, 2015, plaintiffs in the consolidated state action filed an amended complaint, and added J.P. Morgan Securities, LLC (JP Morgan), which was HEI's financial advisor for the Merger, as a defendant. On March 17, 2015, plaintiffs in the consolidated state action moved for limited expedited discovery. After limited discovery, the parties in the consolidated state action stipulated and the Court ordered that the deadline for defendants to respond to the amended complaint is extended indefinitely. On April 30, 2015, the Court consolidated the seven state actions under the caption, In re Consolidated HEI Shareholder Cases. On January 23, 2015, the Cohn State Action was voluntarily dismissed. Thereafter, the same alleged stockholder plaintiff filed a purported class action complaint in the United States District Court for the District of Hawaii against HEI, the individual directors of HEI, NEE and NEE's acquisition subsidiaries. The lawsuit is captioned as Cohn v. Hawaiian Electric Industries, Inc. et al., 15-cv-00029-JMS-KSC (January 27, 2015) (the Cohn Federal Action). On May 28, 2015, the parties agreed to stay the Cohen Federal Action pending the outcome of the consolidated state action.

The actions allege, among other things, that members of HEI's Board breached their fiduciary duties in connection with the proposed transaction, and that the Merger Agreement involves an unfair price, was the product of an inadequate sales process, and contains unreasonable deal protection devices that purportedly preclude competing offers. The complaints further allege that HEI, NEE and/or its acquisition subsidiaries aided and abetted the purported breaches of fiduciary duty. The plaintiffs in these lawsuits seek, among other things, (i) a declaration that the Merger Agreement was entered into in breach of HEI's directors' fiduciary duties, (ii) an injunction enjoining the HEI Board from consummating the Merger, (iii) an order directing the HEI Board to exercise their duties to obtain a transaction which is in the best interests of HEI's stockholders, (iv) a rescission of the Merger to the extent that it is consummated, and/or (v) damages suffered as a result of the defendants' alleged actions. Plaintiffs in the consolidated state action

also allege that JP Morgan had a conflict of interest in advising HEI because JP Morgan and its affiliates had business ties to and investments in NEE. The consolidated state action also alleges that the HEI board of directors violated its fiduciary duties by omitting material facts from the Registration Statement on Form S-4. In addition, the Cohn Federal Action alleges that the HEI board of directors violated its fiduciary duties and federal securities laws by omitting material facts from the Registration Statement on Form S-4.

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

3 · Segment financial information

(in thousands)	Electric utility	Bank	Other	Total
Three months ended September 30, 2015				
Revenues from external customers	$648,121	$69,091	$(36)	$717,176
Intersegment revenues (eliminations)	6	—	(6)	—
Revenues	648,127	69,091	(42)	717,176
Income (loss) before income taxes	68,894	20,802	(9,036)	80,660
Income taxes (benefit)	25,390	7,351	(3,225)	29,516
Net income (loss)	43,504	13,451	(5,811)	51,144
Preferred stock dividends of subsidiaries	498	—	(27)	471
Net income (loss) for common stock	43,006	13,451	(5,784)	50,673
Nine months ended September 30, 2015				
Revenues from external customers	$1,779,708	$199,222	$20	$1,978,950
Intersegment revenues (eliminations)	24	—	(24)	—
Revenues	1,779,732	199,222	(4)	1,978,950
Income (loss) before income taxes	164,568	61,159	(36,347)	189,380
Income taxes (benefit)	60,351	21,382	(11,327)	70,406
Net income (loss)	104,217	39,777	(25,020)	118,974
Preferred stock dividends of subsidiaries	1,496	—	(79)	1,417
Net income (loss) for common stock	102,721	39,777	(24,941)	117,557
Assets (at September 30, 2015)	5,683,992	5,855,497	33,977	11,573,466
Three months ended September 30, 2014				
Revenues from external customers	$803,559	$63,536	$1	$867,096
Intersegment revenues (eliminations)	6	—	(6)	—
Revenues	803,565	63,536	(5)	867,096
Income (loss) before income taxes	62,419	20,506	(7,382)	75,543
Income taxes (benefit)	23,042	7,253	(3,031)	27,264
Net income (loss)	39,377	13,253	(4,351)	48,279
Preferred stock dividends of subsidiaries	498	—	(27)	471
Net income (loss) for common stock	38,879	13,253	(4,324)	47,808
Nine months ended September 30, 2014				
Revenues from external customers	$2,262,038	$187,771	$(307)	$2,449,502
Intersegment revenues (eliminations)	18	—	(18)	—
Revenues	2,262,056	187,771	(325)	2,449,502
Income (loss) before income taxes	174,711	60,994	(23,110)	212,595
Income taxes (benefit)	64,686	21,806	(10,190)	76,302
Net income (loss)	110,025	39,188	(12,920)	136,293
Preferred stock dividends of subsidiaries	1,496	—	(79)	1,417
Net income (loss) for common stock	108,529	39,188	(12,841)	134,876
Assets (at December 31, 2014)	5,590,457	5,566,222	28,463	11,185,142

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

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

stock.

4 · Electric utility segment

Revenue taxes. The Utilities' revenues include amounts for the recovery of various Hawaii state revenue taxes. Revenue taxes are generally recorded as an expense in the period the related revenues are recognized. However, the Utilities' revenue tax payments to the taxing authorities in the period are based on the prior year's billed revenues (in the case of public service company taxes and PUC fees) or on the current year's cash collections from electric sales (in the case of franchise taxes). The Utilities included in the third quarters of 2015 and 2014 and the nine months ended September 30, 2015 and 2014 approximately $58 million, $74 million, $159 million and $203 million, respectively, of revenue taxes in "revenues" and in "taxes, other than income taxes" expense.
Recent tax developments. The Utilities adopted the safe harbor guidelines with respect to network (transmission and distribution) assets in 2011 and, in June 2013, the IRS released a revenue procedure relating to deductions for repairs of generation property, which provides some guidance (that is elective) for taxpayers that own steam or electric generation property. This guidance defines the relevant components of generation property to be used in determining whether such component expenditures should be deducted as repairs or capitalized and depreciated by taxpayers. The revenue procedure also provides an extrapolation methodology that could be used by taxpayers in determining deductions for prior years' repairs without going back to the specific documentation of those years. The guidance does not provide specific methods for determining the repairs amount. Management has adopted a method consistent with this guidance in its 2014 tax return filed in September 2015.
Unconsolidated variable interest entities.

HECO Capital Trust III. HECO Capital Trust III (Trust III) was created and exists for the exclusive purposes of (i) issuing in March 2004 2,000,000 6.50% Cumulative Quarterly Income Preferred Securities, Series 2004 (2004 Trust Preferred Securities) ($50 million aggregate liquidation preference) to the public and trust common securities ($1.5 million aggregate liquidation preference) to Hawaiian Electric, (ii) investing the proceeds of these trust securities in 2004 Debentures issued by Hawaiian Electric in the principal amount of $31.5 million and issued by Hawaii Electric Light and Maui Electric each in the principal amount of $10 million, (iii) making distributions on these trust securities and (iv) engaging in only those other activities necessary or incidental thereto. The 2004 Trust Preferred Securities are mandatorily redeemable at the maturity of the underlying debt on March 18, 2034, which maturity may be extended to no later than March 18, 2053; and are currently redeemable at the issuer's option without premium. The 2004 Debentures, together with the obligations of the Utilities under an expense agreement and Hawaiian Electric's obligations under its trust guarantee and its guarantee of the obligations of Hawaii Electric Light and Maui Electric under their respective debentures, are the sole assets of Trust III. Taken together, Hawaiian Electric's obligations under the Hawaiian Electric debentures, the Hawaiian Electric indenture, the subsidiary guarantees, the trust agreement, the expense agreement and trust guarantee provide, in the aggregate, a full, irrevocable and unconditional guarantee of payments of amounts due on the Trust Preferred Securities. Trust III has at all times been an unconsolidated subsidiary of Hawaiian Electric. Since Hawaiian Electric, as the holder of 100% of the trust common securities, does not absorb the majority of the variability of Trust III, Hawaiian Electric is not the primary beneficiary and does not consolidate Trust III in accordance with accounting rules on the consolidation of VIEs. Trust III's balance sheets as of September 30, 2015 and December 31, 2014 each consisted of $51.5 million of 2004 Debentures; $50.0 million of 2004 Trust Preferred Securities; and $1.5 million of trust common securities. Trust III's income statements for the nine months ended September 30, 2015 and 2014 each consisted of $2.5 million of interest income received from the 2004 Debentures; $2.4 million of distributions to holders of the Trust Preferred Securities; and $75,000 of common dividends on the trust common securities to Hawaiian Electric. As long as the 2004 Trust Preferred Securities are outstanding, Hawaiian Electric is not entitled to receive any funds from Trust III other than pro-rata distributions, subject to certain subordination provisions, on the trust common securities. In the event of a default by Hawaiian Electric in the performance of its obligations under the 2004 Debentures or under its Guarantees, or in the event any of the Utilities elect to defer payment of interest on any of their respective 2004 Debentures, then Hawaiian Electric will be subject to a number of restrictions, including a prohibition on the payment of dividends on its common stock.

Power purchase agreements. As of September 30, 2015, the Utilities had six PPAs for firm capacity and other PPAs with smaller IPPs and Schedule Q providers (i.e., customers with cogeneration and/or small power production facilities with a capacity of 100 kilowatts or less who buy power from or sell power to the Utilities), none of which are currently required to be consolidated as VIEs. Purchases from all IPPs were as follows:

	Three months ended September 30		Nine months ended September 30	
(in millions)	2015	2014	2015	2014
AES Hawaii	$37	$38	$97	$107
Kalaeloa	51	73	143	214
HEP	13	16	34	36
Hpower	18	18	50	50
Puna Geothermal Venture	8	10	22	36
Hawaiian Commercial & Sugar (HC&S)	2	2	7	50
Other IPPs	32	36	93	53
Total IPPs	$161	$193	$446	$546

In October 2015 the amended PPA between Maui Electric and HC&S became effective following PUC approval in September 2015. The amended PPA amends the pricing structure and rates for energy sold to Maui Electric, eliminates the capacity payment to HC&S, eliminates Maui Electric's minimum purchase obligation, provides that Maui Electric may request up to 4 MW of scheduled energy during certain months, and be provided up to 16 MW of emergency power, and extends the term of the PPA from 2014 to 2017.

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

Since 2004, Hawaiian Electric has continued its efforts to obtain from the IPPs the information necessary to make the determinations required under accounting standards for VIEs. In each year from 2005 to 2014, the Utilities sent letters to the identified IPPs requesting the required information. All of these IPPs declined to provide the necessary information, except that Kalaeloa later agreed to provide the information pursuant to the amendments to its PPA (see below) and an entity owning a wind farm provided information as required under its PPA. Management has concluded that the consolidation of two entities owning wind farms was not required as Hawaii Electric Light and Maui Electric do not have variable interests in the entities because the PPAs do not require them to absorb any variability of the entities. If the requested information is ultimately received from the remaining IPPs, a possible outcome of future analyses of such information is the consolidation of one or more of such IPPs in the Consolidated Financial Statements. The consolidation of any significant IPP could have a material effect on the Consolidated Financial Statements, including the recognition of a significant amount of assets and liabilities and, if such a consolidated IPP were operating at a loss and had insufficient equity, the potential recognition of such losses. If the Utilities determine they are required to consolidate the financial statements of such an IPP and the consolidation has a material effect, the Utilities would retrospectively apply accounting standards for VIEs.

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

Hawaiian Electric and Kalaeloa are in negotiations to address the upcoming end of the PPA term in May 2016. The PPA will automatically extend on a month-to-month basis as long as the parties are still negotiating in good faith. The month-to-month term extensions shall end 60 days after either party notifies the other in writing that negotiations have

terminated.

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

facility's remaining useful life. Although Hawaiian Electric absorbs fuel price variability for the remaining term of the PPA, the PPA does not currently expose Hawaiian Electric to losses as the fuel and fuel related energy payments under the PPA have been approved by the PUC for recovery from customers through base electric rates and through Hawaiian Electric's ECAC to the extent the fuel and fuel related energy payments are not included in base energy rates. As of September 30, 2015, Hawaiian Electric's accounts payable to Kalaeloa amounted to $13 million.
Commitments and contingencies.
Fuel contracts. The Utilities have contractual agreements to purchase minimum quantities of fuel oil, diesel fuel and biodiesel for multi-year periods, some through October 2017. Fossil fuel prices are tied to the market prices of crude oil and petroleum products in the Far East and U.S. West Coast and the biodiesel price is tied to the market prices of animal fat feedstocks in the U.S. West Coast and U.S. Midwest.
On August 27, 2014, Chevron Products Company (Chevron) and Hawaiian Electric entered into a first amendment of their Low Sulfur Fuel Oil Supply Contract, which was approved by the PUC in March 2015. The Amendment reduces the price of fuel above certain volumes, allows for increases in the volume of fuel, and modifies the specification of certain petroleum products supplied under the contract. In addition, Chevron agreed to supply a blend of low sulfur fuel oil (LSFO) and diesel as soon as January 2016 (for supply through the end of the contract term, December 31, 2016) to help Hawaiian Electric meet more stringent Environmental Protection Agency (EPA) air emission requirements known as Mercury and Air Toxics Standards.
The Utilities are parties to amended contracts for the supply of industrial fuel oil and diesel fuels with Chevron and Hawaii Independent Energy, LLC (HIE), respectively, which were scheduled to end December 31, 2015. In August 2014, Chevron and the Utilities entered into a third amendment to the Inter-Island Industrial Fuel Oil and Diesel Fuel Supply Contract, which amendment extended the term of the contract through December 31, 2016 and provided for automatic renewal for annual terms thereafter unless earlier terminated by either party. In February 2015, Hawaiian Electric executed a similar extension, through December 31, 2016, of the corresponding Inter-Island Industrial Fuel Oil and Diesel Fuel Supply Contract with HIE.
In June 2015, the Utilities issued Requests for Proposals (RFP) for most of their fuel needs with supplies beginning in 2017 after the expiration of Chevron LSFO and Chevron/HIE Interisland contracts on December 31, 2016. Proposals were received in July 2015 and new contracts, which would be subject to PUC approval, are expected to be executed by December 31, 2015.
AES Hawaii, Inc. Under a PPA entered into in March 1988, as amended, for a period of 30 years beginning September 1992, Hawaiian Electric agreed to purchase 180 MW of firm capacity from AES Hawaii. In August 2012, Hawaiian Electric filed an application with the PUC seeking an exemption from the PUC's Competitive Bidding Framework to negotiate an amendment to the PPA to purchase 186 MW of firm capacity, and amend the energy pricing formula in the PPA. The PUC approved the exemption in April 2013. However, Hawaiian Electric and AES Hawaii had not been able to reach agreement on an amendment. In June 2015, AES Hawaii filed an arbitration demand regarding a dispute about whether Hawaiian Electric was obligated to buy up to 9 MW of additional capacity based on a 1992 letter. Hawaiian Electric believes the claim asserted in the arbitration demand is without merit and has responded to the arbitration demand. In October 2015, AES Hawaii and Hawaiian Electric entered into a Settlement Agreement to stay the arbitration proceeding through February 15, 2016. The Settlement Agreement includes certain conditions precedent, which if satisfied will release the parties of the claims under the arbitration proceeding. Among the conditions precedent is the successful negotiation of an amendment to the existing purchase power agreement and PUC approval of such amendment.
On November 13, 2015, Hawaiian Electric entered into Amendment No. 3 to the PPA, subject to PUC approval. Amendment No. 3 has more favorable pricing which is passed on to customers, and among other things, provides (1) for an increase in firm capacity of up to 9 MW (the Additional Capacity) above the 180 MW capacity of the AES Hawaii facility, subject to a demonstration of such increased available capacity, (2) for the payment for the Additional Capacity to include a Priority Peak Capacity Charge, a Non-Peak Capacity Charge, a Priority Peak Energy Charge and a Non-Peak Energy Charge, and (3) that AES will make certain operational commitments to improve reliability, and Hawaiian Electric will pay a reliability bonus according to a schedule for reduced Full Plant Trips.
There are other conditions precedent, which are still required to be satisfied under the Settlement Agreement.

Liquefied natural gas. On May 31, 2015 the previous August 2014 agreement with Fortis BC Energy Inc. (Fortis) for liquefaction capacity for liquefied natural gas (LNG) was superseded with a liquefaction Heads of Agreement by and between FortisBC Holdings Inc. and Hawaiian Electric Company, Inc. The agreement, which is subject to Hawaii PUC approval, other regulatory approvals and permits, and other conditions precedent before it becomes effective, provides for LNG liquefaction capacity purchases of 700,000 tonnes per year for the first five years, 600,000 tonnes per year for the next five years, and 500,000 tonnes per year for the last ten years. Fortis must also obtain regulatory and other approvals for the agreement to

become effective. The Fortis agreement is assignable and can be assigned to the selected bidder in the Utilities' RFP for the supply of containerized LNG and will help ensure that liquefaction capacity is available at pricing that management believes will lower customer bills.

Utility projects. Many public utility projects require PUC approval and various permits from other governmental agencies. Difficulties in obtaining, or the inability to obtain, the necessary approvals or permits can result in significantly increased project costs or even cancellation of projects. In the event a project does not proceed, or if it becomes probable the PUC will disallow cost recovery for all or part of a project, project costs may need to be written off in amounts that could result in significant reductions in Hawaiian Electric's consolidated net income.

Enterprise Resource Planning/Enterprise Asset Management (ERP/EAM) Implementation Project. The Utilities submitted its Enterprise Information System Roadmap to the PUC in June 2014 and refiled an application for an ERP/EAM implementation project in July 2014 with an estimated cost of $82.4 million. The refiled application addressed the concerns raised by the PUC, in the initial application, regarding the benefits to customers of completing this project. The estimated cost of the project included the cost of ERP software that had been purchased and recorded as a deferred cost.

To address the Consumer Advocate's positon that the proceeding should be stayed to determine if the project as proposed in the application is reasonable and necessary for future operations as an indirect NEE subsidiary, in May 2015, the Utilities filed a report describing the impact the pending merger with NEE would have on the scope, costs and benefits of the ERP/EAM project. The report indicated that the two viable courses of action for replacing its current system are Option A (to proceed with the project as initially scoped in the Application, and Option B (to move the Utilities to NEE's existing ERP/EAM solutions). Option B is estimated to cost approximately $20.8 million less than Option A, but can only be pursued if the merger is approved. The Utilities requested the PUC to approve the commencement of work on Option B if the merger is approved; and in the alternative, Option A if the merger is not approved.

In October 2015, the PUC issued a D&O (1) finding that there is a need to replace the existing ERP/EAM system, and (2) deferring any ruling on whether it is reasonable and in the public interest for the Utilities to commence with the project under Options B or A.

In the D&O, the PUC denied the Utilities request to defer the cost for the ERP software purchased in 2012. As a result, the Utilities expensed the ERP software costs of $4.8 million in the third quarter of 2015.

The D&O requires the Utilities to file their bottom-up low-level benefits analysis for both Options A and B, and specified additional information required as part of the their Cost/Benefit Analysis, which will be due by April 8, 2016.

Management cannot predict the further outcome of this proceeding.

Schofield Generating Station Project. In August 2012, the PUC approved a waiver from the competitive bidding framework to allow Hawaiian Electric to negotiate with the U.S. Army for the construction of a 50 MW utility owned and operated firm, renewable and dispatchable generation facility at Schofield Barracks. In September 2015, the PUC approved Hawaiian Electric's application to expend $167 million for the project. In approving the project, the PUC placed a cap of $167 million for the project, stated 90% of the cap is allowed for cost recovery through cost recovery mechanisms other than base rates, and stated the $167 million cap will be adjusted downward due to any reduction in the cost of the engine contract due to a reduction in the foreign exchange rate. Hawaiian Electric is required to take all necessary steps to lock in the lowest possible exchange rate. The generating station is now expected to be placed in service in the first quarter of 2018.

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

On August 14, 2014, the EPA published in the Federal Register the final regulations required by section 316(b) of the CWA designed to protect aquatic organisms from adverse impacts associated with existing power plant cooling water intake structures. The regulations were effective October 14, 2014 and apply to the cooling water systems for the

steam generating units at Hawaiian Electric's power plants on the island of Oahu. The regulations prescribe a process, including a number of required site-specific studies, for states to develop facility-specific entrainment and impingement controls to be incorporated in each facility's National Pollutant Discharge Elimination System permit. In the case of Hawaiian Electric's power plants, there are a number of studies that have yet to be completed before Hawaiian Electric and the State of Hawaii Department of Health (DOH) can determine what entrainment or impingement controls, if any, might be necessary at the affected facilities to comply with the new 316(b) rule.

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On February 16, 2012, the Federal Register published the EPA's final rule establishing the EPA's National Emission Standards for Hazardous Air Pollutants for fossil-fuel fired steam electrical generating units (EGUs). The final rule, known as the Mercury and Air Toxics Standards (MATS), applies to the 14 EGUs at Hawaiian Electric's power plants. MATS establishes the Maximum Achievable Control Technology standards for the control of hazardous air pollutants emissions from new and existing EGUs. Based on a review of the final rule and the benefits and costs of alternative compliance strategies, Hawaiian Electric has selected a MATS compliance strategy based on switching to lower emission fuels. The use of lower emission fuels will provide for MATS compliance at lower overall costs and avoid the reduction in operational flexibility imposed by emissions control equipment. Hawaiian Electric requested and received a one-year extension, resulting in a MATS compliance date of April 16, 2016. Hawaiian Electric submitted to the EPA a Petition for Reconsideration and Stay dated April 16, 2012, which asked the EPA to revise an emissions standard for non-continental oil-fired EGUs on the grounds that the promulgated standard was incorrectly derived. On April 21, 2015, the EPA denied Hawaiian Electric's Petition. Hawaiian Electric appealed the EPA's denial of the Petition. On June 29, 2015, the U.S. Supreme Court found that the EPA's determination that it was appropriate and "necessary" to regulate hazardous air pollutants from power plants was flawed because the EPA did not take the costs of compliance into account. The Supreme Court sent the MATS rule case back to the D.C. Circuit Court of Appeals for further proceedings. The likely timeframe for action by the Circuit Court is December 2015. Pending action by the Circuit Court, Hawaiian Electric will continue with its plan to comply with the MATS requirements by April 16, 2016.

On February 6, 2013, the EPA issued a guidance document titled "Next Steps for Area Designations and Implementation of the Sulfur Dioxide National Ambient Air Quality Standard," which outlines a process that will provide the states additional flexibility and time for their development of one-hour sulfur dioxide (SO_2) National Ambient Air Quality Standard (NAAQS) implementation plans. In August 2015, the EPA published the final data requirements rule for states to characterize their air quality in relation to the one-hour SO_2 NAAQS. Under this rule, the EPA expects to designate areas as attaining, or not attaining, the one-hour SO_2 NAAQS in December 2017 or December 2020, depending on whether the area was characterized through modeling or monitoring. Hawaiian Electric will work with the DOH in implementing the one-hour SO_2 NAAQS and in developing cost-effective strategies for NAAQS compliance, if needed.

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

Hawaiian Electric, Hawaii Electric Light and Maui Electric, like other utilities, periodically encounter petroleum or other chemical releases into the environment associated with current or previous operations. The Utilities report and take action on these releases when and as required by applicable law and regulations. The Utilities believe the costs of responding to such releases identified to date will not have a material adverse effect, individually or in the aggregate, on Hawaiian Electric's consolidated results of operations, financial condition or liquidity.

Potential Clean Air Act Enforcement. On July 1, 2013, Hawaii Electric Light and Maui Electric received a letter from the U.S. Department of Justice (DOJ) asserting potential violations of the Prevention of Significant Deterioration and Title V requirements of the Clean Air Act involving the Hill and Kahului Power Plants. The parties are continuing to negotiate toward a resolution of the DOJ's claims. As part of the ongoing negotiations, the DOJ proposed in November 2014 entering into a consent decree pursuant to which the Utilities would install certain pollution controls and pay a penalty. The Utilities are currently reviewing the proposal, but are unable to estimate the amount or effect of a consent decree, if any, at this time.

Former Molokai Electric Company generation site. In 1989, Maui Electric acquired by merger Molokai Electric Company. Molokai Electric Company had sold its former generation site (Site) in 1983, but continued to operate at the Site under a lease until 1985. The EPA has since performed Brownfield assessments of the Site that identified environmental impacts in the subsurface. Although Maui Electric never operated at the Site and operations there had stopped four years before the merger, in discussions with the EPA and the DOH, Maui Electric agreed to undertake

additional investigations at the Site and an adjacent parcel that Molokai Electric Company had used for equipment storage (the Adjacent Parcel) to determine the extent of impacts of subsurface contaminants. A 2011 assessment by a Maui Electric contractor of the Adjacent Parcel identified environmental impacts, including elevated polychlorinated biphenyls (PCBs) in the subsurface soils. In cooperation with the DOH and EPA, Maui Electric is further investigating the Site and the Adjacent Parcel to determine the extent of impacts of PCBs, residual fuel oils, and other subsurface contaminants. Maui Electric has a reserve balance of $3.6 million as of September 30, 2015 for the additional investigation and estimated cleanup costs at the Site and the Adjacent Parcel; however, final costs of remediation will depend on the results of continued investigation. The final site investigation plan was submitted to the DOH and EPA in December 2014 for their approval. The DOH formally approved the investigation plan on September 14, 2015. The EPA determined that their formal approval is not required until the next phase of work that determines cleanup actions for the site. Sampling of the site per the investigation plan will proceed after securing required permits and access agreements.

Pearl Harbor sediment study. In July 2014, the U.S. Navy notified Hawaiian Electric of the Navy's determination that Hawaiian Electric is responsible for cleanup of PCB contamination in sediment in the area offshore of the Waiau Power Plant. The Navy has also requested that Hawaiian Electric reimburse the costs incurred by the Navy to date to investigate the area, and is asking Hawaiian Electric to engage in negotiations regarding the financing and undertaking of future response actions to address the sediment contamination offshore from the Waiau Power Plant. The extent of the contamination, the appropriate remedial measures to address it, and Hawaiian Electric's potential responsibility for any associated costs, including any past costs incurred by the Navy, have not yet been determined. The Navy has completed a remedial investigation and a feasibility study (FS) for the remediation of contaminated sediment at several locations in Pearl Harbor. The Navy's study identified elevated levels of PCBs in the sediment in East Loch of Pearl Harbor, offshore from the Waiau Power Plant. The Navy issued its Final FS Report on June 29, 2015. The Navy has indicated that additional data collection is necessary and will be conducted as part of the remedial design, and that the results will be used to finalize the remediation plan and to better define the areas where remediation is necessary to reduce the potential environmental risks. Hawaiian Electric has requested to participate with the Navy in the preparation of the remedial design for the contaminated sediment offshore from the Waiau Power Plant, and in particular in the development of the work plan for additional data collection, and refinement of the environmental risk analysis, the final remedy, and the response costs for the offshore area. To date, Hawaiian Electric's role in the development of the remedial design and response costs is uncertain.

On March 23, 2015, Hawaiian Electric received a letter from the EPA requesting that Hawaiian Electric submit a work plan to assess potential sources and extent of PCB contamination onshore at the Waiau Power Plant. Hawaiian Electric submitted a sampling and analysis work plan to the EPA and the DOH. The extent of the onshore contamination, the appropriate remedial measures to address it, and any associated costs have not yet been determined.

In December 2014, Hawaiian Electric recorded a reserve of $0.8 million for investigation of certain onshore areas at the Waiau Power Plant that may have, in the past, contributed to the PCB contamination in the offshore sediment and for ongoing review and assessment of the Navy's remediation plan for the offshore sediment. The final remediation costs will depend on the results of the onshore investigation and assessment of potential source control requirements, as well as the further investigation of contaminated sediment offshore from the Waiau Power Plant.

Hawaiian Electric has also conducted a search for other potential sources of sediment contamination in the Waiau area that are unrelated to electric power generation at its Waiau Power Plant. Hawaiian Electric has identified a potential source east of the plant: a former Naval Reserve (a Formerly Used Defense Site (FUDS)) where a used drum storage area, a waste oil burning pit, and an oil/water separator were operated by the Navy from the 1940s until approximately 1962. This FUDS is located on the property currently occupied by the City and County (C&C) of Honolulu's Neal S. Blaisdell Park. To further assess this former Naval Reserve site, Hawaiian Electric has requested environmental investigation reports, environmental data, and permits for this property and the adjacent Waimalu Stream (e.g., dredging permits and related environmental impact assessments and studies) from several federal and state agencies, as well as the C&C of Honolulu. The contribution of PCBs to sediment contamination in East Loch from this potential source has not yet been determined.

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

In July 2007, Act 234, which requires a statewide reduction of GHG emissions by January 1, 2020 to levels at or below the statewide GHG emission levels in 1990, became law in Hawaii. On June 20, 2014, the Governor signed the final regulations required to implement Act 234 (i.e., the final GHG rule), which went into effect on June 30, 2014. In general, pursuant to Act 234 and corresponding regulations, affected sources that have the potential to emit GHGs in excess of established thresholds are required to reduce GHG emissions by 16% below 2010 emission levels by 2020. In accordance with the GHG rule, the Utilities submitted their Emissions Reduction Plan to the DOH on June 30, 2015. Hawaiian Electric, Maui Electric, and Hawaii Electric Light have a total of 11 facilities affected by the state GHG rule. Hawaiian Electric made use of the partnering provisions in the DOH GHG rule to prepare a single

Emissions Reduction Plan that covers all 11 of the Utilities' affected facilities, and has committed to a 16% reduction in GHG emissions company-wide. Pursuant to the State's GHG rule, the DOH will incorporate the proposed facility-specific GHG emission limits into each facility's covered source permit based on the 2020 levels specified in Hawaiian Electric's approved Emissions Reduction Plan. The GHG rule also requires affected sources to pay an annual fee that is based on tons per year of GHG emissions starting on the effective date of the regulations. The fee for the Utilities is estimated to be approximately $0.5 million annually. The State GHG is aligned with the federal "Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule" (GHG Tailoring Rule, see below) and creates new thresholds for GHG emissions from new and existing stationary source facilities. The latest assessment of the proposed federal and final state GHG rules is that the continued growth in renewable power generation will significantly reduce the compliance costs and risk for the Utilities.

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

As part of President Obama's Climate Action Plan, the EPA has been directed to adopt GHG emission limits for new and existing EGUs. The EPA issued the final federal rule for GHG emission reductions from existing EGUs, also known as the Clean Power Plan, on August 3, 2015. The final federal GHG rule for existing EGUs sets interim state-wide emissions limits for the 48 contiguous states that must be met on average from 2022 through 2029; final limits will apply from 2030. The EPA did not issue final guidelines for Alaska, Hawaii, Puerto Rico, or Guam because the Best System of Emission Reduction established for the contiguous states is not appropriate for these locations. The EPA said it will work with the state and territorial governments for Alaska, Hawaii, Puerto Rico, and Guam and other stakeholders to gather additional information regarding the emissions reduction measures available in these jurisdictions, particularly with respect to renewable generation. Hawaiian Electric plans to participate in this process. Management's latest assessment of the Clean Power Plan is that the continued growth of renewable power generation and the expected implementation of LNG by the Utilities in the future will significantly reduce the compliance costs and risk for the Utilities. To date, no timetable has been established by the EPA to develop GHG emission limits for Alaska, Hawaii, Puerto Rico, or Guam.

The Utilities have taken, and continue to identify opportunities to take, direct action to reduce GHG emissions from their operations, including, but not limited to, supporting DSM programs that foster energy efficiency, using renewable resources for energy production and purchasing power from IPPs generated by renewable resources, burning renewable biodiesel in Hawaiian Electric's Campbell Industrial Park combustion turbine No. 1 (CIP CT-1), using biodiesel for startup and shutdown of selected Maui Electric generating units, and testing biofuel blends in other Hawaiian Electric and Maui Electric generating units. The Utilities are also working with the State of Hawaii and other entities to pursue the use of LNG as a cleaner and lower-cost fuel to replace, at least in part, the petroleum oil that would otherwise be used. Management is unable to evaluate the ultimate impact on the Utilities' operations of more comprehensive GHG regulations that might be promulgated; however, the various initiatives that the Utilities are pursuing are likely to provide a sound basis for appropriately managing the Utilities' carbon footprint and thereby meet both state and federal GHG reduction goals.

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. This effect could potentially result in impacts to coastal and other low-lying areas (where much of the Utilities' electric infrastructure is sited), and result in increased flooding and storm damage due to heavy rainfall, increased rates of beach erosion, saltwater intrusion into freshwater aquifers and terrestrial ecosystems, and higher water tables in low-lying areas. The effects of climate change on the weather (for example, more intense or more frequent rain events, flooding, or hurricanes), sea levels, and freshwater 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.

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

Hawaiian Electric has recorded estimated AROs related to removing retired generating units at its Honolulu and Waiau power plants. These removal projects are ongoing, with significant activity and expenditures occurring in 2014 in partial settlement of these liabilities. Both removal projects are expected to continue through 2015.

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

	Nine months ended September 30	
(in thousands)	2015	2014
Balance, beginning of period	$29,419	$43,106
Accretion expense	18	816
Liabilities incurred	—	—
Liabilities settled	(2,349)	(11,338)
Revisions in estimated cash flows	—	—
Balance, end of period	$27,088	$32,584

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

On May 31, 2013, as provided for in its original order issued in 2010 approving decoupling and citing three years of implementation experience for Hawaiian Electric, the PUC opened an investigative docket to review whether the decoupling mechanisms are functioning as intended, are fair to the Utilities and their ratepayers, and are in the public interest. The PUC affirmed its support for the continuation of the sales decoupling (RBA) mechanism and stated its interest in evaluating the RAM to ensure it provides the appropriate balance of risks, costs, incentives and performance requirements, as well as administrative efficiency, and whether the current interest rate applied to the outstanding RBA balance is reasonable. In October 2013, the PUC issued orders that bifurcated the proceeding (into Schedule A and Schedule B issues).

On February 7, 2014, the PUC issued a decision and order (D&O) on the Schedule A issues, which made certain modifications to the decoupling mechanism. Specifically, the D&O required:

- An adjustment to the Rate Base RAM Adjustment to include 90% of the amount of the current RAM Period Rate Base RAM Adjustment that exceeds the Rate Base RAM Adjustment from the prior year, to be effective with the Utilities’ 2014 decoupling filing.
- Effective March 1, 2014, the interest rate to be applied on the outstanding RBA balances to be the short term debt rate used in each Utilities last rate case (ranging from 1.25% to 3.25%), instead of the 6% that had been previously approved.

As required, the Utilities have made available to the public, on the Utilities’ websites, performance metrics identified by the PUC. The Utilities are updating the performance metrics on a quarterly basis.

On March 31, 2015, the PUC issued an Order (the March Order) related to the Schedule B portion of the proceeding to make certain further modifications to the decoupling mechanism, and to establish a briefing schedule with respect to certain issues in the proceeding. The March Order modified the RAM portion of the decoupling mechanism to be capped at the lesser of the RAM Revenue Adjustment as currently determined (adjusted to eliminate the 90% limitation on the current RAM Period Rate Base RAM adjustment that was ordered in the Schedule A portion of the proceeding) and a RAM Revenue Adjustment calculated based on the cumulative annual compounded increase in Gross Domestic Product Price Index (GDPPI) applied to the 2014 annualized target revenues (adjusted for certain items specified in the Order). The 2014 annualized target revenues represent the target revenues from the last rate case, and RAM revenues, offset by earnings sharing credits, if any, allowed under the decoupling mechanism through the 2014 decoupling filing. The Utilities may apply to the PUC for approval of recovery of revenues for Major Projects (including related baseline projects grouped together for consideration as Major Projects) through the RAM

above the RAM cap or outside of the RAM through the Renewable Energy Infrastructure Program (REIP) surcharge or other adjustment mechanism. The RAM was amended on an interim basis pending the outcome of the PUC's review of the Utilities' Power Supply Improvement Plans. The triennial rate case cycle required under the decoupling mechanism continues to serve as the maximum period between the filing of general rate cases, and the amendments to the RAM do not limit or dilute the ordinary opportunities for the Utilities to seek rate relief according to conventional/traditional ratemaking procedures.

In making the modifications to the RAM Adjustment, the PUC stated the changes are designed to provide the PUC with control of and prior regulatory review over substantial additions to baseline projects between rate cases. The modifications do not deprive the Utilities of the opportunity to recover any prudently incurred expenditure or limit orderly recovery for necessary expanded capital programs.

The RBA, which is the sales decoupling component, was retained by the PUC in its March Order, and the PUC made no change in the authorized return on common equity. The PUC stated that performance-based ratemaking is not adopted at this time.

In accordance with the March Order, the Utilities and the Consumer Advocate filed on June 15, 2015, their Joint Proposed Modified REIP Framework/Standards and Guidelines regarding the eligibility of projects for cost recovery above the RAM Cap through the REIP surcharge. On the same date, the Utilities filed their proposed standards and guidelines on the eligibility of projects for cost recovery through the RAM above the RAM cap. On June 30, 2015, the Consumer Advocate filed comments on this proposal, and the County of Hawai‘i filed comments on both the REIP and the RAM above the RAM Cap proposals. On October 26, 2015, Hawaiian Electric filed an application to recover the revenue requirements associated with 2015 net plant additions in the amount of $40.3 million and other associated costs for its Underground Cable Program and the 138kV Transmission and 46kV Sub-Transmission Structures Major Baseline Projects through the RAM above the 2015 RAM Cap. On October 30, 2015, Maui Electric filed an application to recover the revenue requirements associated with 2015 net plant additions in the amount of $4.3 million and other associated costs for its transmission and distribution and generation plant reliability Major Baseline Project through the RAM above the 2015 RAM Cap.

On May 28, 2015, the PUC issued an Order (the May Order) related to the Utilities’ revised annual decoupling filing for tariffed rates submitted on April 15, 2015. The May Order ruled on the specific matters identified by the PUC in its information requests and by the Consumer Advocate in its Statement of Position. As a result of the May Order, on June 3, 2015, the Utilities filed revised tariff rates reflecting a reduction to the RAM portion of the tariff filing. The revision was made primarily to adjust the RAM to reflect reduced operations and maintenance expenses associated with the Utilities’ change in estimate related to the allocation of indirect costs implemented in 2014, and to exclude the GDPPI factor on the depreciation expense portion for the calculation of the 2015 RAM Cap. The May Order also requires a one-time adjustment to customers for the impact of bonus tax depreciation enacted in December 2014 on the RAM revenues used for the 2014 tariff filing.

The revised 2015 annual incremental RAM revenues for the Utilities amounts to $11.1 million compared to the $26.2 million filed on April 15, 2015 and the $31.6 million filed on March 31, 2015 based on the methodology prior to its modification in the March Order. The tariffed rates, which became effective on June 8, 2015, also include the collection or refund of the accrued RBA balance and associated revenue taxes as of December 31, 2014 and any accrued earnings sharing mechanism credits. The net refund to be provided by the three Utilities under the revised tariffs amounts to $0.4 million, compared to a collection of $14.7 million under the tariffs filed on April 15, 2015. Below is a summary of the 2015 incremental impact by company.

($ in millions)	Hawaiian Electric	Hawaii Electric Light	Maui Electric
Annual incremental RAM adjusted revenues	$8.1	$1.5	$1.5
Annual change in accrued earnings sharing credits to be refunded	$—	$—	$(0.1)
Annual change in accrued RBA balance as of December 31, 2014 (and associated revenue taxes) to be collected	$(9.2)	$0.1	$(2.2)
Net annual incremental amount to be collected under the tariffs	$(1.1)	$1.5	$(0.8)
Impact on typical residential customer monthly bill (in dollars) *	$(0.09)	$0.88	$(0.13)

Note: Columns may not foot due to rounding

* Based on a 500 kilowatthour (KWH) bill for Hawaiian Electric, Maui Electric, and Hawaii Electric Light. The bill impact for Lanai and Molokai customers is a decrease of $0.11, based on a 400 KWH bill.

As required by the March Order, the Parties filed initial and reply briefs related to the following issues: (1) whether, and if so, how the conventional performance incentive mechanisms proposed in this proceeding should be refined and implemented in this docket; (2) what are the appropriate steps, processes and timing for determining measures to improve the efficiency and effectiveness of the general rate case filing and review process; and (3) what are the appropriate steps, processes, and timing to further consider the merits of the proposed changes to the ECAC identified in this proceeding. In identifying the issue on possible changes to the ECAC, the PUC stated that changes to the ECAC should be made with great care to avoid unintended consequences.

The May Order indicates the PUC will review the change in estimate related to the allocation of indirect costs in a separate docket, and that the change will remain subject to adjustment pending the outcome of the review. Management cannot predict

the outcome of this review or the further outcome of this proceeding or the ultimate impact of the proceeding on the results of operation of the Utilities or the net financial impact on the Utilities and HEI.

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 monitored utility property and equipment near the affected areas and protected that property and equipment to the extent possible (e.g., building barriers around poles). In March 2015 Hawaii Electric Light filed an application with the PUC requesting approval to defer costs incurred to monitor, prepare for, respond to, and take other actions necessary in connection with the June 2014 Kilauea lava flow such that Hawaii Electric Light can request PUC approval to recover those costs in a future rate case. A PUC decision is pending.

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

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

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

- Distributed Generation Interconnection Plan - the Utilities' Plan was filed in August 2014.
- Plan to implement an on-going distribution circuit monitoring program to measure real-time voltage and other power quality parameters - the Utilities' Plan was filed in June 2014.
- Action Plan for improving efficiencies in the interconnection requirements studies - the Utilities' Plan was filed in May 2014.
- The Utilities are to file monthly reports providing details about interconnection requirements studies.
- Integrated interconnection queue for each distribution circuit for each island grid - the Utilities' integrated interconnection queue plan was filed in August 2014 and the integrated interconnection queues were implemented in January 2015.

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

Policy Statement and Order Regarding Demand Response Programs. The PUC provided guidance concerning the objectives and goals for demand response programs, and ordered the Utilities to develop an integrated Demand Response Portfolio Plan that will enhance system operations and reduce costs to customers. The Utilities' Plan was filed in July 2014. In August 2014, the PUC invited public comment on the Utilities' Plan. The Utilities submitted status updates in October 2014 and March 2015. On July 28, 2015, the PUC issued an order appointing a special advisor to guide, monitor, and review the Utility's Plan design and implementation.

Maui Electric Company 2012 Test Year Rate Case. The PUC acknowledged the extensive analyses provided by Maui Electric in its System Improvement and Curtailment Reduction Plan (SICRP) filed in September 2013. The PUC stated that it is encouraged by the changes in Maui Electric's operations that have led to a significant reduction in the curtailment of renewables, but stated that Maui Electric has not set forth a clearly defined path that addresses integration and curtailment of additional renewables. The PUC directed Maui Electric to present a PSIP to address present and future system operations so as to not only reduce curtailment, but to optimize the operation of its system

for its customers' benefit. The Maui Electric PSIP was filed in August 2014, and is currently being reviewed by the PUC in a new docket along with the Hawaiian Electric and Hawaii Electric Light PSIPs. Maui Electric filed its second annual SICRP status update in September 2015.

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

PSIPs for Hawaiian Electric, Maui Electric and Hawaii Electric Light were filed in August 2014. The PSIPs each include a tactical plan to transform how electric utility services will be offered to meet customer needs and produce higher levels of

renewable energy. Each plan contains a diversified mix of technologies, including significant distributed and utility scale renewable resources, that is expected to result, on a consolidated basis, in over 65% of the Utilities' energy being produced from renewable resources by 2030. Under these plans, the Utilities will support sustainable growth of rooftop solar, expand use of energy storage systems, empower customers by developing smart grids, offer new products and services to customers (e.g., community solar, microgrids and voluntary "demand response" programs), switch from high-priced oil to lower cost liquefied natural gas, retire higher-cost, less efficient existing oil-based steam generators, and lower full service residential customer bills in real dollars.

In November 2015, the PUC issued an order in the proceeding to review the PSIPs filed. The order provided observations and concerns on the PSIPs submitted and requires the Utilities to review and submit a Proposed Revision Plan by November 25, 2015. The PUC ordered the Proposed Revision Plan to include a schedule and a work plan to supplement, amend and update the PSIPs in order to address the PUC's observations and concerns. The Proposed Revision Plan would need to include an Interim PSIP Update filing by February 15, 2016 and updated PSIPs by April 1, 2016. The parties and participants will file comments on the Utilities Proposed Revision Plan by January 15, 2016, after which the PUC will provide further guidance regarding the substance and course of the proceeding.

Distributed Energy Resources (DER) Investigative Proceeding. In March 2015, the PUC issued an order to address DER issues.

On June 29, 2015, the Utilities submitted their final Statement of Position in the DER proceeding, which included:

(1) new pricing provisions for future rooftop photovoltaic (PV) systems,
(2) technical standards for advanced inverters,
(3) new options for customers including battery-equipped rooftop PV systems,
(4) a pilot time-of-use rate,
(5) an improved method of calculating the amount of rooftop PV that can be safely installed, and
(6) a streamlined and standardized PV application process.

On October 12, 2005, the PUC issued a D&O establishing DER reforms that: (1) promote rapid adoption of the next generation of solar PV and other distributed energy technologies; (2) encourage more competitive pricing of distributed energy resource systems; (3) lower overall energy supply costs for all customers; and (4) help to manage DER in terms of each island's limited grid capacity.

The D&O approved a customer self-supply tariff and a customer grid supply tariff to govern customer generators connected to the Utilities' systems. These tariffs replace the Net Energy Metering (NEM) program.

The D&O ordered the Utilities, among other things, (a) to collaborate with inverter manufacturers to develop a test plan by December 15, 2015 for the highest priority advanced inverter functions that are not UL certified and (b) to complete the circuit-level hosting capacity analysis for all islands in the Utilities' service territories by December 10, 2015. The DER Phase 2 of this docket will begin in November 2015 and will focus on further developing competitive markets for distributed energy resources, including storage.

On October 21, 2015, The Alliance for Solar Choice, LLC filed a complaint in Hawaii state court seeking an order enjoining the PUC from implementing the D&O and declaring that the D&O be reversed, modified, and/or remanded to the PUC for further proceedings.

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

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

the respective subsidiary is unable to make such payments.

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Income
Three months ended September 30, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$463,394	89,817	94,941	—	(25)	$ 648,127
Expenses						
Fuel oil	142,194	17,208	36,231	—	—	195,633
Purchased power	119,302	26,713	14,503	—	—	160,518
Other operation and maintenance	69,621	18,936	15,096	—	—	103,653
Depreciation	29,389	9,313	5,654	—	—	44,356
Taxes, other than income taxes	43,923	8,455	8,932	—	—	61,310
Total expenses	404,429	80,625	80,416	—	—	565,470
Operating income	58,965	9,192	14,525	—	(25)	82,657
Allowance for equity funds used during construction	1,714	148	195	—	—	2,057
Equity in earnings of subsidiaries	11,858	—	—	—	(11,858)	—
Interest expense and other charges, net	(11,468)	(2,674)	(2,440)	—	25	(16,557)
Allowance for borrowed funds used during construction	605	53	79	—	—	737
Income before income taxes	61,674	6,719	12,359	—	(11,858)	68,894
Income taxes	18,398	2,397	4,595	—	—	25,390
Net income	43,276	4,322	7,764	—	(11,858)	43,504
Preferred stock dividends of subsidiaries	—	133	95	—	—	228
Net income attributable to Hawaiian Electric	43,276	4,189	7,669	—	(11,858)	43,276
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income for common stock	$43,006	4,189	7,669	—	(11,858)	$ 43,006

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income
Three months ended September 30, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$43,006	4,189	7,669	—	(11,858)	$ 43,006
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Less: amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	5,095	682	626	—	(1,308)	5,095
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(5,091)	(683)	(627)	—	1,310	(5,091)
	4	(1)	(1)	—	2	4

Other comprehensive income (loss), net of taxes						
Comprehensive income attributable to common shareholder	$43,010	4,188	7,668	—	(11,856)	$ 43,010

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

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

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

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

Other comprehensive income (loss), net of taxes	10	(2)	—	—	2	10
Comprehensive income attributable to common shareholder	$38,889	3,299	6,499	—	(9,798)	$ 38,889

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Income
Nine months ended September 30, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$1,254,142	261,604	264,057	—	(71)	$1,779,732
Expenses						
Fuel oil	364,875	56,834	96,961	—	—	518,670
Purchased power	329,922	73,161	42,726	—	—	445,809
Other operation and maintenance	206,133	51,493	48,893	—	—	306,519
Depreciation	88,167	27,938	16,735	—	—	132,840
Taxes, other than income taxes	119,603	24,783	25,054	—	—	169,440
Total expenses	1,108,700	234,209	230,369	—	—	1,573,278
Operating income	145,442	27,395	33,688	—	(71)	206,454
Allowance for equity funds used during construction	4,418	458	490	—	—	5,366
Equity in earnings of subsidiaries	29,174	—	—	—	(29,174)	—
Interest expense and other charges, net	(33,996)	(7,946)	(7,299)	—	71	(49,170)
Allowance for borrowed funds used during construction	1,557	164	197	—	—	1,918
Income before income taxes	146,595	20,071	27,076	—	(29,174)	164,568
Income taxes	43,064	7,210	10,077	—	—	60,351
Net income	103,531	12,861	16,999	—	(29,174)	104,217
Preferred stock dividends of subsidiaries	—	400	286	—	—	686
Net income attributable to Hawaiian Electric	103,531	12,461	16,713	—	(29,174)	103,531
Preferred stock dividends of Hawaiian Electric	810	—	—	—	—	810
Net income for common stock	$102,721	12,461	16,713	—	(29,174)	$102,721

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income
Nine months ended September 30, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$102,721	12,461	16,713	—	(29,174)	$102,721
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Less: amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	15,285	2,046	1,878	—	(3,924)	15,285
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(15,274)	(2,050)	(1,882)	—	3,932	(15,274)
	11	(4)	(4)	—	8	11

Other comprehensive income (loss), net of taxes						
Comprehensive income attributable to common shareholder	$102,732	12,457	16,709	—	(29,166)	$ 102,732

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

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

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

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

Other comprehensive income (loss), net of taxes	32	(2)	—	—	2	32
Comprehensive income attributable to common shareholder	$108,561	13,306	15,268	—	(28,574)	$ 108,561

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consoli-dating adjustments	Hawaiian Electric Consolidated
Assets						
Property, plant and equipment						
Utility property, plant and equipment						
Land	$43,536	5,731	3,016	—	—	$52,283
Plant and equipment	3,941,406	1,202,463	1,072,245	—	—	6,216,114
Less accumulated depreciation	(1,293,046)	(491,606)	(461,962)	—	—	(2,246,614)
Construction in progress	166,027	14,111	16,543	—	—	196,681
Utility property, plant and equipment, net	2,857,923	730,699	629,842	—	—	4,218,464
Nonutility property, plant and equipment, less accumulated depreciation	4,948	82	1,532	—	—	6,562
Total property, plant and equipment, net	2,862,871	730,781	631,374	—	—	4,225,026
Investment in wholly owned subsidiaries, at equity	548,907	—	—	—	(548,907)	—
Current assets						
Cash and cash equivalents	7,665	2,399	539	101	—	10,704
Advances to affiliates	12,000	—	2,500	—	(14,500)	—
Customer accounts receivable, net	113,130	26,105	23,233	—	—	162,468
Accrued unbilled revenues, net	96,789	12,230	14,559	—	—	123,578
Other accounts receivable, net	12,538	1,168	1,770	—	(10,713)	4,763
Fuel oil stock, at average cost	49,496	8,442	12,166	—	—	70,104
Materials and supplies, at average cost	33,913	8,279	16,781	—	—	58,973
Prepayments and other	34,555	3,957	8,630	—	(251)	46,891
Regulatory assets	67,673	6,719	5,558	—	—	79,950
Total current assets	427,759	69,299	85,736	101	(25,464)	557,431
Other long-term assets						
Regulatory assets	612,347	106,581	99,070	—	—	817,998
Unamortized debt expense	5,171	1,312	1,103	—	—	7,586
Other	48,268	13,885	13,798	—	—	75,951
Total other long-term assets	665,786	121,778	113,971	—	—	901,535
Total assets	$4,505,323	921,858	831,081	101	(574,371)	$5,683,992
Capitalization and liabilities						
Capitalization						
Common stock equity	$1,717,064	286,788	262,018	101	(548,907)	$1,717,064
Cumulative preferred stock—not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	830,546	190,000	186,000	—	—	1,206,546
Total capitalization	2,569,903	483,788	453,018	101	(548,907)	2,957,903
Current liabilities						
Short-term borrowings from non-affiliates	94,995	—	—	—	—	94,995
Short-term borrowings from affiliate	2,500	12,000	—	—	(14,500)	—

Accounts payable	93,654	16,128	14,997	—	—	124,779
Interest and preferred dividends payable	17,370	3,553	4,161	—	(6)	25,078
Taxes accrued	134,076	30,252	29,498	—	(251)	193,575
Regulatory liabilities	—	—	347	—	—	347
Other	58,392	11,063	16,702	—	(10,707)	75,450
Total current liabilities	400,987	72,996	65,705	—	(25,464)	514,224
Deferred credits and other liabilities						
Deferred income taxes	444,261	91,571	89,276	—	314	625,422
Regulatory liabilities	248,068	83,194	30,642	—	—	361,904
Unamortized tax credits	53,491	15,258	14,899	—	—	83,648
Defined benefit pension and other postretirement benefit plans liability	430,838	66,632	72,872	—	(314)	570,028
Other	47,720	13,647	13,829	—	—	75,196
Total deferred credits and other liabilities	1,224,378	270,302	221,518	—	—	1,716,198
Contributions in aid of construction	310,055	94,772	90,840	—	—	495,667
Total capitalization and liabilities	$4,505,323	921,858	831,081	101	(574,371)	$5,683,992

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Balance Sheet
December 31, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consoli-dating adjustments	Hawaiian Electric Consolidated
Assets						
Property, plant and equipment						
Utility property, plant and equipment						
Land	$43,819	5,464	3,016	—	—	$ 52,299
Plant and equipment	3,782,438	1,179,032	1,048,012	—	—	6,009,482
Less accumulated depreciation	(1,253,866)	(473,933)	(447,711)	—	—	(2,175,510)
Construction in progress	134,376	12,421	11,819	—	—	158,616
Utility property, plant and equipment, net	2,706,767	722,984	615,136	—	—	4,044,887
Nonutility property, plant and equipment, less accumulated depreciation	4,950	82	1,531	—	—	6,563
Total property, plant and equipment, net	2,711,717	723,066	616,667	—	—	4,051,450
Investment in wholly owned subsidiaries, at equity	538,639	—	—	—	(538,639)	—
Current assets						
Cash and cash equivalents	12,416	612	633	101	—	13,762
Advances to affiliates	16,100	—	—	—	(16,100)	—
Customer accounts receivable, net	111,462	24,222	22,800	—	—	158,484
Accrued unbilled revenues, net	103,072	15,926	18,376	—	—	137,374
Other accounts receivable, net	9,980	981	2,246	—	(8,924)	4,283
Fuel oil stock, at average cost	74,515	13,800	17,731	—	—	106,046
Materials and supplies, at average cost	33,154	6,664	17,432	—	—	57,250
Prepayments and other	44,680	8,611	13,567	—	(475)	66,383
Regulatory assets	58,550	6,745	6,126	—	—	71,421
Total current assets	463,929	77,561	98,911	101	(25,499)	615,003
Other long-term assets						
Regulatory assets	623,784	107,454	102,788	—	(183)	833,843
Unamortized debt expense	5,640	1,438	1,245	—	—	8,323
Other	53,106	15,366	13,366	—	—	81,838
Total other long-term assets	682,530	124,258	117,399	—	(183)	924,004
Total assets	$4,396,815	924,885	832,977	101	(564,321)	$ 5,590,457
Capitalization and liabilities						
Capitalization						
Common stock equity	$1,682,144	281,846	256,692	101	(538,639)	$ 1,682,144
Cumulative preferred stock—not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	830,546	190,000	186,000	—	—	1,206,546
Total capitalization	2,534,983	478,846	447,692	101	(538,639)	2,922,983
Current liabilities						
Short-term borrowings from affiliate	—	10,500	5,600	—	(16,100)	—
Accounts payable	122,433	23,728	17,773	—	—	163,934
Interest and preferred dividends payable	15,407	3,989	2,931	—	(11)	22,316

Taxes accrued	176,339	37,548	36,807	—	(292)	250,402
Regulatory liabilities	191	—	441	—	—	632
Other	48,282	9,866	16,094	—	(9,096)	65,146
Total current liabilities	362,652	85,631	79,646	—	(25,499)	502,430
Deferred credits and other liabilities						
Deferred income taxes	429,515	90,119	83,238	—	—	602,872
Regulatory liabilities	236,727	77,707	29,966	—	(183)	344,217
Unamortized tax credits	49,865	14,902	14,725	—	—	79,492
Defined benefit pension and other postretirement benefit plans liability	446,888	72,547	75,960	—	—	595,395
Other	52,446	10,658	13,532	—	—	76,636
Total deferred credits and other liabilities	1,215,441	265,933	217,421	—	(183)	1,698,612
Contributions in aid of construction	283,739	94,475	88,218	—	—	466,432
Total capitalization and liabilities	$4,396,815	924,885	832,977	101	(564,321)	$5,590,457

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Changes in Common Stock Equity
Nine months ended September 30, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Balance, December 31, 2014	$1,682,144	281,846	256,692	101	(538,639)	$1,682,144
Net income for common stock	102,721	12,461	16,713	—	(29,174)	102,721
Other comprehensive income (loss), net of taxes	11	(4)	(4)	—	8	11
Common stock dividends	(67,804)	(7,515)	(11,382)	—	18,897	(67,804)
Common stock issuance expenses	(8)	—	(1)	—	1	(8)
Balance, September 30, 2015	$1,717,064	286,788	262,018	101	(548,907)	$1,717,064

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

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

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Cash Flows
Nine months ended September 30, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income	$103,531	12,861	16,999	—	(29,174)	$104,217
Adjustments to reconcile net income to net cash provided by operating activities:						
Equity in earnings of subsidiaries	(29,249)	—	—	—	29,174	(75)
Common stock dividends received from subsidiaries	18,972	—	—	—	(18,897)	75
Depreciation of property, plant and equipment	88,167	27,938	16,735	—	—	132,840
Other amortization	5,409	2,055	2,363	—	—	9,827
Increase in deferred income taxes	46,493	907	10,497	—	314	58,211
Change in tax credits, net	3,680	372	195	—	—	4,247
Allowance for equity funds used during construction	(4,418)	(458)	(490)	—	—	(5,366)
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	(4,226)	(2,071)	43	—	1,790	(4,464)
Decrease in accrued unbilled revenues	6,283	3,696	3,817	—	—	13,796
Decrease in fuel oil stock	25,019	5,358	5,565	—	—	35,942
Decrease (increase) in materials and supplies	(759)	(1,615)	651	—	—	(1,723)
Increase in regulatory assets	(19,138)	(3,944)	(376)	—	—	(23,458)
Decrease in accounts payable	(34,476)	(4,070)	(1,829)	—	—	(40,375)
Change in prepaid and accrued income and utility revenue taxes	(52,505)	(2,276)	(6,540)	—	(314)	(61,635)
Increase in defined benefit pension and other postretirement benefit plans liability	—	—	331	—	—	331
Change in other assets and liabilities	(16,626)	436	(2,824)	—	(1,790)	(20,804)
Net cash provided by operating activities	136,157	39,189	45,137	—	(18,897)	201,586
Cash flows from investing activities						
Capital expenditures	(204,406)	(34,048)	(27,067)	—	—	(265,521)
Contributions in aid of construction	30,153	2,940	1,534	—	—	34,627
Other	583	124	71	—	—	778
Advances from affiliates	4,100	—	(2,500)	—	(1,600)	—
Net cash used in investing activities	(169,570)	(30,984)	(27,962)	—	(1,600)	(230,116)
Cash flows from financing activities						
Common stock dividends	(67,804)	(7,515)	(11,382)	—	18,897	(67,804)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(810)	(400)	(286)	—	—	(1,496)
	97,495	1,500	(5,600)	—	1,600	94,995

Net increase (decrease) in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less						
Other	(219)	(3)	(1)	—	—	(223)
Net cash provided by (used in) financing activities	28,662	(6,418)	(17,269)	—	20,497	25,472
Net increase (decrease) in cash and cash equivalents	(4,751)	1,787	(94)	—	—	(3,058)
Cash and cash equivalents, beginning of period	12,416	612	633	101	—	13,762
Cash and cash equivalents, end of period	$7,665	2,399	539	101	—	$10,704

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

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income	$109,339	13,708	15,554	—	(28,576)	$110,025
Adjustments to reconcile net income to net cash provided by operating activities:						
Equity in earnings of subsidiaries	(28,651)	—	—	—	28,576	(75)
Common stock dividends received from subsidiaries	19,557	—	—	—	(19,482)	75
Depreciation of property, plant and equipment	81,903	26,926	15,961	—	—	124,790
Other amortization (1)	765	1,950	1,574	—	—	4,289
Increase in deferred income taxes	52,274	5,146	9,972	—	—	67,392
Change in tax credits, net	4,725	687	404	—	—	5,816
Allowance for equity funds used during construction	(4,557)	(328)	(48)	—	—	(4,933)
Change in cash overdraft	—	—	(1,038)	—	—	(1,038)
Changes in assets and liabilities:						
Increase in accounts receivable	(17,540)	(4,714)	(442)	—	2,965	(19,731)
Decrease (increase) in accrued unbilled revenues	(554)	626	899	—	—	971
Decrease in fuel oil stock	11,328	219	4,237	—	—	15,784
Decrease (increase) in materials and supplies	875	(987)	(1,483)	—	—	(1,595)
Decrease (increase) in regulatory assets	(15,159)	(2,594)	222	—	—	(17,531)
Decrease in accounts payable (2)	(52,684)	(454)	(142)	—	—	(53,280)
Change in prepaid and accrued income and utility revenue taxes	(18,131)	(1,310)	1,366	—	—	(18,075)
Decrease in defined benefit pension and other postretirement benefit plans liability	(422)	—	(326)	—	—	(748)
Change in other assets and liabilities (3)	(32,291)	(4,040)	(2,673)	—	(2,965)	(41,969)
Net cash provided by operating activities	110,777	34,835	44,037	—	(19,482)	170,167
Cash flows from investing activities						
Capital expenditures (4)	(181,565)	(34,565)	(37,588)	—	—	(253,718)
Contributions in aid of construction	12,352	6,229	3,159	—	—	21,740
Other (5)	537	154	22	—	—	713
Advances from (to) affiliates	(4,961)	1,000	—	—	3,961	—
Net cash used in investing activities	(173,637)	(27,182)	(34,407)	—	3,961	(231,265)
Cash flows from financing activities						
Common stock dividends	(66,369)	(8,720)	(10,762)	—	19,482	(66,369)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(810)	(400)	(286)	—	—	(1,496)
Net increase in short-term borrowings from non-affiliates and affiliate with	83,987	1,000	3,961	—	(3,961)	84,987

original maturities of three months or less						
Other	(337)	(50)	(75)	—	—	(462)
Net cash provided by (used in) financing activities	16,471	(8,170)	(7,162)	—	15,521	16,660
Net increase (decrease) in cash and cash equivalents	(46,389)	(517)	2,468	—	—	(44,438)
Cash and cash equivalents, beginning of period	61,245	1,326	153	101	—	62,825
Cash and cash equivalents, end of period	$14,856	809	2,621	101	—	$18,387

(1) Prior to revision, other amortization for Maui Electric and Hawaiian Electric Consolidated were $1,947 and $4,662, respectively.
(2) Prior to revision, decrease in accounts payable for Hawaiian Electric, Hawaii Electric Light, Maui Electric and Hawaiian Electric Consolidated, were $(70,916), $(1,807), $(5,170) and $(77,893), respectively.
(3) Prior to revision, changes in other assets and liabilities for Hawaiian Electric, Hawaii Electric Light, Maui Electric, Consolidating adjustments and Hawaiian Electric Consolidated were $(31,754), $(3,886), $(3,024), $(2,965) and $(41,629), respectively.
(4) Prior to revision, capital expenditures for Hawaiian Electric, Hawaii Electric Light, Maui Electric and Hawaiian Electric Consolidated, were $(163,333), $(33,212), $(32,560) and $(229,105), respectively.
(5) Prior to revision, cash flows from investing activities-other for Hawaiian Electric, Hawaii Electric Light, Maui Electric and Hawaiian Electric Consolidated, were nil.

5 · Bank segment

Selected financial information
American Savings Bank, F.S.B.
Statements of Income Data

	Three months ended September 30		Nine months ended September 30	
(in thousands)	2015	2014	2015	2014
Interest and dividend income				
Interest and fees on loans	$46,413	$45,532	$137,646	$133,065
Interest and dividends on investment securities	4,213	2,773	10,570	8,758
Total interest and dividend income	50,626	48,305	148,216	141,823
Interest expense				
Interest on deposit liabilities	1,355	1,312	3,881	3,774
Interest on other borrowings	1,515	1,438	4,468	4,263
Total interest expense	2,870	2,750	8,349	8,037
Net interest income	47,756	45,555	139,867	133,786
Provision for loan losses	2,997	1,550	5,436	3,566
Net interest income after provision for loan losses	44,759	44,005	134,431	130,220
Noninterest income				
Fees from other financial services	5,639	5,642	16,544	15,987
Fee income on deposit liabilities	5,883	5,109	16,622	14,175
Fee income on other financial products	2,096	1,971	6,088	6,325
Bank-owned life insurance	1,021	1,000	3,062	2,945
Mortgage banking income	1,437	875	5,327	1,749
Gains on sale of investment securities	—	—	—	2,847
Other income, net	2,389	634	3,363	1,920
Total noninterest income	18,465	15,231	51,006	45,948
Noninterest expense				
Compensation and employee benefits	22,728	19,892	66,813	60,050
Occupancy	4,128	4,517	12,250	12,959
Data processing	3,032	2,684	9,101	8,715
Services	2,556	2,580	7,730	7,708
Equipment	1,608	1,672	4,999	4,926
Office supplies, printing and postage	1,511	1,415	4,297	4,487
Marketing	934	948	2,619	2,690
FDIC insurance	809	840	2,393	2,441
Other expense	5,116	4,182	14,076	11,198
Total noninterest expense	42,422	38,730	124,278	115,174
Income before income taxes	20,802	20,506	61,159	60,994
Income taxes	7,351	7,253	21,382	21,806
Net income	$13,451	$13,253	$39,777	$39,188

American Savings Bank, F.S.B.
Statements of Comprehensive Income Data

(in thousands)	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Net income	$13,451	$13,253	$39,777	$39,188
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 $(2,543), $1,094, $(2,382) and $(2,249) for the respective periods	3,851	(1,657)	3,608	3,406
Less: reclassification adjustment for net realized gains included in net income, net of taxes of nil, nil, nil and $1,132 for the respective periods	—	—	—	(1,715)
Retirement benefit plans:				
Less: amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $249, $138, $763 and $424 for the respective periods	376	208	1,155	642
Other comprehensive income (loss), net of taxes	4,227	(1,449)	4,763	2,333
Comprehensive income	$17,678	$11,804	$44,540	$41,521

American Savings Bank, F.S.B.
Balance Sheets Data

(in thousands)	September 30, 2015		December 31, 2014	
Assets				
Cash and due from banks		$103,934		$107,233
Interest-bearing deposits		73,041		54,230
Available-for-sale investment securities, at fair value		785,837		550,394
Stock in Federal Home Loan Bank, at cost		10,678		69,302
Loans receivable held for investment		4,535,404		4,434,651
Allowance for loan losses		(48,274)		(45,618)
Net loans		4,487,130		4,389,033
Loans held for sale, at lower of cost or fair value		5,598		8,424
Other		307,089		305,416
Goodwill		82,190		82,190
Total assets		$5,855,497		$5,566,222
Liabilities and shareholder's equity				
Deposit liabilities—noninterest-bearing		$1,422,843		$1,342,794
Deposit liabilities—interest-bearing		3,403,111		3,280,621
Other borrowings		368,593		290,656
Other		103,553		118,363
Total liabilities		5,298,100		5,032,434
Commitments and contingencies				
Common stock		1		1
Additional paid in capital		339,980		338,411
Retained earnings		229,211		211,934
Accumulated other comprehensive loss, net of tax benefits				
Net unrealized gains on securities	$4,070		$462	
Retirement benefit plans	(15,865)	(11,795)	(17,020)	(16,558)
Total shareholder's equity		557,397		533,788
Total liabilities and shareholder's equity		$5,855,497		$5,566,222
Other assets				
Bank-owned life insurance		$136,969		$134,115
Premises and equipment, net		87,432		92,407
Prepaid expenses		3,879		3,196
Accrued interest receivable		14,577		13,632
Mortgage-servicing rights		12,258		11,540
Low-income housing equity investments		34,323		33,438
Real estate acquired in settlement of loans, net		247		891
Other		17,404		16,197
		$307,089		$305,416
Other liabilities				
Accrued expenses		$28,952		$37,880
Federal and state income taxes payable		21,565		28,642
Cashier's checks		25,852		20,509
Advance payments by borrowers		5,389		9,652
Other		21,795		21,680
		$103,553		$118,363

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

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Other borrowings consisted of securities sold under agreements to repurchase and advances from the Federal Home Loan Bank (FHLB) of $269 million and $100 million, respectively, as of September 30, 2015 and $191 million and $100 million, respectively, as of December 31, 2014.

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

					Gross unrealized losses					
					Less than 12 months			12 months or longer		
(dollar in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Number of issues	Fair value	Amount	Number of issues	Fair value	Amount
September 30, 2015										
Available-for-sale										
U.S. Treasury and federal agency obligations	$209,025	$2,435	$(342)	$211,118	4	$24,676	$(46)	3	$18,218	$(296)
Mortgage-related securities- FNMA, FHLMC and GNMA	570,055	6,884	(2,220)	574,719	8	57,263	(278)	25	132,874	(1,942)
	$779,080	$9,319	$(2,562)	$785,837	12	$81,939	$(324)	28	$151,092	$(2,238)
December 31, 2014										
Available-for-sale										
U.S. Treasury and federal agency obligations	$119,507	$1,092	$(1,039)	$119,560	6	$41,970	$(361)	5	$29,168	$(678)
Mortgage-related securities- FNMA, FHLMC and GNMA	430,120	5,653	(4,939)	430,834	6	47,029	(164)	29	172,623	(4,775)
	$549,627	$6,745	$(5,978)	$550,394	12	$88,999	$(525)	34	$201,791	$(5,453)

The unrealized losses on ASB's investments in mortgage-related securities and obligations issued by federal agencies were caused by interest rate movements. Because ASB does not intend to sell the securities and has determined it is more likely than not that it will not be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, ASB did not consider these investments to be other-than-temporarily impaired at September 30, 2015.

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

U.S. Treasury and federal agency obligations have contractual terms to maturity. Mortgage-related securities have contractual terms to maturity, but require periodic payments to reduce principal. In addition, expected maturities will differ from contractual maturities because borrowers have the right to prepay the underlying mortgages.The contractual maturities of available-for-sale investment securities were as follows:

September 30, 2015 (in thousands)	Amortized cost	Fair value
Due in one year or less	$—	$—
Due after one year through five years	75,332	76,786
Due after five years through ten years	71,667	72,198
Due after ten years	62,026	62,134
	209,025	211,118
Mortgage-related securities-FNMA,FHLMC and GNMA	570,055	574,719

Total available-for-sale securities	$779,080	$785,837

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

(in thousands)	Residential 1-4 family	Commercial real estate	Home equity line of credit	Residential land	Commercial construction	Residential construction	Commercial loans	Consumer loans	Unallocated	Total
Three months ended September 30, 2015										
Allowance for loan losses:										
Beginning balance	$4,291	$10,420	$6,613	$2,103	$2,575	$18	$17,469	$2,876	$—	$46,365
Charge-offs	(138)	—	(185)	—	—	—	(126)	(1,271)	—	(1,720
Recoveries	45	—	33	34	—	—	279	241	—	632
Provision	285	987	446	(73)	944	(5)	(920)	1,333	—	2,997
Ending balance	$4,483	$11,407	$6,907	$2,064	$3,519	$13	$16,702	$3,179	$—	$48,274
Three months ended September 30, 2014										
Allowance for loan losses:										
Beginning balance	$5,667	$7,230	$7,081	$1,837	$3,390	$26	$15,144	$1,997	$—	$42,372
Charge-offs	(632)	—	(46)	(28)	—	—	(886)	(592)	—	(2,184
Recoveries	160	—	299	90	—	—	952	222	—	1,723
Provision	670	3	(119)	(92)	1,724	3	(1,130)	491	—	1,550
Ending balance	$5,865	$7,233	$7,215	$1,807	$5,114	$29	$14,080	$2,118	$—	$43,461
Nine months ended September 30, 2015										
Allowance for loan losses:										
Beginning balance	$4,662	$8,954	$6,982	$1,875	$5,471	$28	$14,017	$3,629	$—	$45,618
Charge-offs	(352)	—	(205)	—	—	—	(928)	(3,196)	—	(4,681
Recoveries	112	—	72	219	—	—	726	772	—	1,901
Provision	61	2,453	58	(30)	(1,952)	(15)	2,887	1,974	—	5,436
Ending balance	$4,483	$11,407	$6,907	$2,064	$3,519	$13	$16,702	$3,179	$—	$48,274
Ending balance: individually evaluated for impairment	$1,388	$—	$469	$919	$—	$—	$3,084	$7		$5,867

Ending balance: collectively evaluated for impairment	$3,095	$11,407	$6,438	$1,145	$3,519	$13	$13,618	$3,172	$—	$42,407
Financing Receivables:										
Ending balance	$2,062,458	$618,113	$832,267	$17,369	$80,230	$14,318	$798,428	$118,450		$4,541,633
Ending balance: individually evaluated for impairment	$22,560	$—	$2,909	$5,710	$—	$—	$22,853	$14		$54,046
Ending balance: collectively evaluated for impairment	$2,039,898	$618,113	$829,358	$11,659	$80,230	$14,318	$775,575	$118,436		$4,487,587
Nine months ended September 30, 2014										
Allowance for loan losses:										
Beginning balance	$5,534	$5,059	$5,229	$1,817	$2,397	$19	$15,803	$2,367	$1,891	$40,116
Charge-offs	(992)	—	(182)	(81)	—	—	(1,256)	(1,614)	—	(4,125
Recoveries	1,056	—	624	253	—	—	1,277	694	—	3,904
Provision	267	2,174	1,544	(182)	2,717	10	(1,744)	671	(1,891)	3,566
Ending balance	$5,865	$7,233	$7,215	$1,807	$5,114	$29	$14,080	$2,118	$—	$43,461
Ending balance: individually evaluated for impairment	$917	$4	$8	$1,171	$—	$—	$810	$5		$2,915
Ending balance: collectively evaluated for impairment	$4,948	$7,229	$7,207	$636	$5,114	$29	$13,270	$2,113	$—	$40,546
Financing Receivables:										
Ending balance	$2,030,337	$502,356	$808,991	$16,935	$87,461	$18,699	$770,079	$107,531		$4,342,389
Ending balance: individually evaluated for impairment	$20,015	$754	$392	$8,872	$—	$—	$15,058	$16		$45,107

Ending balance: collectively evaluated for impairment	$2,010,322	$501,602	$808,599	$8,063	$87,461	$18,699	$755,021	$107,515		$4,297,282

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

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

(in thousands)	September 30, 2015			December 31, 2014		
	Commercial real estate	Commercial construction	Commercial	Commercial real estate	Commercial construction	Commercial
Grade:						
Pass	$563,734	$70,950	$745,624	$493,105	$79,312	$743,334
Special mention	9,460	9,280	10,316	5,209	—	16,095
Substandard	44,919	—	40,662	33,603	17,126	31,665
Doubtful	—	—	1,826	—	—	663
Loss	—	—	—	—	—	—
Total	$618,113	$80,230	$798,428	$531,917	$96,438	$791,757

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

(in thousands)	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Current	Total financing receivables	Recorded investment> 90 days and accruing
September 30, 2015							
Real estate:							
Residential 1-4 family	$6,354	$1,722	$11,852	$19,928	$2,042,530	$2,062,458	$—
Commercial real estate	—	—	—	—	618,113	618,113	—
Home equity line of credit	1,192	81	436	1,709	830,558	832,267	—
Residential land	120	—	415	535	16,834	17,369	—
Commercial construction	—	—	—	—	80,230	80,230	—
Residential construction	—	—	—	—	14,318	14,318	—
Commercial	546	312	1,005	1,863	796,565	798,428	—
Consumer	1,357	491	377	2,225	116,225	118,450	—
Total loans	$9,569	$2,606	$14,085	$26,260	$4,515,373	$4,541,633	$—
December 31, 2014							
Real estate:							
Residential 1-4 family	$6,124	$1,732	$12,632	$20,488	$2,023,717	$2,044,205	$—
Commercial real estate	—	—	—	—	531,917	531,917	—
Home equity line of credit	1,341	501	194	2,036	816,779	818,815	—
Residential land	—	—	—	—	16,240	16,240	—
Commercial construction	—	—	—	—	96,438	96,438	—
Residential construction	—	—	—	—	18,961	18,961	—
Commercial	699	145	569	1,413	790,344	791,757	—
Consumer	829	333	403	1,565	121,091	122,656	—

Total loans	$8,993	$2,711	$13,798	$25,502	$4,415,487	$4,440,989	$—

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

(in thousands)	September 30, 2015	December 31, 2014
Real estate:		
Residential 1-4 family	$19,987	$19,253
Commercial real estate	—	5,112
Home equity line of credit	1,982	1,087
Residential land	975	720
Commercial construction	—	—
Residential construction	—	—
Commercial	21,767	10,053
Consumer	645	661
Total nonaccrual loans	$45,356	$36,886
Real estate:		
Residential 1-4 family	$—	$—
Commercial real estate	—	—
Home equity line of credit	—	—
Residential land	—	—
Commercial construction	—	—
Residential construction	—	—
Commercial	—	—
Consumer	—	—
Total accruing loans 90 days or more past due	$—	$—
Real estate:		
Residential 1-4 family	$14,182	$13,525
Commercial real estate	—	—
Home equity line of credit	2,297	480
Residential land	4,735	7,130
Commercial construction	—	—
Residential construction	—	—
Commercial	1,212	2,972
Consumer	—	—
Total troubled debt restructured loans not included above	$22,426	$24,107

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

	September 30, 2015			Three months ended September 30, 2015		Nine months ended September 30, 2015	
(in thousands)	Recorded investment	Unpaid principal balance	Related Allowance	Average recorded investment	Interest income recognized*	Average recorded investment	Interest income recognized*
With no related allowance recorded							
Real estate:							
Residential 1-4 family	$11,125	$12,476	$—	$11,159	$119	$11,301	$274
Commercial real estate	—	—	—	—	74	362	74
Home equity line of credit	507	744	—	498	1	444	3
Residential land	1,652	2,421	—	2,280	29	2,647	125
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial	3,152	4,765	—	4,250	3	5,659	144
Consumer	—	—	—	—	—	—	—
	$16,436	$20,406	$—	$18,187	$226	$20,413	$620
With an allowance recorded							
Real estate:							
Residential 1-4 family	$11,435	$11,488	$1,388	$11,451	$174	$11,585	$430
Commercial real estate	—	—	—	—	—	1,985	—
Home equity line of credit	2,402	2,464	469	2,048	13	1,295	27
Residential land	4,058	4,136	919	3,971	74	4,435	241
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial	19,701	21,976	3,084	18,487	106	10,942	192
Consumer	14	14	7	14	—	15	—
	$37,610	$40,078	$5,867	$35,971	$367	$30,257	$890
Total							
Real estate:							
Residential 1-4 family	$22,560	$23,964	$1,388	$22,610	$293	$22,886	$704
Commercial real estate	—	—	—	—	74	2,347	74
Home equity line of credit	2,909	3,208	469	2,546	14	1,739	30
Residential land	5,710	6,557	919	6,251	103	7,082	366
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial	22,853	26,741	3,084	22,737	109	16,601	336
Consumer	14	14	7	14	—	15	—
	$54,046	$60,484	$5,867	$54,158	$593	$50,670	$1,510

(in thousands)	December 31, 2014			Year ended December 31, 2014	
	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized*
With no related allowance recorded					
Real estate:					
Residential 1-4 family	$11,654	$12,987	$—	$9,056	$227
Commercial real estate	571	626	—	194	—
Home equity line of credit	363	606	—	402	5
Residential land	2,344	3,200	—	2,728	172
Commercial construction	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial	8,235	11,471	—	5,204	38
Consumer	—	—	—	8	—
	$23,167	$28,890	$—	$17,592	$442
With an allowance recorded					
Real estate:					
Residential 1-4 family	$11,327	$11,347	$951	$8,822	$419
Commercial real estate	4,541	4,541	1,845	3,415	478
Home equity line of credit	416	420	46	132	6
Residential land	5,506	5,584	1,057	6,415	484
Commercial construction	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial	4,873	5,211	760	12,089	438
Consumer	16	16	6	9	—
	$26,679	$27,119	$4,665	$30,882	$1,825
Total					
Real estate:					
Residential 1-4 family	$22,981	$24,334	$951	$17,878	$646
Commercial real estate	5,112	5,167	1,845	3,609	478
Home equity line of credit	779	1,026	46	534	11
Residential land	7,850	8,784	1,057	9,143	656
Commercial construction	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial	13,108	16,682	760	17,293	476
Consumer	16	16	6	17	—
	$49,846	$56,009	$4,665	$48,474	$2,267

* Since loan was classified as impaired.

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

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

principal payments. ASB generally does not reduce the interest rate on commercial loan TDR modifications. Occasionally, additional collateral and/or guaranties are obtained.

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

Loan modifications that occurred and the impact on the allowance for loan losses were as follows:

	Three months ended September 30, 2015				Nine months ended September 30, 2015			
	Number of contracts	Outstanding recorded investment[1]		Net increase in allowance (as of period end)	Number of contracts	Outstanding recorded investment[1]		Net increase in allowance (as of period end)
(dollars in thousands)		Pre-modification	Post-modification			Pre-modification	Post-modification	
Troubled debt restructurings								
Real estate:								
Residential 1-4 family	3	$860	$ 866	$1	10	$2,055	$ 2,079	$48
Commercial real estate	—	—	—	—	—	—	—	—
Home equity line of credit	10	943	943	140	32	2,062	2,062	300
Residential land	—	—	—	—	—	—	—	—
Commercial construction	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—
Commercial	2	1,208	1,208	16	6	1,461	1,461	94
Consumer	—	—	—	—	—	—	—	—
	15	$3,011	$ 3,017	$157	48	$5,578	$ 5,602	$442

	Three months ended September 30, 2014				Nine months ended September 30, 2014			
	Number of contracts	Outstanding recorded investment[1]		Net increase in allowance (as of period end)	Number of contracts	Outstanding recorded investment[1]		Net increase in allowance (as of period end)
(dollars in thousands)		Pre-modification	Post-modification			Pre-modification	Post-modification	
Troubled debt restructurings								
Real estate:								
Residential 1-4 family	6	$1,800	$ 1,825	$43	18	$4,915	$ 4,972	$294
Commercial real estate	—	—	—	—	—	—	—	—
Home equity line of credit	1	91	91	—	1	91	91	—
Residential land	2	256	256	—	18	4,304	4,304	400
	—	—	—	—	—	—	—	—

Commercial construction								
Residential construction	—	—	—	—	—	—	—	—
Commercial	2	2,600	2,600	—	7	3,827	3,827	14
Consumer	—	—	—	—	—	—	—	—
	11	$4,747	$ 4,772	$43	44	$13,137	$ 13,194	$708

[1] The reported balances include loans that became TDR during the period, and were fully paid-off, charged-off, or sold prior to period end.

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

	Three months ended September 30, 2015		Nine months ended September 30, 2015	
(dollars in thousands)	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Troubled debt restructurings that subsequently defaulted				
Real estate loans:				
Residential 1-4 family	—	$ —	—	$ —
Commercial real estate	—	—	—	—
Home equity line of credit	1	7	1	7
Residential land	—	—	—	—
Commercial construction	—	—	—	—
Residential construction	—	—	—	—
Commercial loans	—	—	—	—
Consumer loans	—	—	—	—
	1	$ 7	1	$ 7

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

If loans modified in a TDR subsequently default, ASB evaluates the loan for further impairment. Based on its evaluation, adjustments may be made in the allocation of the allowance or partial charge-offs may be taken to further write-down the carrying value of the loan. Commitments to lend additional funds to borrowers whose loan terms have been impaired or modified in TDRs totaled $0.1 million at September 30, 2015.

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

Mortgage servicing fees, a component of other income, net, were $0.9 million for the three months ended September 30, 2015 and 2014 and $2.7 million and $2.6 million for the nine months ended September 30, 2015 and 2014, respectively.

The carrying values of mortgage servicing assets were as follows:

(in thousands)	Gross carrying amount	Accumulated amortization	Valuation allowance	Net carrying amount
September 30, 2015	$29,818	$(17,560)	$—	$12,258
September 30, 2014	26,685	(15,003)	(158)	11,524

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Changes related to mortgage servicing rights were as follows:

(in thousands)	2015	2014
Mortgage servicing rights		
Balance, January 1	$11,749	$11,938
Amount capitalized	2,636	1,098
Amortization	(2,123)	(1,297)
Other-than-temporary impairment	(4)	(57)
Carrying amount before valuation allowance, September 30	12,258	11,682
Valuation allowance for mortgage servicing rights		
Balance, January 1	209	251
Provision (recovery)	(205)	(36)
Other-than-temporary impairment	(4)	(57)
Balance, September 30	—	158
Net carrying value of mortgage servicing rights	$12,258	$11,524

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

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

(dollars in thousands)	September 30, 2015	December 31, 2014
Unpaid principal balance	$1,503,369	$1,391,030
Weighted average note rate	4.01%	4.07%
Weighted average discount rate	9.5%	9.6%
Weighted average prepayment speed	9.9%	9.5%

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

(dollars in thousands)	September 30, 2015	December 31, 2014
Prepayment rate:		
25 basis points adverse rate change	$(832)	$(757)
50 basis points adverse rate change	(1,643)	(1,524)
Discount rate:		
25 basis points adverse rate change	(148)	(140)
50 basis points adverse rate change	(293)	(278)

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

In October 2015, ASB entered into an agreement to sell certain MSRs for approximately 1,500 underlying fully amortizing, conventional residential mortgage loans with an unpaid principal balance of $419 million, subject to FNMA approval.

Other borrowings. Securities sold under agreements to repurchase are accounted for as financing transactions and the obligations to repurchase these securities are recorded as liabilities in the balance sheet. All such agreements are

subject to master netting arrangements, which provide for conditional right of set-off in case of default by either party; however, ASB presents securities sold under agreements to repurchase on a gross basis in the balance sheet. The following tables present information about the securities sold under agreements to repurchase, including the related collateral received from or pledged

to counterparties:

(in millions)	Gross amount of recognized liabilities	Gross amount offset in the Balance Sheet	Net amount of liabilities presented in the Balance Sheet
Repurchase agreements			
September 30, 2015	$269	$—	$269
December 31, 2014	191	—	191

		Gross amount not offset in the Balance Sheet		
(in millions)	Net amount of liabilities presented in the Balance Sheet	Financial instruments	Cash collateral pledged	Net amount
September 30, 2015				
Financial institution	$50	$50	$—	$—
Government entities	66	66	—	—
Commercial account holders	153	153	—	—
Total	$269	$269	$—	$—
December 31, 2014				
Financial institution	$50	$50	$—	$—
Government entities	56	56	—	—
Commercial account holders	85	85	—	—
Total	$191	$191	$—	$—

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

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

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

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

The notional amount and fair value of ASB’s derivative financial instruments were as follows:

	September 30, 2015		December 31, 2014	
(in thousands)	Notional amount	Fair value	Notional amount	Fair value
Interest rate lock commitments	$27,587	$585	$29,330	$390
Forward commitments	24,706	(124)	32,833	(106)

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

Derivative Financial Instruments Not Designated as Hedging Instruments [1]	September 30, 2015		December 31, 2014	
(in thousands)	Asset derivatives	Liability derivatives	Asset derivatives	Liability derivatives
Interest rate lock commitments	$585	$—	$393	$3
Forward commitments	1	125	5	111
	$586	$125	$398	$114

[1] Asset derivatives are included in other assets and liability derivatives are included in other liabilities in the balance sheets.

The following table presents ASB's derivative financial instruments and the amount and location of the net gains or losses recognized in the statements of income:

Derivative Financial Instruments Not Designated as Hedging Instruments	Location of net gains (losses) recognized in the	Three months ended September 30		Nine months ended September 30	
(in thousands)	Statement of Income	2015	2014	2015	2014
Interest rate lock commitments	Mortgage banking income	$139	$215	$195	$(249)
Forward commitments	Mortgage banking income	(117)	(25)	(18)	(164)
		$22	$190	$177	$(413)

Low-Income Housing Tax Credit (LIHTC). ASB's unfunded commitments to fund its LIHTC investment partnerships were $9.2 million and $14.8 million at September 30, 2015 and December 31, 2014, respectively. These unfunded commitments were unconditional and legally binding and are recorded in other liabilities with a corresponding increase in other assets. Cash contributions and payments made on commitments to LIHTC investment partnerships are classified as operating activities in the Company's consolidated statements of cash flows. As of September 30, 2015, ASB did not have any impairment losses resulting from forfeiture or ineligibility of tax credits or other circumstances related to its LIHTC investment partnerships.

Contingencies. In March 2011, a purported class action lawsuit was filed in the First Circuit Court of the state of Hawaii by a customer who claimed that ASB had improperly charged overdraft fees on debit card transactions. ASB filed a motion to dismiss the lawsuit on the basis that ASB's overdraft practices are governed by federal regulations established for federal savings banks which preempt the customer's state law claims. In July 2011, the Circuit Court denied ASB's motion without prejudice and ASB appealed that decision. ASB's appeal is pending before the Hawaii Supreme Court. However, in December 2014, through a voluntary mediation process, ASB reached a tentative settlement of the claims. The tentative settlement, which received final court approval on May 21, 2015, provided for a payment of $2.0 million into a class settlement fund, the proceeds of which would be used to refund class members and pay attorneys' fees and administrative and other costs, in exchange for a complete release of all claims asserted against ASB. The $2.0 million settlement amount was fully reserved by ASB in December 2014 and paid into the settlement fund in January 2015.

6 · Retirement benefits

Defined benefit pension and other postretirement benefit plans information. For the first nine months of 2015, the Company contributed $66 million ($65 million by the Utilities) to its pension and other postretirement benefit plans, compared to $45 million ($44 million by the Utilities) in the first nine months of 2014. The Company's current estimate of contributions to its pension and other postretirement benefit plans in 2015 is $88 million ($86 million by the Utilities, $2 million by HEI and nil by ASB), compared to $60 million ($59 million by the Utilities, $1 million by HEI and nil by ASB) in 2014. In addition, the Company expects to pay directly $2 million ($1 million by the Utilities) of benefits in 2015, compared to $2 million ($1 million by the Utilities) paid in 2014.

The Pension Protection Act of 2006 (Pension Protection Act) signed into law on August 17, 2006, amended the Employee Retirement Income Security Act of 1974 (ERISA). Among other things, the Pension Protection Act changed the funding rules for qualified pension plans. On August 8, 2014, President Obama signed the latest change to the Pension Protection Act, the Highway and Transportation Funding Act of 2014 (HATFA). HATFA resulted in an increase of the Adjusted Funding Target Attainment Percentage (AFTAP) for benefit distribution purposes and eased

funding requirements effective with the 2014 plan year (a plan sponsor could have elected to apply the provisions of HATFA to 2013, but the Company did not so elect). As a result, the minimum funding requirements for the HEI Retirement Plan under ERISA are less than the net periodic cost for 2014 and 2015. To satisfy the requirements of the Utilities pension and OPEB tracking mechanisms, the Utilities contributed the net periodic cost in 2014 and expect to contribute the net periodic cost in 2015.

The Pension Protection Act provides that if a pension plan's funded status falls below certain levels, more conservative assumptions must be used to value obligations under the pension plan. The HEI Retirement Plan met the threshold

requirements in each of 2013, 2014 and 2015 so that the more conservative assumptions did not apply for either 2014 or 2015 and will not apply for 2016. Other factors could cause changes to the required contribution levels.
The components of net periodic benefit cost for HEI consolidated and Hawaiian Electric consolidated were as follows:

	Three months ended September 30				Nine months ended September 30			
	Pension benefits		Other benefits		Pension benefits		Other benefits	
(in thousands)	2015	2014	2015	2014	2015	2014	2015	2014
HEI consolidated								
Service cost	$16,577	$12,306	$982	$870	$49,683	$36,958	$2,945	$2,619
Interest cost	19,229	18,044	2,254	2,137	57,731	54,158	6,757	6,414
Expected return on plan assets	(22,126)	(20,337)	(2,912)	(2,724)	(66,426)	(61,018)	(8,753)	(8,180)
Amortization of net prior service loss (gain)	1	22	(448)	(448)	3	66	(1,345)	(1,345)
Amortization of net actuarial loss (gain)	9,191	5,064	450	(2)	27,608	15,240	1,346	(8)
Net periodic benefit cost (credit)	22,872	15,099	326	(167)	68,599	45,404	950	(500)
Impact of PUC D&Os	(10,017)	(3,331)	(60)	494	(29,994)	(9,993)	(180)	1,482
Net periodic benefit cost (adjusted for impact of PUC D&Os)	$12,855	$11,768	$266	$327	$38,605	$35,411	$770	$982
Hawaiian Electric consolidated								
Service cost	$16,066	$11,900	$967	$848	$48,197	$35,698	$2,902	$2,544
Interest cost	17,632	16,495	2,175	2,058	52,897	49,484	6,525	6,175
Expected return on plan assets	(20,635)	(18,167)	(2,873)	(2,684)	(61,906)	(54,496)	(8,621)	(8,054)
Amortization of net prior service loss (gain)	10	15	(450)	(451)	30	46	(1,352)	(1,353)
Amortization of net actuarial loss	8,342	4,616	438	—	25,028	13,845	1,315	—
Net periodic benefit cost (credit)	21,415	14,859	257	(229)	64,246	44,577	769	(688)
Impact of PUC D&Os	(10,017)	(3,331)	(60)	494	(29,994)	(9,993)	(180)	1,482
Net periodic benefit cost (adjusted for impact of PUC D&Os)	$11,398	$11,528	$197	$265	$34,252	$34,584	$589	$794

HEI consolidated recorded retirement benefits expense of $27 million ($22 million by the Utilities) and $24 million ($23 million by the Utilities) in the first nine months of 2015 and 2014, respectively, and charged the remaining net periodic benefit cost primarily to electric utility plant.
The Utilities have implemented pension and OPEB tracking mechanisms under which all of their retirement benefit expenses (except for executive life and nonqualified pension plan expenses) determined in accordance with GAAP are recovered over time. Under the tracking mechanisms, these retirement benefit costs that are over/under amounts allowed in rates are charged/credited to a regulatory asset/liability. The regulatory asset/liability for each utility will be amortized over 5 years beginning with the issuance of the PUC's D&O in the respective utility's next rate case.
Defined contribution plans information. For the first nine months of 2015 and 2014, the Company's expense for its defined contribution pension plans under the Hawaiian Electric Industries Retirement Savings Plan (HEIRSP) and the ASB 401(k) Plan was $4.0 million and $3.4 million, respectively, and cash contributions were $4.3 million and $4.2 million, respectively. For the first nine months of 2015 and 2014, the Utilities' expense for its defined contribution pension plan under the HEIRSP was $1.1 million and $0.7 million, respectively, and cash contributions were $1.1 million and $0.7 million, respectively.

7 · Share-based compensation

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

As of September 30, 2015, approximately 3.5 million shares remained available for future issuance under the terms of the EIP (assuming recycling of shares withheld to satisfy minimum statutory tax liabilities relating to EIP awards), including an estimated 0.7 million shares that could be issued upon the vesting of outstanding restricted stock units and the achievement of performance goals for awards outstanding under long-term incentive plans (assuming that such performance goals are achieved at maximum levels).

Under the 2011 Nonemployee Director Stock Plan (2011 Director Plan), HEI can issue shares of common stock as compensation to nonemployee directors of HEI, Hawaiian Electric and ASB. As of September 30, 2015, there were 141,044 shares remaining available for future issuance under the 2011 Director Plan.

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

	Three months ended September 30		Nine months ended September 30	
(in millions)	2015	2014	2015	2014
HEI consolidated				
Share-based compensation expense [1]	$1.0	$2.0	$4.8	$7.2
Income tax benefit	0.3	0.7	1.7	2.6
Hawaiian Electric consolidated				
Share-based compensation expense [1]	0.1	0.6	1.3	2.2
Income tax benefit	—	0.2	0.5	0.9

[1] $0.03 million and $0.04 million of this share-based compensation expense was capitalized in the third quarter of 2015 and 2014, respectively. $0.12 million and $0.12 million of this share-based compensation expense was capitalized in the nine months ended September 30, 2015 and 2014, respectively.

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

	Nine months ended September 30	
($ in millions)	2015	2014
Shares granted	28,246	33,170
Fair value	$0.8	$0.8
Income tax benefit	0.3	0.3

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

Stock appreciation rights. As of December 31, 2014, the shares underlying SARs outstanding totaled 80,000, with a weighted-average exercise price of $26.18. As of September 30, 2015, there were no remaining SARs outstanding. SARs activity and statistics were as follows:

	Three months ended September 30		Nine months ended September 30	
(dollars in thousands, except prices)	2015	2014	2015	2014
Shares underlying SARs exercised	—	—	80,000	—
Weighted-average price of shares exercised	$—	$—	$26.18	$—
Intrinsic value of shares exercised [1]	—	—	502	—
Tax benefit realized for the deduction of exercises	—	—	82	—

[1] Intrinsic value is the amount by which the fair market value of the underlying stock and the related dividend equivalent rights exceeds the exercise price of the right.

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

	Three months ended September 30				Nine months ended September 30			
	2015		2014		2015		2014	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	252,302	$28.35	264,326	$25.74	261,235	$25.77	288,151	$25.17
Granted	690	30.91	2,750	24.48	85,772	33.69	117,786	25.17
Vested	(19,840)	25.35	(3,500)	23.50	(99,891)	25.69	(142,361)	24.07
Forfeited	(14,316)	25.82	—	—	(28,280)	26.66	—	—
Outstanding, end of period	218,836	$28.79	263,576	$25.76	218,836	$28.79	263,576	$25.76
Total weighted-average grant-date fair value of shares granted ($ millions)	$—		$0.1		$2.9		$3.0	

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

As of September 30, 2015, there was $4.7 million of total unrecognized compensation cost related to the nonvested restricted stock units. The cost is expected to be recognized over a weighted-average period of 2.6 years.

For the first nine months of 2015 and 2014, total restricted stock units that vested and related dividends had a fair value of $3.7 million and $4.1 million, respectively, and the related tax benefits were $1.1 million and $1.3 million, respectively.

Long-term incentive plan payable in stock. The 2013-2015 long-term incentive plan (LTIP) and 2014-2016 LTIP provide for performance awards under the original EIP of shares of HEI common stock based on the satisfaction of performance goals considered to be a market condition and service conditions. The number of shares of HEI common stock that may be awarded is fixed on the date the grants are made subject to the achievement of specified performance levels. The potential payout varies from 0% to 200% of the number of target shares depending on achievement of the goals. The LTIP performance goals for the LTIP periods include awards with a market goal based on total return to shareholders (TRS) of HEI stock as a percentile to the Edison Electric Institute Index over the applicable three-year period. In addition, the 2013-2015 LTIP and 2014-2016 LTIP have performance goals related to levels of HEI consolidated net income, HEI consolidated return on average common equity (ROACE), Hawaiian Electric consolidated net income, Hawaiian Electric consolidated ROACE and ASB net income — all based on the applicable three-year averages, and ASB return on assets relative to performance peers. The 2015-2017 LTIP provides for performance awards payable in cash, and thus, is not included in the tables below.

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

	Three months ended September 30				Nine months ended September 30			
	2015		2014		2015		2014	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	163,423	$27.63	257,956	$28.45	257,956	$28.45	232,127	$32.88
Granted (target level)	—	—	—	—	—	—	97,524	22.95
Vested (issued or unissued and cancelled)	—	—	—	—	(75,915)	30.71	(70,189)	35.46
Forfeited	—	—	—	—	(18,618)	26.41	(1,506)	28.32
Outstanding, end of period	163,423	$27.63	257,956	$28.45	163,423	$27.63	257,956	$28.45
Total weighted-average grant-date fair value of shares granted ($ millions)	$—		$—		$—		$2.2	

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

The grant date fair values of the shares were determined using a Monte Carlo simulation model utilizing actual information for the common shares of HEI and its peers for the period from the beginning of the performance period

to the grant date and estimated future stock volatility and dividends of HEI and its peers over the remaining three-year performance period. The expected stock volatility assumptions for HEI and its peer group were based on the three-year historic stock volatility, and the annual dividend yield assumptions were based on dividend yields calculated on the basis of daily stock prices over the same three-year historical period.

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

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

For the nine months ended September 30, 2015 and 2014, there were no vested LTIP awards linked to TRS. For the nine months ended September 30, 2015, all of the shares vested (which were granted at target level based on the satisfaction of TRS performance) for the 2012-2014 LTIP lapsed.

As of September 30, 2015, there was $0.9 million of total unrecognized compensation cost related to the nonvested performance awards payable in shares linked to TRS. The cost is expected to be recognized over a weighted-average period of 0.8 years.

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

	Three months ended September 30				Nine months ended September 30			
	2015		2014		2015		2014	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	220,158	$26.00	359,782	$26.01	364,731	$26.01	296,843	$26.14
Granted (target level)	—	—	—	—	—	—	129,603	25.18
Vested (issued)	—	—	—	—	(121,249)	26.05	(65,089)	24.95
Cancelled	(14,050)	26.89	—	—	(14,050)	26.89	—	—
Forfeited	—	—	—	—	(23,324)	25.85	(1,575)	26.07
Outstanding, end of period	206,108	$25.94	359,782	$26.01	206,108	$25.94	359,782	$26.01
Total weighted-average grant-date fair value of shares granted (at target performance levels) ($ millions)	$—		$—		$—		$3.3	

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

For the nine months ended September 30, 2015 and 2014, total vested LTIP awards linked to other performance conditions and related dividends had a fair value of $4.7 million and $1.9 million and the related tax benefits were $1.8 million and $0.8 million, respectively.

As of September 30, 2015, there was $1.4 million of total unrecognized compensation cost related to the nonvested shares linked to performance conditions other than TRS. The cost is expected to be recognized over a weighted-average period of 0.8 years.

8 · Earnings per share and shareholders' equity

Earnings per share. Under the two-class method of computing earnings per share (EPS), EPS was comprised as follows for both participating securities (i.e., restricted shares that became fully vested in the fourth quarter of 2014) and unrestricted common stock:

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	Basic	Diluted	Basic	Diluted
Distributed earnings	$0.31	$0.31	$0.93	$0.93
Undistributed earnings	0.16	0.15	0.40	0.39
	$0.47	$0.46	$1.33	$1.32

As of September 30, 2015, there were no remaining share awards that could have been potentially antidilutive. As of September 30, 2014, there were no shares that were antidilutive.

Shareholders' equity.

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

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

The equity forward transactions had no initial fair value since they were entered into at the then market price of the common stock. HEI concluded that the equity forward transactions were equity instruments based on the accounting guidance in Accounting Standards Codification (ASC) Topic 480, "Distinguishing Liabilities from Equity," and ASC Topic 815, "Derivatives and Hedging," and that they qualified for an exception from derivative accounting under ASC Topic 815 because the forward sale transactions were indexed to its own stock. On December 19, 2013 and July 14, 2014, HEI settled 1.3 million and 1.0 million shares under the equity forward for proceeds of $32.1 million (net of the underwriting discount of $1.3 million) and $23.9 million (net of underwriting discount of $1.0 million), respectively, which funds were ultimately used to purchase Hawaiian Electric shares. On March 20, 2015, HEI settled the remaining 4.7 million shares under the equity forward for proceeds of $104.5 million (net of the underwriting discount of $4.7 million), which funds were used for the reduction of debt and for general corporate purposes. The proceeds were recorded in equity at the time of settlement. Prior to their settlement, the shares remaining under the equity forward transactions were reflected in HEI's diluted EPS calculations using the treasury stock method.

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

	HEI Consolidated				Hawaiian Electric Consolidated
(in thousands)	Net unrealized gains (losses) on securities	Unrealized losses on derivatives	Retirement benefit plans	AOCI	AOCI -retirement benefit plans
Balance, December 31, 2014	$462	$(289)	$(27,551)	$(27,378)	$45
Current period other comprehensive income (loss)	3,608	177	1,576	5,361	11
Balance, September 30, 2015	$4,070	$(112)	$(25,975)	$(22,017)	$56
Balance, December 31, 2013	$(3,663)	$(525)	$(12,562)	$(16,750)	$608
Current period other comprehensive income	1,691	177	888	2,756	32
Balance, September 30, 2014	$(1,972)	$(348)	$(11,674)	$(13,994)	$640

Reclassifications out of AOCI were as follows:

	Amount reclassified from AOCI				
	Three months ended September 30		Nine months ended September 30		
(in thousands)	2015	2014	2015	2014	Affected line item in the Statement of Income
HEI consolidated					
Net realized gains on securities	$—	$—	$—	$(1,715)	Revenues-bank (net gains on sales of securities)
Derivatives qualified as cash flow hedges					
Interest rate contracts (settled in 2011)	59	59	177	177	Interest expense
Retirement benefit plan items					
Amortization of prior service credit and net losses recognized during the period in net periodic benefit cost	5,611	2,829	16,850	8,515	See Note 6 for additional details
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets	(5,091)	(2,542)	(15,274)	(7,627)	See Note 6 for additional details
Total reclassifications	$579	$346	$1,753	$(650)	
Hawaiian Electric consolidated					
Retirement benefit plan items					
Amortization of prior service credit and net losses recognized during the period in net periodic benefit cost	$5,095	$2,552	$15,285	$7,659	See Note 6 for additional details
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets	(5,091)	(2,542)	(15,274)	(7,627)	See Note 6 for additional details
Total reclassifications	$4	$10	$11	$32	

9 · Fair value measurements

Fair value estimates are estimates of the price that would be received to sell an asset, or paid upon the transfer of a liability, in an orderly transaction between market participants at the measurement date. The fair value estimates are generally determined based on assumptions that market participants would use in pricing the asset or liability and are based on market data obtained from independent sources. However, in certain cases, the Company and the Utilities use their own assumptions about market participant assumptions based on the best information available in the circumstances. These valuations are estimates at a specific point in time, based on relevant market information, information about the financial instrument and judgments regarding future expected loss experience, economic conditions, risk characteristics of various financial instruments and other factors. These estimates do not reflect any premium or discount that could result if the Company or the Utilities were to sell its entire holdings of a particular financial instrument at one time. Because no active trading market exists for a portion of the Company’s and the Utilities’ financial instruments, fair value estimates cannot be determined with precision. Changes in the underlying

assumptions used, including discount rates and estimates of future cash flows, could significantly affect the estimates. In addition, the tax ramifications related to the realization of the unrealized gains and losses could have a significant effect on fair value estimates, but have not been considered in making such estimates.

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

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

Level 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.

Fair value is also used on a nonrecurring basis to evaluate certain assets for impairment or for disclosure purposes. Examples of nonrecurring uses of fair value include mortgage servicing rights accounted for by the amortization method, loan impairments for certain loans, goodwill and AROs. The fair value of Hawaiian Electric's ARO (Level 3) was determined by discounting the expected future cash flows using market-observable risk-free rates as adjusted by Hawaiian Electric's credit spread (also see Note 4).

Fair value measurement and disclosure valuation methodology. Following are descriptions of the valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not carried at fair value:

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

Investment securities. The fair value of ASB's investment securities is determined quarterly through pricing obtained from independent third-party pricing services or from brokers not affiliated with the trade. Non-binding broker quotes are infrequent and generally occur for new securities that are settled close to the month-end pricing date. The third-party pricing vendors the Company uses for pricing its securities are reputable firms that provide pricing services on a global basis and have processes in place to ensure quality and control. The third-party pricing services use a variety of methods to determine the fair value of securities that fall under Level 2 of the Company's fair value measurement hierarchy. Among the considerations are 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 will on a quarterly basis compare 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 ASB 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 and not by ASB.

Loans held for sale. Residential mortgage loans carried at the lower of cost or market are valued using market observable pricing inputs, which are derived from third party loan sales and securitizations and, therefore, are classified within Level 2 of the valuation hierarchy.

Loans held for investment. Fair value of loans held for investment is derived using a discounted cash flow approach which includes an evaluation of the underlying loan characteristics. The valuation model uses loan characteristics which includes product type, maturity dates, and the underlying interest rate of the portfolio. This information is input into the valuation models along with various forecast valuation assumptions including prepayment forecasts, to determine the discount rate. These assumptions are derived from internal and third party sources. Noting the valuation is derived from model-based techniques, ASB includes loans held for investment within Level 3 of the valuation hierarchy.

Impaired loans. At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Fair value is determined primarily by using an income, cost, or market approach and is normally provided through appraisals. Impaired loans carried at fair value generally receive specific allocations within the allowance for loan losses. For collateral-dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value

per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Generally, impaired loans are evaluated quarterly for additional impairment and adjusted accordingly.

Other real estate owned. Foreclosed assets are carried at fair value (less estimated costs to sell) and is generally based upon appraisals or independent market prices that are periodically updated subsequent to classification as real estate owned.

Such adjustments typically result in a Level 3 classification of the inputs for determining fair value. ASB estimates the fair value of collateral-dependent loans and real estate owned using the sales comparison approach.
Mortgage servicing rights. Mortgage servicing rights (MSR) are capitalized at fair value based on market data at the time of sale and accounted for in subsequent periods at the lower of amortized cost or fair value. Mortgage servicing rights are evaluated for impairment at each reporting date. ASB's MSR is stratified based on predominant risk characteristics of the underlying loans including loan type and note rate. For each stratum, fair value is calculated by discounting expected net income streams using discount rates that reflect industry pricing for similar assets. Expected net income streams are estimated based on industry assumptions regarding prepayment expectations and income and expenses associated with servicing residential mortgage loans for others. Impairment is recognized through a valuation allowance for each stratum when the carrying amount exceeds fair value, with any associated provision recorded as a component of loan servicing fees included in "Other income, net" in the consolidated statements of income. A direct write-down is recorded when the recoverability of the valuation allowance is deemed to be unrecoverable. ASB compares the fair value of MSR to an estimated value calculated by an independent third-party. The third-party relies on both published and unpublished sources of market related assumptions and their own experience and expertise to arrive at a value. ASB uses the third-party value only to assess the reasonableness of its own estimate.
Time deposits. The fair value of fixed-maturity certificates of deposit was estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.
Other borrowings. For advances and repurchase agreements, fair value is estimated using quantitative discounted cash flow models that require the use of interest rate inputs that are currently offered for advances and repurchase agreements of similar remaining maturities. The majority of market inputs are actively quoted and can be validated through external sources.
Long-term debt. Fair value was obtained from third-party financial services providers based on the current rates offered for debt of the same or similar remaining maturities and from discounting the future cash flows using the current rates offered for debt of the same or similar remaining maturities.
Interest rate lock commitments (IRLCs). The estimated fair value of commitments to originate residential mortgage loans for sale is based on quoted prices for similar loans in active markets. IRLCs are classified as Level 2 measurements.
Forward sales commitments. To be announced (TBA) mortgage-backed securities forward commitments are classified as Level 1, and consist of publicly-traded debt securities for which identical fair values can be obtained through quoted market prices in active exchange markets. The fair values of ASB’s best efforts and mandatory delivery loan sale commitments are determined using quoted prices in the market place that are observable and are classified as Level 2 measurements.

The following table presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company’s financial instruments. For stock in Federal Home Loan Bank, the carrying amount is a reasonable estimate of fair value. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings and money market deposits, the carrying amount is a reasonable estimate of fair value as these liabilities have no stated maturity.

		Estimated fair value			
(in thousands)	Carrying amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
September 30, 2015					
Financial assets					
Money market funds	$10	$—	$10	$—	$10
Available-for-sale investment securities	785,837	—	785,837	—	785,837
Stock in Federal Home Loan Bank	10,678	—	10,678	—	10,678
Loans receivable, net	4,492,728	—	—	4,700,042	4,700,042
Derivative assets	586	—	586	—	586
Financial liabilities					
Deposit liabilities	4,825,954	—	4,828,402	—	4,828,402
Short-term borrowings—other than bank	171,992	—	171,992	—	171,992
The Utilities’ short-term borrowings (included in amount above)	94,995	—	94,995	—	94,995
Other bank borrowings	368,593	—	375,428	—	375,428
Long-term debt, net—other than bank	1,506,546	—	1,595,161	—	1,595,161
The Utilities’ long-term debt, net (included in amount above)	1,206,546	—	1,288,112	—	1,288,112
Derivative liabilities	125	112	13	—	125
December 31, 2014					
Financial assets					
Money market funds	$10	$—	$10	$—	$10
Available-for-sale investment securities	550,394	—	550,394	—	550,394
Stock in Federal Home Loan Bank	69,302	—	69,302	—	69,302
Loans receivable, net	4,397,457	—	—	4,578,822	4,578,822
Derivative assets	398	—	398	—	398
Financial liabilities					
Deposit liabilities	4,623,415	—	4,623,773	—	4,623,773
Short-term borrowings—other than bank	118,972	—	118,972	—	118,972
Other bank borrowings	290,656	—	298,837	—	298,837
Long-term debt, net—other than bank	1,506,546	—	1,622,736	—	1,622,736
The Utilities’ long-term debt, net (included in amount above)	1,206,546	—	1,313,893	—	1,313,893
Derivative liabilities	114	71	43	—	114

As of September 30, 2015 and December 31, 2014, loans serviced by ASB for others had notional amounts of $1.6 billion and $1.4 billion, and the estimated fair value of the mortgage servicing rights for such loans was $16.0 million and $14.5 million, respectively.

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

	September 30, 2015			December 31, 2014		
	Fair value measurements using			Fair value measurements using		
(in thousands)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Money market funds ("other" segment)	$—	$10	$—	$—	$10	$—
Available-for-sale investment securities (bank segment)						
Mortgage-related securities-FNMA, FHLMC and GNMA	$—	$574,719	$—	$—	$430,834	$—
U.S. Treasury and federal agency obligations	—	211,118	—	—	119,560	—
	$—	$785,837	$—	$—	$550,394	$—
Derivative assets [1]						
Interest rate lock commitments	$—	$585	$—	$—	$393	$—
Forward commitments	—	1	—	—	5	—
	$—	$586	$—	$—	$398	$—
Derivative liabilities [1]						
Interest rate lock commitments	$—	$—	$—	$—	$3	$—
Forward commitments	112	13	—	71	40	—
	$112	$13	$—	$71	$43	$—

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

There were no transfers of financial assets and liabilities between Level 1 and Level 2 of the fair value hierarchy during the quarter ended September 30, 2015.

Fair value measurements on a nonrecurring basis. Certain assets and liabilities are measured at fair value on a nonrecurring basis and therefore are not included in the tables above. These measurements primarily result from assets carried at the lower of cost or fair value or from impairment of individual assets. Assets measured at fair value on a nonrecurring basis were as follows:

		Fair value measurements		
(in thousands)	Balance	Level 1	Level 2	Level 3
September 30, 2015				
Loans	$951	$—	$—	$951
Real estate acquired in settlement of loans	70	—	—	70
December 31, 2014				
Loans	2,445	—	—	2,445
Real estate acquired in settlement of loans	288	—	—	288

At September 30, 2015 and 2014, there were no adjustments to fair value for ASB's loans held for sale.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis:

($ in thousands)	Fair value	Valuation technique	Significant unobservable input	Significant unobservable input value [1] Range	Weighted Average
September 30, 2015					
Residential loans	$823	Fair value of property or collateral	Appraised value less 7% selling costs	31-91%	70%
Home equity lines of credit	128	Fair value of property or collateral	Appraised value less 7% selling costs		52%
Total loans	$951				
Real estate acquired in settlement of loans	$70	Fair value of property or collateral	Appraised value less 7% selling costs	100%	100%
December 31, 2014					
Residential loans	$2,297	Fair value of property or collateral	Appraised value less 7% selling costs	39-99%	83%
Home equity lines of credit	3	Fair value of property or collateral	Appraised value less 7% selling costs		7%
Commercial loans	145	Fair value of property or collateral	Fair value of business assets		91%
Total loans	$2,445				
Real estate acquired in settlement of loans	$288	Fair value of property or collateral	Appraised value less 7% selling cost	100%	100%

[1] Represent percent of outstanding principal balance.

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

10 · Cash flows

Nine months ended September 30 (in millions)	2015	2014
Supplemental disclosures of cash flow information		
HEI consolidated		
Interest paid to non-affiliates	$61	$64
Income taxes paid	62	31
Income taxes refunded	55	24
Hawaiian Electric consolidated		
Interest paid to non-affiliates	43	44
Income taxes paid	13	6
Income taxes refunded	12	8
Supplemental disclosures of noncash activities		
HEI consolidated		
Real estate acquired in settlement of loans (investing)	—	2
Real estate transferred from property, plant and equipment to other assets held-for-sale (investing)	5	—
Obligations to fund low income housing investments (operating)	1	6

HEI consolidated and Hawaiian Electric consolidated		
Additions to electric utility property, plant and equipment - unpaid invoices and accruals (investing), as revised for the nine months ended September 30, 2014 (1)	1	15

(1) As revised for the nine months ended September 30, 2014 - See Note 1, "Basis of presentation - Revision of previously issued financial statements."

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11 · Recent accounting pronouncements

Investments in Qualified Affordable Housing Projects. In January 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-01, "Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects," which permits entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met and investment amortization, net of tax credits, may be recognized in the income statement as a component of income taxes attributable to continuing operations. The amendments also require additional disclosures.

The Company retrospectively adopted ASU No. 2014-01 in the first quarter of 2015. For prior periods, pursuant to ASU No. 2014-01, (a) amortization expense related to ASB's qualifying investments in low income housing tax credits was reclassified from noninterest expense to income taxes; and (b) additional amortization, net of associated tax benefits was recognized in income taxes as a result of the adoption. The cumulative effect to retained earnings as of January 1, 2014 of adopting this guidance was a reduction of $0.7 million. Amounts in the financial statements as of December 31, 2014 and 2013 and for the three and nine months ended September 30, 2014, have been updated to reflect the retrospective application.

For the quarter ended September 30, 2015, ASB recognized $1.3 million of amortization, $1.3 million of tax credits and $0.6 million of other tax benefits associated with the low income housing tax credits within income taxes. For the nine months ended September 30, 2015, ASB recognized $3.8 million of amortization, $3.9 million of tax credits and $1.6 million of other tax benefits associated with the low income housing tax credits within income taxes.

The table below summarizes the impact to prior period financial statements of the adoption of ASU No. 2014-01:

	HEI Consolidated				ASB		
(in thousands)	As previously filed	Adjustment from adoption of ASU No. 2014-01	Revision adjustment (see Note 1)	As currently reported	As previously filed	Adjustment from adoption of ASU No. 2014-01	As currently reported
HEI Consolidated Income Statement/ASB Statement of Income Data							
Three months ended September 30, 2014							
Bank expenses/Noninterest expense	$43,964	$(934)		$43,030	$39,664	$(934)	$38,730
Bank operating income/Income before income taxes	19,572	934		20,506	19,572	934	20,506
Income taxes	26,323	941		27,264	6,312	941	7,253
Net income for common stock/Net income	47,815	(7)		47,808	13,260	(7)	13,253
Nine months ended September 30, 2014							
Bank expenses/Noninterest expense	129,528	(2,750)		126,778	117,924	(2,750)	115,174
Bank operating income/Income before income taxes	58,243	2,750		60,993	58,244	2,750	60,994
Income taxes	73,265	3,037		76,302	18,769	3,037	21,806
Net income for common stock/Net income	135,163	(287)		134,876	39,475	(287)	39,188
HEI Consolidated Balance Sheet/ASB Balance Sheet Data							
December 31, 2014							
Other assets	541,542	981		$542,523	$304,435	$981	$305,416
Total assets and Total liabilities and shareholders' equity	11,184,161	981		$11,185,142	$5,565,241	$981	$5,566,222
Deferred income taxes/Other liabilities	631,734	1,836		$633,570	$116,527	$1,836	$118,363
Total liabilities	9,358,440	1,836		$9,360,276	$5,030,598	$1,836	$5,032,434
Retained earnings	297,509	(855)		$296,654	$212,789	$(855)	$211,934
Total shareholders' equity	1,791,428	(855)		$1,790,573	$534,643	$(855)	$533,788
HEI Consolidated Statement of Changes in Stockholders' Equity							
December 31, 2013							
Retained earnings	255,694	(664)		$255,030			
Total shareholders' equity	1,727,070	(664)		$1,726,406			

HEI Consolidated Statement of Cash Flows				
Nine months ended September 30, 2014				
Net income	136,580	(287)		136,293
Increase in deferred income taxes	48,900	370	$1,026	50,296
Change in other assets and liabilities	(47,677)	(83)	(8,566)	(56,326)

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

The Company adopted ASU No. 2014-04 in the first quarter of 2015 and the adoption did not have a material impact on the Company's results of operations, financial condition or liquidity.

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

The Company plans to adopt ASU No. 2014-09 in the first quarter of 2018, but has not determined the method of adoption (full or modified retrospective application) nor the impact of adoption on its results of operations, financial condition or liquidity.

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

The Company adopted ASU No. 2014-11 in the first quarter of 2015 and the adoption did not have a material impact on the Company's results of operations, financial condition or liquidity.

Debt issuance costs. In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

The Company plans to retrospectively adopt ASU No. 2015-03 in the first quarter 2016 and does not expect the adoption to have a material impact on the Company's results of operations, financial condition or liquidity.

12 · Credit agreements and long-term debt

Credit agreements.

HEI. On April 2, 2014, HEI and a syndicate of nine financial institutions entered into an amended and restated revolving non-collateralized credit agreement (HEI Facility). The HEI Facility increased HEI's line of credit to $150 million from $125 million, extended the term of the facility to April 2, 2019, and provided improved pricing compared to HEI's prior facility. Under the HEI Facility, draws would generally bear interest, based on HEI's current long-term credit ratings, at the "Adjusted LIBO Rate," as defined in the agreement, plus 137.5 basis points and annual fees on undrawn commitments of 20 basis points. The HEI Facility contains updated provisions for pricing adjustments in the event of a long-term ratings change based on the HEI Facility's ratings-based pricing grid. Certain modifications were made to incorporate some updated terms and conditions customary for facilities of this type. In addition, the HEI Consolidated Net Worth covenant, as defined in the original facility, was removed from the HEI Facility, leaving only one financial covenant (relating to HEI's ratio of funded debt to total capitalization, each on a non-consolidated basis). Under the credit agreement, it is an event of default if HEI fails to maintain an unconsolidated "Capitalization Ratio" (funded debt) of 50% or less (actual ratio of 16% as of September 30, 2015, as calculated under the agreement) or if HEI no longer owns Hawaiian Electric. HEI currently intends to terminate the HEI Facility if, and when, the proposed Merger closes. The HEI Facility does not contain clauses that would affect access to the facility by reason of a ratings downgrade, nor does it have broad "material adverse change" clauses, but it continues to contain customary conditions which must be met in order to draw on it, including compliance with covenants (such as covenants preventing HEI's subsidiaries from entering into agreements that restrict the ability of the subsidiaries to pay dividends to, or to repay borrowings from, HEI).

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

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

Facility increased Hawaiian Electric's line of credit to $200 million from $175 million. In January 2015, the PUC approved Hawaiian Electric's request to extend the term of the credit facility to April 2, 2019. The Hawaiian Electric Facility provided improved pricing compared to its prior facility. Under the Hawaiian Electric Facility, draws would generally bear interest, based on Hawaiian Electric's current long-term credit ratings, at the "Adjusted LIBO Rate," as defined in the agreement, plus 125 basis points and annual fees on undrawn commitments of 17.5 basis points. The Hawaiian Electric Facility contains updated provisions for pricing adjustments in the event of a long-term ratings change based on the Hawaiian Electric Facility's ratings-based pricing grid. Certain modifications were made to incorporate some updated terms and conditions customary for facilities of this type. The Hawaiian Electric Facility does not contain clauses that would affect access to the facility by reason of a ratings downgrade, nor does it have broad "material adverse change" clauses, but it continues to contain customary conditions which must be met in order to draw on it, including compliance with several covenants (such as covenants preventing its subsidiaries from entering into agreements that restrict the ability of the subsidiaries to pay dividends to, or to repay borrowings from, Hawaiian Electric, and restricting its ability as well as the ability of any of its subsidiaries to guarantee additional indebtedness of the subsidiaries if such additional debt would cause the subsidiary's "Consolidated Subsidiary Funded Debt to Capitalization Ratio" to exceed 65% (ratio of 41% for Hawaii Electric Light and 41% for Maui Electric as of September 30, 2015, as calculated under the agreement)). In addition to customary defaults, Hawaiian Electric's failure to maintain its financial ratios, as defined in its credit agreement, or meet other requirements may result in an event of default. For example, under the credit agreement, it is an event of default if Hawaiian Electric fails to maintain a "Consolidated Capitalization Ratio" (equity) of at least 35% (ratio of 56% as of September 30, 2015, as calculated under the credit agreement), or if Hawaiian Electric is no longer owned by HEI. Under the proposed Merger Agreement, Hawaiian Electric will become a wholly-owned subsidiary of NEE. The terms of the Hawaiian Electric Facility are such that the proposed Merger would constitute a "Change in Control." Hawaiian Electric has requested, and the financial institutions providing the Hawaiian Electric Facility have consented and agreed, that the proposed Merger shall not constitute a "Change in Control," as defined in the credit agreement, provided that (i) the Merger is consummated and (ii) Hawaiian Electric becomes and remains a wholly-owned subsidiary of NEE.

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

Subsequent events - changes in long-term debt.

HEI. On May 2, 2014, HEI entered into a loan agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd., Royal Bank of Canada and U.S. Bank, National Association (Loan Agreement), which agreement includes substantially the same financial covenant and customary conditions as the HEI credit agreement described above. On May 2, 2014, HEI drew a $125 million Eurodollar term loan for a term of two years and at a resetting interest rate ranging from 1.09% to 1.18% through September 30, 2015. The proceeds from the term loan were used to pay off $100 million of 6.51% medium term notes at maturity on May 5, 2014, pay down maturing commercial paper and for general corporate purposes.

On October 8, 2015, (a) the Royal Bank of Canada assigned its loans under the Loan Agreement to The Bank of Tokyo-Mitsubishi UFJ, Ltd. and U.S. Bank, National Association and (b) HEI, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and U.S. Bank, National Association entered into Amendment No. 1 to the Loan Agreement. Amendment No. 1, among other things, improved pricing on Eurodollar Borrowings under the Loan Agreement by 15 basis points and extended the maturity date of the Loan Agreement to October 6, 2017. It is currently contemplated that borrowings under the Loan Agreement will be repaid concurrently with the closing of the NEE Merger.

Hawaiian Electric. On October 15, 2015, Hawaiian Electric, Maui Electric and Hawaii Electric Light issued, through a private placement pursuant to the separate note purchase agreements (the Note Purchase Agreements), $50 million, $5 million and $25 million, respectively, of Series 2015A taxable unsecured 5.23% senior notes due October 1, 2045 (collectively, the Notes). Hawaiian Electric is also a party as guarantor under the Note Purchase Agreements entered into by Maui Electric and Hawaii Electric Light.

All the proceeds of the Notes were used by the Utilities to finance their capital expenditures and for the reimbursement of funds used for the payment of capital expenditures.

The Note Purchase Agreements contain customary representations and warranties, affirmative and negative covenants, and events of default (the occurrence of which may result in some or all of the Notes then outstanding becoming immediately due and payable). The Note Purchase Agreements also include provisions regarding the maintenance of financial ratios that are generally consistent with those in the Hawaiian Electric credit agreement described above. The Notes may be prepaid in whole or in part at any time at the prepayment price of the principal amount plus a "Make-Whole Amount." Each of the Note Purchase Agreements also (a) requires the Utilities to offer to prepay the Notes (without a

Make-Whole Amount) in the event that there is a "change in control" as defined, and (b) permits the Utilities to offer to prepay Notes (without a Make-Whole Amount) in the event of certain sales of assets. Under the Note Purchase Agreements, the proposed merger of HEI and NEE will not be deemed a "change in control."

13 · Related party transactions

Mr. Timothy Johns, a member of the Hawaiian Electric Board of Directors, is an executive officer of Hawaii Medical Service Association (HMSA). The Company's HMSA costs and expense (for health insurance premiums, claims plus administration expense and stop-loss insurance coverages) and the Utilities' HMSA costs and expense (for health insurance premiums) were as follows:

	Three months ended September 30		Nine months ended September 30	
(in millions)	2015	2014	2015	2014
HEI consolidated				
HMSA costs	$8	$6	$22	$18
HMSA expense*	6	4	16	13
Hawaiian Electric consolidated				
HMSA costs	6	5	17	15
HMSA expense*	4	3	11	9

* Charged the remaining costs primarily to electric utility plant.

The costs and expense in the table above are gross amounts (i.e., not net of employee contributions to employee benefits).

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

The following discussion updates "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in HEI's and Hawaiian Electric's 2014 Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, and should be read in conjunction with such discussion and the 2014 annual consolidated financial statements of HEI and Hawaiian Electric and notes thereto included in HEI's and Hawaiian Electric's 2014 Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, as well as the quarterly (as of and for the three and nine months ended September 30, 2015) financial statements and notes thereto included in this Form 10-Q.

HEI consolidated

RESULTS OF OPERATIONS

(in thousands, except per	Three months ended September 30		%	
share amounts)	2015	2014	change	Primary reason(s)*
Revenues	$717,176	$867,096	(17)	Decrease for the electric utility segment, partly offset by increase for the bank segment
Operating income	97,095	92,036	5	Increase for the electric utility and bank segments, partly offset by higher loss for the "other" segment
Net income for common stock	50,673	47,808	6	Higher net income for the electric utility and bank segments, partly offset by higher net loss for the "other" segment
Basic earnings per common share	$0.47	$0.47	—	Higher net income, offset by the impact of higher weighted average shares outstanding
Weighted-average number of common shares outstanding	107,457	102,416	5	Issuances of shares under the 2013 equity forward transaction and HEI stock compensation plans

(in thousands, except per share amounts)	Nine months ended September 30 2015	2014	% change	Primary reason(s)*
Revenues	$1,978,950	$2,449,502	(19)	Decrease for the electric utility segment, partly offset by increase for the bank segment
Operating income	239,331	264,433	(9)	Decrease for the electric utility segment and higher loss for the “other” segment, partly offset by increase for the bank segment
Net income for common stock	117,557	134,876	(13)	Lower net income for the electric utility segment and higher net loss for the “other” segment, partly offset by higher net income for the bank segment
Basic earnings per common share	$1.11	$1.33	(17)	Lower net income and the impact of higher weighted average shares outstanding
Weighted-average number of common shares outstanding	106,067	101,768	4	Issuances of shares under the 2013 equity forward transaction, HEI Dividend Reinvestment and Stock Purchase Plan and other plans

* Also, see segment discussions which follow.

Notes: The Company’s effective tax rates (combined federal and state income tax rates) for the third quarters of 2015 and 2014 were 37% and 36%, respectively, and for the first nine months of 2015 and 2014 were 37% and 36%, respectively. The effective tax rate was higher for the quarter and nine months ended September 30, 2015 compared to the same periods in 2014 due primarily to nondeductible merger- and spin-off-related expenses.

HEI’s consolidated ROACE was 8.1% for the twelve months ended September 30, 2015 and 10.1% for the twelve months ended September 30, 2014.

Dividends. The payout ratios for the first nine months of 2015 and full year 2014 were 84% and 75%, respectively. HEI currently expects to maintain its dividend at its present level; however, the HEI Board of Directors evaluates the dividend quarterly and considers many factors in the evaluation, including but not limited to the Company’s results of operations, the long-term prospects for the Company, and current and expected future economic conditions. See Note 2 of the Consolidated Financial Statements for a discussion of a special HEI dividend of $0.50 per share contemplated in the Merger Agreement.

Economic conditions.

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

Hawaii’s tourism industry, a significant driver of Hawaii’s economy, ended the first nine months of 2015 with higher visitor arrivals and expenditures as compared to the same period a year ago. Visitor arrivals increased 4.1% and expenditures increased 2.6% compared to the first nine months of 2014. The Hawaii Tourism Authority expects scheduled nonstop seats to Hawaii for the fourth quarter of 2015 to increase by 3.8% over the fourth quarter of 2014 driven by an expected 5.1% increase in domestic seats and 1.1% in international seats.

Hawaii’s unemployment rate improved to 3.4% in September 2015, lower than the state’s 4.2% rate in September 2014 and the September 2015 national unemployment rate of 5.1%.

Hawaii real estate activity, as indicated by the home resale market, experienced growth in median sales prices and closed sales in the first nine months of 2015. Median sales prices for single family residential homes and condominiums on Oahu increased 4.0% and 1.4% respectively, over the first nine months of 2014. Closed sales for single family residential homes and condominiums increased by 4.9% and 5.1% respectively, compared to the first nine months of 2014.

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 held steady during the first half of the year before falling

steeply in the second half. Fuel prices remained lower in the first nine months of 2015 over the same period in 2014. Information received since the Federal Open Market Committee (FOMC) met in September 2015 indicates that economic activity has been expanding at a moderate pace. The FOMC reaffirmed its view that the current 0% to 0.25% percent target range for the federal funds rate remains appropriate and will continue to assess progress towards its objectives of an improved labor market and a movement back to 2% inflation.

Overall, the Hawaii economy is expected to continue growing for the rest of 2015 and 2016 driven by the tourism industry, particularly on the neighbor islands, the continuation of the construction upturn and moderate expansion of jobs and income. Hawaii's economy depends on conditions in the U.S. economy and key international economies such as Japan.

Recent tax developments. The Tax Increase Prevention Act of 2014 provided an extension of 50% bonus depreciation through December 31, 2014, 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 December 31, 2013, resulting in an increase in 2013 federal tax depreciation of $160 million, primarily attributable to the Utilities. Under current tax law, there is no provision for bonus depreciation in 2015 and future years. However, several proposed bills extending bonus depreciation are currently being considered by Congress.

Also, see "Recent tax developments" in Note 4 and Hawaiian Electric's consolidated income taxes refunded in Note 10 of the Consolidated Financial Statements.

Retirement benefits. For the first nine months of 2015, the Company's defined benefit pension and other postretirement benefit plans' assets generated a loss, including investment management fees, of -4.2%. The market value of these assets as of September 30, 2015 and December 31, 2014 was $1.4 billion (including $1.3 billion for the Utilities) and $1.4 billion (including $1.3 billion for the Utilities), respectively.

The Company estimates that the cash funding for its defined benefit pension and other postretirement benefit plans in 2015 will be $88 million ($86 million by the Utilities, $2 million by HEI and nil by ASB), which is expected to fully satisfy the minimum contribution requirements, including requirements of the Utilities' pension and OPEB tracking mechanisms and the plans' funding policies.

The following table reflects the sensitivity of the qualified defined benefit pension projected benefit obligation (PBO) as of December 31, 2015 associated with a change in the pension benefits discount rate actuarial assumption by the indicated basis points and constitutes "forward-looking statements."

Actuarial Assumption	Change in 4.22% assumption in basis points	Impact on HEI consolidated PBO	Impact on the Utilities PBO
Pension benefits discount rate	- 100/+100	$347 million/$(269) million	$325 million/$(251) million

In October 2015, the Society of Actuaries (SOA) released MP-2015 (mortality improvement scale), an update from MP-2014, to reflect two additional years of U.S. population mortality experience data from the Social Security Administration, which occurred at rates generally lower than assumed in MP-2014. Application of MP-2015, as published, will result in lower future pension and OPEB plan obligations, costs and required contribution amounts. The Company is currently evaluating whether to adopt the use of MP-2015 in its measurement of its pension and OPEB plan obligations at December 31, 2015. The Company used the SOA published RP-2014 (mortality tables) and MP-2014 to measure its pension and OPEB plan obligations at December 31, 2014 and costs in 2015. The Internal Revenue Service is evaluating mortality assumptions for purposes of developing prescribed tables for ERISA minimum funding purposes. The earliest the Company anticipates a change in IRS methodology is January 1, 2017. As of December 31, 2014, the Company is using different mortality assumptions for ERISA funding versus financial reporting and accounting.

Commitments and contingencies. See Note 4, "Electric utility segment" and Note 5, "Bank segment," of the Consolidated Financial Statements.

Recent accounting pronouncements. See Note 11, "Recent accounting pronouncements," of the Consolidated Financial Statements.

“Other” segment.

(in thousands)	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014	Primary reason(s)
Revenues	$(42)	$(5)	$(4)	$(325)	Lower writedown of venture capital investments for the nine months
Operating loss	(6,364)	(4,626)	(28,282)	(13,450)	Higher administrative and general expenses, due to higher merger- and spin-off-related expenses ($1.8 million of expenses for third quarter 2015 and $15.2 million for first nine months of 2015)
Net loss	(5,784)	(4,324)	(24,941)	(12,841)	Higher operating loss and lower tax benefits relative to the losses in 2015 (partly due to non-deductibility of certain merger- and spin-off-related expenses), partly offset by lower interest expense

The “other” business segment includes results of the stand-alone corporate operations of HEI and ASB Hawaii, Inc. (ASBH), both holding companies; HEI Properties, Inc., a company which held passive, venture capital investments (all of which have been sold or abandoned); and The Old Oahu Tug Service, Inc., a maritime freight transportation company that ceased operations in 1999; as well as eliminations of intercompany transactions. Expenses related to the pending merger with NEE and spin-off of ASBH of $4.4 million, $9.0 million and $1.8 million were included in the results of the stand-alone corporate operations of HEI during the first, second and third quarters of 2015.

FINANCIAL CONDITION

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

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

(dollars in millions)	September 30, 2015		December 31, 2014	
Short-term borrowings—other than bank	$172	5 %	$119	3 %
Long-term debt, net—other than bank	1,507	41	1,507	44
Preferred stock of subsidiaries	34	1	34	1
Common stock equity	1,921	53	1,791	52
	$3,634	100 %	$3,451	100 %

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

(in millions)	Average balance Nine months ended September 30, 2015	Balance September 30, 2015	December 31, 2014
Short-term borrowings [1]			
Commercial paper	$51	$77	$119
Line of credit draws	—	—	—
Undrawn capacity under HEI’s line of credit facility		150	150

[1] This table does not include Hawaiian Electric’s separate commercial paper issuances and line of credit facilities and draws, which are disclosed below under “Electric utility—Financial Condition—Liquidity and capital resources.” The maximum amount of HEI’s external short-term borrowings during the first nine months of 2015 was $134 million. At October 31, 2015, HEI had $78 million of outstanding commercial paper, and its line of credit facility was undrawn.

HEI has a line of credit facility, as amended and restated on April 2, 2014, of $150 million. See Note 12 of the Consolidated Financial Statements.

The Company raised $3 million through the issuance of approximately 0.1 million shares of common stock under the HEI Dividend Reinvestment and Stock Purchase Plan (DRIP), the HEIRSP and ASB 401(k) Plan from January 1 through March 5,

2014. As of March 6, 2014, HEI began satisfying the share purchase requirements of the DRIP, HEIRSP and ASB 401(k) Plan through open market purchases of its common stock rather than through new issuances.

In March 2013, HEI entered into equity forward transactions in which a forward counterparty borrowed 7 million shares of HEI's common stock from third parties and such borrowed shares were sold pursuant to an HEI registered public offering. See Note 8 of the Consolidated Financial Statements. In March 2015, HEI issued the 4.7 million shares remaining under the equity forward for proceeds of $104.5 million.

In October 2015, HEI amended and extended a two-year $125 million term loan agreement that it entered into on May 2, 2014. See Note 12 of the Consolidated Financial Statements for a brief description of the loan agreement.

In December 2014, HEI filed an omnibus registration statement to register an indeterminate amount of debt and equity securities.

On August 21, 2015, Moody's Investor Service (Moody's) changed HEI's rating outlook from stable to negative "due to concerns about the execution risk inherent in transforming its oil-dominated generation base to renewables."

For the first nine months of 2015, net cash provided by operating activities of HEI consolidated was $221 million. Net cash used by investing activities for the same period was $503 million, primarily due to Hawaiian Electric's consolidated capital expenditures, purchases of ASB's investment securities, a net increase in ASB's loans held for investment, partly offset by ASB's repayments of investment securities and redemption of stock from the FHLB, and Hawaiian Electric's contributions in aid of construction. Net cash provided by financing activities during this period was $335 million as a result of several factors, including proceeds from the issuance of shares under the equity forward, a net increase in short-term borrowings, and net increases in ASB's deposit liabilities, retail repurchase agreements and other bank borrowings, partly offset by the payment of common stock dividends. Other than capital contributions from their parent company, intercompany services (and related intercompany payables and receivables), Hawaiian Electric's periodic short-term borrowings from HEI (and related interest) and the payment of dividends to HEI, the electric utility and bank segments are largely autonomous in their operating, investing and financing activities. (See the electric utility and bank segments' discussions of their cash flows in their respective "Financial condition—Liquidity and capital resources" sections below.) During the first nine months of 2015, Hawaiian Electric and ASB (through ASB Hawaii) paid cash dividends to HEI of $68 million and $23 million, respectively.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION

The Company's results of operations and financial condition can be affected by numerous factors, many of which are beyond the Company's control and could cause future results of operations to differ materially from historical results. For information about certain of these factors, see pages 47 to 48, 62 to 64, and 74 to 76 of HEI's MD&A included in Part II, Item 7 of HEI's 2014 Form 10-K, as amended by Amendment No. 1 on Form 10-K/A.

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

MATERIAL ESTIMATES AND CRITICAL ACCOUNTING POLICIES

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

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

For information about these material estimates and critical accounting policies, see pages 48 to 49, 64 to 65, and 76 to 79 of HEI's MD&A included in Part II, Item 7 of HEI's 2014 Form 10-K, as amended by Amendment No. 1 on Form 10-K/A.

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

Electric utility

RESULTS OF OPERATIONS

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

On August 26, 2014, Hawaiian Electric, Hawaii Electric Light and Maui Electric filed proposed plans for Hawaii's energy future with the PUC, as required by PUC orders issued in April 2014 (see "April 2014 regulatory orders" in Note 4 of the Consolidated Financial Statements). 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.

On October 1, 2015, Hawaiian Electric, Hawaii Electric Light and Maui Electric filed a proposed community-based renewable energy program and tariff with the PUC that will allow customers who cannot, or chose not to, take advantage of rooftop solar to receive the benefits of renewable energy to help offset their monthly electric bills and support clean energy for Hawaii. The program, upon approval by the PUC, will allow customers to buy an interest in electricity generated by community renewable projects in diverse locations on their island without installing systems on their own roofs or property.

Transition to renewable energy. The Utilities are committed to assisting the State of Hawaii in achieving its Renewable Portfolio Standard goal of 100% renewable energy by 2045 (see "Renewable energy strategy" below). The Utilities are also working with the State of Hawaii and other entities to examine the possibility of using LNG as a cleaner and lower cost fuel as transition fuel for some generation as the Utilities move from oil to renewable energy. Since 2014 the Utilities have been evaluating delivering LNG in specialized shipping containers to their generating stations on a transitional basis, an approach that requires minimal on-island infrastructure. In March 2014, Hawaiian Electric issued a RFP for the supply of containerized LNG and is currently in negotiations to resolve key contractual provisions with the preferred bidder. The Utilities are working to align their containerized LNG plans with the State's directives and plan on finalizing LNG fuel agreements in the first quarter of 2016. The Utilities would seek approval from the PUC for the fuel agreement(s) and the commitment of funds for capital improvements shortly thereafter.

In August 2015, Hawaii State Governor Ige voiced his opposition to LNG as a replacement fuel for power generation citing (a) the high infrastructure costs and (b) permitting requirements as primary obstacles.

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, 160 direct load control switches, fault circuit indicators and remote controlled switches in selected areas across Oahu as part of the Smart Grid Initial Phase implementation. Also under the Initial Phase a grid efficiency measure called Volt/Var Optimization (or Conservation Voltage Reduction) was turned on, customer energy portals were launched and are available for customer use and a PrePay Application was launched. The Initial Phase implementation will be completed by the end of 2015. 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 the fourth quarter of 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. 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 March 31, 2015, the PUC issued an Order to make certain modifications to the decoupling mechanism. See "Decoupling" in Note 4 of the Consolidated Financial Statements for a discussion on changes to the RAM mechanism. Under decoupling, as

modified by the PUC, the most significant drivers for improving earnings are:

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

Actual and PUC-allowed (as of September 30, 2015) returns were as follows:

%	Return on rate base (RORB)*			ROACE**			Rate-making ROACE***		
Twelve months ended September 30, 2015	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Hawaiian Electric	Hawaii Electric Light	Maui Electric
Utility returns	7.23	6.00	7.74	7.95	6.30	9.21	8.84	6.51	9.74
PUC-allowed returns	8.11	8.31	7.34	10.00	10.00	9.00	10.00	10.00	9.00
Difference	(0.88)	(2.31)	0.40	(2.05)	(3.70)	0.21	(1.16)	(3.49)	0.74

* 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 incentive compensation and certain advertising.

The approval of decoupling by the PUC has helped the Utilities to gradually improve their ROACEs when compared to the period prior to the implementation of decoupling. This 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,
- plant additions not recoverable through the RAM or other mechanism outside of the RAM cap,
- the modification to the 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 2016 is expected to be 90 to 110 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 plant additions in any given year relative to the amount recoverable under the RAM cap, 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 likely to be 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 and capital additions 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, the earnings sharing mechanism was triggered for Maui Electric, and Maui Electric will credit $0.5 million to its customers for their portion of the earnings sharing during the period June 2015 to May 2016. Earnings sharing credits are included in the annual decoupling filing for the following year.

Annual decoupling filings. See "Decoupling" in Note 4 of the Consolidated Financial Statements for a discussion of the 2015 annual decoupling filings.

Results.

Three months ended September 30		Increase		
2015	2014	(decrease)		(dollars in millions, except per barrel amounts)
$648	$804	$(156)		Revenues. Net decrease largely due to:
			$(131)	lower fuel prices
			(42)	lower purchased power energy costs
			7	higher KWH generated
			7	higher KWH purchased
196	309	(113)		Fuel oil expense. Decrease largely due to lower fuel cost partly offset by higher KWH generated
161	193	(32)		Purchased power expense. Decrease due to lower purchased power energy prices offset by higher KWH purchased
104	108	(4)		Operation and maintenance expenses. Net decrease due to:
			(4)	higher consultant costs in 2014 related to 4 PUC D&Os
			(4)	higher 2014 storm restoration costs
			(3)	higher 2014 smart grid costs
			(2)	reversal of previously expensed Interactive Voice Response system project costs, based on PUC decision allowing deferral and amortization of costs
			5	ERP software costs write off resulting from PUC ERP/EAM decision
			4	increased generating unit maintenance, including costs to comply with MATS
106	117	(11)		Other expenses. Decrease in revenue taxes due to lower revenue offset by higher depreciation expense for plant investments
83	76	7		Operating income. Increase due to an overall decrease in expenses
43	39	4		Net income for common stock. Increase due to higher operating income
2,468	2,384	84		Kilowatthour sales (millions)
74.9	72.2	2.7		Wet-bulb temperature (Oahu average; degrees Fahrenheit)
1,711	1,631	80		Cooling degree days (Oahu)
$81.35	$133.26	$(51.91)		Average fuel oil cost per barrel

Nine months ended September 30		Increase		
2015	2014	(decrease)		(dollars in millions, except per barrel amounts)
$1,780	$2,262	$(482)		Revenues. Decrease largely due to:
			$(373)	lower fuel prices
			(101)	lower purchased power energy costs
			(8)	lower KWH generated
519	866	(347)		Fuel oil expense. Decrease largely due to lower fuel cost and lower KWH generated.
446	546	(100)		Purchased power expense. Decrease due to lower purchased power energy prices and lower KWH purchased
307	295	12		Operation and maintenance expenses. Net increase due to:
			11	increased generating unit maintenance, including costs to comply with MATS
			5	ERP software costs write off resulting from PUC ERP/EAM decision
			4	higher consulting costs for energy transformation plans
			3	higher employee benefit costs
			2	higher bad debt reserves for one customer account
			(5)	higher consultant costs in 2014 related to 4 PUC D&Os
			(4)	higher 2014 smart grid costs
			(2)	higher 2014 storm restoration costs
			(2)	reversal of previously expensed Interactive Voice Response system project costs, based on PUC decision allowing deferral and amortization of costs
302	338	(36)		Other expenses. Decrease in revenue taxes due to lower revenue offset by higher depreciation expense for plant investments
206	217	(11)		Operating income. Decrease due to lower revenues
103	109	(6)		Net income for common stock. Decrease due to lower operating income
6,656	6,699	(43)		Kilowatthour sales (millions)
70.2	69.5	0.7		Wet-bulb temperature (Oahu average; degrees Fahrenheit)
3,687	3,703	(16)		Cooling degree days (Oahu)
$79.13	$132.19	$(53.06)		Average fuel oil cost per barrel
457,051	454,156	2,895		Customer accounts (end of period)

Note: The electric utilities had effective tax rates for the third quarters of 2015 and 2014 of 37% and 37%, respectively. The electric utilities had effective tax rates for the first nine months of 2015 and 2014 of 37% and 37%.

Hawaiian Electric's consolidated ROACE was 7.9% for the twelve months ended September 30, 2015 and 9.0% for the twelve months ended September 30, 2014.

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

Other operation and maintenance expenses (excluding expense covered by surcharges or by third parties) for 2015 are projected to be flat as compared to 2014 as the Utilities continue to implement rigorous cost management measures focused on reprioritization of work, staffing levels, and discretionary expenses. The Utilities previously projected a 2% decrease compared to 2014, however higher than anticipated costs have arisen including the unexpected $4.8 million write-off of enterprise resource planning software and other costs.

The net book value (cost less accumulated depreciation) of utility property, plant and equipment (PPE) as of September 30, 2015 amounted to $4 billion, of which approximately 26% related to production PPE, 65% related to transmission and distribution PPE, and 9% related to other PPE. Approximately 3% of the total net book value relates

to generation PPE that has been deactivated or that the Utilities plan to deactivate or decommission. See “Adequacy of supply” below.
See “Economic conditions” in the “HEI Consolidated” section above.

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

Test year (dollars in millions)	Date (filed/ 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							
2016 (5)	6/17/15							
Maui Electric								
2012 (6)								
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 (7)	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,

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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) See "Hawaii Electric Light 2016 test year rate case" below.

(6) 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.

(7) 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 Customer Information System (CIS) project O&M expenses (limited to $2,258,000 per year in 2011 and 2012) that were to be subject to a regulatory audit of project costs, and allowed Hawaiian Electric to accrue AFUDC on these deferred costs until the completion of the regulatory audit.

On January 28, 2013, the Utilities and the Consumer Advocate entered into the 2013 Agreement to, among other things, write-off $40 million of CIS Project costs in lieu of conducting the regulatory audits of the CIP CT-1 and the CIS projects, with the remaining recoverable costs for the projects of $52 million to be included in rate base as of December 31, 2012. The parties agreed that Hawaii Electric Light would withdraw its 2013 test year rate case and not file a rate case until its next turn in the rate case cycle, for a 2016 test year, and Hawaiian Electric would delay the filing of its scheduled 2014 test year rate case to no earlier than January 2, 2014. The parties also agreed that, starting in 2014, Hawaiian Electric will be allowed to record RAM revenues starting on January 1 (instead of the prior start date of June 1) for the years 2014, 2015 and 2016. For the nine months ended September 30, 2015 and 2014, Hawaiian Electric had additional net RAM revenues of $3.8 million and $12.3 million, respectively.

Hawaiian Electric 2014 test year rate case. 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 RBA in 2014 based

on 2014 test year forecasted sales, and (3) the revenue from the 2014 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 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 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.
Hawaii Electric Light 2016 test year rate case. On June 17, 2015, Hawaii Electric Light filed its notice of intent to file a general rate case application by December 30, 2016, and requested a test year waiver to utilize a 2016 calendar test year. Notice is contingent upon the PUC's approval of Hawaii Electric Light's request to extend the current December 31, 2015 deadline to file the rate case, using a 2016 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.
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 as revised in the 2015 Legislature, which requires electric utilities to meet an RPS of 10%, 15%, 30%, 40%, 70% and 100% by December 31, 2010, 2015, 2020, 2030, 2040 and 2045, 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 PPAs, NEM 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 PV systems installed by its customers.
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' efforts to further their renewable energy strategy include the following:

- In July 2011, the PUC directed Hawaiian Electric to submit a draft RFP for the PUC's consideration for a competitive bidding process for 200 MW or more of renewable energy to be delivered to, or to be sited on, the island of Oahu. In October 2011, Hawaiian Electric filed a draft RFP with the PUC. In July 2013, the PUC issued orders related to the 200-MW RFP, ordering 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.
- 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. Per the terms of the PPA, the Hu Honua Bioenergy, LLC plant is currently scheduled to be in service in 2016.

- 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 PPA. An application for PUC approval of an amendment to the PPA was filed in April 2014.

- In August 2012, the PUC approved a waiver from the competitive bidding framework 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 May 2014, Hawaiian Electric filed an application with the PUC to allow expenditures of $170 million for execution of the project, which is expected to be placed in service by the end of 2017.
- In July 2015, the PUC issued orders approving (with conditions) four PPAs for a combined 137 MW of solar projects. Hawaiian Electric expects to manage curtailment levels of these projects. In August 2015, the PUC issued orders denying Hawaiian Electric’s applications to approve three other solar projects.
- 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. In September 2015, Anaergia Services, Maui Energy park, and Maui Resource Recovery Facility filed a Petition for Declaratory Order, asking the PUC to find that Hawaiian Electric and Maui Electric have violated Hawaii state law and clear legislative policy by wrongfully refusing and failing to forward several bona fide requests for preferential rates for the purchase of firm renewable energy produced in conjunction with agricultural activities to the PUC for approval.
- 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 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 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 2015, the PUC denied the request to waive the Lanikuhana facility from competitive bidding requirements.
- In September 2015, the PUC approved Hawaiian Electric’s 2-year biodiesel supply contract with Pacific Biodiesel Technologies, LLC to supply 2 million to 3 million gallons of biodiesel at CIP CT-1 and the Honolulu International Airport Emergency Power Facility beginning in November 2015. Renewable Energy Group has supplied 3 million to 7 million gallons per year to CIP CT-1 under its contract with Hawaiian Electric originally set to expire November 2015. The contract has been extended from November 2015 to November 2016 as a contingency supply contract with no volume purchase requirements.
- The Utilities began accepting energy from feed-in tariff projects in 2011. As of September 30, 2015, there were 13 MW, 3 MW and 4 MW of installed feed-in tariff capacity from renewable energy technologies at Hawaiian Electric, Hawaii Electric Light and Maui Electric, respectively.
- As of September 30, 2015, there were approximately 244 MW, 56 MW and 60 MW of installed NEM capacity from renewable energy technologies (mainly PV) at Hawaiian Electric, Hawaii Electric Light and Maui Electric, respectively.
- In July 2015, Maui Electric signed two PPAs, each for a 2.87-MW solar facility, which are subject to PUC approval.

Other regulatory matters. In addition to the items below, also see 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 is expected to be in service in the first quarter of 2018. 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.

Additional generation from other renewable resources could be added in the 2020-2025 timeframe.

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, with a combined rating of 9.5 MW, at its Kahului Power Plant. Due to various system conditions including lack of wind generation, approaching storms, and scheduled and unscheduled outages of generating units, transmission lines, and independent power producers, the two deactivated units at Kahului Power Plant were reactivated for several days in 2015. In consideration of the time needed to acquire replacement firm generating capacity, Maui Electric now anticipates the retirement of all generating units at the Kahului Power Plant, which have a combined rating of 32.3 MW, in the 2022 timeframe. A capacity planning analysis is in progress to better define needs and timing. 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.

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.

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

Recent accounting pronouncements. See Note 11, "Recent accounting pronouncements," of the Consolidated Financial Statements.

FINANCIAL CONDITION

Liquidity and capital resources. Management believes that Hawaiian Electric's ability, and that of its subsidiaries, to generate cash, both internally from operations and externally from issuances of equity and debt securities 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:

(dollars in millions)	September 30, 2015			December 31, 2014		
Short-term borrowings	$95	3	%	$—	—	%
Long-term debt, net	1,207	40		1,207	41	
Preferred stock	34	1		34	1	
Common stock equity	1,717	56		1,682	58	
	$3,053	100	%	$2,923	100	%

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

	Average balance	Balance	
(in millions)	Nine months ended September 30, 2015	September 30, 2015	December 31, 2014
Short-term borrowings [1]			
Commercial paper	$57	$95	$—
Line of credit draws	—	—	—
Borrowings from HEI	—	—	—
Undrawn capacity under line of credit facility		200	200

[1] The maximum amount of Hawaiian Electric's external short-term borrowings during the first nine months of 2015 was $126 million. At September 30, 2015, Hawaiian Electric had short-term borrowings from Maui Electric of $3 million and Hawaii Electric Light had short-term borrowings from Hawaiian Electric of $12 million. At October 31, 2015, Hawaiian Electric had no outstanding commercial paper, no draws under its line of credit facility and no borrowings from HEI. Also, at October 31, 2015, Hawaiian Electric had short-term borrowings from Hawaii Electric Light of $16 million and none from Maui Electric. Intercompany borrowings are eliminated in consolidation.

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 12 of the Consolidated Financial Statements.

Special purpose revenue bonds (SPRBs) have been issued by the Department of Budget and Finance of the State of Hawaii (DBF) to finance (and refinance) capital improvement projects of Hawaiian Electric and its subsidiaries, but the sources of their repayment are the non-collateralized obligations of Hawaiian Electric and its subsidiaries under loan agreements and notes issued to the DBF, including Hawaiian Electric's guarantees of its subsidiaries' obligations. The payment of principal and interest due on SPRBs currently outstanding and issued prior to 2009 are insured by 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.

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). In May 2015, the PUC approved the Utilities' request. On October 15, 2015, the Utilities issued through a private placement taxable unsecured senior notes totaling $80 million. See Note 12 of "Notes to Consolidated Financial Statements."

In June 2015, the Utilities refiled with the PUC a letter request to refinance outstanding revenue bonds with refunding revenue bonds totaling $47 million. On August 10, 2015, the PUC approved the Utilities' request.

In May 2015, up to $80 million of Special Purpose Revenue Bonds (SPRBs) ($70 million for Hawaiian Electric, $2.5 million for Hawaii Electric Light and $7.5 million for Maui Electric) were authorized by the Hawaii legislature for issuance, with PUC approval, prior to June 30, 2020 to finance the utilities' capital improvement programs.

In June 2015, Hawaiian Electric, Hawaii Electric Light and Maui Electric filed an application with the PUC for approval to issue and sell each utility's common stock in one or more sales in 2016 (Hawaiian Electric's sale to the owner at the time of each such sale of up to $330 million and Hawaii Electric Light's and Maui Electric's sales to Hawaiian Electric of up to $15 million and $45 million, respectively), and the purchase of the Hawaii Electric Light and Maui Electric common stock by Hawaiian Electric in 2016.

On August 21, 2015, Moody's changed Hawaiian Electric's rating outlook from stable to negative "due to concerns about the execution risk inherent in transforming its oil-dominated generation base to renewables." Moody's stated that they could reevaluate Hawaiian Electric's rating and outlook upon the closing of the pending merger with NEE.

Cash flows from operating activities generally relate to the amount and timing of cash received from customers and payments made to third parties. Using the indirect method of determining cash flows from operating activities, noncash expense items such as depreciation and amortization, as well as changes in certain assets and liabilities, are added to (or deducted from) net income. For the first nine months of 2015, net cash provided by operating activities increased by $31 million, compared to the prior year. For the first nine months of 2015, noncash depreciation and amortization amounted to $143 million due to an increase in plant and equipment. Further, for the first nine months of 2015, the changes in assets and liabilities included a net decrease of $9 million in accounts receivable and accrued unbilled revenues due to the timing of customer payments, a decrease of $36 million in fuel oil stock, and a $40 million decrease in accounts payable due to timing of vendor payments.

For the first nine months of 2015, net cash used in investing activities decreased by $1 million compared to the prior year. Cash used in investing activities consisted primarily of capital expenditures, partly offset by contributions in aid of construction.

Financing activities provide supplemental cash for both day-to-day operations and capital requirements as needed. For the first nine months of 2015, cash flows from financing activities increased by $9 million, compared to the prior year. For the first nine months of 2015, cash provided by financing activities consisted primarily of net proceeds received from short-term borrowings of $95 million, offset by $69 million of common and preferred stock dividend payments during the first nine months of 2015.

Due to the change in the RAM, the number of other high priority issues before the PUC and the continuing refinement of transformation plans, the Utilities forecast 2015 net capital expenditures to approximate $310 million (which was reduced from $420 million). As a result, Hawaiian Electric will not need an equity infusion from HEI in 2015. In October 2015, Hawaiian Electric issued $80 million of long-term debt. See Note 12 of "Notes to Consolidated Financial Statements."

Bank

(in millions)	Three months ended September 30 2015	2014	Increase (decrease)	Primary reason(s)
Interest income	$51	$49	$2	The impact of higher average earning asset balances was partly offset by lower yields on earning assets. ASB's average loan portfolio balance for the third quarter of 2015 increased by $187 million compared to the same period in 2014 as average commercial real estate, commercial, residential and home equity lines of credit loan balances increased by $89 million, $38 million, $28 million, and $24 million, respectively. The growth in these loan portfolios was reflective of ASB's portfolio mix target and loan growth strategy. Yields on earning assets decreased by 10 basis points. Loan portfolio yields were impacted by the low interest rate environment as new loan production yields were generally lower than the average loan portfolio yields. The average investment and mortgage-related securities portfolio balance increased by $221 million due to the purchase of investments with excess liquidity. The average FHLB stock balance decreased by $69 million as FHLB stock in excess of the required holdings was repurchased by the FHLB.
Noninterest income	18	15	3	Higher noninterest income primarily due to the $2.0 million gain on sale of real estate, $0.8 million higher deposit fee income and $0.6 million higher mortgage banking income.
Revenues	69	64	5	
Interest expense	3	3	—	Interest expense was flat as higher interest-bearing liability balances were offset by lower rates on interest-bearing liabilities. Average deposit balances for the third quarter of 2015 increased by $304 million compared to the same period in 2014 due to an increase in core deposits of $290 million. Average term certificate balances increased by $14 million. Other borrowings increased by $85 million primarily due to an increase in repurchase agreements. The interest-bearing liability rate decreased by 1 basis point.
Provision for loan losses	3	2	1	The provision for loan losses increased by $1.4 million primarily due to growth in the loan portfolio and net charge-offs during the quarter. Credit quality and trends continue to be strong, reflecting prudent credit risk management and a strong Hawaii economy. ASB had a net charge-off ratio for the third quarter of 2015 of 0.10% compared to a net charge-off ratio of 0.04% in the third quarter of 2014. The increase in net charge-offs were due to ASB's strategic expansion of its unsecured consumer loan product with

Noninterest expense	42	38	4
Expenses	48	43	5
Operating income	21	21	—
Net income	13	13	—

risk-based pricing and lower recoveries.
The increase in noninterest expense for the third quarter of 2015 compared to the same period in 2014 was primarily due to $1.8 million higher employee benefit costs and $0.4 million reserve for unfunded loan commitments.

Higher net interest income and noninterest income were offset by higher noninterest expenses and higher provision for loan losses.

(in millions)	Nine months ended September 30 2015	2014	Increase (decrease)	Primary reason(s)
Interest income	$148	$142	$6	The impact of higher average earning asset balances was partly offset by lower yields on earning assets. ASB's average loan portfolio balance for the nine months ended September 30, 2015 increased by $230 million compared to the same period in 2014 as average commercial real estate, home equity lines of credit and residential balances increased by $109 million, $44 million, and $44 million, respectively. The growth in these loan portfolios was reflective of ASB's portfolio mix target and loan growth strategy. The yield on earning assets decreased by 9 basis points. Loan portfolio yields were impacted by the low interest rate environment as new loan production yields were generally lower than the average loan portfolio yields. The average investment and mortgage-related securities portfolio balance increased by $113 million due to the purchase of investments with excess liquidity. The average FHLB stock balance decreased by $47 million as FHLB stock in excess of the required holdings was repurchased by the FHLB.
Noninterest income	51	46	5	Higher noninterest income was primarily due to a $3.6 million increase in gain on sale of loans a result of higher refinancing activity, $2.4 million higher deposit fee income and $2.0 million gain on sale of real estate, partly offset by $2.8 million lower gain on sale of securities in 2015 compared to 2014 as a result of the gain from the sale of ASB's municipal bond portfolio in 2014.
Revenues	199	188	11	
Interest expense	8	8	—	Interest expense was flat as higher interest-bearing liability balances were offset by lower rates on interest-bearing liabilities. Average deposit balances for the nine months ended September 30, 2015 increased by $285 million compared to the same period in 2014 due to an increase in core deposits of $278 million. Average term certificate balances increased by $7 million. Other borrowings increased by $67 million primarily due to an increase in repurchase agreements. The interest-bearing liability rate decreased by 1 basis point.
Provision for loan losses	6	4	2	The provision for loan losses increased by $1.9 million due to loan growth and net charge-offs, partly offset by the reversal of the Pahoa lava reserves and commercial loan payoffs. Credit quality and trends continue to be strong, reflecting prudent credit risk management and a strong Hawaii economy. The net charge-off ratio for the nine months ended September 30, 2015 was 0.08% compared to a net charge-off ratio for the nine months ended September 30, 2014 of 0.01%. The increase in net charge-offs were due to ASB's strategic expansion of its unsecured consumer loan product offering with risk-based pricing and lower recoveries from previously charged off loans.
	124	115	9	

Noninterest expense				Noninterest expense for the nine months ended Sepember 30, 2015 was $9.1 million higher than the noninterest expense for the same period in 2014 primarily due to higher employee benefit costs, an increase in retail delivery compensation costs, reversal of debit card expenses in 2014 with no similar reversal in 2015 and reserves for unfunded loan commitments.
Expenses	138	127	11	
Operating income	61	61	—	Higher net interest income and noninterest income were offset by higher noninterest expenses and higher provision for loan losses.
Net income	40	39	1	

See Note 5 of the Consolidated Financial Statements and “Economic conditions” in the “HEI Consolidated” section above.

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

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

	Three months ended September 30		Nine months ended September 30	
(percent)	2015	2014	2015	2014
Return on average assets	0.92	0.98	0.92	0.97
Return on average equity	9.73	9.88	9.69	9.83
Net interest margin	3.53	3.62	3.52	3.60

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

Three months ended September 30	2015			2014		
(dollars in thousands)	Average balance	Interest[1] income/ expense	Yield/ rate (%)	Average balance	Interest[1] income/ expense	Yield/ rate (%)
Assets:						
Other investments [2]	$122,322	$86	0.27	$152,476	$68	0.17
Securities purchased under resale agreements	—	—	—	—	—	—
Available-for-sale investment securities	762,572	4,127	2.17	541,262	2,705	2.00
Loans						
Residential 1-4 family	2,065,421	22,493	4.36	2,037,715	22,725	4.46
Commercial real estate	663,805	6,690	4.00	574,779	6,407	4.43
Home equity line of credit	828,096	6,684	3.20	804,504	6,576	3.24
Residential land	17,876	268	5.97	16,888	257	6.09
Commercial	813,475	7,376	3.58	775,503	7,368	3.76
Consumer	117,699	2,902	9.79	110,471	2,199	7.90
Total loans [3,4]	4,506,372	46,413	4.10	4,319,860	45,532	4.20
Total interest-earning assets [3]	5,391,266	50,626	3.74	5,013,598	48,305	3.84
Allowance for loan losses	(46,726)			(42,812)		
Non-interest-earning assets	486,995			461,925		
Total assets	$5,831,535			$5,432,711		
Liabilities and shareholder's equity:						
Savings	$1,990,016	$319	0.06	$1,888,932	$289	0.06
Interest-bearing checking	784,265	35	0.02	742,018	32	0.02
Money market	164,200	52	0.13	166,295	51	0.12
Time certificates	453,460	949	0.83	439,563	940	0.85
Total interest-bearing deposits	3,391,941	1,355	0.16	3,236,808	1,312	0.16
Advances from Federal Home Loan Bank	101,739	794	3.05	101,543	794	3.06
Securities sold under agreements to repurchase	238,822	721	1.18	153,909	644	1.64
Total interest-bearing liabilities	3,732,502	2,870	0.30	3,492,260	2,750	0.31
Non-interest bearing liabilities:						
Deposits	1,440,136			1,291,463		
Other	105,804			112,532		
Shareholder's equity	553,093			536,456		
Total liabilities and shareholder's equity	$5,831,535			$5,432,711		
Net interest income		$47,756			$45,555	
Net interest margin (%) [5]			3.53			3.62

Nine months ended September 30	2015			2014		
(dollars in thousands)	Average balance	Interest[1] income/ expense	Yield/ rate (%)	Average balance	Interest[1] income/ expense	Yield/ rate (%)
Assets:						
Other investments [2]	$172,715	$312	0.24	$172,051	$230	0.18
Securities purchased under resale agreements	—	—	—	6,813	20	0.38
Available-for-sale investment securities	650,645	10,258	2.10	537,904	8,658	2.15
Loans						
Residential 1-4 family	2,059,921	67,714	4.38	2,016,331	67,869	4.49
Commercial real estate	646,769	19,251	3.97	537,694	17,284	4.29
Home equity line of credit	824,510	19,683	3.19	780,760	19,088	3.27
Residential land	17,347	830	6.38	16,353	751	6.12
Commercial	805,333	21,847	3.61	782,371	21,767	3.71
Consumer	118,974	8,321	9.35	109,748	6,306	7.68
Total loans [3,4]	4,472,854	137,646	4.10	4,243,257	133,065	4.18
Total interest-earning assets [3]	5,296,214	148,216	3.73	4,960,025	141,973	3.82
Allowance for loan losses	(46,295)			(41,701)		
Non-interest-earning assets	488,103			454,127		
Total assets	$5,738,022			$5,372,451		
Liabilities and shareholder’s equity:						
Savings	$1,967,446	$928	0.06	$1,866,482	$835	0.06
Interest-bearing checking	776,100	102	0.02	732,270	93	0.02
Money market	163,659	152	0.12	174,648	163	0.13
Time certificates	442,224	2,699	0.82	434,553	2,683	0.83
Total interest-bearing deposits	3,349,429	3,881	0.15	3,207,953	3,774	0.16
Advances from Federal Home Loan Bank	100,586	2,353	3.09	100,520	2,353	3.09
Securities sold under agreements to repurchase	216,066	2,115	1.29	149,340	1,910	1.69
Total interest-bearing liabilities	3,666,081	8,349	0.30	3,457,813	8,037	0.31
Non-interest bearing liabilities:						
Deposits	1,413,351			1,269,355		
Other	111,175			113,895		
Shareholder’s equity	547,415			531,388		
Total liabilities and shareholder’s equity	$5,738,022			$5,372,451		
Net interest income		$139,867			$133,936	
Net interest margin (%) [5]			3.52			3.60

1 Interest income includes taxable equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of nil and nil for the three months ended September 30, 2015 and 2014, respectively, and nil and $0.2 million for the nine months ended September 30, 2015 and 2014, respectively.

2 Includes federal funds sold, interest bearing deposits and stock in the Federal Home Loan Bank.

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

4 Includes loan fees of $0.6 million and $0.8 million for the three months ended September 30, 2015 and 2014, respectively, and $1.9 million and $2.6 million for the nine months ended September 30, 2015 and 2014, 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. The composition of ASB's loans receivable was as follows:

	September 30, 2015		December 31, 2014	
(dollars in thousands)	Balance	% of total	Balance	% of total
Real estate:				
Residential 1-4 family	$2,062,458	45.4	$2,044,205	46.0
Commercial real estate	618,113	13.6	531,917	12.0
Home equity line of credit	832,267	18.3	818,815	18.4
Residential land	17,369	0.4	16,240	0.4
Commercial construction	80,230	1.8	96,438	2.2
Residential construction	14,318	0.3	18,961	0.4
Total real estate, net	3,624,755	79.8	3,526,576	79.4
Commercial	798,428	17.6	791,757	17.8
Consumer	118,450	2.6	122,656	2.8
	4,541,633	100.0	4,440,989	100.0
Less: Deferred fees and discounts	(6,229)		(6,338)	
Allowance for loan losses	(48,274)		(45,618)	
Total loans, net	$4,487,130		$4,389,033	

Home equity — key credit statistics.

	September 30, 2015	December 31, 2014
Outstanding balance (in thousands)	$832,267	$818,815
Percent of portfolio in first lien position	42.5%	40.9%
Net charge-off (recovery) ratio	0.02%	(0.07)%
Delinquency ratio	0.21%	0.25%

			End of draw period – interest only			Current
September 30, 2015	Total	Interest only	2015-2016	2017-2019	Thereafter	amortizing
Outstanding balance (in thousands)	$832,267	$632,835	$549	$131,001	$501,285	$199,432
% of total	100%	76%	—%	16%	60%	24%

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 96% of the total HELOC portfolio and is the current product offering. Within this product type, borrowers also have a "Fixed Rate Loan Option" to convert a part of their available line of credit into a 5, 7 or 10-year fully amortizing fixed rate loan with level principal and interest payments. As of September 30, 2015, 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 4% of the portfolio and are included in the amortizing balances identified in the table above.

Loan portfolio risk elements. See Note 5 of the Consolidated Financial Statements.

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

	September 30, 2015		December 31, 2014	
(dollars in thousands)	Balance	% of total	Balance	% of total
U.S. Treasury and federal agency obligations	$211,118	27%	$119,560	22%
Mortgage-related securities — FNMA, FHLMC and GNMA	574,719	73	430,834	78
Total available-for-sale investment securities	$785,837	100%	$550,394	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. government.
Deposits and other borrowings. Deposits continue to be the largest source of funds for ASB and are affected by market interest rates, competition and management's responses to these factors. Deposit retention and growth will remain challenging in the current environment due to competition for deposits and the low level of short-term interest rates. Advances from the FHLB and securities sold under agreements to repurchase continue to be additional sources of funds. As of September 30, 2015, ASB's costing liabilities consisted of 93% deposits and 7% other borrowings compared to costing liabilities of 94% deposits and 6% other borrowings as of December 31, 2014. The weighted average cost of deposits for the first nine months of 2015 and 2014 was 0.11%.
Federal Home Loan Bank Merger. In the second quarter of 2015, the FHLB of Des Moines and the FHLB of Seattle successfully completed the merger of the two banks and operated as one under the name FHLB of Des Moines as of June 1, 2015. The FHLB of Des Moines will continue to be a source of liquidity for ASB.
Other factors. Interest rate risk is a significant risk of ASB's operations and also represents a market risk factor affecting the fair value of ASB's investment securities. Increases and decreases in prevailing interest rates generally translate into decreases and increases in the fair value of those instruments, respectively. In addition, changes in credit spreads also impact the fair values of those instruments.
As of September 30, 2015 and December 31, 2014, ASB had an unrealized gain, net of taxes, on available-for-sale investments securities (including securities pledged for repurchase agreements) in AOCI of $4.1 million and $0.5 million, respectively. See "Item 3. Quantitative and qualitative disclosures about market risk."
During the first nine months of 2015, ASB recorded a provision for loan losses of $5.4 million primarily due to growth in the loan portfolio and net charge-offs including lower recoveries of previously charged off loans, partly offset by the reversal of the Pahoa lava reserves and commercial loan payoffs. During the first nine months of 2014, ASB recorded a provision for loan losses of $3.6 million primarily due to growth in the loan portfolio and net charge-offs during the year for consumer loans. Financial stress on ASB's customers may result in higher levels of delinquencies and losses.

	Nine months ended September 30		Year ended December 31
(in thousands)	2015	2014	2014
Allowance for loan losses, January 1	$45,618	$40,116	$40,116
Provision for loan losses	5,436	3,566	6,126
Less: net charge-offs	2,780	221	624
Allowance for loan losses, end of period	$48,274	$43,461	$45,618
Ratio of net charge-offs during the period to average loans outstanding (annualized)	0.08 %	0.01 %	0.01 %

Legislation and regulation. ASB is subject to extensive regulation, principally by the Office of the Comptroller of the Currency (OCC) and the FDIC. Depending on ASB's level of regulatory capital and other considerations, these regulations could restrict the ability of ASB to compete with other institutions and to pay dividends to its shareholder. See the discussion below under "Liquidity and capital resources."
Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Regulation of the financial services industry, including regulation of HEI, 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 transferred to the OCC, the FDIC, the 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 October 3, 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 have been lower as a result of the application of this Amendment.
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 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 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 Tier-1 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 was effective January 1, 2015 for ASB. As of September 30, 2015, ASB met the new capital requirements with a Common equity Tier-1 ratio of 12.2%, a Tier-1 capital ratio of 12.2%, a Total capital ratio of 13.4% and a Tier-1 leverage ratio of 8.8%.

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.

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 March 31, 2015, 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. Although the lava threat was downgraded from a warning to a watch in March 2015 and the immediate threat to homes and businesses in Pahoa has receded, the lava flow remains active upslope and the reserves for the commercial real estate loan remained in place at March 31, 2015. In May 2015, the flow front near Pahoa remained cold and hard, no longer threatening any homes or businesses. All major tenants of the commercial center had returned by the end of March, and property occupancy stabilized soon thereafter. As a result, at the end of May 2015 the commercial real estate loan was restored to performing status and the reserves for lava risk were reversed.

FINANCIAL CONDITION

Liquidity and capital resources.

(dollars in millions)	September 30, 2015	December 31, 2014	% change
Total assets	$5,855	$5,566	5
Available-for-sale investment securities	786	550	43
Loans receivable held for investment, net	4,487	4,389	2
Deposit liabilities	4,826	4,623	4
Other bank borrowings	369	291	27

As of September 30, 2015, ASB was one of Hawaii's largest financial institutions based on assets of $5.9 billion and deposits of $4.8 billion.

As of September 30, 2015, ASB's unused FHLB borrowing capacity was approximately $1.7 billion. As of September 30, 2015, ASB had commitments to borrowers for loans and unused lines and letters of credit of $1.8 billion. Commitments to lend to borrowers whose loan terms have been impaired or modified in troubled debt restructurings totaled $0.1 million at September 30, 2015. Management believes ASB's current sources of funds will enable it to meet these obligations while maintaining liquidity at satisfactory levels.

For the nine months ended September 30, 2015, net cash provided by ASB's operating activities was $35 million. Net cash used during the same period by ASB's investing activities was $273 million, primarily due to purchases of investment securities of $327 million, a net increase in loans receivable of $102 million and additions to premises and equipment of $10 million, partly offset by repayments of investment securities of $96 million, net redemption of stock from the FHLB of $59 million, proceeds from the sale of real estate held-for-sale of $7 million and proceeds from the sale of premises and equipment of $4 million. Net cash provided by financing activities during this period was $254 million, primarily due to increases in deposit liabilities of $203 million, a net increase in retail repurchase agreements of $68 million and proceeds from securities sold under agreements to repurchase of $10 million, partly offset by the payment of $23 million in common stock dividends to HEI (through ASB Hawaii) and a net decrease in mortgage escrow deposits of $4 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 September 30, 2015, ASB was well-capitalized (minimum ratio requirements noted in parentheses) with a Common equity tier-1 ratio of 12.2% (6.5%), a Tier-1 capital ratio of 12.2% (8.0%), a Total capital ratio of 13.4% (10.0%) and a Tier-1 leverage ratio of 8.8% (5.0%). FRB approval is required before ASB can pay a dividend or otherwise make a capital distribution to HEI (through ASB Hawaii).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company considers interest-rate risk (a non-trading market risk) to be a very significant market risk for ASB as it could potentially have a significant effect on the Company's results of operations, financial condition and liquidity. For additional quantitative and qualitative information about the Company's market risks, see pages 79 to 81, HEI's and Hawaiian Electric's Quantitative and Qualitative Disclosures About Market Risk, in Part II, Item 7A of HEI's 2014 Form 10-K.

ASB's interest-rate risk sensitivity measures as of September 30, 2015 and December 31, 2014 constitute "forward-looking statements" and were as follows:

Change in interest rates	Change in NII (gradual change in interest rates)		Change in EVE (instantaneous change in interest rates)	
(basis points)	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
+300	1.0 %	1.9 %	(9.7)%	(6.1)%
+200	0.1	0.7	(5.5)	(2.9)
+100	(0.2)	0.1	(2.0)	(0.7)
-100	(0.5)	(0.5)	(1.3)	(2.5)

Management believes that ASB's interest rate risk position as of September 30, 2015 represents a reasonable level of risk. The NII profile under the rising interest rate scenarios was slightly less asset sensitive for all rate increases as of September 30, 2015 compared to December 31, 2014. Savings deposit balances grew by $75 million with the mix shifting to higher rate sensitive products. In addition, retail repurchase agreements, which have short-term repricing horizons, increased by $68 million. These shifts to more rate sensitive liabilities lessened ASB's asset sensitivity.

ASB's base EVE increased to $949 million as of September 30, 2015 compared to $947 million as of December 31, 2014 due to growth in capital.

The change in EVE to rising rates became more sensitive as of September 30, 2015 compared to December 31, 2014. The $235 million growth and shift in mix of the investment portfolio into longer duration securities and callable step-up debentures, which have the potential to extend in average life as rates rise, lengthened the duration of the investment portfolio and increased EVE sensitivity. On the liability side of the balance sheet, core deposit balances grew $172 million with the mix shifting to shorter duration products and thereby increasing EVE sensitivity.

The computation of the prospective effects of hypothetical interest rate changes on the NII sensitivity and the percentage change in EVE is based on numerous assumptions, including relative levels of market interest rates, loan

prepayments, balance changes and pricing strategies, and should not be relied upon as indicative of actual results. To the extent market conditions and other factors vary from the assumptions used in the simulation analysis, actual results may differ materially from the simulation results. Furthermore, NII sensitivity analysis measures the change in ASB's twelve-month, pretax NII in alternate interest rate scenarios, and is intended to help management identify potential exposures in ASB's current balance sheet and formulate appropriate strategies for managing interest rate risk. The simulation does not contemplate any actions that ASB management might undertake in response to changes in interest rates. Further, the changes in NII vary in the twelve-month simulation period

and are not necessarily evenly distributed over the period. These analyses are for analytical purposes only and do not represent management's views of future market movements, the level of future earnings, or the timing of any changes in earnings within the twelve month analysis horizon. The actual impact of changes in interest rates on NII will depend on the magnitude and speed with which rates change, actual changes in ASB's balance sheet, and management's responses to the changes in interest rates.

Item 4. Controls and Procedures

HEI:

Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of September 30, 2015, an evaluation was performed under the supervision and with the participation of the Company's management, including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended. Management, including the Company's Principal Executive Officer and Principal Financial Officer, concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2015 due to the material weakness in the Company's internal control over financial reporting described below.

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 a company's annual or interim financial statements will not be prevented or detected on a timely basis. As discussed in the Company's 2014 Annual Report on Form 10-K/A, the Company did not maintain effective controls over the preparation and review of its Consolidated Statement of Cash Flows. Specifically, controls were not designed to ensure that non-cash transactions were properly identified, evaluated and presented in the statement of cash flows, and management's review process was not effective. Accordingly, management concluded that its internal control over financial reporting was not effective as of December 31, 2014.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal control over financial reporting during the third quarter of 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Remediation. In order to address this material weakness, the Company's management, with oversight from its Audit Committee of the Board of Directors of HEI, has taken steps and plans to take additional measures to remediate the underlying causes of the material weakness. The Company's remediation plans related to the review of the Consolidated Statements of Cash Flows include a roll forward reconciliation and review of the capital expenditures amount included in the Consolidated Statements of Cash Flows, and enhancing templates to facilitate the preparation and review of cash flows. New controls will be implemented and will be tested for operational effectiveness. Management is committed to maintaining a strong internal control environment and believes this remediation effort will represent an improvement in controls. Management anticipates that the new controls, as or when implemented and when tested for a sufficient period of time, will remediate the material weakness.

Hawaiian Electric:

Disclosure Controls and Procedures

Hawaiian Electric maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed by Hawaiian Electric in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC's rules and forms, and that such information is accumulated and communicated to Hawaiian Electric's management, including its Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely

decisions regarding required disclosure. As of September 30, 2015, an evaluation was performed under the supervision and with the participation of Hawaiian Electric's management, including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of Hawaiian Electric's disclosure controls and procedures, as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended. Management, including Hawaiian Electric's Principal Executive Officer and Principal Financial Officer, concluded that Hawaiian Electric's disclosure controls and procedures were not effective as of

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September 30, 2015 due to the material weakness in Hawaiian Electric's internal control over financial reporting described below.

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 a company's annual or interim financial statements will not be prevented or detected on a timely basis. As discussed in Hawaiian Electric's 2014 Annual Report on Form 10-K/A, Hawaiian Electric did not maintain effective controls over the preparation and review of Hawaiian Electric's Consolidated Statement of Cash Flows. Specifically, controls were not designed to ensure that non-cash transactions were properly identified, evaluated and presented in the statement of cash flows, and management's review process was not effective. Accordingly, management concluded that its internal control over financial reporting was not effective as of December 31, 2014.

Changes in Internal Control Over Financial Reporting

There have been no changes internal control over financial reporting during the third quarter of 2015 that have materially affected, or are reasonably likely to materially affect, Hawaiian Electric's internal control over financial reporting.

Remediation. In order to address this material weakness, Hawaiian Electric's management, with oversight from its Audit Committee of the Board of Directors of Hawaiian Electric, has taken steps and plans to take additional measures to remediate the underlying causes of the material weakness. Hawaiian Electric's remediation plans related to the review of the Consolidated Statements of Cash Flows include a roll forward reconciliation and review of the capital expenditures amount included in the Consolidated Statements of Cash Flows, and enhancing templates to facilitate the preparation and review of cash flows. New controls will be implemented, and will be tested for operational effectiveness. Management is committed to maintaining a strong internal control environment and believes this remediation effort will represent an improvement in controls. Management anticipates that the new controls, as or when implemented and when tested for a sufficient period of time, will remediate the material weakness.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The descriptions of legal proceedings (including judicial proceedings and proceedings before the PUC and environmental and other administrative agencies) in HEI's and Hawaiian Electric's 2014 Form 10-K (see "Part I. Item 3. Legal Proceedings" and proceedings referred to therein) and this Form 10-Q (see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 2, 4 and 5 of the Consolidated Financial Statements) are incorporated by reference in this Item 1. With regard to any pending legal proceeding, alternative dispute resolution, such as mediation or settlement, may be pursued where appropriate, with such efforts typically maintained in confidence unless and until a resolution is achieved. Certain HEI subsidiaries (including Hawaiian Electric and its subsidiaries and ASB) may also be involved in ordinary routine PUC proceedings, environmental proceedings and litigation incidental to their respective businesses.

Item 1A. Risk Factors

For information about Risk Factors, see pages 26 to 35 of HEI's and Hawaiian Electric's 2014 Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures about Market Risk" and the Consolidated Financial Statements herein. Also, see "Forward-Looking Statements" on pages iv and v herein.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
(c) Purchases of HEI common shares were made in the open market during the third quarter to satisfy the requirements of certain plans as follows:
ISSUER PURCHASES OF EQUITY SECURITIES

Period*	(a) Total Number of Shares Purchased **	(b) Average Price Paid per Share **	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 to 31, 2015	22,666	$30.25	—	NA
August 1 to 31, 2015	15,466	$29.12	—	NA
September 1 to 30, 2015	265,231	$27.67	—	NA

NA Not applicable.
* Trades (total number of shares purchased) are reflected in the month in which the order is placed.
** The purchases were made to satisfy the requirements of the DRIP, the HEIRSP and the ASB 401(k) Plan for shares purchased for cash or by the reinvestment of dividends by participants under those plans and none of the purchases were made under publicly announced repurchase plans or programs. Average prices per share are calculated exclusive of any commissions payable to the brokers making the purchases for the DRIP, the HEIRSP and the ASB 401(k) Plan. Of the shares listed in column (a), 19,796 of the 22,666 shares, 13,366 of the 15,466 shares and 232,931 of the 265,231 shares were purchased for the DRIP; 28,100 of the 265,231 shares were purchased for the HEIRSP; and 2,870 of the 22,666 shares, 2,100 of the 15,466 shares and 4,200 of the 265,231 shares were purchased for the ASB 401(k) Plan. The repurchased shares were issued for the accounts of the participants under registration statements registering the shares issued under these plans.

Item 5. Other Information

A. Ratio of earnings to fixed charges.

	Nine months ended September 30		Years ended December 31				
	2015	2014	2014	2013	2012	2011	2010
HEI and Subsidiaries							
Excluding interest on ASB deposits	3.68	3.93	3.80	3.55	3.30	3.24	2.90
Including interest on ASB deposits	3.54	3.78	3.65	3.42	3.15	3.04	2.65
Hawaiian Electric and Subsidiaries	4.03	4.19	4.04	3.72	3.37	3.52	2.88

Prior period ratios reflect the retrospective application of ASU No. 2014-01, “Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects,” which was adopted as of January 1, 2015 and did not have a material impact on the Company’s financial condition or results of operations. See “Investments in qualified affordable housing projects” in Note 11 of the Consolidated Financial Statements.
See HEI Exhibit 12.1 and Hawaiian Electric Exhibit 12.2.

Item 6. Exhibits

HEI Exhibit 12.1	Hawaiian Electric Industries, Inc. and Subsidiaries Computation of ratio of earnings to fixed charges, nine months ended September 30, 2015 and 2014 and years ended December 31, 2014, 2013, 2012, 2011 and 2010
HEI Exhibit 31.1	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Constance H. Lau (HEI Chief Executive Officer)
HEI Exhibit 31.2	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of James A. Ajello (HEI Chief Financial Officer)
HEI Exhibit 32.1	HEI Certification Pursuant to 18 U.S.C. Section 1350
HEI Exhibit 101.INS	XBRL Instance Document
HEI Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
HEI Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
HEI Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
HEI Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
HEI Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Hawaiian Electric Exhibit 12.2	Hawaiian Electric Company, Inc. and Subsidiaries Computation of ratio of earnings to fixed charges, nine months ended September 30, 2015 and 2014 and years ended December 31, 2014, 2013, 2012, 2011 and 2010
Hawaiian Electric Exhibit 31.3	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Alan M. Oshima (Hawaiian Electric Chief Executive Officer)
Hawaiian Electric Exhibit 31.4	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Tayne S. Y. Sekimura (Hawaiian Electric Chief Financial Officer)
Hawaiian Electric Exhibit 32.2	Hawaiian Electric Certification Pursuant to 18 U.S.C. Section 1350

SIGNATURES

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

HAWAIIAN ELECTRIC INDUSTRIES, INC.
(Registrant)

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

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

Date: November 16, 2015

HAWAIIAN ELECTRIC COMPANY, INC.
(Registrant)

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

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

Date: November 16, 2015