



Hawaiian Electric  
Industries, Inc.

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

Hawaiian Electric  
Company, Inc.

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

Class of Common Stock	Outstanding April 30, 2015
Hawaiian Electric Industries, Inc. (Without Par Value)	107,417,644 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 March 31, 2015

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Hawaiian Electric Company, Inc. and Subsidiaries  
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GLOSSARY OF TERMS

Terms	Definitions
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income/(loss)
ARO	Asset retirement obligation
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of 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
DBEDT	State of Hawaii Department of Business, Economic Development and Tourism
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
Energy Agreement	Agreement, dated October 20, 2008, signed by the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and Hawaiian Electric, for itself and on behalf of its electric utility subsidiaries, committing to actions to develop renewable energy and reduce dependence on fossil fuels in support of the HCEI. In September 2014, the parties to the Energy Agreement concluded that the agreements and policy directives in the Energy Agreement had been advanced or superseded by subsequent events, as well as by decisions and orders issued by the PUC, and accordingly ended the Energy Agreement as of September 14, 2014.
EPA	Environmental Protection Agency — federal
EPS	Earnings per share
ERISA	Employee Retirement Income Security Act of 1974, as amended
EVE	Economic value of equity
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board

FDIC	Federal Deposit Insurance Corporation
federal	U.S. Government
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
FRB	Federal Reserve Board
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
HCEI	Hawaii Clean Energy Initiative
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.
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
IRP	Integrated resource planning
Kalaeloa	Kalaeloa Partners, L.P.
kW	Kilowatt/s (as applicable)
KWH	Kilowatthour/s (as applicable)
LTIP	Long-term incentive plan
LGD	Loss given default
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
MOU	Memorandum of understanding
MW	Megawatt/s (as applicable)
NEE	NextEra Energy, Inc.
NII	Net interest income
O&M	Other operation and maintenance
OCC	Office of the Comptroller of the Currency
OPEB	Postretirement benefits other than pensions
PPA	Power purchase agreement
PPAC	Purchased power adjustment clause
PUC	Public Utilities Commission of the State of Hawaii
PV	Photovoltaic
RAM	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, the timing and terms and conditions of required governmental and regulatory approvals, the ability to obtain the required shareholder approval and the ability to maintain relationships with employees, customers or suppliers, as well as the ability to integrate the businesses;
- the ability of ASB to operate successfully after the Spin-Off of its parent ASB Hawaii;
- international, national and local economic conditions, including the state of the Hawaii tourism, defense and construction industries, the strength or weakness of the Hawaii and continental U.S. real estate markets (including the fair value and/or the actual performance of collateral underlying loans held by American Savings Bank, F.S.B. (ASB), which could result in higher loan loss provisions and write-offs), decisions concerning the extent of the presence of the federal government and military in Hawaii, the implications and potential impacts of U.S. and foreign capital and credit market conditions and federal, state and international responses to those conditions, and the potential impacts of global developments (including global economic conditions and uncertainties, unrest, ongoing conflicts in North Africa and the Middle East, terrorist acts, potential conflict or crisis with North Korea or Iran, developments in the Ukraine and potential pandemics);
- the effects of future actions or inaction of the U.S. government or related agencies, including those related to the U.S. debt ceiling and monetary policy;
- weather and natural disasters (e.g., hurricanes, earthquakes, tsunamis, lightning strikes, lava flows and the potential effects of climate change, such as more severe storms and rising sea levels), including their impact on the Company's and Utilities' operations and the economy;
- the timing and extent of changes in interest rates and the shape of the yield curve;
- the ability of the Company and the Utilities to access the credit and capital markets (e.g., to obtain commercial paper and other short-term and long-term debt financing, including lines of credit, and, in the case of HEI, to issue common stock) under volatile and challenging market conditions, and the cost of such financings, if available;
- the risks inherent in changes in the value of the Company's pension and other retirement plan assets and ASB's securities available for sale;
- changes in laws, regulations, market conditions and other factors that result in changes in assumptions used to calculate retirement benefits costs and funding requirements;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and of the rules and regulations that the Dodd-Frank Act requires to be promulgated;
- increasing competition in the banking industry (e.g., increased price competition for deposits, or an outflow of deposits to alternative investments, which may have an adverse impact on ASB's cost of funds);
- the PUC's potential delay in considering (and potential disapproval of actual or proposed) Hawaii Clean Energy Initiative (HCEI)-related costs; reliance by the Utilities on outside parties such as the state, independent power producers (IPPs) and developers; potential changes in political support for the HCEI; and uncertainties surrounding wind power, proposed undersea cables, biofuels, environmental assessments and the impacts of implementation of the HCEI on future costs of electricity);

the ability of the Utilities to develop, implement and recover the costs of implementing the Utilities' action plans and business model changes that are being developed in response to the four orders that the Public Utilities Commission of the State of Hawaii (PUC) issued in April 2014, in which the PUC: directed the Utilities to develop, among other things, Power Supply Improvement Plans, a Demand Response Portfolio Plan and a Distributed Generation Interconnection Plan; described the PUC's inclinations on the future of Hawaii's electric utilities and the vision, business strategies and regulatory policy changes required to align the Utilities' business model with customer interests and the state's public policy goals; and emphasized the need to "leap ahead" of other states in creating a 21st century generation system and modern transmission and distribution grids;

capacity and supply constraints or difficulties, especially if generating units (utility-owned or IPP-owned) fail or measures such as demand-side management (DSM), distributed generation (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 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 HEI and ASB or their competitors;

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

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

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

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

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

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

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

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

the ability of the Utilities to recover increasing costs and earn a reasonable return on capital investments not covered by RAMs;

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

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

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

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

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

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

the final outcome of tax positions taken by HEI, the Utilities and ASB;

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

other risks or uncertainties described elsewhere in this report 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)

(in thousands, except per share amounts)	Three months ended March 31	
	2015	2014
Revenues		
Electric utility	\$573,442	\$720,062
Bank	64,348	63,619
Other	72	68
Total revenues	637,862	783,749
Expenses		
Electric utility	515,806	649,396
Bank	43,717	41,088
Other	8,833	4,051
Total expenses	568,356	694,535
Operating income (loss)		
Electric utility	57,636	70,666
Bank	20,631	22,531
Other	(8,761)	(3,983)
Total operating income	69,506	89,214
Interest expense, net—other than on deposit liabilities and other bank borrowings	(19,100)	(19,456)
Allowance for borrowed funds used during construction	499	614
Allowance for equity funds used during construction	1,413	1,609
Income before income taxes	52,318	71,981
Income taxes	19,979	25,721
Net income	32,339	46,260
Preferred stock dividends of subsidiaries	473	473
Net income for common stock	\$31,866	\$45,787
Basic earnings per common share	\$0.31	\$0.45
Diluted earnings per common share	\$0.31	\$0.45
Dividends per common share	\$0.31	\$0.31
Weighted-average number of common shares outstanding	103,281	101,382
Net effect of potentially dilutive shares	286	783
Adjusted weighted-average shares	103,567	102,165

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

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

(in thousands)	Three months ended March 31	
	2015	2014
Net income for common stock	\$31,866	\$45,787
Other comprehensive income, net of taxes:		
Net unrealized gains on available-for-sale investment securities:		
Net unrealized gains on available-for-sale investment securities arising during the period, net of tax benefits of \$2,278 and \$1,664 for the respective periods	3,451	2,520
Less: reclassification adjustment for net realized gains included in net income, net of taxes of 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 for both periods	59	59
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 \$3,486 and \$1,796 for the respective periods	5,459	2,813
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of \$3,127 and \$1,598 for the respective periods	(4,911 )	(2,510 )
Other comprehensive income, net of taxes	4,058	1,167
Comprehensive income attributable to Hawaiian Electric Industries, Inc.	\$35,924	\$46,954

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)	March 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$292,168	\$175,542
Accounts receivable and unbilled revenues, net	255,365	313,696
Available-for-sale investment securities, at fair value	590,648	550,394
Stock in Federal Home Loan Bank of Seattle, at cost	63,711	69,302
Loans receivable held for investment, net	4,401,504	4,389,033
Loans held for sale, at lower of cost or fair value	9,906	8,424
Property, plant and equipment, net of accumulated depreciation of \$2,258,065 and \$2,250,950 at the respective dates	4,190,835	4,148,774
Regulatory assets	905,589	905,264
Other	481,531	542,523
Goodwill	82,190	82,190
Total assets	\$11,273,447	\$11,185,142
Liabilities and shareholders' equity		
Liabilities		
Accounts payable	\$167,784	\$186,425
Interest and dividends payable	25,225	25,336
Deposit liabilities	4,751,328	4,623,415
Short-term borrowings—other than bank	30,500	118,972
Other bank borrowings	312,094	290,656
Long-term debt, net—other than bank	1,506,546	1,506,546
Deferred income taxes	640,778	633,570
Regulatory liabilities	351,712	344,849
Contributions in aid of construction	474,385	466,432
Defined benefit pension and other postretirement benefit plans liability	624,555	632,845
Other	456,338	531,230
Total liabilities	9,341,245	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: 107,417,644 shares and 102,565,266 shares at the respective dates	1,624,549	1,521,297
Retained earnings	296,680	296,654
Accumulated other comprehensive loss, net of tax benefits	(23,320)	(27,378)
Total shareholders' equity	1,897,909	1,790,573
Total liabilities and shareholders' equity	\$11,273,447	\$11,185,142

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

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

(in thousands, except per share amounts)	Common stock		Retained	Accumulated other comprehensive	Total
	Shares	Amount	Earnings	income (loss)	
Balance, December 31, 2014	102,565	\$ 1,521,297	\$ 296,654	\$ (27,378 )	\$ 1,790,573
Net income for common stock	—	—	31,866	—	31,866
Other comprehensive income, net of taxes	—	—	—	4,058	4,058
Issuance of common stock, net	4,853	103,252	—	—	103,252
Common stock dividends (\$0.31 per share)	—	—	(31,840 )	—	(31,840 )
Balance, March 31, 2015	107,418	\$ 1,624,549	\$ 296,680	\$ (23,320 )	\$ 1,897,909
Balance, December 31, 2013	101,260	\$ 1,488,126	\$ 255,030	\$ (16,750 )	\$ 1,726,406
Net income for common stock	—	—	45,787	—	45,787
Other comprehensive income, net of taxes	—	—	—	1,167	1,167
Issuance of common stock, net	218	3,212	—	—	3,212
Common stock dividends (\$0.31 per share)	—	—	(31,448 )	—	(31,448 )
Balance, March 31, 2014	101,478	\$ 1,491,338	\$ 269,369	\$ (15,583 )	\$ 1,745,124

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

Hawaiian Electric Industries, Inc. and Subsidiaries		
Consolidated Statements of Cash Flows (unaudited)		
Three months ended March 31	2015	2014
(in thousands)		
Cash flows from operating activities		
Net income	\$32,339	\$46,260
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	45,865	43,181
Other amortization	1,362	1,609
Provision for loan losses	614	995
Loans receivable originated and purchased, held for sale	(79,070)	(46,998)
Proceeds from sale of loans receivable, held for sale	78,332	48,720
Increase in deferred income taxes	15,265	6,457
Excess tax benefits from share-based payment arrangements	(968)	(164)
Allowance for equity funds used during construction	(1,413)	(1,609)
Change in cash overdraft	—	(1,038)
Changes in assets and liabilities		
Decrease in accounts receivable and unbilled revenues, net	58,331	22,352
Decrease (increase) in fuel oil stock	20,731	(34,260)
Increase in regulatory assets	(10,827)	(9,258)
Decrease in accounts, interest and dividends payable	(42,463)	(9,307)
Change in prepaid and accrued income taxes and utility revenue taxes	(61,397)	(19,474)
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	123	(818)
Change in other assets and liabilities	19,826	(27,227)
Net cash provided by operating activities	76,650	19,421
Cash flows from investing activities		
Available-for-sale investment securities purchased	(63,370)	(79,912)
Principal repayments on available-for-sale investment securities	28,486	15,597
Proceeds from sale of available-for-sale investment securities	—	79,564
Redemption of stock from Federal Home Loan Bank of Seattle	5,590	5,848
Net increase in loans held for investment	(12,524)	(37,887)
Proceeds from sale of real estate acquired in settlement of loans	606	1,429
Capital expenditures	(59,011)	(65,829)
Contributions in aid of construction	9,145	6,958
Other	3,281	—
Net cash used in investing activities	(87,797)	(74,232)
Cash flows from financing activities		
Net increase in deposit liabilities	127,913	105,510
Net increase (decrease) in short-term borrowings with original maturities of three months or less	(88,472)	30,887
Net increase in retail repurchase agreements	21,451	141
Excess tax benefits from share-based payment arrangements	968	164
Net proceeds from issuance of common stock	104,468	3,054
Common stock dividends	(31,829)	(31,435)
Preferred stock dividends of subsidiaries	(473)	(473)
Other	(6,253)	(3,953)
Net cash provided by financing activities	127,773	103,895
Net increase in cash and cash equivalents	116,626	49,084

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Cash and cash equivalents, beginning of period	175,542	220,036
Cash and cash equivalents, end of period	\$292,168	\$269,120

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 March 31	
	2015	2014
Revenues	\$573,442	\$720,062
Expenses		
Fuel oil	176,806	286,300
Purchased power	136,007	164,916
Other operation and maintenance	104,002	88,606
Depreciation	44,243	41,603
Taxes, other than income taxes	54,748	67,971
Total expenses	515,806	649,396
Operating income	57,636	70,666
Allowance for equity funds used during construction	1,413	1,609
Interest expense and other charges, net	(16,325)	(15,723)
Allowance for borrowed funds used during construction	499	614
Income before income taxes	43,223	57,166
Income taxes	15,850	21,247
Net income	27,373	35,919
Preferred stock dividends of subsidiaries	229	229
Net income attributable to Hawaiian Electric	27,144	35,690
Preferred stock dividends of Hawaiian Electric	270	270
Net income for common stock	\$26,874	\$35,420

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 March 31	
	2015	2014
Net income for common stock	\$26,874	\$35,420
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 \$3,141 and \$1,605 for the respective periods	4,933	2,519
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of \$3,127 and \$1,598 for the respective periods	(4,911)	(2,510)
Other comprehensive income, net of taxes	22	9
Comprehensive income attributable to Hawaiian Electric Company, Inc.	\$26,896	\$35,429

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

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

(dollars in thousands, except par value)	March 31, 2015	December 31, 2014
Assets		
Property, plant and equipment		
Utility property, plant and equipment		
Land	\$52,022	\$52,299
Plant and equipment	6,066,523	6,009,482
Less accumulated depreciation	(2,189,090 )	(2,175,510 )
Construction in progress	164,851	158,616
Utility property, plant and equipment, net	4,094,306	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	4,100,868	4,051,450
Current assets		
Cash and cash equivalents	8,120	13,762
Customer accounts receivable, net	124,995	158,484
Accrued unbilled revenues, net	109,494	137,374
Other accounts receivable, net	8,668	4,283
Fuel oil stock, at average cost	85,315	106,046
Materials and supplies, at average cost	58,607	57,250
Prepayments and other	43,355	66,383
Regulatory assets	102,745	71,421
Total current assets	541,299	615,003
Other long-term assets		
Regulatory assets	802,844	833,843
Unamortized debt expense	8,216	8,323
Other	82,273	81,838
Total other long-term assets	893,333	924,004
Total assets	\$5,535,500	\$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	578,933	578,938
Retained earnings	1,002,046	997,773
Accumulated other comprehensive income, net of income taxes-retirement benefit plans	67	45
Common stock equity	1,686,434	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	2,927,273	2,922,983
Commitments and contingencies (Note 4)		
Current liabilities		
Short-term borrowings from non-affiliates	30,000	—
Accounts payable	138,509	163,934
Interest and preferred dividends payable	24,257	22,316
Taxes accrued	182,872	250,402
Regulatory liabilities	1,174	632

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Other	65,989	65,146
Total current liabilities	442,801	502,430
Deferred credits and other liabilities		
Deferred income taxes	596,984	602,872
Regulatory liabilities	350,538	344,217
Unamortized tax credits	82,037	79,492
Defined benefit pension and other postretirement benefit plans liability	587,165	595,395
Other	74,317	76,636
Total deferred credits and other liabilities	1,691,041	1,698,612
Contributions in aid of construction	474,385	466,432
Total capitalization and liabilities	\$5,535,500	\$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		Premium	Retained	Accumulated	Total
	Shares	Amount	on capital stock	earnings	other comprehensive income (loss)	
Balance, December 31, 2014	15,805	\$105,388	\$578,938	\$997,773	\$45	\$1,682,144
Net income for common stock	—	—	—	26,874	—	26,874
Other comprehensive income, net of taxes	—	—	—	—	22	22
Common stock dividends	—	—	—	(22,601 )	—	(22,601 )
Common stock issuance expenses	—	—	(5 )	—	—	(5 )
Balance, March 31, 2015	15,805	\$105,388	\$578,933	\$1,002,046	\$67	\$1,686,434
Balance, December 31, 2013	15,429	\$102,880	\$541,452	\$948,624	\$608	\$1,593,564
Net income for common stock	—	—	—	35,420	—	35,420
Other comprehensive income, net of taxes	—	—	—	—	9	9
Common stock dividends	—	—	—	(22,707 )	—	(22,707 )
Common stock issuance expenses	—	—	(3 )	—	—	(3 )
Balance, March 31, 2014	15,429	\$102,880	\$541,449	\$961,337	\$617	\$1,606,283

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

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

Three months ended March 31 (in thousands)	2015	2014
Cash flows from operating activities		
Net income	\$27,373	\$35,919
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	44,243	41,603
Other amortization	689	1,621
Increase in deferred income taxes	15,132	20,344
Change in tax credits, net	2,576	2,032
Allowance for equity funds used during construction	(1,413)	(1,609)
Change in cash overdraft	—	(1,038)
Changes in assets and liabilities		
Decrease in accounts receivable	29,104	8,804
Decrease in accrued unbilled revenues	27,880	12,260
Decrease (increase) in fuel oil stock	20,731	(34,260)
Increase in materials and supplies	(1,357)	(1,045)
Increase in regulatory assets	(10,827)	(9,258)
Decrease in accounts payable	(49,136)	(16,024)
Change in prepaid and accrued income taxes and revenue taxes	(63,696)	(47,526)
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	110	(205)
Change in other assets and liabilities	(8,522)	(10,981)
Net cash provided by operating activities	32,887	637
Cash flows from investing activities		
Capital expenditures	(54,358)	(64,462)
Contributions in aid of construction	9,145	6,958
Net cash used in investing activities	(45,213)	(57,504)
Cash flows from financing activities		
Common stock dividends	(22,601)	(22,707)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(499)	(499)
Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	30,000	34,996
Other	(216)	(389)
Net cash provided by financing activities	6,684	11,401
Net decrease in cash and cash equivalents	(5,642)	(45,466)
Cash and cash equivalents, beginning of period	13,762	62,825
Cash and cash equivalents, end of period	\$8,120	\$17,359

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

### 1 · Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim financial information, the instructions to SEC Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited consolidated financial statements and the following notes should be read in conjunction with the audited consolidated financial statements and the notes thereto in HEI's and Hawaiian Electric's Form 10-K for the year ended December 31, 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 the Company's and Hawaiian Electric's financial position as of March 31, 2015 and December 31, 2014, the results of its operations and its cash flows for the three months ended March 31, 2015 and 2014. All such adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q or other referenced material. Results of operations for interim periods are not necessarily indicative of results for the full year.

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.

### 2 · Proposed Merger

On December 3, 2014, HEI, NextEra Energy, Inc., a Florida corporation (NEE), NEE Acquisition Sub I, LLC, a Delaware limited liability company and a wholly owned subsidiary of NEE (Merger Sub II) and NEE Acquisition Sub II, Inc., a Delaware corporation and a wholly owned subsidiary of NEE (Merger Sub I), entered into an Agreement and Plan of Merger (the Merger Agreement). The Merger Agreement provides for Merger Sub I to merge with and into HEI (the Initial Merger), with HEI surviving, and then for HEI to merge with and into Merger Sub II, with Merger Sub II surviving as a wholly owned subsidiary of NEE (the Merger). The Merger is intended to qualify as a tax-free reorganization under the Internal Revenue Code of 1986, as amended, and be tax-free to HEI shareholders. Pursuant to the Merger Agreement, upon the closing of the Merger, each issued and outstanding share of HEI common stock will automatically be converted into the right to receive 0.2413 shares of common stock of NEE (the Exchange Ratio). No adjustment to the Exchange Ratio is made in the Merger Agreement for any changes in the market prices of either HEI or NEE common stock between December 3, 2014 and the closing of the Merger. The Merger Agreement contemplates that, immediately prior to the closing of the Merger, HEI will distribute to its shareholders all of the issued and outstanding shares of common stock of ASB Hawaii, the direct parent company of ASB (such distribution referred to as the Spin-Off), with ASB Hawaii becoming a new public company. In addition, the Merger Agreement contemplates that, immediately prior to the closing of the Merger, HEI will pay its shareholders a special dividend of \$0.50 per share.

The closing of the Merger is subject to various conditions, including, among others, (i) the approval of holders of 75%% of the outstanding shares of HEI common stock, (ii) effectiveness of the registration statement for the NEE common stock to be issued in the Initial Merger and the listing of such shares on the New York Stock Exchange, (iii) expiration or termination of the applicable Hart-Scott-Rodino Act waiting period, (iv) receipt of all required regulatory approvals from, among others, the Federal Energy Regulatory Commission (FERC), the Federal Communications Commission and the Hawaii Public Utilities Commission, (v) the absence of any law or judgment in effect or pending in which a governmental entity has imposed or is seeking to impose a legal restraint that would

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

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

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

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

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. Also on March 26, 2015, HEI filed its special meeting proxy statement for the vote on the merger proposal and related matters, which meeting is scheduled for May 12, 2015. On March 30, 2015, ASB Hawaii filed its Form 10, the registration statement for ASB Hawaii shares expected to be distributed in the Spin-Off.

PUC application. In January 2015, NEE and Hawaiian Electric filed an application with the PUC requesting approval of the proposed Merger of Hawaiian Electric. The application also requests modification of certain conditions agreed to by HEI and the PUC in 1982 for the merger and corporate restructuring of Hawaiian Electric, and confirmation that with approval of the Merger Agreement, the recommendations in the 1995 Dennis Thomas Report (resulting from a proceeding to review the relationship between HEI and Hawaiian Electric and any impact of HEI’s then diversified activities on the Utilities) will no longer be applicable. The application includes a commitment that, for at least four years following the completion of the transaction, Hawaiian Electric will not submit any applications seeking a general base rate increase and will forego recovery of the incremental operations and maintenance rate adjustment under decoupling during that period, which amounts to approximately \$60 million in cumulative savings for customers, subject to certain exceptions and conditions, including that the following remain in effect: the RBA tariff provisions, the Rate Base RAM, the Renewable Energy Infrastructure Program, and Renewable Energy Infrastructure Surcharge, the IRP/DSM Recovery tariff provisions, the ECAC tariff provisions, the PPA tariff provision and the Pension and OPEB tracker mechanism. Various parties, including governmental, environmental and commercial interests, have been allowed to intervene in the proceeding. The PUC issued an initial procedural schedule governing the pre-filing of testimonies by the parties in the proceeding and the discovery on the pre-filed testimonies, and indicated the PUC will issue a further order concerning hearing dates and related matters after the Utilities and NEE file response testimonies on August 31, 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 FRB requesting deregistration as a Savings & Loan Holding Company (SLHC).

Pending litigation and other matters.

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

Since the December 3, 2014 announcement of the merger agreement, eight purported class action complaints were filed in the Circuit Court of the First Circuit for the State of Hawaii by alleged stockholders of HEI against HEI, Hawaiian Electric (in one complaint), the individual directors of HEI, NEE and NEE’s acquisition subsidiaries. The lawsuits are captioned as follows: Miller v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2531-12 KTN (December 15, 2014) (the Miller Action); Walsh v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2541-12 JHC (December 15, 2014) (the Walsh Action); Stein v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2555-12 KTN (December 17, 2014) (the Stein Action); Brown v. Hawaiian Electric Industries, Inc., et al., Case

No. 14-1-2643-12 RAN (December 30, 2014) (the Brown Action); Cohn v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2642-12 KTN (December 30, 2014) (the Cohn State Action); Guenther v. Watanabe, et al., Case No. 15-1-003-01 ECN (January 2, 2015) (the Guenther Action); Hudson v. Hawaiian Electric Industries, Inc., et al., Case No. 15-1-0013-01 JHC (January 5, 2015) (the Hudson Action); Grieco v. Hawaiian Electric Industries, Inc., et al., Case No. 15-1-0094-01 KKS (January 21, 2015) (the Grieco Action). On January 12, 2015, plaintiffs in the Miller Action, the Walsh Action, the Stein Action, the Brown Action, the Guenther Action, and the Hudson Action filed a

motion to consolidate their actions and to appoint co-lead counsel. 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).

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.

Other matters. In January 2015, various clean energy and environmental groups filed a motion and applications with the PUC to delay consideration of the Company's proposed Merger pending its decision on the Power Supply Improvement Plans, Distributed Generation Interconnection Plan, Integrated Demand Response Portfolio Plan, decoupling, and issues regarding customer-based distributed energy resources. The PUC issued its order on March 2, 2015, dismissing the motion and applications.

### 3 · Segment financial information

(in thousands)	Electric utility	Bank	Other	Total
Three months ended March 31, 2015				
Revenues from external customers	\$573,431	\$64,348	\$83	\$637,862
Intersegment revenues (eliminations)	11	—	(11	) —
Revenues	573,442	64,348	72	637,862
Income (loss) before income taxes	43,223	20,631	(11,536	) 52,318
Income taxes (benefit)	15,850	7,156	(3,027	) 19,979
Net income (loss)	27,373	13,475	(8,509	) 32,339
Preferred stock dividends of subsidiaries	499	—	(26	) 473
Net income (loss) for common stock	26,874	13,475	(8,483	) 31,866
Assets (at March 31, 2015)	5,535,500	5,724,877	13,070	11,273,447
Three months ended March 31, 2014				
Revenues from external customers	\$720,056	\$63,619	\$74	\$783,749

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Intersegment revenues (eliminations)	6	—	(6	) —
Revenues	720,062	63,619	68	783,749
Income (loss) before income taxes	57,166	22,532	(7,717	) 71,981
Income taxes (benefit)	21,247	8,133	(3,659	) 25,721
Net income (loss)	35,919	14,399	(4,058	) 46,260
Preferred stock dividends of subsidiaries	499	—	(26	) 473
Net income (loss) for common stock	35,420	14,399	(4,032	) 45,787
Assets (at December 31, 2014)	5,590,457	5,566,222	28,463	11,185,142

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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 three months ended March 31, 2015 and 2014 approximately \$51 million and \$65 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 assets in 2011 and, in June 2013, the IRS released a revenue procedure relating to deductions for repairs of generation property, which provides some guidance (that is elective) for taxpayers that own steam or electric generation property. This guidance defines the relevant components of generation property to be used in determining whether such component expenditures should be deducted as repairs or capitalized and depreciated by taxpayers. The revenue procedure also provides an extrapolation methodology that could be used by taxpayers in determining deductions for prior years’ repairs without going back to the specific documentation of those years. The guidance does not provide specific methods for determining the repairs amount. Management intends to adopt a method consistent with this guidance in its 2014 tax return.

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 March 31, 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 three months ended March 31, 2015 and 2014 each consisted of \$0.8 million of interest income received from the 2004 Debentures; \$0.8 million of distributions to holders of the Trust Preferred Securities;

and \$25,000 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 March 31, 2015, the Utilities had six purchase power agreements (PPAs) for firm capacity and other PPAs with smaller IPPs and Schedule Q providers (i.e., customers with cogeneration and/or small power production facilities with a capacity of 100 kilowatts (kW) or less who buy power from or sell power to the Utilities), none of which are currently required to be consolidated as VIEs. Approximately 90% of the firm capacity is purchased from AES Hawaii, Inc. (AES Hawaii), Kalaeloa Partners, L.P. (Kalaeloa), Hamakua Energy Partners, L.P. (HEP) and HPOWER. Purchases from all IPPs were as follows:

(in millions)	Three months ended March 31	
	2015	2014
AES Hawaii	\$34	\$33
Kalaeloa	44	67
HEP	11	12
HPOWER	16	16
Other IPPs	31	37
Total IPPs	\$136	\$165

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

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

Kalaeloa Partners, L.P. In October 1988, Hawaiian Electric entered into a PPA with Kalaeloa, subsequently approved by the PUC, which provided that Hawaiian Electric would purchase 180 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.

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 March 31, 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.

Updates. 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 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.

Liquefied natural gas. In August 2014, Hawaiian Electric entered into a 15-year agreement with Fortis BC Energy Inc. (Fortis) for liquefaction capacity for liquefied natural gas (LNG) under tariffed rates approved by the British Columbia Utilities Commission. The agreement, which is subject to Hawaii PUC approval, other regulatory approvals and permits, and other conditions precedent before it becomes effective, provides for LNG liquefaction capacity purchases of 800,000 tonnes per year for the first five years, 700,000 tonnes per year for the next five years, and 600,000 tonnes per year for the last five years. Fortis must also obtain regulatory and other approvals for the agreement to become effective. The Fortis agreement is assignable and can be assigned to the selected bidder in the Utilities' request for proposal (RFP) for the supply of containerized LNG and will help ensure that liquefaction capacity is available at pricing that management believes will lower customer bills.

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

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

On February 16, 2012, the Federal Register published the EPA's final rule establishing the EPA's National Emission Standards for Hazardous Air Pollutants for fossil-fuel fired steam electrical generating units (EGUs). The final rule, known as the Mercury and Air Toxics Standards (MATS), applies to the 14 EGUs at Hawaiian Electric's power plants. MATS establishes the Maximum Achievable Control Technology standards for the control of hazardous air pollutants emissions from new and existing EGUs. Based on a review of the final rule and the benefits and costs of alternative compliance strategies, Hawaiian Electric has selected a MATS compliance strategy based on switching to lower emission fuels. The use of lower emission fuels will provide for MATS compliance at lower overall costs and avoid the reduction in operational flexibility imposed by emissions control equipment. Hawaiian Electric requested and received a one-year extension, resulting in a MATS compliance date of April 16, 2016. Hawaiian Electric submitted to the EPA a Petition for Reconsideration and Stay dated April 16, 2012, and a Request for Expedited Consideration dated August 14, 2013. The submittals asked the EPA to revise an emissions standard for non-continental oil-fired EGUs on the grounds that the promulgated standard was incorrectly derived. The Petition and Request submittals to

the EPA included additional data to demonstrate that the existing standard is erroneous. On April 21, 2015, the EPA issued a notice denying Hawaiian Electric's MATS Petition for Reconsideration along with all other pending MATS petitions. The EPA also issued a report dated March 2015 which presents the detailed rationale for the EPA's denial of the petitions. Hawaiian Electric is currently reviewing the notice and report.

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

characterized through modeling or monitoring. Hawaiian Electric will work with the DOH in implementing the one-hour SO<sub>2</sub> NAAQS and in developing cost-effective strategies for NAAQS compliance, if needed.

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

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

Potential Clean Air Act Enforcement. On July 1, 2013, Hawaii Electric Light and Maui Electric received a letter from the U.S. Department of Justice (DOJ) asserting potential violations of the Prevention of Significant Deterioration (PSD) and Title V requirements of the Clean Air Act involving the Hill and Kahului Power Plants. The EPA referred the matter to the DOJ for enforcement based on Hawaii Electric Light's and Maui Electric's responses to information requests in 2010 and 2012. The letter expresses an interest in resolving the matter without the issuance of a notice of violation. The parties had preliminary discussions in February 2014, and are continuing to negotiate toward a resolution of the DOJ's claims. As part of the ongoing negotiations, the DOJ proposed in November 2014 entering into a consent decree pursuant to which the Utilities would install certain pollution controls and pay a penalty. The Utilities are currently reviewing the proposal, but are unable to estimate the amount or effect of a consent decree, if any, at this time.

Former Molokai Electric Company generation site. In 1989, Maui Electric acquired by merger Molokai Electric Company. Molokai Electric Company had sold its former generation site (Site) in 1983, but continued to operate at the Site under a lease until 1985. The EPA has since performed Brownfield assessments of the Site that identified environmental impacts in the subsurface. Although Maui Electric never operated at the Site and operations there had stopped four years before the merger, in discussions with the EPA and the DOH, Maui Electric agreed to undertake additional investigations at the Site and an adjacent parcel that Molokai Electric Company had used for equipment storage (the Adjacent Parcel) to determine the extent of impacts of subsurface contaminants. A 2011 assessment by a Maui Electric contractor of the Adjacent Parcel identified environmental impacts, including elevated polychlorinated biphenyls (PCBs) in the subsurface soils. In cooperation with the DOH and EPA, Maui Electric is further investigating the Site and the Adjacent Parcel to determine the extent of impacts of PCBs, residual fuel oils, and other subsurface contaminants. In March 2012, Maui Electric accrued an additional \$3.1 million (reserve balance of \$3.6 million as of March 31, 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. Maui Electric received the DOH's and EPA's comments on a draft site investigation plan for site characterization in the fourth quarter of 2013. Management concluded that these comments did not require a change to the reserve balance. The site investigation plan was revised to address the EPA's and DOH's comments. The final site investigation plan was submitted to the DOH and EPA in December 2014 for their review and approval.

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

In July 2014, the Navy notified Hawaiian Electric of the Navy's determination that Hawaiian Electric is responsible for cleanup of the area offshore of the Waiiau Power Plant. The Navy has also requested that Hawaiian Electric reimburse the costs incurred by the Navy to date to investigate the area, and is asking Hawaiian Electric to engage in negotiations regarding the financing and undertaking of future response actions. The extent of the contamination, the

appropriate remedial measures to address it, and Hawaiian Electric's potential responsibility for any associated costs have not yet been determined. In December 2014, Hawaiian Electric recorded a reserve of \$0.8 million for additional investigation of the PCBs in the sediment offshore from the Waiiau Power Plant; however, final costs of remediation will depend on the results of the additional investigation. On March 23, 2015, Hawaiian Electric received from the EPA a letter requesting that Hawaiian Electric submit within 45 days a work plan to assess potential sources and extent of PCB contamination onshore at the Waiiau Power Plant. The extent of the onshore contamination, the appropriate remedial measures to address it, and any associated costs have not yet been determined.

Global climate change and greenhouse gas emissions reduction. National and international concern about climate change and the contribution of greenhouse gas (GHG) emissions (including carbon dioxide emissions from the combustion of

fossil fuels) to climate change have led to action by the State and to federal legislative and regulatory proposals to reduce GHG emissions.

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

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

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

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

On December 19, 2014, the EPA released two memoranda outlining the Agency's plan for addressing the U.S. Supreme Court's decision. Hawaiian Electric, Hawaii Electric Light and Maui Electric are evaluating the potential impacts of the Agency's plan on utility operations and permitting. On January 8, 2014, the EPA published in the Federal Register its new proposal for New Source Performance Standards for GHG from new generating units. The proposed rule on GHG from new EGUs does not apply to oil-fired combustion turbines or diesel engine generators, and is not otherwise expected to have significant impacts on the Utilities.

On June 18, 2014, the EPA published in the Federal Register its proposed rule for GHG emissions from existing power plants. The rule sets interim and final state-wide, state-specific emission performance goals, expressed as lb CO<sub>2</sub>/MWh, that would apply to the state's affected sources. The interim goal would apply as an average over the period 2020 through 2029, with the final goal to be met by 2030. On the same date, the EPA also published a separate rule for modified and reconstructed power plants. The EPA's plan is to issue the final rules by mid-summer 2015. Hawaiian Electric is still evaluating the proposed rules for GHG emissions from existing, modified, and reconstructed sources, and how they might relate to the recently issued State GHG rules. Hawaiian Electric will participate in the federal GHG rulemaking process, and in the implementation of the State GHG rules, to try to reconcile federal GHG regulation, state GHG regulation, and any action the EPA may take as a result of the recent U.S. Supreme Court opinion, to facilitate clear and cost-effective compliance. The Utilities will continue to evaluate the impact of proposed GHG rules and regulations as they develop. Final regulations may impose significant compliance costs, and may require reductions in fossil fuel use and the addition of renewable energy resources in excess of the requirements of the RPS law.

The Utilities have taken, and continue to identify opportunities to take, direct action to reduce GHG emissions from their operations, including, but not limited to, supporting DSM programs that foster energy efficiency, using renewable resources for energy production and purchasing power from IPPs generated by renewable resources, burning renewable biodiesel in Hawaiian Electric's Campbell Industrial Park combustion turbine No. 1 (CIP CT-1), using biodiesel for startup and shutdown of selected Maui Electric generating units, and testing biofuel blends in other Hawaiian Electric and Maui Electric generating units. The Utilities are also working with the State of Hawaii and other entities to pursue the use of liquefied natural gas as a cleaner and lower cost fuel to replace, at least in part, the

petroleum oil that would otherwise be used. Management is unable to evaluate the ultimate impact on the Utilities' operations of eventual comprehensive GHG regulation. However, management believes that the various initiatives it is undertaking will provide a sound basis for managing the Utilities' carbon footprint and meeting GHG reduction goals that will ultimately emerge.

While the timing, extent and ultimate effects of climate change cannot be determined with any certainty, climate change is predicted to result in sea level rise, which could potentially impact coastal and other low-lying areas (where much of the

Utilities' electric infrastructure is sited), and could cause erosion of beaches, saltwater intrusion into aquifers and surface ecosystems, higher water tables and increased flooding and storm damage due to heavy rainfall. The effects of climate change on the weather (for example, floods or hurricanes), sea levels, and water availability and quality have the potential to materially adversely affect the results of operations, financial condition and liquidity of the Utilities. For example, severe weather could cause significant harm to the Utilities' physical facilities.

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:

(in thousands)	Three months ended March 31	
	2015	2014
Balance, beginning of period	\$29,419	\$43,106
Accretion expense	6	370
Liabilities incurred	—	—
Liabilities settled	(1,614	) (2,240
Revisions in estimated cash flows	—	—
Balance, end of period	\$27,811	\$41,236

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. The implementation of decoupling has resulted in an improvement in the Utilities' under-earning situation that has existed over the last several years.

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

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On March 31, 2015, the PUC issued an 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 order modifies 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 Utilities and the Consumer Advocate are directed to develop standards and guidelines for eligibility of projects and determination of the amount of eligible cost recovery above the RAM cap for PUC approval. The RAM is 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. It does 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, is retained, and the PUC made no change in the authorized return on common equity. Performance based ratemaking is not adopted at this time.

On April 15, 2015, the Utilities submitted revised annual decoupling filings for tariffed rates to be effective from June 1, 2015 through May 31, 2016 (unless the filings are modified or suspended by the PUC), and reflected revisions to the RAM based on the Order. The revised 2015 annual incremental RAM revenues for the three Utilities based on the Order amounted to \$26.2 million, compared to the 2015 annual incremental revenues of \$31.6 million filed on March 31, 2015 based on the methodology prior to the modification of the Order. The revised tariffs also include the collection or refund of the accrued revenue balancing account (RBA) balance and associated revenue taxes as of December 31, 2014 and any accrued earning sharing mechanism credits. The net annual incremental amount to be collected under the tariffs is \$14.7 million for the three Utilities.

(in millions)	Hawaiian Electric	Hawaii Electric Light	Maui Electric
Annual incremental RAM adjusted revenues	\$20.3	\$2.4	\$3.4
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	\$11.1	\$2.5	\$1.1
Impact on typical residential customer monthly bill (in dollars) *	\$0.56	\$1.10	\$0.60

\* Based on 600 KWH bill for Hawaiian Electric and Maui Electric and 500 KWH bill for Hawaii Electric Light.

The Consumer Advocate has submitted information requests to the Utilities and filed initial questions on the calculations of the RAM revenues based on the March 31, 2015 Order, and the Utilities have responded to an information request from the PUC regarding the tariff filings. The Consumer Advocate has until May 15, 2015 to submit its Statement of Position. The PUC is expected to issue a decision on the tariff filings prior to the June 1, 2015 effective date.

The March 31, 2015 Order directs the Parties to the proceeding to submit initial briefs within 60 days that address 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 energy cost adjustment clause (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. Reply briefs are due within 75 days.

Management cannot predict the further outcome of this proceeding or the ultimate impact of the proceeding on the results of operation of the Utilities.

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 by the Company to monitor, prepare for, respond to, and take other actions necessary in connection with the June 2014 Kilauea lava flow such that the Company can request PUC approval to recover those costs in a future rate case.

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

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

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

• Distributed Generation Interconnection Plan to be filed within 120 days. The Utilities' Plan was filed in August 2014.  
• Plan to implement an on-going distribution circuit monitoring program to measure real-time voltage and other power quality parameters to be filed within 60 days. The plan shall achieve full implementation of the distribution circuit monitoring program within 180 days. The Utilities' Plan was filed in June 2014.

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

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

• Proposal to implement an integrated interconnection queue for each distribution circuit for each island grid to be filed within 120 days. The Utilities' integrated interconnection queue plan was filed in August 2014 and the integrated interconnection queues were implemented in January 2015.

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

Policy Statement and Order Regarding Demand Response Programs. The PUC provided guidance concerning the objectives and goals for demand response programs, and ordered the Utilities to develop within 90 days an integrated Demand Response Portfolio Plan that will enhance system operations and reduce costs to customers. The Utilities' Plan was filed in July 2014. In August 2014, the PUC invited public comment on the Utilities' Plan. The Utilities submitted a status update in October 2014, and a second status update was filed with the PUC in March 2015.

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

reviewed by the PUC in a new docket along with the Hawaiian Electric and Hawaii Electric Light PSIPs. Maui Electric filed its first annual SICRP status update in September 2014.

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

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

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

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

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

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

The Utilities had requested approval of their motion within 60 days of filing or by March 20, 2015. However, pursuant to the PUC order described in the following section, the PUC declined to rule on this request.

Distributed Energy Resources (DER) Investigative Proceeding. Consistent with the PUC's plan to review the technical, economic and policy issues associated with distributed energy resources as noted in the Reliability Standards Working Group order, in March 2015, the PUC issued an order to address DER issues. The PUC order:

- (1) Allowed intervention to ten parties in the proceeding,
- (2) Consolidated portions of two other proceedings related to rules on interconnection of distributed generating facilities with the Utilities system,
- (3) Declined to rule on distributed generation interconnection plan filed in August 2014 as a result of the Reliability Standards Working Group order,
- (4) Declined to rule on Utilities' TDG motion, filed on January 20, 2015, and instead, directed the parties to collaborate on a "Transition Plan" from existing DER programs, including NEM, to a longer-term DER market structure;
- (5) Ordered the parties to collaborate on issues through a series of bi-weekly technical sessions;
- (6) Issued a Statement of Issues and a Procedural Schedule for the docket that directs the parties to file stipulations on areas of agreement, or separate statements of positions on issues where agreement cannot be reached, by June 29, 2015; and
- (7) Ordered the Utilities to submit weekly reports documenting progress on clearing interconnection applications, and monthly reports on the status of key technical developments to enable DER market growth.

In addition, the PUC provided further clarifications and guidance from their Staff's perspective on important issues relating to the growth of DER in the State.

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

Utilities.

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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

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Consolidating Statement of Income (unaudited)

Three months ended March 31, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	\$399,741	88,055	85,674	—	(28 )	\$ 573,442
Expenses						
Fuel oil	118,403	23,385	35,018	—	—	176,806
Purchased power	103,250	21,893	10,864	—	—	136,007
Other operation and maintenance	70,084	16,399	17,519	—	—	104,002
Depreciation	29,389	9,313	5,541	—	—	44,243
Taxes, other than income taxes	38,201	8,384	8,163	—	—	54,748
Total expenses	359,327	79,374	77,105	—	—	515,806
Operating income	40,414	8,681	8,569	—	(28 )	57,636
Allowance for equity funds used during construction	1,123	145	145	—	—	1,413
Equity in earnings of subsidiaries	7,692	—	—	—	(7,692 )	—
Interest expense and other charges, net	(11,238 )	(2,680 )	(2,435 )	—	28	(16,325 )
Allowance for borrowed funds used during construction	388	53	58	—	—	499
Income before income taxes	38,379	6,199	6,337	—	(7,692 )	43,223
Income taxes	11,235	2,277	2,338	—	—	15,850
Net income	27,144	3,922	3,999	—	(7,692 )	27,373
Preferred stock dividends of subsidiaries	—	134	95	—	—	229
Net income attributable to Hawaiian Electric	27,144	3,788	3,904	—	(7,692 )	27,144
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income for common stock	\$26,874	3,788	3,904	—	(7,692 )	\$ 26,874

Hawaiian Electric Company, Inc. and Subsidiaries

Consolidating Statement of Comprehensive Income (unaudited)

Three months ended March 31, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	\$26,874	3,788	3,904	—	(7,692 )	\$ 26,874
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	4,933	651	600	—	(1,251 )	4,933
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(4,911 )	(651 )	(600 )	—	1,251	(4,911 )
Other comprehensive income, net of taxes	22	—	—	—	—	22
Comprehensive income attributable to common shareholder	\$26,896	3,788	3,904	—	(7,692 )	\$ 26,896



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Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Income (unaudited)  
 Three months ended March 31, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	\$512,455	104,931	102,693	—	(17 )	\$ 720,062
Expenses						
Fuel oil	203,547	31,500	51,253	—	—	286,300
Purchased power	123,969	29,491	11,456	—	—	164,916
Other operation and maintenance	58,515	14,047	16,044	—	—	88,606
Depreciation	27,301	8,975	5,327	—	—	41,603
Taxes, other than income taxes	48,184	9,763	10,024	—	—	67,971
Total expenses	461,516	93,776	94,104	—	—	649,396
Operating income	50,939	11,155	8,589	—	(17 )	70,666
Allowance for equity funds used during construction	1,472	65	72	—	—	1,609
Equity in earnings of subsidiaries	8,917	—	—	—	(8,917 )	—
Interest expense and other charges, net	(10,487 )	(2,748 )	(2,505 )	—	17	(15,723 )
Allowance for borrowed funds used during construction	559	25	30	—	—	614
Income before income taxes	51,400	8,497	6,186	—	(8,917 )	57,166
Income taxes	15,710	3,202	2,335	—	—	21,247
Net income	35,690	5,295	3,851	—	(8,917 )	35,919
Preferred stock dividends of subsidiaries	—	134	95	—	—	229
Net income attributable to Hawaiian Electric	35,690	5,161	3,756	—	(8,917 )	35,690
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income for common stock	\$35,420	5,161	3,756	—	(8,917 )	\$ 35,420

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Comprehensive Income (unaudited)  
 Three months ended March 31, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	\$35,420	5,161	3,756	—	(8,917 )	\$ 35,420
Other comprehensive income, net of taxes:						
Retirement benefit plans:						
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	2,519	344	253	—	(597 )	2,519
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(2,510 )	(344 )	(253 )	—	597	(2,510 )
Other comprehensive income, net of taxes	9	—	—	—	—	9

Comprehensive income attributable to common shareholder	\$35,429	5,161	3,756	—	(8,917	)	\$ 35,429
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Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Balance Sheet (unaudited)  
 March 31, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consoli- dating adjustments	Hawaiian Electric Consolidated
<b>Assets</b>						
<b>Property, plant and equipment</b>						
<b>Utility property, plant and equipment</b>						
Land	\$43,542	5,464	3,016	—	—	\$ 52,022
Plant and equipment	3,826,826	1,182,567	1,057,130	—	—	6,066,523
Less accumulated depreciation	(1,256,950 )	(478,692 )	(453,448 )	—	—	(2,189,090 )
Construction in progress	135,984	14,947	13,920	—	—	164,851
Utility property, plant and equipment, net	2,749,402	724,286	620,618	—	—	4,094,306
Nonutility property, plant and equipment, less accumulated depreciation	4,949	82	1,531	—	—	6,562
Total property, plant and equipment, net	2,754,351	724,368	622,149	—	—	4,100,868
Investment in wholly owned subsidiaries, at equity	540,032	—	—	—	(540,032 )	—
<b>Current assets</b>						
Cash and cash equivalents	5,484	1,654	881	101	—	8,120
Advances to affiliates	12,600	—	—	—	(12,600 )	—
Customer accounts receivable, net	86,157	21,485	17,353	—	—	124,995
Accrued unbilled revenues, net	81,346	14,500	13,648	—	—	109,494
Other accounts receivable, net	13,582	1,571	3,285	—	(9,770 )	8,668
Fuel oil stock, at average cost	65,861	7,983	11,471	—	—	85,315
Materials and supplies, at average cost	34,269	6,589	17,749	—	—	58,607
Prepayments and other	31,970	230	12,534	—	(1,379 )	43,355
Regulatory assets	85,353	9,359	8,033	—	—	102,745
Total current assets	416,622	63,371	84,954	101	(23,749 )	541,299
<b>Other long-term assets</b>						
Regulatory assets	598,535	104,663	99,749	—	(103 )	802,844
Unamortized debt expense	5,621	1,396	1,199	—	—	8,216
Other	53,370	15,689	13,214	—	—	82,273
Total other long-term assets	657,526	121,748	114,162	—	(103 )	893,333
Total assets	\$4,368,531	909,487	821,265	101	(563,884 )	\$ 5,535,500
<b>Capitalization and liabilities</b>						
<b>Capitalization</b>						
Common stock equity	\$1,686,434	283,129	256,802	101	(540,032 )	\$ 1,686,434
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	2,539,273	480,129	447,802	101	(540,032 )	2,927,273
<b>Current liabilities</b>						
Current portion of long-term debt	—	—	—	—	—	—
Short-term borrowings from non-affiliates	30,000	—	—	—	—	30,000

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Short-term borrowings from affiliate	—	10,000	2,600	—	(12,600 )	—
Accounts payable	106,975	14,988	16,546	—	—	138,509
Interest and preferred dividends payable	16,678	3,560	4,029	—	(10 )	24,257
Taxes accrued	126,742	30,060	27,449	—	(1,379 )	182,872
Regulatory liabilities	681	—	493	—	—	1,174
Other	49,389	10,126	16,234	—	(9,760 )	65,989
Total current liabilities	330,465	68,734	67,351	—	(23,749 )	442,801
Deferred credits and other liabilities						
Deferred income taxes	423,151	89,923	83,910	—	—	596,984
Regulatory liabilities	240,749	79,504	30,388	—	(103 )	350,538
Unamortized tax credits	52,093	15,096	14,848	—	—	82,037
Defined benefit pension and other postretirement benefit plans liability	443,249	68,989	74,927	—	—	587,165
Other	48,044	12,664	13,609	—	—	74,317
Total deferred credits and other liabilities	1,207,286	266,176	217,682	—	(103 )	1,691,041
Contributions in aid of construction	291,507	94,448	88,430	—	—	474,385
Total capitalization and liabilities	\$4,368,531	909,487	821,265	101	(563,884 )	\$5,535,500

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

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consoli- dating adjustments	Hawaiian Electric Consolidated
<b>Assets</b>						
<b>Property, plant and equipment</b>						
<b>Utility property, plant and equipment</b>						
Land	\$43,819	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 )	—
<b>Current assets</b>						
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
<b>Other long-term assets</b>						
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
<b>Capitalization and liabilities</b>						
<b>Capitalization</b>						
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
<b>Current liabilities</b>						
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

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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

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Changes in Common Stock Equity (unaudited)  
 Three months ended March 31, 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	26,874	3,788	3,904	—	(7,692 )	26,874
Other comprehensive income, net of taxes	22	—	—	—	—	22
Common stock dividends	(22,601 )	(2,505 )	(3,794 )	—	6,299	(22,601 )
Common stock issuance expenses	(5 )	—	—	—	—	(5 )
Balance, March 31, 2015	\$1,686,434	283,129	256,802	101	(540,032 )	\$1,686,434

Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Changes in Common Stock Equity (unaudited)  
 Three months ended March 31, 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	35,420	5,161	3,756	—	(8,917 )	35,420
Other comprehensive income, net of taxes	9	—	—	—	—	9
Common stock dividends	(22,707 )	(2,941 )	(3,629 )	—	6,570	(22,707 )
Common stock issuance expenses	(3 )	—	(1 )	—	1	(3 )
Balance, March 31, 2014	\$1,606,283	277,022	248,897	101	(526,020 )	\$1,606,283

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Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Cash Flows (unaudited)  
 Three months ended March 31, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income	\$27,144	3,922	3,999	—	(7,692 )	\$27,373
Adjustments to reconcile net income to net cash provided by operating activities:						
Equity in earnings of subsidiaries	(7,717 )	—	—	—	7,692	(25 )
Common stock dividends received from subsidiaries	6,324	—	—	—	(6,299 )	25
Depreciation of property, plant and equipment	29,389	9,313	5,541	—	—	44,243
Other amortization	590	500	(401 )	—	—	689
Increase in deferred income taxes	12,048	719	2,365	—	—	15,132
Change in tax credits, net	2,246	200	130	—	—	2,576
Allowance for equity funds used during construction	(1,123 )	(145 )	(145 )	—	—	(1,413 )
Change in cash overdraft	—	—	—	—	—	—
Changes in assets and liabilities:						
Increase in accounts receivable	21,703	2,147	4,408	—	846	29,104
Decrease in accrued unbilled revenues	21,726	1,426	4,728	—	—	27,880
Decrease in fuel oil stock	8,654	5,817	6,260	—	—	20,731
Decrease (increase) in materials and supplies	(1,115 )	75	(317 )	—	—	(1,357 )
Increase in regulatory assets	(8,903 )	(1,522 )	(402 )	—	—	(10,827 )
Decrease in accounts payable	(35,128 )	(9,892 )	(4,116 )	—	—	(49,136 )
Change in prepaid and accrued income and utility revenue taxes	(52,273 )	(1,807 )	(9,616 )	—	—	(63,696 )
Increase in defined benefit pension and other postretirement benefit plans liability	—	—	110	—	—	110
Change in other assets and liabilities	(8,439 )	229	534	—	(846 )	(8,522 )
Net cash provided by operating activities	15,126	10,982	13,078	—	(6,299 )	32,887
Cash flows from investing activities						
Capital expenditures	(40,594 )	(7,558 )	(6,206 )	—	—	(54,358 )
Contributions in aid of construction	8,121	758	266	—	—	9,145
Advances from affiliates	3,500	—	—	—	(3,500 )	—
Net cash used in investing activities	(28,973 )	(6,800 )	(5,940 )	—	(3,500 )	(45,213 )
Cash flows from financing activities						
Common stock dividends	(22,601 )	(2,505 )	(3,794 )	—	6,299	(22,601 )
Preferred stock dividends of Hawaiian Electric and subsidiaries	(270 )	(134 )	(95 )	—	—	(499 )
Net increase (decrease) in short-term borrowings from non-affiliates and	30,000	(500 )	(3,000 )	—	3,500	30,000

affiliate with original maturities of three months or less						
Other	(214 )	(1 )	(1 )	—	—	(216 )
Net cash provided by (used in) financing activities	6,915	(3,140 )	(6,890 )	—	9,799	6,684
Net increase (decrease) in cash and cash equivalents	(6,932 )	1,042	248	—	—	(5,642 )
Cash and cash equivalents, beginning of period	12,416	612	633	101	—	13,762
Cash and cash equivalents, end of period	\$5,484	1,654	881	101	—	\$8,120

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Hawaiian Electric Company, Inc. and Subsidiaries  
 Consolidating Statement of Cash Flows (unaudited)  
 Three months ended March 31, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income	\$35,690	5,295	3,851	—	(8,917 )	\$35,919
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Equity in earnings of subsidiaries	(8,942 )	—	—	—	8,917	(25 )
Common stock dividends received from subsidiaries	6,595	—	—	—	(6,570 )	25
Depreciation of property, plant and equipment	27,301	8,975	5,327	—	—	41,603
Other amortization	235	501	885	—	—	1,621
Increase in deferred income taxes	17,123	862	2,359	—	—	20,344
Change in tax credits, net	1,741	217	74	—	—	2,032
Allowance for equity funds used during construction	(1,472 )	(65 )	(72 )	—	—	(1,609 )
Change in cash overdraft	—	—	(1,038 )	—	—	(1,038 )
Changes in assets and liabilities:						
Decrease in accounts receivable	4,131	2,029	2,194	—	450	8,804
Decrease (increase) in accrued unbilled revenues	11,031	(230 )	1,459	—	—	12,260
Decrease (increase) in fuel oil stock	(35,060 )	1,166	(366 )	—	—	(34,260 )
Increase in materials and supplies	(330 )	(387 )	(328 )	—	—	(1,045 )
Increase in regulatory assets	(8,188 )	(881 )	(189 )	—	—	(9,258 )
Decrease in accounts payable	(837 )	(6,032 )	(9,155 )	—	—	(16,024 )
Change in prepaid and accrued income and utility revenue taxes	(39,581 )	(2,791 )	(5,154 )	—	—	(47,526 )
Decrease in defined benefit pension and other postretirement benefit plans liability	(103 )	—	(102 )	—	—	(205 )
Change in other assets and liabilities	(10,874 )	1,041	(698 )	—	(450 )	(10,981 )
Net cash provided by (used in) operating activities	(1,540 )	9,700	(953 )	—	(6,570 )	637
Cash flows from investing activities						
Capital expenditures	(49,432 )	(7,530 )	(7,500 )	—	—	(64,462 )
Contributions in aid of construction	4,541	1,121	1,296	—	—	6,958
Advances from (to) affiliates	(12,661 )	900	—	—	11,761	—
Net cash used in investing activities	(57,552 )	(5,509 )	(6,204 )	—	11,761	(57,504 )
Cash flows from financing activities						
Common stock dividends	(22,707 )	(2,941 )	(3,629 )	—	6,570	(22,707 )
Preferred stock dividends of Hawaiian Electric and subsidiaries	(270 )	(134 )	(95 )	—	—	(499 )
Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	34,096	—	12,661	—	(11,761 )	34,996

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Other	(320 )	—	(69 )	—	—	(389 )
Net cash provided by (used in) financing activities	10,799	(3,075 )	8,868	—	(5,191 )	11,401
Net increase (decrease) in cash and cash equivalents	(48,293 )	1,116	1,711	—	—	(45,466 )
Cash and cash equivalents, beginning of period	61,245	1,326	153	101	—	62,825
Cash and cash equivalents, end of period	\$12,952	2,442	1,864	101	—	\$17,359

## 5 · Bank segment

## Selected financial information

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

## Statements of Income Data

(in thousands)	Three months ended March 31	
	2015	2014
Interest and dividend income		
Interest and fees on loans	\$45,198	\$43,682
Interest and dividends on investment securities	3,051	3,035
Total interest and dividend income	48,249	46,717
Interest expense		
Interest on deposit liabilities	1,260	1,225
Interest on other borrowings	1,466	1,405
Total interest expense	2,726	2,630
Net interest income	45,523	44,087
Provision for loan losses	614	995
Net interest income after provision for loan losses	44,909	43,092
Noninterest income		
Fees from other financial services	5,355	5,128
Fee income on deposit liabilities	5,315	4,421
Fee income on other financial products	1,889	2,290
Bank-owned life insurance	983	963
Mortgage banking income	1,822	628
Gains on sale of investment securities	—	2,847
Other income, net	735	625
Total noninterest income	16,099	16,902
Noninterest expense		
Compensation and employee benefits	21,766	20,286
Occupancy	4,113	3,953
Data processing	3,116	3,060
Services	2,341	2,273
Equipment	1,701	1,645
Office supplies, printing and postage	1,483	1,616
Marketing	841	711
FDIC insurance	811	796
Other expense	4,205	3,122
Total noninterest expense	40,377	37,462
Income before income taxes	20,631	22,532
Income taxes	7,156	8,133
Net income	\$13,475	\$14,399

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

(in thousands)	Three months ended March 31	
	2015	2014
Net income	\$13,475	\$14,399
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 tax benefits of \$2,278 and \$1,664 for the respective periods	3,451	2,520
Less: reclassification adjustment for net realized gains included in net income, net of taxes of 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 \$259 and \$144 for the respective periods	392	219
Other comprehensive income, net of taxes	3,843	1,024
Comprehensive income	\$17,318	\$15,423

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American Savings Bank, F.S.B.

Balance Sheets Data

(in thousands)

	March 31, 2015	December 31, 2014
<b>Assets</b>		
Cash and due from banks	\$98,484	\$107,233
Interest-bearing deposits	172,517	54,230
Available-for-sale investment securities, at fair value	590,648	550,394
Stock in Federal Home Loan Bank of Seattle, at cost	63,711	69,302
Loans receivable held for investment	4,447,299	4,434,651
Allowance for loan losses	(45,795 )	(45,618 )
Net loans	4,401,504	4,389,033
Loans held for sale, at lower of cost or fair value	9,906	8,424
Other	305,917	305,416
Goodwill	82,190	82,190
<b>Total assets</b>	<b>\$5,724,877</b>	<b>\$5,566,222</b>
<b>Liabilities and shareholder's equity</b>		
Deposit liabilities—noninterest-bearing	\$1,420,085	\$1,342,794
Deposit liabilities—interest-bearing	3,331,243	3,280,621
Other borrowings	312,094	290,656
Other	117,849	118,363
<b>Total liabilities</b>	<b>5,181,271</b>	<b>5,032,434</b>
Commitments and contingencies		
Common stock	1	1
Additional paid in capital	338,411	338,411
Retained earnings	217,909	211,934
Accumulated other comprehensive loss, net of tax benefits		
Net unrealized gains on securities	\$3,913	\$462
Retirement benefit plans	(16,628 )	(17,020 )
<b>Total shareholder's equity</b>	<b>543,606</b>	<b>533,788</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$5,724,877</b>	<b>\$5,566,222</b>
<b>Other assets</b>		
Bank-owned life insurance	\$135,141	\$134,115
Premises and equipment, net	85,174	92,407
Prepaid expenses	4,892	3,196
Accrued interest receivable	13,720	13,632
Mortgage-servicing rights	11,965	11,540
Low-income housing equity investments	32,140	33,438
Real estate acquired in settlement of loans, net	665	891
Other	22,220	16,197
	\$305,917	\$305,416
<b>Other liabilities</b>		
Accrued expenses	\$29,670	\$37,880
Federal and state income taxes payable	36,010	28,642
Cashier's checks	24,686	20,509
Advance payments by borrowers	5,904	9,652
Other	21,579	21,680
	\$117,849	\$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 Seattle of \$212 million and \$100 million, respectively, as of March 31, 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:

(dollar in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Gross unrealized losses					
					Less than 12 months Number of issues	Fair value	Amount	12 months or longer Number of issues	Fair value	Amount
March 31, 2015										
Available-for-sale U.S. Treasury and federal agency obligations	\$ 138,593	\$ 2,029	\$ (395 )	\$ 140,227	1	\$ 9,973	\$(2 )	3	\$ 19,198	\$(393 )
Mortgage-related securities- FNMA, FHLMC and GNMA	445,559	7,149	(2,287 )	450,421	6	40,889	(89 )	26	147,722	(2,198 )
	\$ 584,152	\$ 9,178	\$ (2,682 )	\$ 590,648	7	\$ 50,862	\$(91 )	29	\$ 166,920	\$(2,591)
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 March 31, 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:

March 31, 2015 (in thousands)	Amortized cost	Fair value
Due in one year or less	\$—	\$—
Due after one year through five years	29,958	30,296
Due after five years through ten years	71,811	73,188
Due after ten years	36,824	36,743
	138,593	140,227
Mortgage-related securities-FNMA, FHLMC and GNMA	445,559	450,421
Total available-for-sale securities	\$584,152	\$590,648

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 March 31, 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	(156)	—	(3)	—	—	—	(46)	(942)	—	(1,147)
Recoveries	12	—	31	49	—	—	341	277	—	710
Provision	403	2,274	(487)	362	(2,634)	(7)	268	435	—	614
Ending balance	\$4,921	\$11,228	\$6,523	\$2,286	\$2,837	\$21	\$14,580	\$3,399	\$—	\$45,795
Ending balance: individually evaluated for impairment	\$1,429	\$1,785	\$144	\$1,085	\$—	\$—	\$1,096	\$9		\$5,548
Ending balance: collectively evaluated for impairment	\$3,492	\$9,443	\$6,379	\$1,201	\$2,837	\$21	\$13,484	\$3,390	\$—	\$40,247
Financing Receivables:										
Ending balance	\$2,039,099	\$561,189	\$814,265	\$18,155	\$77,164	\$20,804	\$803,545	\$119,310		\$4,453,531
Ending balance: individually evaluated for impairment	\$23,089	\$4,998	\$1,183	\$7,819	\$—	\$—	\$11,879	\$15		\$48,983
Ending balance:	\$2,016,010	\$556,191	\$813,082	\$10,336	\$77,164	\$20,804	\$791,666	\$119,295		\$4,404,548

collectively  
evaluated for  
impairment  
Three months  
ended

March 31,  
2014

Allowance for  
loan losses:

Beginning balance	\$5,534	\$5,059	\$5,229	\$1,817	\$2,397	\$19	\$15,803	\$2,367	\$1,891	\$40,116
Charge-offs	(266 )	—	—	(6 )	—	—	(124 )	(561 )	—	(957
Recoveries	341	—	11	86	—	—	100	231	—	769
Provision	(134 )	656	729	(322 )	666	5	(187 )	279	(697 )	995
Ending balance	\$5,475	\$5,715	\$5,969	\$1,575	\$3,063	\$24	\$15,592	\$2,316	\$1,194	\$40,923
Ending balance:										
individually evaluated for impairment	\$906	\$1,544	\$—	\$1,102	\$—	\$—	\$2,133	\$—		\$5,685
Ending balance:										
collectively evaluated for impairment	\$4,569	\$4,171	\$5,969	\$473	\$3,063	\$24	\$13,459	\$2,316	\$1,194	\$35,238
Financing Receivables:										
Ending balance	\$1,985,812	\$452,303	\$764,483	\$15,906	\$66,578	\$16,474	\$786,611	\$108,202		\$4,196,369
Ending balance:										
individually evaluated for impairment	\$20,141	\$4,558	\$1,164	\$10,351	\$—	\$—	\$19,399	\$18		\$55,631
Ending balance:										
collectively evaluated for impairment	\$1,965,671	\$447,745	\$763,319	\$5,555	\$66,578	\$16,474	\$767,212	\$108,184		\$4,140,738

Credit quality. ASB performs an internal loan review and grading on an ongoing basis. The review provides management with periodic information as to the quality of the loan portfolio and effectiveness of its lending policies and procedures. The objectives of the loan review and grading procedures are to identify, in a timely manner, existing or emerging credit trends so that appropriate steps can be initiated to manage risk and avoid or minimize future losses. Loans subject to grading include commercial, commercial real estate and commercial construction loans. Each loan is assigned an Asset Quality Rating (AQR) reflecting the likelihood of repayment or orderly liquidation of that loan transaction pursuant to regulatory credit classifications: Pass, Special Mention, Substandard, Doubtful, and Loss. The AQR is a function of the PD Model rating, the LGD, and possible non-model factors which impact the ultimate collectability of the loan such as character of the business owner/guarantor, interim period performance, litigation, tax liens, and major changes



in business and economic conditions. Pass exposures generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral. Special Mention loans have potential weaknesses that, if left uncorrected, could jeopardize the liquidation of the debt. Substandard loans have well-defined weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the Bank may sustain some loss. An asset classified Doubtful has the weaknesses of those classified Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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

(in thousands)	March 31, 2015			December 31, 2014		
	Commercial real estate	Commercial construction	Commercial	Commercial real estate	Commercial construction	Commercial
Grade:						
Pass	\$507,993	\$77,164	\$739,721	\$493,105	\$79,312	\$743,334
Special mention	5,203	—	31,863	5,209	—	16,095
Substandard	47,993	—	31,335	33,603	17,126	31,665
Doubtful	—	—	626	—	—	663
Loss	—	—	—	—	—	—
Total	\$561,189	\$77,164	\$803,545	\$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
March 31, 2015							
Real estate:							
Residential 1-4 family	\$6,074	\$2,718	\$12,231	\$21,023	\$2,018,076	\$2,039,099	\$—
Commercial real estate	—	—	—	—	561,189	561,189	—
Home equity line of credit	1,041	807	629	2,477	811,788	814,265	—
Residential land	422	—	—	422	17,733	18,155	—
Commercial construction	—	—	—	—	77,164	77,164	—
Residential construction	—	—	—	—	20,804	20,804	—
Commercial	680	238	532	1,450	802,095	803,545	—
Consumer	895	270	266	1,431	117,879	119,310	—
Total loans	\$9,112	\$4,033	\$13,658	\$26,803	\$4,426,728	\$4,453,531	\$—
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	\$—



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

(in thousands)	March 31, 2015	December 31, 2014
Real estate:		
Residential 1-4 family	\$18,205	\$19,253
Commercial real estate	4,998	5,112
Home equity line of credit	1,701	1,087
Residential land	717	720
Commercial construction	—	—
Residential construction	—	—
Commercial	9,018	10,053
Consumer	542	661
Total nonaccrual loans	\$35,181	\$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	\$14,334	\$13,525
Commercial real estate	—	—
Home equity line of credit	750	480
Residential land	7,102	7,130
Commercial construction	—	—
Residential construction	—	—
Commercial	2,720	2,972
Consumer	—	—
Total troubled debt restructured loans not included above	\$24,906	\$24,107

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

(in thousands)	March 31, 2015			Three months ended March 31, 2015	
	Recorded investment	Unpaid principal balance	Related Allowance	Average recorded investment	Interest income recognized*
With no related allowance recorded					
Real estate:					
Residential 1-4 family	\$ 11,168	\$ 12,460	\$—	\$ 11,552	\$ 89
Commercial real estate	547	609	—	555	—
Home equity line of credit	339	544	—	400	1
Residential land	3,265	4,121	—	2,637	52
Commercial construction	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial	6,289	8,089	—	7,295	2
Consumer	—	—	—	—	—
	\$ 21,608	\$ 25,823	\$—	\$ 22,439	\$ 144
With an allowance recorded					
Real estate:					
Residential 1-4 family	\$ 11,921	\$ 11,974	\$ 1,429	\$ 11,510	\$ 126
Commercial real estate	4,451	4,511	1,785	4,482	—
Home equity line of credit	844	900	144	626	6
Residential land	4,554	4,632	1,085	5,189	83
Commercial construction	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial	5,590	7,549	1,096	4,982	50
Consumer	15	15	9	15	—
	\$ 27,375	\$ 29,581	\$ 5,548	\$ 26,804	