HAWAIIAN ELECTRIC CO INC
Form 10-Q
November 03, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

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

State of Hawaii

(State or other jurisdiction of incorporation or organization)

900 Richards Street, Honolulu, Hawaii 96813

(Address of principal executive offices and zip code)

Hawaiian Electric Industries, Inc. ----- (808) 543-5662

Hawaiian Electric Company, Inc. ------- (808) 543-7771

(Registrant s telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether Registrant Hawaiian Electric Industries, Inc. (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether Registrant Hawaiian Electric Company, Inc. (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether Registrant Hawaiian Electric Industries, Inc. has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether Registrant Hawaiian Electric Company, Inc. has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether Registrant Hawaiian Electric Industries, Inc. is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate by check mark whether Registrant Hawaiian Electric Company, Inc. is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class of Common Stock	Outstanding October 31, 2011
Hawaiian Electric Industries, Inc. (Without Par Value)	95,975,024 Shares
Hawaiian Electric Company, Inc. ($6-2/3 Par Value)	13,830,823 Shares (not publicly traded)

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

Large accelerated filer x

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

(Do not check if a smaller reporting company)

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

Large accelerated filer o

Accelerated filer o

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

Smaller reporting company o

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Hawaiian Electric Industries, Inc. and Subsidiaries

Hawaiian Electric Company, Inc. and Subsidiaries

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Hawaiian Electric Industries, Inc. and Subsidiaries

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
ARO	Asset retirement obligation
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of American Savings Holdings, Inc. American Savings Investment Services Corp. and its subsidiary, Bishop Insurance Agency of Hawaii, Inc. (dissolved in 2010) are former subsidiaries.
ASHI	American Savings Holdings, Inc., a wholly owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
CIP CT-1	Campbell Industrial Park 110 MW combustion turbine No. 1
Company	Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation: Hawaiian Electric Company, Inc. and its subsidiaries (listed under HECO); American Savings Holdings, Inc. and its subsidiary, American Savings Bank, F.S.B. and its former subsidiaries (listed under ASB); HEI Properties, Inc.; Hawaiian Electric Industries Capital Trust II and Hawaiian Electric Industries Capital Trust III (inactive financing entities); The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.) and Pacific Energy Conservation Services, Inc. (dissolved on April 1, 2011)
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
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
ECAC	Energy cost adjustment clauses
EIP	2010 Equity and Incentive Plan
Energy Agreement	Agreement dated October 20, 2008 and signed by the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and HECO, for itself and on behalf of its electric utility subsidiaries committing to actions to develop renewable energy and reduce dependence on fossil fuels in support of the HCEI
EPA	Environmental Protection Agency federal
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934
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
FSS	Forward Starting Swaps

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GLOSSARY OF TERMS, continued

Terms	Definitions
GAAP	U.S. generally accepted accounting principles
GHG	Greenhouse gas
GNMA	Government National Mortgage Association
HCEI	Hawaii Clean Energy Initiative
HECO	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 subsidiary), Renewable Hawaii, Inc. and Uluwehiokama Biofuels Corp.
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., American Savings Holdings, Inc., HEI Properties, Inc., Hawaiian Electric Industries Capital Trust II, Hawaiian Electric Industries Capital Trust III, The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.) and Pacific Energy Conservation Services, Inc. (dissolved on April 1, 2011)
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HELCO	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
HPOWER	City and County of Honolulu with respect to a power purchase agreement for a refuse-fired plant
IPP	Independent power producer
Kalaeloa	Kalaeloa Partners, L.P.
KWH	Kilowatthour
MECO	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
MW	Megawatt/s (as applicable)
NII	Net interest income
NPV	Net portfolio value
NQSO	Nonqualified stock option
OCC	Office of the Comptroller of the Currency
O&M	Other operation and maintenance
OPEB	Postretirement benefits other than pensions
OTS	Office of Thrift Supervision, Department of Treasury
PPA	Power purchase agreement
PUC	Public Utilities Commission of the State of Hawaii
RAM	Revenue adjustment mechanism
RBA	Revenue balancing account
RFP	Request for proposal
REIP	Renewable Energy Infrastructure Program
RHI	Renewable Hawaii, Inc., a wholly owned subsidiary of Hawaiian Electric Company, Inc.
ROACE	Return on average common equity
RORB	Return on average rate base
RPS	Renewable portfolio standard
SAR	Stock appreciation right
SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference
SOIP	1987 Stock Option and Incentive Plan, as amended
TDR	Troubled debt restructuring
UBC	Uluwehiokama Biofuels Corp., a non-regulated subsidiary of Hawaiian Electric Company, Inc.
VIE	Variable interest entity

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FORWARD-LOOKING STATEMENTS

This report and other presentations made by Hawaiian Electric Industries, Inc. (HEI) and Hawaiian Electric Company, Inc. (HECO) 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. I addition, any statements concerning future financial performance, ongoing business strategies or prospects or possible future actions are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and the accuracy of assumptions concerning HEI and its subsidiaries (collectively, the Company), the performance of the industries in which they do business and economic and market factors, among other things. **These forward-looking statements are not guarantees of future performance.**

Risks, uncertainties and other important factors that could cause actual results to differ materially from those described in forward-looking statements and from historical results include, but are not limited to, the following:

- international, national and local economic conditions, including the state of the Hawaii tourism, defense and construction industries, the strength or weakness of the Hawaii and continental U.S. real estate markets (including the fair value and/or the actual performance of collateral underlying loans held by American Savings Bank, F.S.B. (ASB), which could result in higher loan loss provisions and write-offs), decisions concerning the extent of the presence of the federal government and military in Hawaii, the implications and potential impacts of U.S. and foreign capital and credit market conditions and federal and state responses to those conditions, and the potential impacts of global developments (including unrest, conflict and the overthrow of governmental regimes in North Africa and the Middle East, terrorist acts, the war on terrorism, continuing U.S. presence in Afghanistan and potential conflict or crisis with North Korea);

- weather and natural disasters (e.g., hurricanes, earthquakes, tsunamis, lightning strikes and the potential effects of global warming, such as more severe storms and rising sea levels), including their impact on Company operations and the economy (e.g., the effect of the March 2011 natural disasters in Japan on its economy and tourism in Hawaii);

- the timing and extent of changes in interest rates and the shape of the yield curve;

- the ability of the Company to access credit markets to obtain commercial paper and other short-term and long-term debt financing (including lines of credit) and to access capital markets to issue HEI 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 pension and other retirement plan assets and securities available for sale;

- changes in laws, regulations, market conditions and other factors that result in changes in assumptions used to calculate retirement benefits costs and funding requirements;

- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and of the rules and regulations that the Dodd-Frank Act requires to be promulgated;

- increasing competition in the banking industry (e.g., increased price competition for deposits, or an outflow of deposits to alternative investments, which may have an adverse impact on ASB s cost of funds);

- the implementation of the Energy Agreement with the State of Hawaii and Consumer Advocate (Energy Agreement) setting forth the goals and objectives of a Hawaii Clean Energy Initiative (HCEI), revenue decoupling and the fulfillment by the electric utilities of their commitments under the Energy Agreement (given the Public Utilities Commission of the State of Hawaii (PUC) approvals needed; the PUC s potential delay in considering (and potential disapproval of actual or proposed) HCEI-related costs; reliance by the Company on outside parties like the state, independent power producers (IPPs) and developers; potential changes in political support for the HCEI; and uncertainties surrounding wind power, the proposed undersea cable (to bring power to Oahu from Lanai and/or Molokai), biofuels, environmental assessments and the impacts of implementation of the HCEI on future costs of electricity);

- 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;

- the risk to generation reliability when generation peak reserve margins on Oahu are strained;

- fuel oil price changes, performance by suppliers of their fuel oil delivery obligations and the continued availability to the electric utilities of their energy cost adjustment clauses (ECACs);

- the impact of fuel price volatility on customer satisfaction and political and regulatory support for the utilities;

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- the risks associated with increasing reliance on renewable energy, as contemplated under the Energy Agreement, including the availability and cost of non-fossil fuel supplies for renewable energy generation and the operational impacts of adding intermittent sources of renewable energy to the electric grid;

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

- the ability of the electric utilities to negotiate, periodically, favorable fuel supply and collective bargaining agreements;

- new technological developments that could affect the operations and prospects of HEI and its subsidiaries (including HECO and its subsidiaries and ASB) or their competitors;

- cyber security risks and the potential for cyber incidents, including potential incidents at HEI, ASB and HECO and their subsidiaries (including at ASB branches and at the 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 changes in laws, rules and regulations applicable to HEI, HECO, ASB and their subsidiaries (including changes in taxation, increases in capital requirements, regulatory changes resulting from the HCEI, environmental laws and regulations, 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);

- 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 and 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, the Federal Reserve Board (FRB) 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);

- ability to recover increasing costs and earn a reasonable return on capital investments not covered by revenue adjustment mechanisms;

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

- changes in accounting principles applicable to HEI, HECO, ASB and their subsidiaries, including the adoption of International Financial Reporting Standards or 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 HECO 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 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, HECO, ASB and their subsidiaries;

- 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 HECO 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, HECO, 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.

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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 September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
Revenues				
Electric utility	$ 820,254	$ 623,126	$ 2,194,327	$ 1,755,332
Bank	66,100	71,429	197,731	213,975
Other	1	(14)	(751)	(62)
	886,355	**694,541**	**2,391,307**	**1,969,245**
Expenses				
Electric utility	745,298	571,783	2,031,645	1,619,945
Bank	42,931	47,040	128,988	142,040
Other	3,636	3,087	9,148	10,291
	791,865	**621,910**	**2,169,781**	**1,772,276**
Operating income (loss)				
Electric utility	74,956	51,343	162,682	135,387
Bank	23,169	24,389	68,743	71,935
Other	(3,635)	(3,101)	(9,899)	(10,353)
	94,490	**72,631**	**221,526**	**196,969**
Interest expense other than on deposit liabilities and other bank borrowings	(19,949)	(21,015)	(64,266)	(61,916)
Allowance for borrowed funds used during construction	658	492	1,731	2,061
Allowance for equity funds used during construction	1,570	1,197	4,131	4,817
Income before income taxes	**76,769**	**53,305**	**163,122**	**141,931**
Income taxes	27,894	20,385	57,700	51,677
Net income	**48,875**	**32,920**	**105,422**	**90,254**
Preferred stock dividends of subsidiaries	471	471	1,417	1,417
Net income for common stock	**$ 48,404**	**$ 32,449**	**$ 104,005**	**$ 88,837**
Basic earnings per common share	$ 0.50	$ 0.35	$ 1.09	$ 0.95
Diluted earnings per common share	$ 0.50	$ 0.35	$ 1.09	$ 0.95
Dividends per common share	$ 0.31	$ 0.31	$ 0.93	$ 0.93
Weighted-average number of common shares outstanding	95,873	93,699	95,365	93,148
Dilutive effect of share-based compensation	227	192	306	257
Adjusted weighted-average shares	96,100	93,891	95,671	93,405

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

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Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Balance Sheets (unaudited)

(dollars in thousands)		September 30, 2011		December 31, 2010
Assets				
Cash and cash equivalents	$	283,483	$	330,651
Accounts receivable and unbilled revenues, net		342,901		266,996
Available-for-sale investment and mortgage-related securities		571,045		678,152
Investment in stock of Federal Home Loan Bank of Seattle		97,764		97,764
Loans receivable held for investment, net		3,622,181		3,489,880
Loans held for sale, at lower of cost or fair value		25,016		7,849
Property, plant and equipment, net of accumulated depreciation of $2,033,576 in 2011 and $2,037,598 in 2010		3,248,658		3,165,918
Regulatory assets		494,487		478,330
Other		496,638		487,614
Goodwill		82,190		82,190
Total assets	$	9,264,363	$	9,085,344
Liabilities and shareholders equity				
Liabilities				
Accounts payable	$	165,909	$	202,446
Interest and dividends payable		28,010		27,814
Deposit liabilities		4,062,801		3,975,372
Short-term borrowings other than bank		51,195		24,923
Other bank borrowings		237,934		237,319
Long-term debt, net other than bank		1,340,038		1,364,942
Deferred income taxes		342,232		278,958
Regulatory liabilities		313,299		296,797
Contributions in aid of construction		344,110		335,364
Other		806,784		823,479
Total liabilities		7,692,312		7,567,414
Preferred stock of subsidiaries - not subject to mandatory redemption		34,293		34,293
Commitments and contingencies (Note 9)				
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: 95,975,524 shares in 2011 and 94,690,932 shares in 2010		1,347,255		1,314,199
Retained earnings		197,165		181,910
Accumulated other comprehensive loss, net of tax benefits		(6,662)		(12,472)
Total shareholders equity		1,537,758		1,483,637
Total liabilities and shareholders equity	$	9,264,363	$	9,085,344

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

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Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders Equity (unaudited)

(in thousands, except per share amounts)	Common stock Shares	Common stock Amount	Retained earnings	Accumulated other comprehensive loss	Total
Balance, December 31, 2010	**94,691**	**$ 1,314,199**	**$ 181,910**	**$ (12,472)**	**$ 1,483,637**
Comprehensive income (loss):					
Net income for common stock			104,005		104,005
Net unrealized gains on securities:					
Net unrealized gains on securities arising during the period, net of taxes of $4,258				6,448	6,448
Less: reclassification adjustment for net realized gains included in net income, net of taxes of $148				(224)	(224)
Derivatives qualified as cash flow hedges:					
Net unrealized holding losses arising during the period, net of tax benefits of $4				(8)	(8)
Less: reclassification adjustment to net income, net of tax benefits of $78				122	122
Retirement benefit plans:					
Less: amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of tax benefits of $3,513				5,556	5,556
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $3,875				(6,084)	(6,084)
Other comprehensive income				5,810	
Comprehensive income					109,815
Issuance of common stock, net	1,284	33,056			33,056
Common stock dividends ($0.93 per share)			(88,750)		(88,750)
Balance, September 30, 2011	**95,975**	**$ 1,347,255**	**$ 197,165**	**$ (6,662)**	**$ 1,537,758**
Balance, December 31, 2009	**92,521**	**$ 1,265,157**	**$ 184,213**	**$ (7,722)**	**$ 1,441,648**
Comprehensive income (loss):					
Net income for common stock			88,837		88,837
Net unrealized gains on securities:					
Net unrealized gains on securities arising during the period, net of taxes of $1,599				2,421	2,421
Derivatives qualified as cash flow hedges:					
Net unrealized holding losses arising during the period, net of tax benefits of $2,278				(3,575)	(3,575)
Retirement benefit plans:					
Less: amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of tax benefits of $1,932				3,034	3,034

Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $1,681				(2,640)	(2,640)
Other comprehensive income				(760)	
Comprehensive income					88,077
Issuance of common stock, net	1,600	36,553			36,553
Common stock dividends ($0.93 per share)			(86,625)		(86,625)
Balance, September 30, 2010	**94,121**	**$ 1,301,710**	**$ 186,425**	**$ (8,482)**	**$ 1,479,653**

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

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Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

Nine months ended September 30 (in thousands)	**2011**	**2010**
Cash flows from operating activities		
Net income	$ 105,422	$ 90,254
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	111,516	117,109
Other amortization	14,552	2,995
Provision for loan losses	10,927	12,310
Loans receivable originated and purchased, held for sale	(137,507)	(286,950)
Proceeds from sale of loans receivable, held for sale	127,163	306,587
Changes in deferred income taxes	60,957	75,821
Changes in excess tax benefits from share-based payment arrangements	(39)	56
Allowance for equity funds used during construction	(4,131)	(4,817)
Change in cash overdraft	(2,688)	884
Changes in assets and liabilities		
Increase in accounts receivable and unbilled revenues, net	(75,905)	(18,016)
Increase in fuel oil stock	(4,592)	(42,569)
Decrease in accounts, interest and dividends payable	(57,746)	(25,433)
Changes in prepaid and accrued income taxes and utility revenue taxes	40,418	(45,787)
Changes in other assets and liabilities	(87,258)	(5,585)
Net cash provided by operating activities	**101,089**	**176,859**
Cash flows from investing activities		
Available-for-sale investment and mortgage-related securities purchased	(202,061)	(485,495)
Principal repayments on available-for-sale investment and mortgage-related securities	283,931	350,673
Proceeds from sale of available-for-sale investment and mortgage-related securities	32,799	
Net decrease (increase) in loans held for investment	(153,745)	171,242
Proceeds from sale of real estate acquired in settlement of loans	5,298	3,405
Capital expenditures	(148,107)	(124,900)
Contributions in aid of construction	15,106	16,775
Other	(2,923)	1,615
Net cash used in investing activities	**(169,702)**	**(66,685)**
Cash flows from financing activities		
Net increase (decrease) in deposit liabilities	87,429	(100,124)
Net increase (decrease) in short-term borrowings with original maturities of three months or less	26,272	(14,693)
Net increase (decrease) in retail repurchase agreements	614	(51,057)
Proceeds from issuance of long-term debt	125,000	
Repayment of long-term debt	(150,000)	
Changes in excess tax benefits from share-based payment arrangements	39	(56)
Net proceeds from issuance of common stock	14,861	16,672
Common stock dividends	(77,070)	(69,585)
Preferred stock dividends of subsidiaries	(1,417)	(1,417)
Other	(4,283)	(6,348)
Net cash provided by (used in) financing activities	**21,445**	**(226,608)**
Net decrease in cash and cash equivalents	(47,168)	(116,434)
Cash and cash equivalents, beginning of period	330,651	503,922
Cash and cash equivalents, end of period	**$ 283,483**	**$ 387,488**

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

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Hawaiian Electric Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1 • Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (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 included in HEI s Form 10-K for the year ended December 31, 2010 and the unaudited consolidated financial statements and the notes thereto in HEI s Quarterly Reports on SEC Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011.

In the opinion of HEI s management, the accompanying unaudited consolidated financial statements contain all material adjustments required by GAAP to fairly state the Company s financial position as of September 30, 2011 and December 31, 2010, the results of its operations for the three and nine months ended September 30, 2011 and 2010 and cash flows for the nine months ended September 30, 2011 and 2010. 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. When required, certain reclassifications are made to the prior period s consolidated financial statements to conform to the current presentation.

The Consolidated Statement of Cash Flows for the nine months ended September 30, 2010 was corrected to reflect an adjustment of $13 million related to unpaid invoices for electric utility property, plant and equipment that decreased operating cash flows and increased investing cash flows by this amount, but had no impact on the net change in cash and cash equivalents.

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2 • Segment financial information

(in thousands)	Electric Utility	Bank	Other	Total
Three months ended September 30, 2011				
Revenues from external customers	$ 820,218	$ 66,100	$ 37	$ 886,355
Intersegment revenues (eliminations)	36		(36)	
Revenues	820,254	66,100	1	886,355
Income (loss) before income taxes	62,244	23,166	(8,641)	76,769
Income taxes (benefit)	23,787	7,709	(3,602)	27,894
Net income (loss)	38,457	15,457	(5,039)	48,875
Preferred stock dividends of subsidiaries	498		(27)	471
Net income (loss) for common stock	37,959	15,457	(5,012)	48,404
Nine months ended September 30, 2011				
Revenues from external customers	2,194,219	197,731	(643)	2,391,307
Intersegment revenues (eliminations)	108		(108)	
Revenues	2,194,327	197,731	(751)	2,391,307
Income (loss) before income taxes	122,114	68,699	(27,691)	163,122
Income taxes (benefit)	46,446	24,196	(12,942)	57,700
Net income (loss)	75,668	44,503	(14,749)	105,422
Preferred stock dividends of subsidiaries	1,496		(79)	1,417
Net income (loss) for common stock	74,172	44,503	(14,670)	104,005
Tangible assets (at September 30, 2011)	4,350,759	4,811,421	12,941	9,175,121
Three months ended September 30, 2010				
Revenues from external customers	$ 623,090	$ 71,429	$ 22	$ 694,541
Intersegment revenues (eliminations)	36		(36)	
Revenues	623,126	71,429	(14)	694,541
Income (loss) before income taxes	37,197	24,359	(8,251)	53,305
Income taxes (benefit)	14,719	9,066	(3,400)	20,385
Net income (loss)	22,478	15,293	(4,851)	32,920
Preferred stock dividends of subsidiaries	498		(27)	471
Net income (loss) for common stock	21,980	15,293	(4,824)	32,449
Nine months ended September 30, 2010				
Revenues from external customers	1,755,213	213,975	57	1,969,245
Intersegment revenues (eliminations)	119		(119)	
Revenues	1,755,332	213,975	(62)	1,969,245
Income (loss) before income taxes	95,063	71,842	(24,974)	141,931
Income taxes (benefit)	35,893	26,682	(10,898)	51,677
Net income (loss)	59,170	45,160	(14,076)	90,254
Preferred stock dividends of subsidiaries	1,496		(79)	1,417
Net income (loss) for common stock	57,674	45,160	(13,997)	88,837
Tangible assets (at December 31, 2010)	4,285,680	4,707,870	2,905	8,996,455

Intercompany electricity sales of the electric 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 consolidated HECO, 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 electric utility 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.

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3 • Electric utility subsidiary

For consolidated HECO financial information, including its commitments and contingencies, see pages 24 through 36 (HECO and Subsidiaries Consolidated Statements of Income (unaudited) through Note 10).

4 • Bank subsidiary

Selected financial information

American Savings Bank, F.S.B. and Subsidiaries

Consolidated Statements of Income Data (unaudited)

(in thousands)	Three months ended September 30 2011	2010	Nine months ended September 30 2011	2010
Interest and dividend income				
Interest and fees on loans	$ 46,240	$ 49,221	$ 137,985	$ 148,294
Interest and dividends on investment and mortgage-related securities	3,654	3,852	11,216	10,815
Total interest and dividend income	49,894	53,073	149,201	159,109
Interest expense				
Interest on deposit liabilities	2,166	3,390	7,146	11,665
Interest on other borrowings	1,375	1,414	4,124	4,258
Total interest expense	3,541	4,804	11,270	15,923
Net interest income	**46,353**	**48,269**	**137,931**	**143,186**
Provision for loan losses	3,822	5,961	10,927	12,310
Net interest income after provision for loan losses	**42,531**	**42,308**	**127,004**	**130,876**
Noninterest income				
Fee income on deposit liabilities	4,492	6,109	13,540	21,520
Fees from other financial services	7,219	6,781	21,405	19,844
Fee income on other financial products	1,806	1,697	5,340	4,957
Other income	2,689	3,769	8,245	8,545
Total noninterest income	16,206	18,356	48,530	54,866
Noninterest expense				
Compensation and employee benefits	17,646	18,168	53,317	54,477
Occupancy	4,313	4,176	12,841	12,617
Data processing	2,451	2,019	6,479	10,921
Services	1,686	1,544	5,406	5,117
Equipment	1,712	1,600	5,141	4,949
Other expense	7,763	8,798	23,651	25,819
Total noninterest expense	35,571	36,305	106,835	113,900
Income before income taxes	**23,166**	**24,359**	**68,699**	**71,842**
Income taxes	7,709	9,066	24,196	26,682
Net income	**$ 15,457**	**$ 15,293**	**$ 44,503**	**$ 45,160**

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American Savings Bank, F.S.B. and Subsidiaries

Consolidated Balance Sheets Data (unaudited)

(in thousands)	September 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	$ 267,961	$ 204,397
Federal funds sold		1,721
Available-for-sale investment and mortgage-related securities	571,045	678,152
Investment in stock of Federal Home Loan Bank of Seattle	97,764	97,764
Loans receivable held for investment, net	3,622,181	3,489,880
Loans held for sale, at lower of cost or fair value	25,016	7,849
Other	234,506	234,806
Goodwill	82,190	82,190
Total assets	$ 4,900,663	$ 4,796,759
Liabilities and shareholder s equity		
Deposit liabilities noninterest-bearing	$ 951,978	$ 865,642
Deposit liabilities interest-bearing	3,110,823	3,109,730
Other borrowings	237,934	237,319
Other	99,067	90,683
Total liabilities	4,399,802	4,303,374
Common stock	331,678	330,562
Retained earnings	170,614	169,111
Accumulated other comprehensive loss, net of tax benefits	(1,431)	(6,288)
Total shareholder s equity	500,861	493,385
Total liabilities and shareholder s equity	$ 4,900,663	$ 4,796,759
Other assets		
Bank-owned life insurance	$ 120,482	$ 117,565
Premises and equipment, net	56,736	56,495
Prepaid expenses	16,792	18,608
Accrued interest receivable	14,228	14,887
Mortgage-servicing rights	7,052	6,699
Real estate acquired in settlement of loans, net	6,080	4,292
Other	13,136	16,260
	$ 234,506	$ 234,806
Other liabilities		
Accrued expenses	$ 13,469	$ 16,426
Federal and state income taxes payable	38,496	28,372
Cashier s checks	23,741	22,396
Advance payments by borrowers	5,998	10,216
Other	17,363	13,273
	$ 99,067	$ 90,683

Other borrowings consisted of securities sold under agreements to repurchase and advances from the Federal Home Loan Bank (FHLB) of Seattle of $173 million and $65 million, respectively, as of September 30, 2011 and $172 million and $65 million, respectively, as of December 31, 2010.

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.

As of September 30, 2011, ASB had total commitments to borrowers for loan commitments and unused lines and letters of credit of $1.4 billion, including $3 million to lend additional funds to borrowers whose loan terms have been modified in troubled debt restructurings (TDRs).

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Investment and mortgage-related securities portfolio.

Available-for-sale securities. The book value and aggregate fair value by major security type were as follows:

	September 30, 2011				December 31, 2010			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Federal agency obligations	$ 195,614	$ 2,235	$	$ 197,849	$ 317,945	$ 171	$ (2,220)	$ 315,896
Mortgage-related securities FNMA, FHLMC and GNMA	308,901	11,957	(6)	320,852	310,711	9,570	(311)	319,970
Municipal bonds	50,331	2,014	(1)	52,344	43,632	7	(1,353)	42,286
	$ 554,846	$ 16,206	$ (7)	$ 571,045	$ 672,288	$ 9,748	$ (3,884)	$ 678,152

The following table details the contractual maturities of available-for-sale securities. All positions with variable maturities (e.g. callable debentures and mortgage-related securities) are disclosed based upon the bond s contractual maturity. Actual maturities will likely differ from these contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

September 30, 2011 (in thousands)	Amortized Cost	Fair value
Due in one year or less	$ 10,800	$ 10,814
Due after one year through five years	175,614	177,287
Due after five years through ten years	50,465	52,616
Due after ten years	9,066	9,475
	245,945	250,192
Mortgage-related securities-FNMA,FHLMC and GNMA	308,901	320,853
Total available-for-sale securities	$ 554,846	$ 571,045

Gross unrealized losses and fair value. The gross unrealized losses and fair values (for securities held in available for sale by duration of time in which positions have been held in a continuous loss position) were as follows:

	Less than 12 months		12 months or more		Total	
(in thousands)	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
September 30, 2011						
Federal agency obligations	$	$	$	$	$	$
Mortgage-related securities FNMA, FHLMC and GNMA	(6)	9,151			(6)	9,151
Municipal bonds	(1)	4,735			(1)	4,735

	$ (7)	$ 13,886	$	$	$ (7)	$ 13,886
December 31, 2010						
Federal agency obligations	$ (2,220)	$ 205,316	$	$	$ (2,220)	$ 205,316
Mortgage-related securities						
FNMA, FHLMC and GNMA	(311)	30,986			(311)	30,986
Municipal bonds	(1,353)	41,479			(1,353)	41,479
	$ (3,884)	$ 277,781	$	$	$ (3,884)	$ 277,781

The unrealized losses as of December 31, 2010 on ASB s investments in obligations issued by federal agencies were caused by interest rate movements. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. 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 costs bases, which may be at maturity, ASB did not consider these investments to be other-than-temporarily impaired at December 31, 2010.

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

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Allowance for loan losses. ASB must maintain an allowance for loan losses that is adequate to absorb estimated probable credit losses associated with its loan portfolio. The allowance for loan losses consists of an allocated portion, which estimates credit losses for specifically identified loans and pools of loans, and an unallocated portion.

The allowance for loan losses was comprised of the following:

(in thousands)	Residential 1-4 family	Commercial real estate	Home equity line of credit	Residential land	Commercial construction	Residential construction	Commercial loans	Consumer loans	Unallocated	Total
Three months ended September 30, 2011										
Allowance for loan losses:										
Beginning balance	$ 7,529	$ 1,642	$ 3,216	$ 5,025	$ 1,729	$ 5	$ 14,869	$ 3,471	$ 1,797	$ 39,283
Charge-offs	(997)		(871)	(522)			(2,481)	(785)		(5,656)
Recoveries	57		13	114			432	148		764
Provision	211	(14)	1,731	90	170	(1)	1,512	628	(505)	3,822
Ending balance	$ 6,800	$ 1,628	$ 4,089	$ 4,707	$ 1,899	$ 4	$ 14,332	$ 3,462	$ 1,292	$ 38,213
Nine months ended September 30, 2011										
Allowance for loan losses:										
Beginning balance	$ 6,497	$ 1,474	$ 4,269	$ 6,411	$ 1,714	$ 7	$ 16,015	$ 3,325	$ 934	$ 40,646
Charge-offs	(3,692)		(1,233)	(3,312)			(4,254)	(2,303)		(14,794)
Recoveries	90		17	133			732	462		1,434
Provision	3,905	154	1,036	1,475	185	(3)	1,839	1,978	358	10,927
Ending balance	$ 6,800	$ 1,628	$ 4,089	$ 4,707	$ 1,899	$ 4	$ 14,332	$ 3,462	$ 1,292	$ 38,213
As of September 30, 2011										
Allowance for loan losses:										
Ending balance: individually evaluated for impairment	$ 203	$	$	$ 3,247	$	$	$ 1,359	$	$	$ 4,809
Ending balance: collectively evaluated for impairment	$ 6,597	$ 1,628	$ 4,089	$ 1,460	$ 1,899	$ 4	$ 12,973	$ 3,462	$ 1,292	$ 33,404
Financing Receivables:										
Ending balance	$ 1,997,485	$ 320,874	$ 503,205	$ 47,571	$ 42,194	$ 3,191	$ 676,640	$ 83,580	$	$ 3,674,740
Ending balance: individually evaluated for impairment	$ 28,326	$ 13,468	$ 1,255	$ 40,072	$	$	$ 51,561	$ 25	$	$ 134,707
Ending balance: collectively evaluated for impairment	$ 1,969,159	$ 307,406	$ 501,950	$ 7,499	$ 42,194	$ 3,191	$ 625,079	$ 83,555	$	$ 3,540,033
December 31, 2010										
Allowance for loan losses:										
Beginning balance	$ 5,522	$ 861	$ 4,679	$ 4,252	$ 3,068	$ 19	$ 19,498	$ 2,590	$ 1,190	$ 41,679
Charge-offs	(6,142)		(2,517)	(6,487)			(6,261)	(3,408)		(24,815)
Recoveries	744		63	63			1,537	481		2,888
Provision	6,373	613	2,044	8,583	(1,354)	(12)	1,241	3,662	(256)	20,894
Ending balance	$ 6,497	$ 1,474	$ 4,269	$ 6,411	$ 1,714	$ 7	$ 16,015	$ 3,325	$ 934	$ 40,646
	$ 230	$	$	$ 1,642	$	$	$ 1,588	$	$	$ 3,460

Ending balance: individually evaluated for impairment										
Ending balance: collectively evaluated for impairment	$ 6,267	$ 1,474	$ 4,269	$ 4,769	$ 1,714	$ 7	$ 14,427	$ 3,325	$ 934	$ 37,186
Financing Receivables:										
Ending balance	$ 2,087,813	$ 300,689	$ 416,453	$ 65,599	$ 38,079	$ 5,602	$ 551,683	$ 80,138	$	$ 3,546,056
Ending balance: individually evaluated for impairment	$ 34,615	$ 12,156	$ 827	$ 39,631	$	$	$ 28,886	$ 76	$	$ 116,191
Ending balance: collectively evaluated for impairment	$ 2,053,198	$ 288,533	$ 415,626	$ 25,968	$ 38,079	$ 5,602	$ 522,797	$ 80,062	$	$ 3,429,865

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 quality problems so that appropriate steps can be initiated to avoid or minimize future losses. Loans subject to grading include commercial, commercial real estate and commercial construction loans.

A ten-point risk rating system is used to determine loan grade and is based on borrower loan risk. The risk rating is a numerical representation of risk based on the overall assessment of the borrower s financial and operating strength including earnings, operating cash flow, debt service capacity, asset and liability structure,

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competitive issues, experience and quality of management, financial reporting issues and industry/economic factors.

The loan grade categories are:

1- Substantially risk free	6- Acceptable risk
2- Minimal risk	7- Special mention
3- Modest risk	8- Substandard
4- Better than average risk	9- Doubtful
5- Average risk	10- Loss

Grades 1 through 6 are considered pass grades. 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.

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

	September 30, 2011			December 31, 2010		
(in thousands)	Commercial real estate	Commercial construction	Commercial	Commercial real estate	Commercial construction	Commercial
Grade:						
Pass	$ 305,085	$ 42,194	$ 603,367	$ 285,624	$ 38,079	$ 462,078
Special mention	1,217		18,392	526		44,759
Substandard	11,124		50,561	14,539		44,259
Doubtful	3,448		4,320			556
Loss						31
Total	$ 320,874	$ 42,194	$ 676,640	$ 300,689	$ 38,079	$ 551,683

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

(in thousands)	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Current	Total financing receivables	Recorded investment > 90 days and accruing
September 30, 2011							
Real estate loans:							
Residential 1-4 family	$ 7,933	$ 1,756	$ 33,008	$ 42,697	$ 1,954,788	$ 1,997,485	$
Commercial real estate					320,874	320,874	
Home equity line of credit	1,129	510	1,560	3,199	500,006	503,205	
Residential land	720	458	13,468	14,646	32,925	47,571	
Commercial construction					42,194	42,194	
Residential construction					3,191	3,191	
Commercial loans	325	961	2,171	3,457	673,183	676,640	109

Consumer loans		498		338		495		1,331		82,249		83,580	336
Total loans	$	10,605	$	4,023	$	50,702	$	65,330	$	3,609,410	$	3,674,740	$ 445
December 31, 2010													
Real estate loans:													
Residential 1-4 family	$	8,245	$	3,719	$	36,419	$	48,383	$	2,039,430	$	2,087,813	$
Commercial real estate				4				4		300,685		300,689	
Home equity line of credit		1,103		227		1,659		2,989		413,464		416,453	
Residential land		1,543		1,218		16,060		18,821		46,778		65,599	581
Commercial construction										38,079		38,079	
Residential construction										5,602		5,602	
Commercial loans		892		1,317		3,191		5,400		546,283		551,683	64
Consumer loans		629		410		617		1,656		78,482		80,138	320
Total loans	$	12,412	$	6,895	$	57,946	$	77,253	$	3,468,803	$	3,546,056	$ 965

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

(in thousands)	September 30, 2011 Nonaccrual loans	September 30, 2011 Accruing loans 90 days or more past due	December 31, 2010 Nonaccrual loans	December 31, 2010 Accruing loans 90 days or more past due
Real estate loans:				
Residential 1-4 family	$ 33,580	$	$ 36,420	$
Commercial real estate	3,448			
Home equity line of credit	2,205		1,659	
Residential land	15,644		15,479	581
Commercial construction				
Residential construction				
Commercial loans	11,541	109	4,956	64
Consumer loans	219	336	341	320
Total	$ 66,637	$ 445	$ 58,855	$ 965

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

(in thousands)	September 30, 2011 Recorded investment	September 30, 2011 Unpaid principal balance	September 30, 2011 Related Allowance	Three months ended September 30,2011 Average recorded investment	Three months ended September 30,2011 Interest income recognized	Nine months ended September 30,2011 Average recorded investment	Nine months ended September 30,2011 Interest income recognized
With no related allowance recorded							
Real estate loans:							
Residential 1-4 family	$ 20,256	$ 27,762	$	$ 20,325	$ 81	$ 20,007	$ 209
Commercial real estate	13,468	13,468		13,500	244	12,017	575
Home equity line of credit	644	1,360		621	2	617	3
Residential land	30,634	38,601		31,312	427	32,555	1,366
Commercial construction							
Residential construction							
Commercial loans	39,683	40,663		38,523	876	37,668	2,237
Consumer loans							
	$ 104,685	$ 121,854	$	$ 104,281	$ 1,630	$ 102,864	$ 4,390
With an allowance recorded							
Real estate loans:							
Residential 1-4 family	$ 3,539	$ 3,539	$ 203	$ 3,764	$ 45	$ 3,853	$ 154
Commercial real estate							
Home equity line of credit							
Residential land	9,106	9,361	3,247	8,866	171	7,864	487
Commercial construction							
Residential construction							
Commercial loans	11,878	12,700	1,359	11,045	428	8,498	658
Consumer loans							
	$ 24,523	$ 25,600	$ 4,809	$ 23,675	$ 644	$ 20,215	$ 1,299

Total														
Real estate loans:														
Residential 1-4 family	$	23,795	$	31,301	$	203	$	24,089	$	126	$	23,860	$	363
Commercial real estate		13,468		13,468				13,500		244		12,017		575
Home equity line of credit		644		1,360				621		2		617		3
Residential land		39,740		47,962		3,247		40,178		598		40,419		1,853
Commercial construction														
Residential construction														
Commercial loans		51,561		53,363		1,359		49,568		1,304		46,166		2,895
Consumer loans														
	$	129,208	$	147,454	$	4,809	$	127,956	$	2,274	$	123,079	$	5,689

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(in thousands)	December 31, 2010 Recorded investment	Unpaid principal balance	Related allowance	2010 Average recorded investment	Interest income recognized
With no related allowance recorded					
Real estate loans:					
Residential 1-4 family	$ 18,205	$ 24,692	$	$ 14,609	$ 278
Commercial real estate	12,156	12,156		14,276	979
Home equity line of credit					
Residential land	33,777	40,802		29,914	1,499
Commercial construction					
Residential construction					
Commercial loans	22,041	22,041		29,636	1,846
Consumer loans					
	86,179	99,691		88,435	4,602
With an allowance recorded					
Real estate loans:					
Residential 1-4 family	3,917	3,917	230	2,807	175
Commercial real estate					
Home equity line of credit					
Residential land	5,041	5,090	1,642	3,753	327
Commercial construction					
Residential construction					
Commercial loans	6,845	6,845	1,588	2,796	182
Consumer loans					
	15,803	15,852	3,460	9,356	684
Total					
Real estate loans:					
Residential 1-4 family	22,122	28,609	230	17,416	453
Commercial real estate	12,156	12,156		14,276	979
Home equity line of credit					
Residential land	38,818	45,892	1,642	33,667	1,826
Commercial construction					
Residential construction					
Commercial loans	28,886	28,886	1,588	32,432	2,028
Consumer loans					
	$ 101,982	$ 115,543	$ 3,460	$ 97,791	$ 5,286

Troubled debt restructurings. A loan modification is deemed to be a TDR when ASB grants a concession it would not otherwise consider were it not for the borrower s financial difficulty. When a borrower fails to make a required payment on a loan or is in imminent default, ASB takes a number of steps to induce the borrower to cure the delinquency and restore the loan to current status or to avoid payment default. At times, ASB may restructure a loan to help a distressed borrower improve their financial position to eventually be able to fully repay the loan, provided the borrower has demonstrated both the willingness and the ability to handle the modified terms. TDR loans are considered an alternative to foreclosure or liquidation with the goal of minimizing losses to ASB and maximizing recovery.

ASB may consider various types of concessions in granting a TDR including maturity date extensions, temporary deferral of principal payments, temporary interest rate reductions, and covenant amendments or waivers. ASB does not grant principal forgiveness in its TDR modifications. Residential loan modifications generally involve the deferral of principal payments for a period of time not exceeding one year or a temporary reduction of principal and/or interest rate for a period of time generally not exceeding two years. Land loans are typically structured as a three-year term, interest-only monthly payment with a balloon payment due at maturity. Land loan TDR modifications typically involve extending the maturity date another one to three years and converting the payments from interest-only to principal and interest monthly, at the same or higher interest rate. Commercial loan modifications generally involve extensions of maturity dates, amendment or waiver of financial covenants, and to a lesser extent temporary deferral of principal payments. ASB does not reduce the interest rate on commercial loan TDR modifications. Occasionally, additional collateral and/or guaranties are obtained.

All TDR loans are classified impaired and are segregated and reviewed separately when assessing the adequacy of the allowance for loan losses based on the appropriate method of measuring impairment: (1) present

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value of expected future cash flows discounted at the loan s original effective interest rate, (2) fair value of collateral less cost to sell, or (3) observable market price. The financial impact of the calculated impairment amount is an increase to the allowance associated with the modified loan. When available information confirms that specific loans or portions thereof are uncollectible, these amounts are charged off against the allowance for loan losses.

Loan modifications that occurred during the periods presented were as follows:

	Three months ended September 30, 2011			Nine months ended September 30, 2011		
(in thousands)	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Troubled debt restructurings						
Real estate loans:						
Residential 1-4 family	12	$ 3,255	$ 2,922	27	$ 7,186	$ 6,371
Commercial real estate						
Home equity line of credit						
Residential land	7	2,366	2,358	41	8,782	8,772
Commercial loans	11	5,433	5,433	46	32,810	32,810
Consumer loans						
Total	30	$ 11,054	$ 10,713	114	$ 48,778	$ 47,953

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

	Three months ended September 30, 2011		Nine months ended September 30, 2011	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Troubled debt restructurings that subsequently defaulted				
Real estate loans:				
Residential 1-4 family		$		$
Commercial real estate				
Home equity line of credit				
Residential land			1	528
Commercial loans	2	631	3	797
Consumer loans				
Total	2	$ 631	4	$ 1,325

The land loan TDR that subsequently defaulted was modified by extending the maturity date. The three commercial loans that subsequently defaulted were modified by extending the maturity date and deferring principal payments for a short period of time.

Litigation. In March 2011, a purported class action lawsuit was filed by a customer who claimed that ASB had improperly charged overdraft fees on debit card transactions. Management is evaluating the merits of the claims alleged in the lawsuit, which is in its preliminary stage. Thus, the probable outcome and range of potential loss are not determinable.

5 • Retirement benefits

Retirement benefit plan changes. On March 11, 2011, the utilities bargaining unit employees ratified a new benefit agreement, which included changes to retirement benefits. Changes to retirement benefits for HEI and utility employees commencing employment after April 30, 2011 include a modified defined benefit plan (the Retirement Plan for Employees of Hawaiian Electric Industries, Inc. and Participating Subsidiaries) (with a lower payment formula than the formula in the plan for employees hired before May 1, 2011) and the addition of a 50% match by the applicable employer on the first 6% of employee deferrals through the defined contribution plan (under the Hawaiian Electric Industries Retirement Savings Plan (HEIRSP)). In addition, new eligibility rules and contribution levels applicable to existing and new HEI and utility employees were adopted for postretirement welfare benefits. In general, defined pension benefits are based on the employees years of service and compensation.

Defined benefit pension and other postretirement plans information. For the nine months of 2011, HEI contributed $1.2 million (unconsolidated) to its retirement benefit plans, compared to $0.6 million in the first nine

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months of 2010. HEI s current estimate of contributions to its retirement benefit plans in 2011 is $2 million (unconsolidated), compared to $1 million in 2010. In addition, HEI expects to pay directly $1 million (unconsolidated) of benefits in 2011, comparable to 2010. For a discussion of HECO s 2011 estimated contributions to the retirement benefit plans, see Note 4, Retirement benefits, of HECO s Notes to Consolidated Financial Statements.

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

	Three months ended September 30				Nine months ended September 30			
	Pension benefits		Other benefits		Pension benefits		Other benefits	
(in thousands)	2011	2010	2011	2010	2011	2010	2011	2010
Service cost	$ 8,525	$ 7,376	$ 868	$ 1,248	$ 26,266	$ 21,424	$ 3,308	$ 3,539
Interest cost	16,137	16,197	2,273	2,565	48,717	48,330	7,151	7,901
Expected return on plan assets	(17,400)	(17,272)	(2,687)	(2,792)	(51,673)	(51,687)	(7,992)	(8,310)
Amortization of unrecognized transition obligation	1	1			2	2		
Amortization of prior service gain	(98)	(97)	(587)	(83)	(292)	(291)	(1,120)	