HAWAIIAN ELECTRIC INDUSTRIES INC
Form 10-Q
August 11, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2014
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)

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

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

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

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

Large accelerated filer x Large accelerated filer o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date.

Class of Common Stock	Outstanding July 31, 2014
Hawaiian Electric Industries, Inc. (Without Par Value)	102,560,176 Shares
Hawaiian Electric Company, Inc. ($6-2/3 Par Value)	15,429,105 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.

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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 American Savings Holdings, Inc.
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.
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); American Savings Holdings, 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
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
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 clauses
EIP	2010 Equity and Incentive Plan
EGU	Electrical generating unit
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 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
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

GLOSSARY OF TERMS, continued

Terms	Definitions
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse gas
GNMA	Government National Mortgage Association
HCEI	Hawaii Clean Energy Initiative
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.
Hawaii Electric Light	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
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 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
KWH	Kilowatthour
LTIP	Long-term incentive plan
LGD	Loss given default
Maui Electric	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
MW	Megawatt/s (as applicable)
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
RAM	Revenue adjustment mechanism
RBA	Revenue balancing account
RFP	Request for proposals
REIP	Renewable Energy Infrastructure Program
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
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:

- 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, and developments in the Ukraine);
- 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 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 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), and the fulfillment by the 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 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 PUC issued in April 2014, in which the PUC: directed the Utilities to develop, among other things, Power Supply Improvement Plans, a Demand

Response Portfolio Plan and a Distributed Generation Interconnection Plan; described the PUC's inclinations on the future of Hawaii's electric utilities and the vision, business strategies and regulatory policy changes required to align the Utilities' business model with customer interests and the state's public policy goals; and emphasized the need to "leap ahead" of other states in creating a 21st century generation system and modern transmission and distribution grids;

- capacity and supply constraints or difficulties, especially if generating units (utility-owned or IPP-owned) fail or measures such as demand-side management (DSM), distributed generation, combined heat and power or other firm capacity supply-side resources fall short of achieving their forecasted benefits or are otherwise insufficient to reduce or meet peak demand;
- fuel oil price changes, delivery of adequate fuel by suppliers and the continued availability to the electric utilities of their energy cost adjustment clauses (ECACs);
- the continued availability to the electric utilities of other cost recovery mechanisms, including the purchased power adjustment clauses (PPACs), revenue 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;

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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 growing risk that energy production from renewable generating resources may be curtailed and the interconnection of additional resources will be constrained as more generating resources are added to the Utilities' electric systems and as customers reduce their energy usage;
- the ability of IPPs to deliver the firm capacity anticipated in their power purchase agreements (PPAs);
- the ability of the Utilities to negotiate, periodically, favorable agreements for significant resources such as fuel supply contracts and collective bargaining agreements;
- new technological developments that could affect the operations and prospects of HEI, ASB and the Utilities or their competitors;
- 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 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, 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;
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faster than expected loan prepayments that can cause an acceleration of the amortization of premiums on loans and investments and the impairment of mortgage-servicing assets of ASB;

- changes in ASB's loan portfolio credit profile and asset quality which may increase or decrease the required level of provision for loan losses, allowance for loan losses and charge-offs;
- changes in ASB's deposit cost or mix which may have an adverse impact on ASB's cost of funds;
- the final outcome of tax positions taken by HEI, the Utilities and ASB;
- the risks of suffering losses and incurring liabilities that are uninsured (e.g., damages to the Utilities' transmission and distribution system and losses from business interruption) or underinsured (e.g., losses not covered as a result of insurance deductibles or other exclusions or exceeding policy limits); and
- other risks or uncertainties described elsewhere in this report and in other reports (e.g., "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K) previously and subsequently filed by HEI and/or Hawaiian Electric with the Securities and Exchange Commission (SEC).

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three months ended June 30		Six months ended June 30	
(in thousands, except per share amounts)	2014	2013	2014	2013
Revenues				
Electric utility	$738,429	$728,525	$1,458,491	$1,445,966
Bank	60,616	66,027	124,235	130,783
Other	(388)	15	(320)	50
Total revenues	798,657	794,567	1,582,406	1,576,799
Expenses				
Electric utility	668,361	669,550	1,317,757	1,335,870
Bank	43,568	41,322	85,564	84,327
Other	4,453	3,488	8,504	7,570
Total expenses	716,382	714,360	1,411,825	1,427,767
Operating income (loss)				
Electric utility	70,068	58,975	140,734	110,096
Bank	17,048	24,705	38,671	46,456
Other	(4,841)	(3,473)	(8,824)	(7,520)
Total operating income	82,275	80,207	170,581	149,032
Interest expense, net—other than on deposit liabilities and other bank borrowings	(20,022)	(18,442)	(39,478)	(37,173)
Allowance for borrowed funds used during construction	523	398	1,137	1,128
Allowance for equity funds used during construction	1,387	1,560	2,996	2,775
Income before income taxes	64,163	63,723	135,236	115,762
Income taxes	22,269	22,662	46,942	40,549
Net income	41,894	41,061	88,294	75,213
Preferred stock dividends of subsidiaries	473	473	946	946
Net income for common stock	$41,421	$40,588	$87,348	$74,267
Basic earnings per common share	$0.41	$0.41	$0.86	$0.75
Diluted earnings per common share	$0.41	$0.41	$0.86	$0.75
Dividends per common share	$0.31	$0.31	$0.62	$0.62
Weighted-average number of common shares outstanding	101,495	98,660	101,439	98,399
Net effect of potentially dilutive shares	330	589	606	562
Adjusted weighted-average shares	101,825	99,249	102,045	98,961

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 Comprehensive Income (unaudited)

	Three months ended June 30		Six months ended June 30	
(in thousands)	2014	2013	2014	2013
Net income for common stock	$41,421	$40,588	$87,348	$74,267
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on securities:				
Net unrealized gains (losses) on securities arising during the period, net of (taxes) benefits of ($1,679), $5,485, ($3,343) and $6,032 for the respective periods	2,543	(8,307)	5,063	(9,135)
Less: reclassification adjustment for net realized gains included in net income, net of taxes of nil, $488, $1,132 and $488 for the respective periods	—	(738)	(1,715)	(738)
Derivatives qualified as cash flow hedges:				
Less: reclassification adjustment to net income, net of tax benefits of $38, $38, $75 and $75 for the respective periods	59	59	118	118
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 of $1,742, $3,630, $3,632 and $7,476 for the respective periods	2,873	5,680	5,686	11,701
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $1,641, $3,184, $3,239 and $6,568 for the respective periods	(2,575)	(4,999)	(5,085)	(10,312)
Other comprehensive income (loss), net of taxes	2,900	(8,305)	4,067	(8,366)
Comprehensive income attributable to Hawaiian Electric Industries, Inc.	$44,321	$32,283	$91,415	$65,901

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)	June 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$188,377	$220,036
Accounts receivable and unbilled revenues, net	349,771	346,785
Available-for-sale investment and mortgage-related securities	549,321	529,007
Investment in stock of Federal Home Loan Bank of Seattle	80,863	92,546
Loans receivable held for investment, net	4,245,240	4,110,113
Loans held for sale, at lower of cost or fair value	956	5,302
Property, plant and equipment, net of accumulated depreciation of $2,224,728 and $2,192,422 at the respective dates	3,980,096	3,865,514
Regulatory assets	582,645	575,924
Other	557,684	512,627
Goodwill	82,190	82,190
Total assets	$10,617,143	$10,340,044
Liabilities and shareholders' equity		
Liabilities		
Accounts payable	$176,379	$212,331
Interest and dividends payable	25,315	26,716
Deposit liabilities	4,524,860	4,372,477
Short-term borrowings—other than bank	185,175	105,482
Other bank borrowings	242,455	244,514
Long-term debt, net—other than bank	1,517,945	1,492,945
Deferred income taxes	579,222	529,260
Regulatory liabilities	354,980	349,299
Contributions in aid of construction	442,379	432,894
Defined benefit pension and other postretirement benefit plans liability	278,427	288,539
Other	494,834	524,224
Total liabilities	8,821,971	8,578,681
Preferred stock of subsidiaries - not subject to mandatory redemption	34,293	34,293
Commitments and contingencies (Notes 3 and 4)		
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: 101,560,176 shares and 101,259,800 shares at the respective dates	1,493,436	1,488,126
Retained earnings	280,126	255,694
Accumulated other comprehensive loss, net of tax benefits	(12,683)	(16,750)
Total shareholders' equity	1,760,879	1,727,070
Total liabilities and shareholders' equity	$10,617,143	$10,340,044

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

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

	Common stock		Retained	Accumulated other comprehensive	
(in thousands, except per share amounts)	Shares	Amount	Earnings	income (loss)	Total
Balance, December 31, 2013	101,260	$1,488,126	$255,694	$(16,750)	$1,727,070
Net income for common stock	—	—	87,348	—	87,348
Other comprehensive income, net of taxes	—	—	—	4,067	4,067
Issuance of common stock, net	300	5,310	—	—	5,310
Common stock dividends ($0.62 per share)	—	—	(62,916)	—	(62,916)
Balance, June 30, 2014	101,560	$1,493,436	$280,126	$(12,683)	$1,760,879
Balance, December 31, 2012	97,928	$1,403,484	$216,804	$(26,423)	$1,593,865
Net income for common stock	—	—	74,267	—	74,267
Other comprehensive loss, net of tax benefits	—	—	—	(8,366)	(8,366)
Issuance of common stock, net	1,116	25,887	—	—	25,887
Common stock dividends ($0.62 per share)	—	—	(61,004)	—	(61,004)
Balance, June 30, 2013	99,044	$1,429,371	$230,067	$(34,789)	$1,624,649

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)

Six months ended June 30	2014	2013
(in thousands)		
Cash flows from operating activities		
Net income	$88,294	$75,213
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	86,397	79,843
Other amortization	4,014	2,868
Provision for loan losses	2,016	899
Loans receivable originated and purchased, held for sale	(69,656)	(128,276)
Proceeds from sale of loans receivable, held for sale	75,040	148,243
Increase in deferred income taxes	28,252	40,403
Excess tax benefits from share-based payment arrangements	(267)	(445)
Allowance for equity funds used during construction	(2,996)	(2,775)
Change in cash overdraft	(1,038)	—
Changes in assets and liabilities		
Decrease (increase) in accounts receivable and unbilled revenues, net	(2,986)	3,564
Decrease (increase) in fuel oil stock	(27,206)	43,974
Increase in regulatory assets	(17,731)	(37,586)
Decrease in accounts, interest and dividends payable	(64,843)	(43,384)
Change in prepaid and accrued income taxes and utility revenue taxes	(32,510)	(33,822)
Decrease in defined benefit pension and other postretirement benefit plans liability	(1,714)	(330)
Change in other assets and liabilities	(16,871)	(17,597)
Net cash provided by operating activities	46,195	130,792
Cash flows from investing activities		
Available-for-sale investment and mortgage-related securities purchased	(125,531)	(39,721)
Principal repayments on available-for-sale investment and mortgage-related securities	33,202	62,819
Proceeds from sale of available-for-sale investment securities	79,564	71,367
Redemption of stock from Federal Home Loan Bank of Seattle	11,683	1,742
Net increase in loans held for investment	(137,122)	(201,184)
Proceeds from sale of real estate acquired in settlement of loans	2,162	5,712
Capital expenditures	(149,253)	(158,830)
Contributions in aid of construction	13,209	17,188
Other	(16)	622
Net cash used in investing activities	(272,102)	(240,285)
Cash flows from financing activities		
Net increase in deposit liabilities	152,383	46,326
Net increase in short-term borrowings with original maturities of three months or less	79,693	42,093
Net decrease in retail repurchase agreements	(2,053)	(8,054)
Proceeds from other bank borrowings	—	25,000
Repayments of other bank borrowings	—	(25,000)
Proceeds from issuance of long-term debt	125,000	50,000
Repayment of long-term debt	(100,000)	(50,000)
Excess tax benefits from share-based payment arrangements	267	445
Net proceeds from issuance of common stock	3,048	11,994
Common stock dividends	(62,892)	(48,921)
Preferred stock dividends of subsidiaries	(946)	(946)
Other	(252)	606

Net cash provided by financing activities	194,248	43,543
Net decrease in cash and cash equivalents	(31,659)	(65,950)
Cash and cash equivalents, beginning of period	220,036	219,662
Cash and cash equivalents, end of period	$188,377	$153,712

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

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

	Three months ended June 30		Six months ended June 30	
(in thousands)	2014	2013	2014	2013
Revenues	$738,429	$728,525	$1,458,491	$1,445,966
Expenses				
Fuel oil	270,257	289,278	556,557	594,378
Purchased power	188,323	178,444	353,239	331,808
Other operation and maintenance	98,564	94,397	187,170	196,210
Depreciation	41,593	38,590	83,196	76,870
Taxes, other than income taxes	69,624	68,841	137,595	136,604
Total expenses	668,361	669,550	1,317,757	1,335,870
Operating income	70,068	58,975	140,734	110,096
Allowance for equity funds used during construction	1,387	1,560	2,996	2,775
Interest expense and other charges, net	(16,852)	(14,408)	(32,575)	(28,927)
Allowance for borrowed funds used during construction	523	398	1,137	1,128
Income before income taxes	55,126	46,525	112,292	85,072
Income taxes	20,397	17,333	41,644	30,952
Net income	34,729	29,192	70,648	54,120
Preferred stock dividends of subsidiaries	229	229	458	458
Net income attributable to Hawaiian Electric	34,500	28,963	70,190	53,662
Preferred stock dividends of Hawaiian Electric	270	270	540	540
Net income for common stock	$34,230	$28,693	$69,650	$53,122

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)

	Three months ended June 30		Six months ended June 30	
(in thousands)	2014	2013	2014	2013
Net income for common stock	$34,230	$28,693	$69,650	$53,122
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 of $1,647, $3,195, $3,252 and $6,590 for the respective periods	2,588	5,016	5,107	10,347
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $1,641, $3,184, $3,239 and $6,568 for the respective periods	(2,575)	(4,999)	(5,085)	(10,312)
Other comprehensive income, net of taxes	13	17	22	35
Comprehensive income attributable to Hawaiian Electric Company, Inc.	$34,243	$28,710	$69,672	$53,157

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

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

(dollars in thousands, except par value)	June 30, 2014	December 31, 2013
Assets		
Property, plant and equipment		
Utility property, plant and equipment		
Land	$52,010	$51,883
Plant and equipment	5,830,723	5,701,875
Less accumulated depreciation	(2,150,913)	(2,111,229)
Construction in progress	168,280	143,233
Utility property, plant and equipment, net	3,900,100	3,785,762
Nonutility property, plant and equipment, less accumulated depreciation of $1,226 and $1,223 at respective dates	6,564	6,567
Total property, plant and equipment, net	3,906,664	3,792,329
Current assets		
Cash and cash equivalents	12,720	62,825
Customer accounts receivable, net	175,634	175,448
Accrued unbilled revenues, net	141,869	144,124
Other accounts receivable, net	18,915	14,062
Fuel oil stock, at average cost	161,293	134,087
Materials and supplies, at average cost	60,879	59,044
Prepayments and other	61,891	52,857
Regulatory assets	78,945	69,738
Total current assets	712,146	712,185
Other long-term assets		
Regulatory assets	503,700	506,186
Unamortized debt expense	8,905	9,003
Other	68,426	67,426
Total other long-term assets	581,031	582,615
Total assets	$5,199,841	$5,087,129
Capitalization and liabilities		
Capitalization		
Common stock ($6 2/3 par value, authorized 50,000,000 shares; outstanding 15,429,105 shares)	$102,880	$102,880
Premium on capital stock	541,449	541,452
Retained earnings	974,028	948,624
Accumulated other comprehensive income, net of income taxes-retirement benefit plans	630	608
Common stock equity	1,618,987	1,593,564
Cumulative preferred stock — not subject to mandatory redemption	34,293	34,293
Long-term debt, net	1,206,545	1,206,545
Total capitalization	2,859,825	2,834,402
Commitments and contingencies (Note 3)		
Current liabilities		
Current portion of long-term debt	11,400	11,400
Short-term borrowings from non-affiliates	102,989	—
Accounts payable	153,743	189,559
Interest and preferred dividends payable	21,751	21,652
Taxes accrued	216,374	249,445

Regulatory liabilities	789	1,916
Other	64,569	63,881
Total current liabilities	571,615	537,853
Deferred credits and other liabilities		
Deferred income taxes	557,056	507,161
Regulatory liabilities	354,191	347,383
Unamortized tax credits	77,713	73,539
Defined benefit pension and other postretirement benefit plans liability	252,785	262,162
Other	84,277	91,735
Total deferred credits and other liabilities	1,326,022	1,281,980
Contributions in aid of construction	442,379	432,894
Total capitalization and liabilities	$5,199,841	$5,087,129

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)

	Common stock		Premium on capital	Retained	Accumulated other comprehensive	
(in thousands)	Shares	Amount	stock	earnings	income (loss)	Total
Balance, December 31, 2013	15,429	$102,880	$541,452	$948,624	$ 608	$1,593,564
Net income for common stock	—	—	—	69,650	—	69,650
Other comprehensive income, net of taxes	—	—	—	—	22	22
Common stock dividends	—	—	—	(44,246)	—	(44,246)
Common stock issuance expenses	—	—	(3)	—	—	(3)
Balance, June 30, 2014	15,429	$102,880	$541,449	$974,028	$ 630	$1,618,987
Balance, December 31, 2012	14,665	$97,788	$468,045	$907,273	$ (970)	$1,472,136
Net income for common stock	—	—	—	53,122	—	53,122
Other comprehensive income, net of taxes	—	—	—	—	35	35
Common stock dividends	—	—	—	(40,789)	—	(40,789)
Balance, June 30, 2013	14,665	$97,788	$468,045	$919,606	$ (935)	$1,484,504

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

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

Six months ended June 30	2014	2013
(in thousands)		
Cash flows from operating activities		
Net income	$70,648	$54,120
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	83,196	76,870
Other amortization	3,597	2,884
Increase in deferred income taxes	45,386	38,780
Change in tax credits, net	4,227	2,997
Allowance for equity funds used during construction	(2,996)	(2,775)
Change in cash overdraft	(1,038)	—
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	(5,039)	32,253
Decrease (increase) in accrued unbilled revenues	2,255	(4,889)
Decrease (increase) in fuel oil stock	(27,206)	43,974
Increase in materials and supplies	(1,835)	(7,139)
Increase in regulatory assets	(17,731)	(37,586)
Decrease in accounts payable	(63,306)	(41,234)
Change in prepaid and accrued income taxes and utility revenue taxes	(38,270)	(38,123)
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	(498)	989
Change in other assets and liabilities	(26,258)	(9,419)
Net cash provided by operating activities	25,132	111,702
Cash flows from investing activities		
Capital expenditures	(145,734)	(150,251)
Contributions in aid of construction	13,209	17,188
Other	—	623
Net cash used in investing activities	(132,525)	(132,440)
Cash flows from financing activities		
Common stock dividends	(44,246)	(40,789)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(998)	(998)
Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	102,989	53,992
Other	(457)	(9)
Net cash provided by financing activities	57,288	12,196
Net decrease in cash and cash equivalents	(50,105)	(8,542)
Cash and cash equivalents, beginning of period	62,825	17,159
Cash and cash equivalents, end of period	$12,720	$8,617

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, 2013.
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 June 30, 2014 and December 31, 2013, the results of its operations for the three and six months ended June 30, 2014 and 2013, and its cash flows for the six months ended June 30, 2014 and 2013. 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.
Reclassifications and revisions. In the fourth quarter of 2013, Hawaiian Electric changed its consolidated statements of income for 2013 and prior comparative periods from a utility presentation to a commercial company presentation, under which all operating revenues and expenses (including non-regulated revenues and expenses) are included in the determination of operating income. Additionally, income tax expense, which was previously included partially in operating expenses and partially in other income (deductions), is now entirely presented directly above net income in income taxes and includes income taxes related to non-regulated revenues and expenses.
In making the change to a commercial company presentation, the Company discovered that interest on the Utilities' uncollected revenue balancing accounts and the income tax gross-up adjustment for allowance for funds used during construction (AFUDC)-equity were incorrectly included in HEI consolidated revenues and is revising its previously filed quarterly Consolidated Statements of Income for 2013 to move the amounts to "Interest expense, net-other than on deposit liabilities and other bank borrowings" and income taxes, respectively. The Company and the Utilities have also revised their property, plant and equipment as of December 31, 2013 to correct for an error that excluded Hawaiian Electric consolidated non-utility property plant and equipment amounts.

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

(in thousands)	As previously filed	As revised	Difference
HEI consolidated			
Consolidated Statements of Income			
Three months ended June 30, 2013			
Revenues	$796,730	$794,567	$(2,163)
Operating income	82,370	80,207	(2,163)
Interest expense, net—other than on deposit liabilities and other bank borrowings	(19,613)	(18,442)	1,171
Income before income taxes	64,715	63,723	(992)
Income taxes	23,654	22,662	(992)
Six months ended June 30, 2013			
Revenues	1,580,794	1,576,799	(3,995)
Operating income	153,027	149,032	(3,995)
Interest expense, net—other than on deposit liabilities and other bank borrowings	(39,401)	(37,173)	2,228
Income before income taxes	117,529	115,762	(1,767)
Income taxes	42,316	40,549	(1,767)
Consolidated Balance Sheets			
December 31, 2013			
Property, plant and equipment, net of accumulated depreciation	3,858,947	3,865,514	6,567
Accumulated depreciation	(2,191,199)	(2,192,422)	(1,223)
Other assets	519,194	512,627	(6,567)
Hawaiian Electric consolidated			
Consolidated Balance Sheets			
December 31, 2013			
Other assets	73,993	67,426	(6,567)

The reclassifications and revisions made to prior periods' financial statements for the three and six months ended June 30, 2013 and as of December 31, 2013 to conform to the presentation for the three and six months ended, and as of, June 30, 2014 did not affect previously reported net income and cash flows and were not considered material to previously filed financial statements.

2 · Segment financial information

(in thousands)	Electric utility	Bank	Other	Total
Three months ended June 30, 2014				
Revenues from external customers	$738,423	$60,616	$(382)	$798,657
Intersegment revenues (eliminations)	6	—	(6)	—
Revenues	738,429	60,616	(388)	798,657
Income (loss) before income taxes	55,126	17,048	(8,011)	64,163
Income taxes (benefit)	20,397	5,372	(3,500)	22,269
Net income (loss)	34,729	11,676	(4,511)	41,894
Preferred stock dividends of subsidiaries	499	—	(26)	473
Net income (loss) for common stock	34,230	11,676	(4,485)	41,421
Six months ended June 30, 2014				
Revenues from external customers	$1,458,479	$124,235	$(308)	$1,582,406
Intersegment revenues (eliminations)	12	—	(12)	—
Revenues	1,458,491	124,235	(320)	1,582,406
Income (loss) before income taxes	112,292	38,672	(15,728)	135,236
Income taxes (benefit)	41,644	12,457	(7,159)	46,942
Net income (loss)	70,648	26,215	(8,569)	88,294
Preferred stock dividends of subsidiaries	998	—	(52)	946
Net income (loss) for common stock	69,650	26,215	(8,517)	87,348
Assets (at June 30, 2014)	5,199,841	5,418,127	(825)	10,617,143
Three months ended June 30, 2013				
Revenues from external customers	$728,519	$66,027	$21	$794,567
Intersegment revenues (eliminations)	6	—	(6)	—
Revenues	728,525	66,027	15	794,567
Income (loss) before income taxes	46,525	24,705	(7,507)	63,723
Income taxes (benefit)	17,333	8,786	(3,457)	22,662
Net income (loss)	29,192	15,919	(4,050)	41,061
Preferred stock dividends of subsidiaries	499	—	(26)	473
Net income (loss) for common stock	28,693	15,919	(4,024)	40,588
Six months ended June 30, 2013				
Revenues from external customers	$1,445,954	$130,783	$62	$1,576,799
Intersegment revenues (eliminations)	12	—	(12)	—
Revenues	1,445,966	130,783	50	1,576,799
Income (loss) before income taxes	85,072	46,457	(15,767)	115,762
Income taxes (benefit)	30,952	16,383	(6,786)	40,549
Net income (loss)	54,120	30,074	(8,981)	75,213
Preferred stock dividends of subsidiaries	998	—	(52)	946
Net income (loss) for common stock	53,122	30,074	(8,929)	74,267
Assets (at December 31, 2013)	5,087,129	5,243,824	9,091	10,340,044

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.

3 · 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 second quarters of 2014 and 2013 and the six months ended June 30, 2014 and 2013 approximately $64 million, $65 million, $129 million and $129 million, respectively, of revenue taxes in "revenues" and in "taxes, other than income taxes" expense.

Recent tax developments. In September 2013, the Internal Revenue Service (IRS) issued final regulations addressing the acquisition, production and improvement of tangible property, which were effective January 1, 2014. Management does not expect the impact of these new regulations will be material to the Utilities' financial statements since specific guidance on network (i.e., transmission and distribution) assets and generation property had already been received. The IRS also proposed regulations addressing the disposition of property.

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 this guidance through an election in its 2014 tax return, which is expected to result in slightly improved cash flows.

In March 2014, HEI filed with the IRS an application, which requested a change in the method of accounting for revenues recorded to the Utilities' revenue balancing accounts (RBAs) (from an accrual basis to a billed basis) for income tax purposes. On April 28, 2014, the Utilities received approval for this change from the IRS, effective January 1, 2014. HEI will include the effects of this change in its estimated income tax payments for 2014. This change will result in improved cash flows by deferring the payment of income taxes on the RBA revenues recognized until the revenues are billed but will reduce the interest to be accrued on the RBA balance as proposed by the Consumer Advocate.

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 June 30, 2014 and December 31, 2013 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 six months ended June 30, 2014 and 2013 each consisted of $1.7 million of interest income received from the 2004 Debentures; $1.6 million of distributions to holders of the Trust Preferred Securities; and $0.1 million of common dividends on the trust common securities to Hawaiian Electric. 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 June 30, 2014, the Utilities had six PPAs for firm capacity and several other PPAs with variable generation independent power producers (IPPs) and Schedule Q providers (i.e., customers with cogeneration and/or small power production facilities with a capacity of 100 kilowatts (kWs) or less who buy power from or sell power to the Utilities), none of which are currently required to be consolidated as VIEs. The PPAs with AES Hawaii, Inc. (AES Hawaii), Kalaeloa Partners, L.P. (Kalaeloa), Hamakua Energy Partners, L.P. (HEP) and HPOWER comprise approximately 90% of IPP contractual firm capacity available to the Utilities. Purchases from all IPPs were as follows:

	Three months ended June 30		Six months ended June 30	
(in millions)	2014	2013	2014	2013
AES Hawaii	$36	$37	$69	$60
Kalaeloa	74	79	141	143
HEP	8	9	20	20
HPOWER	16	12	32	27
Other IPPs	54	41	91	82
Total IPPs	$188	$178	$353	$332

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 2013, 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 additive component, with an adjustment based on changes in the Gross National Product Implicit Price Deflator, 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 June 30, 2014, Hawaiian Electric's accounts payable to Kalaeloa amounted to $23 million.

Commitments and contingencies.

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 May 19, 2014 the Environmental Protection Agency (EPA) released 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 will be effective 60 days after they are published in the Federal Register. They will apply to the cooling water systems for the steam generating units at Hawaiian Electric's power plants on the island of Oahu. The regulations prescribe a process, including a number of required site-specific studies, for states to develop facility-specific entrainment and impingement controls to be incorporated in the facility's National Pollutant Discharge Elimination System permit. In the case of Hawaiian Electric's power plants, there are a number of studies that have yet to be completed before Hawaiian Electric and the Department of Health of the State of Hawaii (DOH) can determine what entrainment or impingement controls, if any, might be appropriate.

On February 16, 2012, the Federal Register published the EPA's final rule establishing the EPA's National Emission Standards for Hazardous Air Pollutants for fossil-fuel fired steam electrical generating units (EGUs). The final rule, known as the Mercury and Air Toxics Standards (MATS), applies to the 14 EGUs at Hawaiian Electric's power plants. MATS establishes the Maximum Achievable Control Technology standards for the control of hazardous air pollutants emissions from new and existing EGUs. Based on a review of the final rule and the benefits and costs of alternative compliance strategies, Hawaiian Electric has selected a MATS compliance strategy based on switching to lower emission fuels. The use of lower emission fuels will provide for MATS compliance at lower overall costs and avoid the reduction in operational flexibility imposed by emissions control equipment. Hawaiian Electric requested and received a one-year extension, resulting in a MATS compliance date of April 16, 2016. Hawaiian Electric also has pending with the EPA a Petition for Reconsideration and Stay dated April 16, 2012, and a Request for Expedited Consideration dated August 14, 2013. The submittals ask the EPA to revise an emissions standard for non-continental oil-fired EGUs on the grounds that the promulgated standard was incorrectly derived. The Petition and Request submittals to the EPA included additional data to demonstrate that the existing standard is erroneous. Hawaiian Electric has been in contact with the EPA regarding the status of its Petition and does not expect a decision before the end of 2014.

On February 6, 2013, the EPA issued a guidance document titled "Next Steps for Area Designations and Implementation of the Sulfur Dioxide National Ambient Air Quality Standard," which outlines a process that will provide the states additional flexibility and time for their development of one-hour sulfur dioxide (SO_2) National Ambient Air Quality Standard (NAAQS) implementation plans. In May 2014, the EPA published a proposed data requirements rule for states to characterize their air quality in relation to the one-hour SO_2 NAAQS. Under the proposed rule, the EPA expects to designate areas as attaining, or not attaining, the one-hour SO_2 NAAQS in December 2017 or December 2020, depending on whether the area was characterized through modeling or monitoring. Hawaiian Electric will work with the DOH in implementing the one-hour SO_2 NAAQS and in developing cost-effective strategies for NAAQS compliance, if needed.

Depending upon the 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 plan to continue working toward resolving the matter. Hawaii Electric Light and Maui Electric cannot currently estimate the amount or effect of a settlement, if any.

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, 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 June 30, 2014) for the additional investigation and estimated cleanup costs at the Site and the Adjacent Parcel; however, final costs of remediation will depend on the results of continued investigation. Maui Electric received DOH and EPA comments on a draft site investigation plan for site characterization in the fourth quarter of 2013. Management concluded that these comments did not require a change to the reserve balance. Maui Electric provided written responses to the agencies' comments in March 2014, and is currently awaiting approval of those responses by both agencies prior to revising the draft site investigation plan accordingly.

Pearl Harbor sediment study. The Navy is conducting a feasibility study for the remediation of contaminated sediment in Pearl Harbor. In the course of its study, the Navy has identified elevated levels of PCBs in the sediment offshore from the Waiau 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 is also reviewing the study in order to determine the scope of investigation needed to identify the potential source of contamination and develop appropriate remedial actions.

The Navy recently notified Hawaiian Electric of the Navy's determination that Hawaiian Electric is responsible for clean up of the area offshore of the Waiau Power Plant, and the costs incurred by the Navy to investigate the area. The Navy 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.

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 \$0.4 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. The current status of the GHG Tailoring Rule, and any further regulatory action the EPA may take in light of this recent decision, are uncertain.

On January 8, 2014, the EPA published in the Federal Register its new proposal for New Source Performance Standards for GHG from new generating units. The proposed rule on GHG from new EGUs does not apply to oil-fired combustion turbines or diesel engine generators, and is not otherwise expected to have significant impacts on the Utilities.

On June 18, 2014, the EPA published in the Federal Register its proposed rule for GHG emissions from existing power plants. The rule sets interim and final state-wide, state-specific emission performance goals, expressed as lb CO_2/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 no later than June 1, 2015. Hawaiian Electric is still evaluating the proposed rules for GHG emissions from existing, modified, and reconstructed sources, and how they might relate to the recently issued State GHG rules. Hawaiian Electric will participate in the federal GHG rulemaking process, and in the implementation of the State GHG rules, to try to reconcile federal GHG regulation, state GHG regulation, and any action the EPA may take as a result of the recent U.S. Supreme Court opinion, to facilitate clear and cost-effective compliance. The Utilities will continue to evaluate the impact of proposed GHG rules and regulations as they develop. Final regulations may impose significant compliance costs, and may require reductions in fossil fuel use and the addition of renewable energy resources in excess of the requirements of the RPS law.

While the timing, extent and ultimate effects of climate change cannot be determined with any certainty, climate change is predicted to result in sea level rise, which could potentially impact coastal and other low-lying areas (where much of the Utilities' electric infrastructure is sited), and could cause erosion of beaches, saltwater intrusion into aquifers and surface ecosystems, higher water tables and increased flooding and storm damage due to heavy rainfall. The effects of climate change on the weather (for example, floods or hurricanes), sea levels, and water availability and quality have the potential to materially adversely affect the results of operations, financial condition and liquidity of the Utilities. For example, severe weather could cause significant harm to the Utilities' physical facilities.

The Utilities have taken, and continue to identify opportunities to take, direct action to reduce GHG emissions from their operations, including, but not limited to, supporting DSM programs that foster energy efficiency, using renewable resources for energy production and purchasing power from IPPs generated by renewable resources, burning renewable biodiesel in Hawaiian Electric's CIP CT-1, using biodiesel for startup and shutdown of selected Maui Electric generating units, and testing biofuel blends in other Hawaiian Electric and Maui Electric generating units. The Utilities are also working with the State of Hawaii and other entities to pursue the use of liquefied natural gas as a cleaner and lower cost fuel to replace, at least in part, the petroleum oil that would otherwise be used.

Management is unable to evaluate the ultimate impact on the Utilities' 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.

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.

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

	Six months ended June 30	
(in thousands)	2014	2013
Balance, beginning of period	$43,106	$48,431
Accretion expense	643	363

Liabilities incurred	—	—
Liabilities settled	(6,052)	(1,506)
Revisions in estimated cash flows	—	(916)
Balance, end of period	$37,697	$46,372

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 revenue adjustments for certain O&M expenses and rate base changes. The decoupling mechanism has three components: (1) a sales decoupling component via a revenue balancing account (RBA), (2) a revenue escalation component via a revenue adjustment mechanism (RAM) and (3) an earnings sharing mechanism, which would provide for a reduction of revenues between rate cases in the event the utility exceeds the ROACE allowed in its most recent rate case. Decoupling provides for more timely cost recovery and earning on investments. The implementation of decoupling has resulted in an improvement in the Utilities' under-earning situation that has existed over the last several years. Prior to and during the transition to decoupling, however, the Utilities' returns have been below PUC-allowed returns.

On May 31, 2013, as provided for in its original order issued in 2010 approving decoupling and citing three years of implementation experience for Hawaiian Electric, the PUC opened an investigative docket to review whether the decoupling mechanisms are functioning as intended, are fair to the Utilities and their ratepayers, and are in the public interest. The PUC affirmed its support for the continuation of the sales decoupling (RBA) mechanism and stated its interest in evaluating the RAM to ensure it provides the appropriate balance of risks, costs, incentives and performance requirements, as well as administrative efficiency, and whether the current interest rate applied to the outstanding RBA balance is reasonable. The Utilities and the Consumer Advocate were named as parties to this proceeding and filed a joint statement of position that any material changes to the current decoupling mechanism should be made prospectively after 2016, unless the Utilities and the Consumer Advocate mutually agree to the change in this proceeding. The PUC granted several parties' motions to intervene. In October 2013, the PUC issued orders that bifurcated the proceeding (Schedule A and Schedule B) and identified issues and procedural schedules for both Schedules.

Schedule A issues include:

- for the RBA, the reasonableness of the interest rate related to the carrying charge of the outstanding RBA balance and whether there should be a risk sharing adjustment to the RBA;
- for the RAM, whether it is reasonable to true up all actual prior year baseline projects, which are those capital projects less than $2.5 million, at year end or implement alternative methods to calculate the RAM rate base;
- whether a risk sharing mechanism should be incorporated into the RBA;
- whether performance metrics should be determined and reported; and
- whether other factors should be considered if potential changes to existing RBA and RAM provisions are required.

Schedule B issues include:

- whether performance metrics and incentives (rewards or penalties) should be implemented to control costs and encourage the Utilities to make necessary or appropriate changes to strategic and action plans;
- whether the allocation of risk as a result of the decoupling mechanism is fairly reflected in the cost of capital allowed in rates;
- changes or alternatives to the existing RAM; and
- changes to ratemaking procedures to improve efficiency and/or effectiveness.

Oral arguments on Schedule A issues were held in January 2014. On February 7, 2014, the PUC issued a D&O on the Schedule A issues, which made certain modifications to the decoupling mechanism. Specifically, the D&O requires:

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

The D&O required the Utilities to immediately investigate the possibility of deferring the payment of income taxes on the accrued amounts of decoupling revenue, and to report the results with recommendations to the PUC. The PUC reserved the right to determine in the next decoupling and rate case filings whether each Utilities' allowed income taxes should be adjusted for this change. The Utilities updated the PUC on their progress in investigating the tax treatment of the revenues included in the RBA balances and provided information to the PUC concerning the application to the IRS for an accounting methods change to recognize RBA revenues for tax purposes when amounts are billed. On April 28, 2014, the Utilities received approval for this change from the IRS, effective January 1, 2014. This change will reduce the amount of interest to be accrued on the RBA balance as proposed by the Consumer Advocate (see "Recent tax developments" above).

As required, the Utilities developed websites to present certain Schedule A performance metrics and proposed additional performance metrics. These metrics are all currently being reviewed by the PUC and, if approved, will be available to the public.

The Schedule A issues on whether it is reasonable to automatically include all actual prior year capital expenditures on baseline projects in the Rate Base RAM and whether a risk sharing mechanism should be incorporated into the RBA, particularly with respect to the PUC's concerns regarding maintaining and enhancing the Utilities' incentives to control costs and appropriately allocating risk and compensation for risk, will be addressed in the Schedule B proceedings.

On May 20, 2014, the Utilities and other parties filed their respective initial statements of position for the Schedule B issues in this proceeding. Specifically, the Utilities concluded that (1) the existing RAM provision can be modified to address concerns stated by the PUC regarding the review of baseline capital projects and the growth in plant additions, and (2) targeted incentives can be crafted to incentivize the activities identified by the PUC.

The Utilities and other parties are scheduled to file their respective reply statements of position for Schedule B issues in September 2014. The second part of this proceeding will continue with panel hearings scheduled for October 2014. Management cannot predict the outcome of the proceedings or the ultimate impact of the proceedings on the results of operation of the Utilities.

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

Integrated Resource Planning. The PUC did not accept the Utilities' Integrated Resource Plan and Action Plans submission, and, in lieu of an approved plan, has commenced other initiatives to enable resource planning. The PUC also terminated the Utilities' integrated resource planning (IRP) cycle, including the filing of a mid-cycle evaluation report, and formally concluded the IRP advisory group. The PUC directed each of Hawaiian Electric and Maui Electric to file within 120 days its respective Power Supply Improvement Plans (PSIPs). The PSIPs will be reviewed by the PUC in a new docket. The PUC also directed the Utilities to file within 90 days an integrated Demand Response Portfolio Plan. The Utilities' Plan was filed in July 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.
- 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 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.
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 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.

Collectively, these orders confirm the energy policy and operational priorities that will guide the Utilities' strategies and plans going forward.

Subsequent event. 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' RFP for the supply of containerized LNG and will help ensure that liquefaction capacity is available at pricing that management believes will lower customer bills.

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

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

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Income (unaudited)
Three months ended June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$530,991	103,544	103,916	—	(22)	$ 738,429
Expenses						
Fuel oil	195,549	31,179	43,529	—	—	270,257
Purchased power	140,805	28,170	19,348	—	—	188,323
Other operation and maintenance	68,992	14,817	14,755	—	—	98,564
Depreciation	27,300	8,976	5,317	—	—	41,593
Taxes, other than income taxes	49,949	9,757	9,918	—	—	69,624
Total expenses	482,595	92,899	92,867	—	—	668,361
Operating income	48,396	10,645	11,049	—	(22)	70,068
Allowance for equity funds used during construction	1,417	121	(151)	—	—	1,387
Equity in earnings of subsidiaries	9,859	—	—	—	(9,859)	—
Interest expense and other charges, net	(11,553)	(2,852)	(2,469)	—	22	(16,852)
Allowance for borrowed funds used during construction	535	47	(59)	—	—	523
Income before income taxes	48,654	7,961	8,370	—	(9,859)	55,126
Income taxes	14,154	2,982	3,261	—	—	20,397
Net income	34,500	4,979	5,109	—	(9,859)	34,729
Preferred stock dividends of subsidiaries	—	133	96	—	—	229
Net income attributable to Hawaiian Electric	34,500	4,846	5,013	—	(9,859)	34,500
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income for common stock	$34,230	4,846	5,013	—	(9,859)	$ 34,230

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income (unaudited)
Three months ended June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$34,230	4,846	5,013	—	(9,859)	$ 34,230
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	2,588	292	292	—	(584)	2,588
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(2,575)	(292)	(292)	—	584	(2,575)
Other comprehensive income, net of taxes	13	—	—	—	—	13
	$34,243	4,846	5,013	—	(9,859)	$ 34,243

Comprehensive income attributable to common shareholder

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Income (unaudited)
Three months ended June 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$521,576	106,361	100,627	—	(39)	$ 728,525
Expenses						
Fuel oil	203,379	33,569	52,330	—	—	289,278
Purchased power	135,271	29,278	13,895	—	—	178,444
Other operation and maintenance	68,558	14,477	11,361	1	—	94,397
Depreciation	25,001	8,547	5,042	—	—	38,590
Taxes, other than income taxes	49,357	9,965	9,519	—	—	68,841
Total expenses	481,566	95,836	92,147	1	—	669,550
Operating income (loss)	40,010	10,525	8,480	(1)	(39)	58,975
Allowance for equity funds used during construction	1,247	192	121	—	—	1,560
Equity in earnings of subsidiaries	8,667	—	—	—	(8,667)	—
Interest expense and other charges, net	(9,250)	(2,791)	(2,406)	—	39	(14,408)
Allowance for borrowed funds used during construction	342	43	13	—	—	398
Income (loss) before income taxes	41,016	7,969	6,208	(1)	(8,667)	46,525
Income taxes	12,053	2,956	2,324	—	—	17,333
Net income (loss)	28,963	5,013	3,884	(1)	(8,667)	29,192
Preferred stock dividends of subsidiaries	—	133	96	—	—	229
Net income (loss) attributable to Hawaiian Electric	28,963	4,880	3,788	(1)	(8,667)	28,963
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income (loss) for common stock	$28,693	4,880	3,788	(1)	(8,667)	$ 28,693

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income (Loss) (unaudited)
Three months ended June 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income (loss) for common stock	$28,693	4,880	3,788	(1)	(8,667)	$ 28,693
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	5,016	681	622	—	(1,303)	5,016
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(4,999)	(680)	(623)	—	1,303	(4,999)
	17	1	(1)	—	—	17

Other comprehensive income (loss), net of taxes						
Comprehensive income (loss) attributable to common shareholder	$28,710	4,881	3,787	(1)	(8,667)	$ 28,710

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Income (unaudited)
Six months ended June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$1,043,446	208,475	206,609	—	(39)	$1,458,491
Expenses						
Fuel oil	399,096	62,679	94,782	—	—	556,557
Purchased power	264,774	57,661	30,804	—	—	353,239
Other operation and maintenance	127,507	28,864	30,799	—	—	187,170
Depreciation	54,601	17,951	10,644	—	—	83,196
Taxes, other than income taxes	98,133	19,520	19,942	—	—	137,595
Total expenses	944,111	186,675	186,971	—	—	1,317,757
Operating income	99,335	21,800	19,638	—	(39)	140,734
Allowance for equity funds used during construction	2,889	186	(79)	—	—	2,996
Equity in earnings of subsidiaries	18,776	—	—	—	(18,776)	—
Interest expense and other charges, net	(22,040)	(5,600)	(4,974)	—	39	(32,575)
Allowance for borrowed funds used during construction	1,094	72	(29)	—	—	1,137
Income before income taxes	100,054	16,458	14,556	—	(18,776)	112,292
Income taxes	29,864	6,184	5,596	—	—	41,644
Net income	70,190	10,274	8,960	—	(18,776)	70,648
Preferred stock dividends of subsidiaries	—	267	191	—	—	458
Net income attributable to Hawaiian Electric	70,190	10,007	8,769	—	(18,776)	70,190
Preferred stock dividends of Hawaiian Electric	540	—	—	—	—	540
Net income for common stock	$69,650	10,007	8,769	—	(18,776)	$69,650

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income (unaudited)
Six months ended June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$69,650	10,007	8,769	—	(18,776)	$ 69,650
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	5,107	636	545	—	(1,181)	5,107
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(5,085)	(636)	(545)	—	1,181	(5,085)
Other comprehensive income, net of taxes	22	—	—	—	—	22
	$69,672	10,007	8,769	—	(18,776)	$ 69,672

Comprehensive income attributable to common shareholder

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Income (unaudited)
Six months ended June 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$1,028,634	212,373	205,026	—	(67)	$1,445,966
Expenses						
Fuel oil	425,346	66,505	102,527	—	—	594,378
Purchased power	246,426	59,400	25,982	—	—	331,808
Other operation and maintenance	140,976	29,365	25,868	1	—	196,210
Depreciation	49,708	17,094	10,068	—	—	76,870
Taxes, other than income taxes	97,501	19,656	19,447	—	—	136,604
Total expenses	959,957	192,020	183,892	1	—	1,335,870
Operating income (loss)	68,677	20,353	21,134	(1)	(67)	110,096
Allowance for equity funds used during construction	2,230	330	215	—	—	2,775
Equity in earnings of subsidiaries	19,652	—	—	—	(19,652)	—
Interest expense and other charges, net	(18,840)	(5,646)	(4,508)	—	67	(28,927)
Allowance for borrowed funds used during construction	910	135	83	—	—	1,128
Income (loss) before income taxes	72,629	15,172	16,924	(1)	(19,652)	85,072
Income taxes	18,967	5,605	6,380	—	—	30,952
Net income (loss)	53,662	9,567	10,544	(1)	(19,652)	54,120
Preferred stock dividends of subsidiaries	—	267	191	—	—	458
Net income (loss) attributable to Hawaiian Electric	53,662	9,300	10,353	(1)	(19,652)	53,662
Preferred stock dividends of Hawaiian Electric	540	—	—	—	—	540
Net income (loss) for common stock	$53,122	9,300	10,353	(1)	(19,652)	$53,122

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income (Loss) (unaudited)
Six months ended June 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income (loss) for common stock	$53,122	9,300	10,353	(1)	(19,652)	$ 53,122
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	10,347	1,440	1,279	—	(2,719)	10,347
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(10,312)	(1,441)	(1,279)	—	2,720	(10,312)

Other comprehensive income (loss), net of taxes	35	(1)	—	—	1	35
Comprehensive income (loss) attributable to common shareholder	$53,157	9,299	10,353	(1)	(19,651)	$ 53,157

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Balance Sheet (unaudited)
June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consoli-dating adjustments	Hawaiian Electric Consolidated
Assets						
Property, plant and equipment						
Utility property, plant and equipment						
Land	$43,530	5,464	3,016	—	—	$52,010
Plant and equipment	3,655,958	1,147,841	1,026,924	—	—	5,830,723
Less accumulated depreciation	(1,239,994)	(465,966)	(444,953)	—	—	(2,150,913)
Construction in progress	139,149	14,669	14,462	—	—	168,280
Utility property, plant and equipment, net	2,598,643	702,008	599,449	—	—	3,900,100
Nonutility property, plant and equipment, less accumulated depreciation	4,951	82	1,531	—	—	6,564
Total property, plant and equipment, net	2,603,594	702,090	600,980	—	—	3,906,664
Investment in wholly owned subsidiaries, at equity	529,461	—	—	—	(529,461)	—
Current assets						
Cash and cash equivalents	8,106	1,754	2,759	101	—	12,720
Advances to affiliates	23,600	—	—	—	(23,600)	—
Customer accounts receivable, net	122,400	27,465	25,769	—	—	175,634
Accrued unbilled revenues, net	106,694	17,452	17,723	—	—	141,869
Other accounts receivable, net	20,095	6,415	2,052	—	(9,647)	18,915
Fuel oil stock, at average cost	123,070	12,517	25,706	—	—	161,293
Materials and supplies, at average cost	37,606	7,129	16,144	—	—	60,879
Prepayments and other	43,057	7,185	11,900	—	(251)	61,891
Regulatory assets	64,210	6,947	7,788	—	—	78,945
Total current assets	548,838	86,864	109,841	101	(33,498)	712,146
Other long-term assets						
Regulatory assets	380,993	64,159	58,548	—	—	503,700
Unamortized debt expense	6,020	1,532	1,353	—	—	8,905
Other	42,662	11,565	14,199	—	—	68,426
Total other long-term assets	429,675	77,256	74,100	—	—	581,031
Total assets	$4,111,568	866,210	784,921	101	(562,959)	$5,199,841
Capitalization and liabilities						
Capitalization						
Common stock equity	$1,618,987	278,995	250,365	101	(529,461)	$1,618,987
Cumulative preferred stock—not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	830,546	189,999	186,000	—	—	1,206,545
Total capitalization	2,471,826	475,994	441,365	101	(529,461)	2,859,825
Current liabilities						
Current portion of long-term debt	—	11,400	—	—	—	11,400
Short-term borrowings from non-affiliates	102,989	—	—	—	—	102,989

Short-term borrowings from affiliate	—	3,400	20,200	—	(23,600)	—
Accounts payable	114,803	18,434	20,506	—	—	153,743
Interest and preferred dividends payable	14,827	4,177	2,755	—	(8)	21,751
Taxes accrued	150,709	33,058	32,858	—	(251)	216,374
Regulatory liabilities	453	—	336	—	—	789
Other	49,370	9,391	15,447	—	(9,639)	64,569
Total current liabilities	433,151	79,860	92,102	—	(33,498)	571,615
Deferred credits and other liabilities						
Deferred income taxes	399,826	84,147	73,083	—	—	557,056
Regulatory liabilities	240,533	79,990	33,668	—	—	354,191
Unamortized tax credits	48,386	14,668	14,659	—	—	77,713
Defined benefit pension and other postretirement benefit plans liability	195,599	26,952	30,234		—	252,785
Other	57,397	13,821	13,059	—	—	84,277
Total deferred credits and other liabilities	941,741	219,578	164,703	—	—	1,326,022
Contributions in aid of construction	264,850	90,778	86,751	—	—	442,379
Total capitalization and liabilities	$4,111,568	866,210	784,921	101	(562,959)	$5,199,841

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Balance Sheet (unaudited)
December 31, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consoli-dating adjustments	Hawaiian Electric Consolidated
Assets						
Property, plant and equipment						
Utility property, plant and equipment						
Land	$43,407	5,460	3,016	—	—	$51,883
Plant and equipment	3,558,569	1,136,923	1,006,383	—	—	5,701,875
Less accumulated depreciation	(1,222,129)	(453,721)	(435,379)	—	—	(2,111,229)
Construction in progress	124,494	7,709	11,030	—	—	143,233
Utility property, plant and equipment, net	2,504,341	696,371	585,050	—	—	3,785,762
Nonutility property, plant and equipment, less accumulated depreciation	4,953	82	1,532	—	—	6,567
Total property, plant and equipment, net	2,509,294	696,453	586,582	—	—	3,792,329
Investment in wholly owned subsidiaries, at equity	523,674	—	—	—	(523,674)	—
Current assets						
Cash and cash equivalents	61,245	1,326	153	101	—	62,825
Advances to affiliates	6,839	1,000	—	—	(7,839)	—
Customer accounts receivable, net	121,282	28,088	26,078	—	—	175,448
Accrued unbilled revenues, net	107,752	17,100	19,272	—	—	144,124
Other accounts receivable, net	16,373	4,265	2,451	—	(9,027)	14,062
Fuel oil stock, at average cost	99,613	14,178	20,296	—	—	134,087
Materials and supplies, at average cost	37,377	6,883	14,784	—	—	59,044
Prepayments and other	29,798	8,334	16,140	—	(1,415)	52,857
Regulatory assets	54,979	6,931	7,828	—	—	69,738
Total current assets	535,258	88,105	107,002	101	(18,281)	712,185
Other long-term assets						
Regulatory assets	381,346	64,552	60,288	—	—	506,186
Unamortized debt expense	6,051	1,580	1,372	—	—	9,003
Other	42,163	11,270	13,993	—	—	67,426
Total other long-term assets	429,560	77,402	75,653	—	—	582,615
Total assets	$3,997,786	861,960	769,237	101	(541,955)	$5,087,129
Capitalization and liabilities						
Capitalization						
Common stock equity	$1,593,564	274,802	248,771	101	(523,674)	$1,593,564
Cumulative preferred stock—not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	830,547	189,998	186,000	—	—	1,206,545
Total capitalization	2,446,404	471,800	439,771	101	(523,674)	2,834,402
Current liabilities						
Current portion of long-term debt	—	11,400	—	—	—	11,400
Short-term borrowings from affiliate	1,000	—	6,839	—	(7,839)	—
Accounts payable	145,062	24,383	20,114	—	—	189,559

Interest and preferred dividends payable	15,190	3,885	2,585	—	(8)	21,652
Taxes accrued	175,790	37,899	37,171	—	(1,415)	249,445
Regulatory liabilities	1,705	—	211	—	—	1,916
Other	48,443	9,033	15,424	—	(9,019)	63,881
Total current liabilities	387,190	86,600	82,344	—	(18,281)	537,853
Deferred credits and other liabilities						
Deferred income taxes	359,621	79,947	67,593	—	—	507,161
Regulatory liabilities	235,786	76,475	35,122	—	—	347,383
Unamortized tax credits	44,931	14,245	14,363	—	—	73,539
Defined benefit pension and other postretirement benefit plans liability	202,396	28,427	31,339	—	—	262,162
Other	63,374	14,703	13,658	—	—	91,735
Total deferred credits and other liabilities	906,108	213,797	162,075	—	—	1,281,980
Contributions in aid of construction	258,084	89,763	85,047	—	—	432,894
Total capitalization and liabilities	$3,997,786	861,960	769,237	101	(541,955)	$5,087,129

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Changes in Common Stock Equity (unaudited)
Six months ended June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Balance, December 31, 2013	$1,593,564	274,802	248,771	101	(523,674)	$1,593,564
Net income for common stock	69,650	10,007	8,769	—	(18,776)	69,650
Other comprehensive income, net of taxes	22	—	—	—	—	22
Common stock dividends	(44,246)	(5,813)	(7,175)	—	12,988	(44,246)
Common stock issuance expenses	(3)	(1)	—	—	1	(3)
Balance, June 30, 2014	$1,618,987	278,995	250,365	101	(529,461)	$1,618,987

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Changes in Common Stock Equity (unaudited)
Six months ended June 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Balance, December 31, 2012	$1,472,136	268,908	228,927	104	(497,939)	$1,472,136
Net income (loss) for common stock	53,122	9,300	10,353	(1)	(19,652)	53,122
Other comprehensive income (loss), net of taxes	35	(1)	—	—	1	35
Common stock dividends	(40,789)	(7,194)	(7,008)	—	14,202	(40,789)
Balance, June 30, 2013	$1,484,504	271,013	232,272	103	(503,388)	$1,484,504

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Cash Flows (unaudited)
Six months ended June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income	$70,190	10,274	8,960	—	(18,776)	$70,648
Adjustments to reconcile net income to net cash provided by operating activities:						
Equity in earnings of subsidiaries	(18,826)	—	—	—	18,776	(50)
Common stock dividends received from subsidiaries	13,038	—	—	—	(12,988)	50
Depreciation of property, plant and equipment	54,601	17,951	10,644	—	—	83,196
Other amortization	554	1,299	1,744	—	—	3,597
Increase in deferred income taxes	34,976	4,478	5,932	—	—	45,386
Change in tax credits, net	3,482	434	311	—	—	4,227
Allowance for equity funds used during construction	(2,889)	(186)	79	—	—	(2,996)
Change in cash overdraft	—	—	(1,038)	—	—	(1,038)
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	(4,840)	(1,527)	708	—	620	(5,039)
Decrease (increase) in accrued unbilled revenues	1,058	(352)	1,549	—	—	2,255
Decrease (increase) in fuel oil stock	(23,457)	1,661	(5,410)	—	—	(27,206)
Increase in materials and supplies	(229)	(246)	(1,360)	—	—	(1,835)
Increase in regulatory assets	(15,893)	(1,640)	(198)	—	—	(17,731)
Decrease in accounts payable	(54,777)	(5,621)	(2,908)	—	—	(63,306)
Change in prepaid and accrued income and utility revenue taxes	(33,867)	(3,709)	(694)	—	—	(38,270)
Decrease in defined benefit pension and other postretirement benefit plans liability	(281)	—	(217)	—	—	(498)
Change in other assets and liabilities	(19,897)	(2,586)	(3,155)	—	(620)	(26,258)
Net cash provided by operating activities	2,943	20,230	14,947	—	(12,988)	25,132
Cash flows from investing activities						
Capital expenditures	(104,710)	(20,567)	(20,457)	—	—	(145,734)
Contributions in aid of construction	8,520	2,493	2,196	—	—	13,209
Advances from (to) affiliates	(16,761)	1,000	—	—	15,761	—
Net cash used in investing activities	(112,951)	(17,074)	(18,261)	—	15,761	(132,525)
Cash flows from financing activities						
Common stock dividends	(44,246)	(5,813)	(7,175)	—	12,988	(44,246)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(540)	(267)	(191)	—	—	(998)
	101,989	3,400	13,361	—	(15,761)	102,989

Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less						
Other	(334)	(48)	(75)	—	—	(457)
Net cash provided by (used in) financing activities	56,869	(2,728)	5,920	—	(2,773)	57,288
Net increase (decrease) in cash and cash equivalents	(53,139)	428	2,606	—	—	(50,105)
Cash and cash equivalents, beginning of period	61,245	1,326	153	101	—	62,825
Cash and cash equivalents, end of period	$8,106	1,754	2,759	101	—	$12,720

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Cash Flows (unaudited)
Six months ended June 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income (loss)	$53,662	9,567	10,544	(1)	(19,652)	$54,120
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Equity in earnings of subsidiaries	(19,702)	—	—	—	19,652	(50)
Common stock dividends received from subsidiaries	14,227	—	—	—	(14,202)	25
Depreciation of property, plant and equipment	49,708	17,094	10,068	—	—	76,870
Other amortization	(160)	716	2,328	—	—	2,884
Increase in deferred income taxes	27,560	5,584	5,636	—	—	38,780
Change in tax credits, net	2,598	70	329	—	—	2,997
Allowance for equity funds used during construction	(2,230)	(330)	(215)	—	—	(2,775)
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	35,431	(2,281)	(318)	—	(579)	32,253
Decrease (increase) in accrued unbilled revenues	(2,095)	(2,848)	54	—	—	(4,889)
Decrease (increase) in fuel oil stock	38,428	5,812	(266)	—	—	43,974
Increase in materials and supplies	(4,069)	(1,480)	(1,590)	—	—	(7,139)
Increase in regulatory assets	(25,647)	(4,852)	(7,087)	—	—	(37,586)
Decrease in accounts payable	(36,971)	(2,513)	(1,750)	—	—	(41,234)
Change in prepaid and accrued income and utility revenue taxes	(25,831)	(6,171)	(6,121)	—	—	(38,123)
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	1,163	(128)	(46)	—	—	989
Change in other assets and liabilities	(12,731)	(3,171)	5,929	—	579	(9,394)
Net cash provided by (used in) operating activities	93,341	15,069	17,495	(1)	(14,202)	111,702
Cash flows from investing activities						
Capital expenditures	(104,846)	(22,367)	(23,038)	—	—	(150,251)
Contributions in aid of construction	11,924	4,270	994	—	—	17,188
Other	623	—	—	—		623
Advances from (to) affiliates	(8,600)	8,450	—	—	150	—
Net cash used in investing activities	(100,899)	(9,647)	(22,044)	—	150	(132,440)
Cash flows from financing activities						
Common stock dividends	(40,789)	(7,194)	(7,008)	—	14,202	(40,789)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(540)	(267)	(191)	—	—	(998)
Net increase in short-term borrowings from non-affiliates and affiliate with	45,542	—	8,600	—	(150)	53,992

original maturities of three months or less						
Other	(6)	(1)	(2)	—	—	(9)
Net cash provided by (used in) financing activities	4,207	(7,462)	1,399	—	14,052	12,196
Net decrease in cash and cash equivalents	(3,351)	(2,040)	(3,150)	(1)	—	(8,542)
Cash and cash equivalents, beginning of period	8,265	5,441	3,349	104	—	17,159
Cash and cash equivalents, end of period	$4,914	3,401	199	103	—	$8,617

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

(in thousands)	Three months ended June 30 2014	Three months ended June 30 2013	Six months ended June 30 2014	Six months ended June 30 2013
Interest and dividend income				
Interest and fees on loans	$43,851	$43,624	$87,533	$86,227
Interest and dividends on investment and mortgage-related securities	2,950	3,234	5,985	6,698
Total interest and dividend income	46,801	46,858	93,518	92,925
Interest expense				
Interest on deposit liabilities	1,237	1,296	2,462	2,608
Interest on other borrowings	1,420	1,178	2,825	2,342
Total interest expense	2,657	2,474	5,287	4,950
Net interest income	44,144	44,384	88,231	87,975
Provision (credit) for loan losses	1,021	(959)	2,016	899
Net interest income after provision (credit) for loan losses	43,123	45,343	86,215	87,076
Noninterest income				
Fees from other financial services	5,217	7,996	10,345	15,639
Fee income on deposit liabilities	4,645	4,433	9,066	8,747
Fee income on other financial products	2,064	1,780	4,354	3,574
Mortgage banking income	246	2,003	874	5,349
Gain on sale of securities	—	1,226	2,847	1,226
Other income, net	1,643	1,731	3,231	3,323
Total noninterest income	13,815	19,169	30,717	37,858
Noninterest expense				
Compensation and employee benefits	19,872	20,063	40,158	40,151
Occupancy	4,489	4,219	8,442	8,342
Data processing	2,971	2,827	6,031	5,814
Services	2,855	2,328	5,128	4,431
Equipment	1,609	1,870	3,254	3,644
Other expense	8,094	8,500	15,247	16,095
Total noninterest expense	39,890	39,807	78,260	78,477
Income before income taxes	17,048	24,705	38,672	46,457
Income taxes	5,372	8,786	12,457	16,383
Net income	$11,676	$15,919	$26,215	$30,074

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

(in thousands)	Three months ended June 30 2014	Three months ended June 30 2013	Six months ended June 30 2014	Six months ended June 30 2013
Net income	$11,676	$15,919	$26,215	$30,074
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on securities:				
Net unrealized gains (losses) on securities arising during the period, net of (taxes) benefits of ($1,679), $5,485, ($3,343) and $6,032 for the respective periods	2,543	(8,307)	5,063	(9,135)
	—	(738)	(1,715)	(738)

Less: reclassification adjustment for net realized gains included in net income, net of taxes of nil, $488, $1,132 and $488 for the respective periods				
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 $142, $308, $286 and $1,732 for the respective periods	215	466	434	2,623
Other comprehensive income (loss), net of taxes	2,758	(8,579)	3,782	(7,250)
Comprehensive income	$14,434	$7,340	$29,997	$22,824

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

(in thousands)	June 30, 2014		December 31, 2013	
Assets				
Cash and cash equivalents		$174,950		$156,603
Available-for-sale investment and mortgage-related securities		549,321		529,007
Investment in stock of Federal Home Loan Bank of Seattle		80,863		92,546
Loans receivable held for investment		4,287,612		4,150,229
Allowance for loan losses		(42,372)		(40,116)
Loans receivable held for investment, net		4,245,240		4,110,113
Loans held for sale, at lower of cost or fair value		956		5,302
Other		284,607		268,063
Goodwill		82,190		82,190
Total assets		$5,418,127		$5,243,824
Liabilities and shareholder’s equity				
Deposit liabilities—noninterest-bearing		$1,301,758		$1,214,418
Deposit liabilities—interest-bearing		3,223,102		3,158,059
Other borrowings		242,455		244,514
Other		116,953		105,679
Total liabilities		4,884,268		4,722,670
Commitments and contingencies (see “Litigation” below)				
Common stock		337,262		336,054
Retained earnings		205,012		197,297
Accumulated other comprehensive loss, net of tax benefits				
Net unrealized losses on securities	$(315)		$(3,663)	
Retirement benefit plans	(8,100)	(8,415)	(8,534)	(12,197)
Total shareholder’s equity		533,859		521,154
Total liabilities and shareholder’s equity		$5,418,127		$5,243,824
Other assets				
Bank-owned life insurance		$131,959		$129,963
Premises and equipment, net		68,254		67,766
Prepaid expenses		3,878		3,616
Accrued interest receivable		13,354		13,133
Mortgage-servicing rights		11,605		11,687
Low-income housing equity investments		23,820		14,543
Real estate acquired in settlement of loans, net		1,045		1,205
Other		30,692		26,150
		$284,607		$268,063
Other liabilities				
Accrued expenses		$24,440		$19,989
Federal and state income taxes payable		38,940		37,807
Cashier’s checks		21,286		21,110
Advance payments by borrowers		9,852		9,647
Other		22,435		17,126

	$116,953	$105,679

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

ASB invests, as a limited partner, in Low-Income Housing Tax Credit (LIHTC) investment partnerships formed for the purpose of providing funding for affordable multifamily rental properties. These properties are rented to qualified low-income tenants, pursuant to Section 42 of the Internal Revenue Code, allowing the properties to be eligible for federal and, for some properties, state tax credits. ASB realizes a return on its investment through reductions in income tax expense that result from tax credits and the deductibility of the operating losses of these partnerships. The partnership agreements are typically structured to meet a required 15-year period of occupancy by qualified low-income tenants. ASB's maximum exposure to loss is equal to its legally binding equity commitments adjusted for recorded impairment, partnership results, and/or proportional amortization for qualifying low income housing tax credit investments, where applicable.

Other borrowings consisted of securities sold under agreements to repurchase and advances from the Federal Home Loan Bank (FHLB) of Seattle of $142 million and $100 million, respectively, as of June 30, 2014 and $145 million and $100 million, respectively, as of December 31, 2013.

Investment and mortgage-related securities portfolio.

Available-for-sale securities. The book value (amortized cost), gross unrealized gains and losses, estimated fair value and gross unrealized losses (fair value and amount by duration of time in which positions have been held in a continuous loss position) for securities held in ASB's "available-for-sale" portfolio by major security type were as follows:

(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Gross unrealized losses Less than 12 months Fair value	Amount	12 months or longer Fair value	Amount
June 30, 2014								
U.S. Treasury and federal agency obligations	$102,472	$889	$(1,332)	$102,029	$14,950	$(79)	$29,443	$(1,253)
Mortgage-related securities- FNMA, FHLMC and GNMA	447,373	6,529	(6,610)	447,292	72,721	(443)	154,149	(6,167)
Municipal bonds	—	—	—	—	—	—	—	—
	$549,845	$7,418	$(7,942)	$549,321	$87,671	$(522)	$183,592	$(7,420)
December 31, 2013								
Federal agency obligations	$83,193	$174	$(2,394)	$80,973	$70,779	$(2,394)	$—	$—
Mortgage-related securities- FNMA, FHLMC and GNMA	374,993	4,911	(10,460)	369,444	228,543	(8,819)	19,655	(1,641)
Municipal bonds	76,904	1,826	(140)	78,590	14,478	(140)	—	—
	$535,090	$6,911	$(12,994)	$529,007	$313,800	$(11,353)	$19,655	$(1,641)

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 June 30, 2014.

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

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 have the right to prepay obligations with or without prepayment penalties.

June 30, 2014 (in thousands)	Amortized cost	Fair value

Due in one year or less	$—	$—
Due after one year through five years	44,492	44,538
Due after five years through ten years	32,303	32,839
Due after ten years	25,677	24,652
	102,472	102,029
Mortgage-related securities-FNMA,FHLMC and GNMA	447,373	447,292
Total available-for-sale securities	$549,845	$549,321

Allowance for loan losses. ASB maintains an allowance for loan losses that it believes is adequate to absorb losses inherent in its loan portfolio. The level of allowance for loan losses is based on a continuing assessment of existing risks in the loan portfolio, historical loss experience, changes in collateral values and current conditions (e.g., economic conditions, real estate market conditions and interest rate environment). The allowance for loan losses is allocated to loan types using both a formula-based approach applied to groups of loans and an analysis of certain individual loans for impairment. The formula-based approach emphasizes loss factors primarily derived from actual historical default and loss rates, which are combined with an assessment of certain qualitative factors to determine the allowance amounts allocated to the various loan categories. Adverse changes in any of these factors could result in higher charge-offs and provision for loan losses.

ASB disaggregates its portfolio loans into portfolio segments for purposes of determining the allowance for loan losses. Commercial and commercial real estate loans are defined as non-homogeneous loans and ASB utilizes a risk rating system for evaluating the credit quality of the loans. Loans are rated based on the degree of risk at origination and periodically thereafter, as appropriate. Values are applied separately to the probability of default (borrower risk) and loss given default (transaction risk). ASB’s credit review department performs an evaluation of these loan portfolios to ensure compliance with the internal risk rating system and timeliness of rating changes.

Non-homogeneous loans are categorized into the regulatory asset quality classifications—Pass, Special Mention, Substandard, Doubtful, and Loss based on credit quality. For loans classified as substandard, an analysis is done to determine if the loan is impaired. A loan is deemed impaired when it is probable that ASB will be unable to collect all amounts due according to the contractual terms of the loan agreement. Once a loan is deemed impaired, ASB applies a valuation methodology to determine whether there is an impairment shortfall. The measurement of impairment may be based on (i) the present value of the expected future cash flows of the impaired loan discounted at the loan’s original effective interest rate, (ii) the observable market price of the impaired loan, or (iii) the fair value of the collateral, net of costs to sell. For all loans collateralized by real estate whose repayment is dependent on the sale of the underlying collateral property, ASB measures impairment by utilizing the fair value of the collateral, net of costs to sell; for other loans that are not considered collateral dependent, generally the discounted cash flow method is used to measure impairment. For loans collateralized by real estate that are classified as troubled debt restructured loans, the present value of the expected future cash flows of the loans may also be used to measure impairment as these loans are expected to perform according to their restructured terms. Impairment shortfalls are charged to the provision for loan losses and included in the allowance for loan losses. However, impairment shortfalls that are deemed to be confirmed losses (uncollectible) are charged off, with the loan written down by the amount of the confirmed loss.

Residential, consumer and credit scored business loans are considered homogeneous loans, which are typically underwritten based on common, uniform standards, and are generally classified as to the level of loss exposure based on delinquency status. The homogeneous loan portfolios are stratified into individual products with common risk characteristics and segmented into various secured and unsecured loan product types. For the homogeneous portfolio, the quality of the loan is best indicated by the repayment performance of an individual borrower. ASB does supplement performance data with an 11-risk rating retail credit model that assigns a probability of default to each borrower based primarily on the borrower's current Fair Isaac Corporation (FICO) score and for the home equity line of credit (HELOC) and unsecured consumer products, the bankruptcy score (BK). Current FICO and BK data is purchased and appended to all homogeneous loans on a quarterly basis and used to estimate the borrower’s probability of default and the loss given default.

ASB also considers the following qualitative factors for all loans in estimating the allowance for loan losses:

- changes in lending policies and procedures;
- changes in economic and business conditions and developments that affect the collectability of the portfolio;
- changes in the nature, volume and terms of the loan portfolio;
- changes in lending management and other relevant staff;
- changes in loan quality (past due, non-accrual, classified loans);
- changes in the quality of the loan review system;
- changes in the value of underlying collateral;
- effect of, and changes in the level of, any concentrations of credit; and

• effect of other external and internal factors.

ASB’s methodology for determining the allowance for loan losses was generally based on historic loss rates using various look-back periods. During the second quarter 2014, ASB implemented enhancements to the loss rate calculation for estimating the allowance for loan losses that included several refinements to determining the probability of default and the loss given default for the various segments of the loan portfolio that are more statistically sound than those previously employed. The result is an estimated loss rate established for each borrower. ASB also updated its measurement of the loss emergence period in the calculation of the allowance for loan losses. The loss emergence period is broadly defined as the period that it takes, on average, for the lender to identify the specific borrower and amount of loss incurred by the bank for a loan that has suffered from a loss-causing event. In most cases, the loss emergence period was within a twelve month period; however, as credit quality and conditions improve, management has observed that the loss emergence period has extended and has incorporated this observed change in the estimate of the allowance for loan losses. Management believes these enhancements will improve the precision in estimating the allowance for loan losses. The enhancement did not have a material effect on the total allowance for loan losses or the provision for loan losses for the second quarter 2014. The enhancement did result in the full allocation of the previously unallocated portion of the allowance for loan losses.

In conjunction with the above enhancement, management also adopted an enhanced risk rating system for monitoring and managing credit risk in the non-homogenous loan portfolios, that measures general creditworthiness at the borrower level. The numerical-based, risk rating “PD Model” takes into consideration fiscal year-end financial information of the borrower and identified financial attributes including retained earnings, operating cash flows, interest coverage, liquidity and leverage that demonstrate a strong correlation with default to assign default probabilities at the borrower level. In addition, a loss given default (LGD) value is assigned to each loan to measure loss in the event of default based on loan specific features such as collateral that mitigates the amount of loss in the event of default. Together the PD Model and LGD construct provide a more quantitative, data driven and consistent framework for measuring risk within the portfolio, on a loan by loan basis and for the ultimate collectability of each loan. Management believes its allowance for loan losses adequately estimates actual loan losses that will ultimately be incurred. However, such estimates are based on currently available information and historical experience, and future adjustments may be required from time to time to the allowance for loan losses based on new information and changes that occur (e.g., due to changes in economic conditions, particularly in Hawaii). Actual losses could differ from management’s estimates, and these differences and subsequent adjustments could be material.

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 June 30, 2014										
Allowance for loan losses:										
Beginning balance	$5,475	$5,715	$5,969	$1,575	$3,063	$24	$15,592	$2,316	$1,194	$40,923
Charge-offs	(94)	—	(136)	(47)	—	—	(246)	(461)	—	(984)
Recoveries	555	—	314	77	—	—	225	241	—	1,412
Provision	(269)	1,515	934	232	327	2	(427)	(99)	(1,194)	1,021
Ending balance	$5,667	$7,230	$7,081	$1,837	$3,390	$26	$15,144	$1,997	$—	$42,372
Three months ended June 30, 2013										
Allowance for loan losses:										
Beginning balance	$6,011	$6,656	$4,557	$2,743	$1,872	$12	$14,963	$3,655	$2,261	$42,730
Charge-offs	(846)	—	(68)	(8)	—	—	(924)	(759)	—	(2,605)
Recoveries	1,033	—	62	363	—	—	220	160	—	1,838
Provision	159	(2,539)	458	(911)	433	2	2,048	(657)	48	(959)
Ending balance	$6,357	$4,117	$5,009	$2,187	$2,305	$14	$16,307	$2,399	$2,309	$41,004
Six months ended June 30, 2014										
Allowance for loan losses:										
Beginning balance	$5,534	$5,059	$5,229	$1,817	$2,397	$19	$15,803	$2,367	$1,891	$40,116
Charge-offs	(360)	—	(136)	(53)	—	—	(370)	(1,022)	—	(1,941)
Recoveries	896	—	325	163	—	—	325	472	—	2,181
Provision	(403)	2,171	1,663	(90)	993	7	(614)	180	(1,891)	2,016
Ending balance	$5,667	$7,230	$7,081	$1,837	$3,390	$26	$15,144	$1,997	$—	$42,372
Ending balance: individually evaluated for impairment	$969	$941	$14	$1,202	$—	$—	$1,239	$5	$—	$4,370
	$4,698	$6,289	$7,067	$635	$3,390	$26	$13,905	$1,992	$—	$38,002

Ending balance: collectively evaluated for impairment										
Financing Receivables:										
Ending balance	$2,019,092	$476,116	$790,837	$17,189	$80,312	$17,441	$782,804	$111,254	$—	$4,295,045
Ending balance: individually evaluated for impairment	$17,978	$4,512	$612	$9,320	$—	$—	$18,042	$17	$—	$50,481
Ending balance: collectively evaluated for impairment	$2,001,114	$471,604	$790,225	$7,869	$80,312	$17,441	$764,762	$111,237	$—	$4,244,564
Six months ended June 30, 2013										
Allowance for loan losses:										
Beginning balance	$6,068	$2,965	$4,493	$4,275	$2,023	$9	$15,931	$4,019	$2,202	$41,985
Charge-offs	(1,056)	—	(738)	(235)	—	—	(1,350)	(1,404)	—	(4,783)
Recoveries	1,225	—	256	500	—	—	612	310	—	2,903
Provision	120	1,152	998	(2,353)	282	5	1,114	(526)	107	899
Ending balance	$6,357	$4,117	$5,009	$2,187	$2,305	$14	$16,307	$2,399	$2,309	$41,004
Ending balance: individually evaluated for impairment	$944	$820	$—	$1,641	$—	$—	$3,367	$—	$—	$6,772
Ending balance: collectively evaluated for impairment	$5,413	$3,297	$5,009	$546	$2,305	$14	$12,940	$2,399	$2,309	$34,232
Financing Receivables:										0
Ending balance	$2,001,035	$382,735	$673,727	$21,836	$50,114	$9,664	$719,519	$104,759	$—	$3,963,389
Ending balance: individually evaluated for impairment	$21,417	$3,811	$837	$16,041	$—	$—	$21,431	$20	$—	$63,557

Ending balance: collectively evaluated for impairment	$1,979,618	$378,924	$672,890	$5,795	$50,114	$9,664	$698,088	$104,739	$—	$3,899,832

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 and industrial, 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. An asset classified Loss is considered uncollectible.

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

	June 30, 2014			December 31, 2013		
(in thousands)	Commercial real estate	Commercial construction	Commercial	Commercial real estate	Commercial construction	Commercial
Grade:						
Pass	$413,902	$63,454	$723,201	$375,217	$52,112	$703,053
Special mention	28,488	16,858	16,185	33,436	—	17,634
Substandard	29,995	—	40,366	28,020	—	59,663
Doubtful	3,731	—	3,052	3,770	—	3,038
Loss	—	—	—	—	—	—
Total	$476,116	$80,312	$782,804	$440,443	$52,112	$783,388

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
June 30, 2014							
Real estate loans:							
Residential 1-4 family	$5,161	$2,233	$14,739	$22,133	$1,996,959	$2,019,092	$—
Commercial real estate	—	—	3,731	3,731	472,385	476,116	—
Home equity line of credit	956	545	364	1,865	788,972	790,837	—
Residential land	230	—	145	375	16,814	17,189	52
Commercial construction	—	—	—	—	80,312	80,312	—
Residential construction	—	—	—	—	17,441	17,441	—
Commercial loans	266	52	2,717	3,035	779,769	782,804	—
Consumer loans	551	301	173	1,025	110,229	111,254	—
Total loans	$7,164	$3,131	$21,869	$32,164	$4,262,881	$4,295,045	$52
December 31, 2013							
Real estate loans:							
Residential 1-4 family	$2,728	$622	$15,411	$18,761	$1,987,246	$2,006,007	$—
Commercial real estate	—	—	3,770	3,770	436,673	440,443	—
Home equity line of credit	765	312	960	2,037	737,294	739,331	—
Residential land	184	48	2,756	2,988	13,188	16,176	—
Commercial construction	—	—	—	—	52,112	52,112	—
Residential construction	—	—	—	—	12,774	12,774	—
Commercial loans	1,668	612	3,026	5,306	778,082	783,388	—

Consumer loans	436	158	304	898	107,824	108,722	—
Total loans	$5,781	$1,752	$26,227	$33,760	$4,125,193	$4,158,953	$—

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

(in thousands)	June 30, 2014 Nonaccrual loans	June 30, 2014 Accruing loans 90 days or more past due	December 31, 2013 Nonaccrual loans	December 31, 2013 Accruing loans 90 days or more past due
Real estate loans:				
Residential 1-4 family	$20,769	$—	$19,679	$—
Commercial real estate	4,351	—	4,439	—
Home equity line of credit	1,197	—	2,060	—
Residential land	2,879	52	3,161	—
Commercial construction	—	—	—	—
Residential construction	—	—	—	—
Commercial loans	14,391	—	18,781	—
Consumer loans	306	—	401	—
Total	$43,893	$52	$48,521	$—

The total carrying amount and the total unpaid principal balance of impaired loans, with and without recorded allowance for loan losses and combined, were as follows:

	June 30, 2014			Three months ended June 30, 2014		Six months ended June 30, 2014	
(in thousands)	Recorded investment	Unpaid principal balance	Related Allowance	Average recorded investment	Interest income recognized*	Average recorded investment	Interest income recognized*
With no related allowance recorded							
Real estate loans:							
Residential 1-4 family	$5,529	$7,267	$—	$8,232	$71	$9,356	$159
Commercial real estate	—	—	—	—	—	—	—
Home equity line of credit	150	331	—	426	1	537	4
Residential land	2,876	3,759	—	2,844	42	2,930	98
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial loans	2,278	3,673	—	2,903	16	3,142	16
Consumer loans	—	—	—	12	—	15	—
	10,833	15,030	—	14,417	130	15,980	277
With an allowance recorded							
Real estate loans:							
Residential 1-4 family	10,264	10,352	969	8,219	88	6,912	191
Commercial real estate	4,512	4,650	941	4,527	1	4,550	3
Home equity line of credit	207	248	14	69	1	35	1
Residential land	6,445	6,523	1,202	6,509	88	6,838	220
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial loans	15,764	19,116	1,239	15,649	50	16,099	94
Consumer loans	17	17	5	5	—	3	—
	37,209	40,906	4,370	34,978	228	34,437	509
Total							
Real estate loans:							
Residential 1-4 family	15,793	17,619	969	16,451	159	16,268	350

Commercial real estate	4,512	4,650	941	4,527	1	4,550	3
Home equity line of credit	357	579	14	495	2	572	5
Residential land	9,321	10,282	1,202	9,353	130	9,768	318
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial loans	18,042	22,789	1,239	18,552	66	19,241	110
Consumer loans	17	17	5	17	—	18	—
	$48,042	$55,936	$4,370	$49,395	$358	$50,417	$786

	December 31, 2013			Year ended December 31, 2013	
(in thousands)	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized*
With no related allowance recorded					
Real estate loans:					
Residential 1-4 family	$9,708	$12,144	$—	$11,674	$386
Commercial real estate	—	—	—	802	—
Home equity line of credit	672	1,227	—	623	2
Residential land	2,622	3,612	—	6,675	482
Commercial construction	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial loans	3,466	4,715	—	4,837	12
Consumer loans	19	19	—	20	—
	16,487	21,717	—	24,631	882
With an allowance recorded					
Real estate loans:					
Residential 1-4 family	6,216	6,236	642	6,455	372
Commercial real estate	4,604	4,686	1,118	5,745	152
Home equity line of credit	—	—	—	—	—
Residential land	7,452	7,623	1,332	6,844	409
Commercial construction	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial loans	17,759	20,640	2,246	15,635	139
Consumer loans	—	—	—	—	—
	36,031	39,185	5,338	34,679	1,072
Total					
Real estate loans:					
Residential 1-4 family	15,924	18,380	642	18,129	758
Commercial real estate	4,604	4,686	1,118	6,547	152
Home equity line of credit	672	1,227	—	623	2
Residential land	10,074	11,235	1,332	13,519	891
Commercial construction	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial loans	21,225	25,355	2,246	20,472	151
Consumer loans	19	19	—	20	—
	$52,518	$60,902	$5,338	$59,310	$1,954

* Since loan was classified as impaired.

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

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

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

Loan modifications that occurred were as follows for the indicated periods:

	Three months ended June 30, 2014			Six months ended June 30, 2014		
	Number of	Outstanding recorded investment		Number of	Outstanding recorded investment	
(dollars in thousands)	contracts	Pre-modification	Post-modification	contracts	Pre-modification	Post-modification
Troubled debt restructurings						
Real estate loans:						
Residential 1-4 family	7	$2,194	$ 2,212	12	$3,115	$ 3,147
Commercial real estate	—	—	—	—	—	—
Home equity line of credit	—	—	—	—	—	—
Residential land	9	2,915	2,915	16	4,048	4,048
Commercial loans	2	754	754	5	1,227	1,227
Consumer loans	—	—	—	—	—	—
	18	$5,863	$ 5,881	33	$8,390	$ 8,422

	Three months ended June 30, 2013			Six months ended June 30, 2013		
	Number of	Outstanding recorded investment		Number of	Outstanding recorded investment	
(dollars in thousands)	contracts	Pre-modification	Post-modification	contracts	Pre-modification	Post-modification
Troubled debt restructurings						
Real estate loans:						
Residential 1-4 family	14	$4,645	$ 4,775	18	$5,767	$ 5,838
Commercial real estate	—	—	—	—	—	—
Home equity line of credit	—	—	—	4	462	215
Residential land	4	1,116	1,163	7	2,040	2,031
Commercial loans	3	714	714	3	714	714
Consumer loans	—	—	—	—	—	—
	21	$6,475	$ 6,652	32	$8,983	$ 8,798

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

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

There were no loans modified in TDRs that experienced a payment default of 90 days or more in the second quarter of 2013 and six months ended June 30, 2013, and for which the payment default occurred within one year of the modification.

If loans modified in a TDR subsequently default, ASB evaluates the loan for further impairment. Based on its evaluation, adjustments may be made in the allocation of the allowance or partial charge-offs may be taken to further write-down the carrying value of the loan. There were no commitments to lend additional funds to borrowers whose loans have been designated impaired or whose terms have been modified in TDRs as of June 30, 2014.

Other borrowings. Securities sold under agreements to repurchase are accounted for as financing transactions and the obligations to repurchase these securities are recorded as liabilities in the balance sheet. All such agreements are subject to master netting arrangements, which provide for conditional right of set-off in case of default by either party; however, ASB presents securities sold under agreements to repurchase on a gross basis in the balance sheet. The following tables present information about the securities sold under agreements to repurchase, including the related collateral received from or pledged to counterparties:

(in millions)	Gross amount of recognized liabilities	Gross amount offset in the Balance Sheet	Net amount of liabilities presented in the Balance Sheet
Repurchase agreements			
June 30, 2014	$142	$—	$ 142
December 31, 2013	145	—	145

	Gross amount not offset in the Balance Sheet			
(in millions)	Net amount of liabilities presented in the Balance Sheet	Financial instruments	Cash collateral pledged	Net amount
June 30, 2014				
Financial institution	$50	$50	$—	$—
Commercial account holders	92	92	—	—
Total	$142	$142	$—	$—
December 31, 2013				
Financial institution	$51	$51	$—	$—
Commercial account holders	94	94	—	—
Total	$145	$145	$—	$—

Amortized intangible assets. The table below presents the gross carrying amount, accumulated amortization, valuation allowance and net carrying amount of ASB's mortgage servicing assets as of June 30, 2014 and 2013:

June 30	2014				2013			
(in thousands)	Gross carrying amount	Accumulated amortization	Valuation allowance	Net carrying amount	Gross carrying amount	Accumulated amortization	Valuation allowance	Net carrying amount
Mortgage servicing assets	$26,357	(14,578)	(174)	$11,605	$24,508	(12,866)	(279)	$11,363

Changes in the valuation allowance for mortgage servicing assets were as follows:

(in thousands)	2014	2013
Valuation allowance, January 1	$251	$498
Provision (recovery)	(37)	(98)
Other-than-temporary impairment	(40)	(121)
Valuation allowance, June 30	$174	$279

ASB recognizes a mortgage servicing asset when a mortgage loan is sold with servicing rights retained. This mortgage servicing right (MSR) is initially capitalized at its presumed fair value based on market data at the time of sale and accounted for in subsequent periods at the lower of amortized cost or fair value. The MSR is amortized in proportion to and over the period of estimated net servicing income and assessed for impairment at each reporting date.

ASB stratifies the MSR based on predominant risk characteristics of the underlying loans including loan type and note rate. For each stratum, fair value is calculated by discounting expected net income streams using discount rates that reflect industry pricing for similar assets. Expected net income streams are estimated based on industry assumptions regarding prepayment expectations and income and expenses associated with servicing residential mortgage loans for others.

Impairment is recognized through a valuation allowance for each stratum when the carrying amount exceeds fair value, with any associated provision recorded as a component of loan servicing fees included in ASB's noninterest income. A direct write-down is recorded when the recoverability of the valuation allowance is deemed to be unrecoverable.

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

	June 30, 2014		June 30, 2013	
Unpaid principal balance (000s)	$1,392,590		$1,300,370	
Weighted average note-rate	4.08	%	4.08	%
Weighted average discount rate	9.6	%	10.1	%
Weighted average prepayment speed	8.3	%	9.7	%

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

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

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

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

The notional amount and fair value of ASB's derivative financial instruments as of June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014		December 31, 2013	
(dollars in thousands)	Notional amount	Fair value	Notional amount	Fair value
Interest rate lock commitments	$6,932	$—	$25,070	$464
Forward commitments	7,887	—	26,018	139

The following table presents ASB's derivative financial instruments, their fair values, and balance sheet location as of June 30, 2014 and December 31, 2013:

Derivative Financial Instruments Not Designated as Hedging Instruments [1]	June 30, 2014		December 31, 2013	
(dollars in thousands)	Derivative asset	Derivative liability	Derivative asset	Derivative liability
Interest rate lock commitments	$—	$—	$488	$24
Forward commitments	—	—	141	2
	$—	$—	$629	$26

[1] Derivative assets are included in other assets and derivative liabilities are included in other liabilities in the balance sheets.

The following table presents ASB's derivative financial instruments and the amount and location of the net gains or losses recognized in the statements of income for the six months ended June 30, 2014 and 2013.

Derivative Financial Instruments Not Designated as Hedging Instruments (dollars in thousands)	Location of net gains (losses) recognized in the Statement of Income	Six months ended June 30 2014	2013
Interest rate lock commitments	Mortgage banking income	$(464)	$(262)
Forward commitments	Mortgage banking income	(139)	900
		$(603)	$638

Litigation. In March 2011, a purported class action lawsuit was filed in the First Circuit Court of the state of Hawaii by a customer who claimed that ASB had improperly charged overdraft fees on debit card transactions. ASB filed a motion to dismiss the lawsuit on the basis that as a bank chartered under federal law, ASB believes its business practices are governed by federal regulations established for federal savings banks and not by state law. In July 2011, the Circuit Court denied ASB's motion and ASB appealed that decision. ASB's appeal is currently pending before the Hawaii Supreme Court. The probable outcome and range of reasonably possible loss remains indeterminable at this time.

ASB is subject in the normal course of business to pending and threatened legal proceedings. Management does not anticipate that the aggregate ultimate liability arising out of these pending or threatened legal proceedings will be material to its financial position. However, ASB cannot rule out the possibility that such outcomes could have a material adverse effect on the results of operations or liquidity for a particular reporting period in the future.

5 · Retirement benefits

Defined benefit pension and other postretirement benefit plans information. For the first six months of 2014, the Company contributed $30 million ($29 million by the Utilities) to its pension and other postretirement benefit plans, compared to $42 million ($41 million by the Utilities) in the first six months of 2013. The Company's current estimate of contributions to its pension and other postretirement benefit plans in 2014 is $60 million ($59 million by the Utilities, $1 million by HEI and nil by ASB), compared to $83 million ($81 million by the Utilities, $2 million by HEI and nil by ASB) in 2013. In addition, the Company expects to pay directly $2 million ($1 million by the Utilities) of benefits in 2014, compared to $2 million ($1 million by the Utilities) paid in 2013.

On July 6, 2012, President Obama signed the Moving Ahead for Progress in the 21st Century Act (MAP-21), which included provisions related to the funding and administration of pension plans. This law does not affect the Company's or the Utilities' accounting for pension benefits; therefore, the net periodic benefit costs disclosed for the plans were not affected. The Company elected to apply MAP-21 for 2012, which improved the plans' Adjusted Funding Target Attainment Percentage for funding and benefit distribution purposes and thereby reduced the 2012 minimum funding requirement and lifted the restrictions on accelerated distribution options (which restrictions were in effect from April 1, 2011 to September 30, 2012) for HEI and the Utilities. MAP-21 caused the minimum required funding under Employee Retirement Income Security Act of 1974 (as amended) to be less than the net periodic cost for 2013 and 2014; therefore, to satisfy the requirements of the Utilities pension and OPEB tracking mechanisms, the Utilities will contribute the net periodic cost in 2014.

The Pension Protection Act provides that if a pension plan's funded status falls below certain levels, more conservative assumptions must be used to value obligations under the pension plan. The HEI Retirement Plan met the threshold requirements in each of 2012 and 2013 so that the more conservative assumptions did not apply for either the 2013 or 2014 valuation of plan liabilities for purposes of calculating the minimum required contribution. Other factors could cause changes to the required contribution levels.

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

	Three months ended June 30				Six months ended June 30			
	Pension benefits		Other benefits		Pension benefits		Other benefits	
(in thousands)	2014	2013	2014	2013	2014	2013	2014	2013
HEI consolidated								
Service cost	$12,525	$14,121	$866	$1,103	$24,652	$28,210	$1,749	$2,152
Interest cost	18,113	16,307	2,117	1,855	36,114	32,413	4,277	3,786
Expected return on plan assets	(20,334)	(18,182)	(2,748)	(2,521)	(40,681)	(36,267)	(5,456)	(5,083)
Amortization of net prior service loss (gain)	22	(25)	(449)	(449)	44	(49)	(897)	(897)
Amortization of net actuarial loss (gain)	5,138	9,499	(3)	284	10,176	19,318	(6)	805
Net periodic benefit cost (credit)	15,464	21,720	(217)	272	30,305	43,625	(333)	763
Impact of PUC D&Os	(3,651)	(10,724)	543	(187)	(6,662)	(19,590)	988	(584)
Net periodic benefit cost (adjusted for impact of PUC D&Os)	$11,813	$10,996	$326	$85	$23,643	$24,035	$655	$179
Hawaiian Electric consolidated								
Service cost	$12,101	$13,638	$840	$1,067	$23,798	$27,241	$1,696	$2,081
Interest cost	16,553	14,883	2,038	1,783	32,989	29,559	4,117	3,644
Expected return on plan assets	(18,158)	(16,185)	(2,707)	(2,480)	(36,329)	(32,275)	(5,370)	(5,000)
Amortization of net prior service loss (gain)	16	(116)	(451)	(451)	31	(232)	(902)	(902)
Amortization of net actuarial loss	4,669	8,509	—	268	9,229	17,299	—	772
Net periodic benefit cost (credit)	15,181	20,729	(280)	187	29,718	41,592	(459)	595
Impact of PUC D&Os	(3,651)	(10,724)	543	(187)	(6,662)	(19,590)	988	(584)
Net periodic benefit cost (adjusted for impact of PUC D&Os)	$11,530	$10,005	$263	$—	$23,056	$22,002	$529	$11

HEI consolidated recorded retirement benefits expense of $17 million ($16 million by the Utilities) and $18 million ($15 million by the Utilities) in the first six months of 2014 and 2013, respectively, and charged the remaining net periodic benefit cost primarily to electric utility plant.

The Company and the Utilities have revised their prior year disclosures to correct the amount disclosed for the "Impact of PUC D&Os." The misstatement was not considered to be material to previously issued financial statements. The table below illustrates the effects of this revision on the previous disclosures (the revised disclosures had no impact on the Company's and the Utilities' Consolidated Balance Sheets, Consolidated Statements of Income or Consolidated Statements of Cash Flows):

	HEI consolidated			Hawaiian Electric consolidated		
(in thousands)	As previously filed	As revised	Difference	As previously filed	As revised	Difference

Three months ended June 30, 2013						
Pension benefits:						
Impact of PUC D&Os	$(5,286)	$(10,724)	$(5,438)	$(5,286)	$(10,724)	$(5,438)
Net periodic benefit cost (adjusted for impact of PUC D&Os)	16,434	10,996	(5,438)	15,443	10,005	(5,438)
Six months ended June 30, 2013						
Pension benefits:						
Impact of PUC D&Os	(12,722)	(19,590)	(6,868)	(12,722)	(19,590)	(6,868)
Net periodic benefit cost (adjusted for impact of PUC D&Os)	30,903	24,035	(6,868)	28,870	22,002	(6,868)
(in millions)						
Retirement benefits expense	$23	$18	$(5)	$21	$15	$(6)

The Utilities have implemented pension and OPEB tracking mechanisms under which all of their retirement benefit expenses (except for executive life and nonqualified pension plan expenses) determined in accordance with GAAP are recovered over time. Under the tracking mechanisms, these retirement benefit costs that are over/under amounts allowed in

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rates are charged/credited to a regulatory asset/liability. The regulatory asset/liability for each utility will be amortized over 5 years beginning with the issuance of the PUC's D&O in the respective utility's next rate case.

Defined contribution plans information. For the first six months of 2014 and 2013, the Company's expense for its defined contribution pension plans under the Hawaiian Electric Industries Retirement Savings Plan (HEIRSP) and the ASB 401(k) Plan was $2.2 million and $2.0 million, respectively, and cash contributions were $3.5 million and $3.0 million, respectively. For the first six months of 2014 and 2013, the Utilities' expense for its defined contribution pension plan was $0.4 million and $0.3 million, respectively, and cash contributions were $0.4 million and $0.3 million, respectively.

6 · Share-based compensation

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

As of June 30, 2014, approximately 3.6 million shares were available for future issuance under the terms of the EIP, assuming recycling of shares withheld to satisfy minimum statutory tax liabilities relating to EIP awards, including an estimated 1.1 million shares that could be issued upon the vesting of outstanding restricted stock units and the achievement of performance goals for awards outstanding under long-term incentive plans (assuming that such performance goals are achieved at maximum levels).

Under the 1987 Stock Option and Incentive Plan, as amended (SOIP), there are possible future issuances upon the exercise of outstanding SARs and dividend equivalents; however, based on the market price of shares on June 30, 2014, the SARS had no intrinsic value. As of May 11, 2010 (when the 2010 Equity and Incentive Plan became effective), no new awards may be granted under the SOIP. After the shares of common stock for the outstanding SOIP grants and awards are issued or such grants and awards expire, the remaining shares registered under the SOIP will be deregistered and delisted.

Under the 2011 Nonemployee Director Stock Plan (2011 Director Plan), HEI can issue shares of common stock as compensation to nonemployee directors of HEI, Hawaiian Electric and ASB. As of June 30, 2014, there were 169,290 shares remaining available for future issuance under the 2011 Director Plan.

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

	Three months ended June 30		Six months ended June 30	
(in millions)	2014	2013	2014	2013
HEI consolidated				
Share-based compensation expense [1]	$2.8	$1.3	$5.2	$3.5
Income tax benefit	1.1	0.5	1.9	1.3
Hawaiian Electric consolidated				
Share-based compensation expense [1]	$0.9	$0.3	1.6	1.1
Income tax benefit	$0.3	$0.1	0.6	0.4

[1] $0.03 million and $0.02 million of this share-based compensation expense was capitalized in the second quarter of 2014 and 2013, respectively. $0.07 million and $0.05 million of this share-based compensation expense was capitalized in the six months ended June 30, 2014 and 2013, respectively.

The Company has revised its prior year disclosure to correct for an error that excluded from the disclosure amounts for stock awards to non-employee directors of HEI, Hawaiian Electric and ASB. The amounts excluded from the disclosure were not considered to be material to previously issued financial statements. The table below illustrates the effects of this revision on the previous disclosure (the revised disclosure had no impact on the Company's Consolidated Balance Sheets, Consolidated Statements of Income or Consolidated Statements of Cash Flows):

	Three months ended June 30, 2013			Six months ended June 30, 2013		
(in millions)	As previously filed	As revised	Difference	As previously filed	As revised	Difference
Share-based compensation expense	$1.1	$ 1.3	$ 0.2	$3.0	$ 3.5	$ 0.5

Income tax benefit	0.4	0.5	0.1	1.1	1.3	0.2

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

	Six months ended June 30	
($ in millions)	2014	2013
Shares granted	33,170	33,184
Fair value	$0.8	$0.8
Income tax benefit	0.3	0.3

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

Nonqualified stock options. Since April 9, 2013, there were no nonqualified stock options (NQSOs) outstanding. NQSO activity and statistics were as follows:

(dollars in thousands, except prices)	Three months ended June 30, 2013	Six months ended June 30, 2013
Shares exercised	12,000	14,000
Weighted-average exercise price	$20.49	$20.49
Cash received from exercise	$246	$287
Intrinsic value of shares exercised [1]	$113	$128
Tax benefit realized for the deduction of exercises	$44	$50

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

Stock appreciation rights. Information about HEI's SARs was as follows:

June 30, 2014	Outstanding & Exercisable (Vested)		
Year of grant	Number of shares underlying SARs	Weighted-average remaining contractual life	Weighted-average exercise price
2005	102,000	0.8	$26.18

As of December 31, 2013, the shares underlying SARs outstanding totaled 164,000, with a weighted-average exercise price of $26.12. As of June 30, 2014, all SARs outstanding were exercisable and had no aggregate intrinsic value. In April 2014, the shares underlying SARs totaling 62,000, with a weighted-average exercise price of $26.02, expired.

Restricted shares. As of June 30, 2014 and December 31, 2013, the outstanding restricted shares totaled 4,503 with a weighted-average exercise price of $22.21. For the first six months of 2014 and 2013, there was no activity relating to restricted shares. As of June 30, 2014, there was $46,000 of total unrecognized compensation cost related to nonvested restricted shares and restricted stock awards. The cost is expected to be recognized over a weighted-average period of 0.4 years.

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

	Three months ended June 30				Six months ended June 30			
	2014		2013		2014		2013	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	332,158	$25.04	301,145	$25.15	288,151	$25.17	315,094	$22.82
Granted	—	—	—	—	115,036	25.19	107,231	26.89
Vested	(67,832)	22.31	(832)	26.60	(138,861)	24.09	(114,044)	20.34
Forfeited	—	—	—	—	—	—	(7,968)	25.26
Outstanding, end of period	264,326	$25.74	300,313	$25.15	264,326	$25.74	300,313	$25.15
Total weighted-average grant-date fair value of shares granted ($ millions)	$—		$—		$2.9		$2.9	

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

As of June 30, 2014, there was $5.6 million of total unrecognized compensation cost related to the nonvested restricted stock units. The cost is expected to be recognized over a weighted-average period of 2.8 years.

For the first six months of 2014 and 2013, total restricted stock units that vested and related dividends had a grant-date fair value of $4.0 million and $3.5 million, respectively, and the related tax benefits were $1.3 million and $1.0 million, respectively.

LTIP payable in stock. The 2012-2014 LTIP, 2013-2015 LTIP and 2014-2016 LTIP, provide for performance awards under the EIP of shares of HEI common stock based on the satisfaction of performance goals considered to be a market condition and service conditions. The number of shares of HEI common stock that may be awarded is fixed on the date the grants are made subject to the achievement of specified performance levels. The potential payout varies from 0% to 200% of the number of target shares depending on achievement of the goals. The LTIP performance goals for the LTIP periods include awards with a market goal based on total return to shareholders (TRS) of HEI stock as a percentile to the Edison Electric Institute Index over the applicable three-year period. In addition, the 2012-2014 LTIP, 2013-2015 LTIP and 2014-2016 LTIP have performance goals related to levels of HEI consolidated net income, HEI consolidated return on average common equity (ROACE), Hawaiian Electric consolidated net income, Hawaiian Electric consolidated ROACE, ASB net income and ASB return on assets — all based on the applicable three-year averages.

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

	Three months ended June 30				Six months ended June 30			
	2014		2013		2014		2013	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	258,243	$28.46	235,064	$32.87	232,127	$32.88	239,256	$29.12
Granted (target level)	731	22.95	—	—	97,524	22.95	89,533	32.69
Vested (issued or unissued and cancelled)	—	—	—	—	(70,189)	35.46	(87,753)	22.45
Forfeited	(1,018)	26.50	—	—	(1,506)	28.32	(5,972)	32.96
Outstanding, end of period	257,956	$28.45	235,064	$32.87	257,956	$28.45	235,064	$32.87
Total weighted-average grant-date fair value of shares granted ($ millions)	$—		$—		$2.2		$2.9	

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

The grant date fair values of the shares were determined using a Monte Carlo simulation model utilizing actual information for the common shares of HEI and its peers for the period from the beginning of the performance period to the grant date and estimated future stock volatility and dividends of HEI and its peers over the remaining three-year performance period. The expected stock volatility assumptions for HEI and its peer group were based on the three-year historic stock volatility, and the annual dividend yield assumptions were based on dividend yields calculated on the basis of daily stock prices over the same three-year historical period.

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

	2014		2013	
Risk-free interest rate	0.66	%	0.38	%
Expected life in years	3		3	
Expected volatility	17.8	%	19.4	%
Range of expected volatility for Peer Group	12.4% to 23.3%		12.4% to 25.3%	
Grant date fair value (per share)	$22.95		$32.69	

For the six months ended June 30, 2014 and 2013, total vested LTIP awards linked to TRS and related dividends had a fair value of nil and $2.2 million, respectively, and the related tax benefits were nil and $0.9 million, respectively. For the six months ended June 30, 2014, all of the shares vested (which were granted at target level based on the satisfaction of TRS performance) for the 2011-2013 LTIP lapsed.

As of June 30, 2014, there was $3.3 million of total unrecognized compensation cost related to the nonvested performance awards payable in shares linked to TRS. The cost is expected to be recognized over a weighted-average period of 1.6 years.

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

	Three months ended June 30				Six months ended June 30			
	2014		2013		2014		2013	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	360,070	$26.01	341,824	$26.00	296,843	$26.14	247,175	$25.04
Granted (target level)	730	23.34	—	—	129,603	25.18	118,895	26.89
Vested (issued)	—	—	—	—	(65,089)	24.95	(18,275)	18.95
Cancelled	—	—	(37,351)	24.96	—	—	(37,351)	24.96
Forfeited	(1,018)	25.81	—	—	(1,575)	26.07	(5,971)	25.94
Outstanding, end of period	359,782	$26.01	304,473	$26.12	359,782	$26.01	304,473	$26.12
Total weighted-average grant-date fair value of shares granted (at target performance levels) ($ millions)	$—		$—		$3.3		$3.2	

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

For the six months ended June 30, 2014 and 2013, total vested LTIP awards linked to other performance conditions and related dividends had a fair value of $1.9 million and $0.6 million and the related tax benefits were $0.8 million and $0.2 million, respectively.

As of June 30, 2014, there was $4.8 million of total unrecognized compensation cost related to the nonvested shares linked to performance conditions other than TRS. The cost is expected to be recognized over a weighted-average period of 1.5 years.

7 · Earnings per share and shareholders' equity

Earnings per share. Under the two-class method of computing earnings per share (EPS), EPS was comprised as follows for both participating securities and unrestricted common stock:

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
	Basic and diluted	Basic and diluted	Basic and diluted	Basic and diluted
Distributed earnings	$0.31	$0.31	$0.62	$0.62
Undistributed earnings	0.10	0.10	0.24	0.13
	$0.41	$0.41	$0.86	$0.75

As of June 30, 2014 and June 30, 2013, the antidilutive effects of SARs on 102,000 shares of HEI common stock (for which the exercise prices were greater than the closing market price of HEI's common stock on such dates) were not included in the computation of dilutive EPS.

Shareholders' equity.

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

The use of an equity forward transaction substantially eliminates future equity market price risk by fixing a common equity offering sales price under the then existing market conditions, while mitigating immediate share dilution resulting from the offering by postponing the actual issuance of common stock until funds are needed in accordance with the Company's capital investment plans. Pursuant to the terms of these transactions, a forward counterparty borrowed 7 million shares of HEI's common stock from third parties and sold them to a group of underwriters for $26.75 per share, less an underwriting discount equal to $1.00312 per share. Under the terms of the equity forward transactions, to the extent that the transactions are physically settled, HEI would be required to issue and deliver shares of HEI common stock to the forward counterparty at the then applicable forward sale price. The forward sale price was initially determined to be $25.74688 per share at the time the equity forward transactions were entered into, and the amount of cash to be received by HEI upon physical settlement of the equity forward is subject to certain adjustments in accordance with the terms of the equity forward transactions. The equity forward transactions must be settled fully by March 25, 2015. Except in specified circumstances or events that would require physical settlement, HEI is able to elect to settle the equity forward transactions by means of physical, cash or net share settlement, in whole or in part, at any time on or prior to March 25, 2015.

The equity forward transactions had no initial fair value since they were entered into at the then market price of the common stock. HEI receives proceeds from the sale of common stock when the equity forward transactions are settled and records the proceeds at that time in equity. HEI concluded that the equity forward transactions were equity instruments based on the accounting guidance in ASC 480, "Distinguishing Liabilities from Equity," and ASC 815, "Derivatives and Hedging," and that they qualified for an exception from derivative accounting under ASC 815 because the forward sale transactions were indexed to its own stock. On December 19, 2013, HEI settled 1.3 million shares under the equity forward for proceeds of $32.1 million (net of the underwriting discount of $1.3 million), which funds were ultimately used to purchase Hawaiian Electric shares.

At June 30, 2014, the equity forward transactions could have been settled with delivery to the forward counterparty of (a) 5.7 million shares in exchange for cash of $136 million, (b) cash of approximately $5 million (which amount includes $6 million of underwriting discount), or (c) approximately 188,000 shares.

On July 14, 2014, HEI settled 1.0 million shares of the remaining 5.7 million shares under the equity forward for proceeds of $23.9 million, which funds will be used primarily later in 2014 to invest in Hawaiian Electric to fund its capital expenditures, to repay short-term borrowings incurred to finance or refinance such capital expenditures and/or for reimbursement of funds used for payment of capital expenditures and in the interim have been applied by HEI to repay its short-term borrowings and for working capital and general corporate purposes.

Prior to their settlement, the shares remaining under the equity forward transactions will be reflected in HEI’s diluted EPS calculations using the treasury stock method. Under this method, the number of shares of HEI’s common stock used in calculating diluted EPS for a reporting period would be increased by the number of shares, if any, that would be issued upon physical settlement of the equity forward transactions less the number of shares that could be purchased by HEI in the market (based on the average market price during that reporting period) using the proceeds receivable upon settlement of the equity forward transactions (based on the adjusted forward sale price at the end of that reporting period). The excess number of shares is weighted for the portion of the reporting period in which the equity forward transactions are outstanding.

Accordingly, before physical or net share settlement of the equity forward transactions, and subject to the occurrence of certain events, HEI anticipates that the forward sale agreement and additional forward sale agreement will have a dilutive effect on HEI’s EPS only during periods when the applicable average market price per share of HEI’s common stock is above the per share adjusted forward sale price, as described above. However, if HEI decides to physically or net share settle the forward sale agreement and additional forward sale agreement, any delivery by HEI of shares upon settlement could result in dilution to HEI’s EPS.

For the six months ended June 30, 2014, the equity forward transactions did not have a material dilutive effect on HEI’s EPS.

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

	HEI Consolidated				Hawaiian Electric Consolidated
(in thousands)	Net unrealized gains (losses) on securities	Unrealized losses on derivatives	Retirement benefit plans	AOCI	AOCI -retirement benefit plans
Balance, December 31, 2013	$(3,663)	$(525)	$(12,562)	$(16,750)	$608
Current period other comprehensive income	3,348	118	601	4,067	22
Balance, June 30, 2014	$(315)	$(407)	$(11,961)	$(12,683)	$630
Balance, December 31, 2012	$10,761	$(760)	$(36,424)	$(26,423)	$(970)
Current period other comprehensive income (loss)	(9,873)	118	1,389	(8,366)	35

Balance, June 30, 2013	$888	$(642)	$(35,035)	$(34,789)	$(935)

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Reclassifications out of AOCI were as follows:

	Amount reclassified from AOCI				
	Three months ended June 30		Six months ended June 30		
(in thousands)	2014	2013	2014	2013	Affected line item in the Statement of Income
HEI consolidated					
Net realized gains on securities	$—	$(738)	$(1,715)	$(738)	Revenues-bank (net gains on sales of securities)
Derivatives qualified as cash flow hedges					
Interest rate contracts (settled in 2011)	59	59	118	118	Interest expense
Retirement benefit plan items					
Amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost	2,873	5,680	5,686	11,701	See Note 5 for additional details
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets	(2,575)	(4,999)	(5,085)	(10,312)	See Note 5 for additional details
Total reclassifications	$357	$2	$(996)	$769	
Hawaiian Electric consolidated					
Retirement benefit plan items					
Amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost	$2,588	$5,016	$5,107	$10,347	See Note 5 for additional details
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets	(2,575)	(4,999)	(5,085)	(10,312)	See Note 5 for additional details
Total reclassifications	$13	$17	$22	$35	

8 · Fair value measurements

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

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

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

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company and/or the Utilities used the following methods and assumptions to estimate the fair value of each applicable class of financial instruments for which it is practicable to estimate that value:
Short term borrowings—other than bank. The carrying amount approximated fair value because of the short maturity of these instruments.
Investment and mortgage-related securities. To determine the fair value of investment securities held in ASB's available-for-sale portfolio, independent third-party vendor or broker pricing is used on an unadjusted basis. Prices for investments and mortgage-related securities are based on observable inputs, including historical trading levels or sector yields, using market-based valuation techniques. The third party pricing service uses applications, models and pricing matrices that correlate security prices to benchmark securities which are adjusted for various inputs. Inputs include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark security bids and offers, TBA (to be announced) prices, monthly payment information, and reference data including market research. The pricing service may prioritize inputs differently on any given day for any security, and not all inputs are available for use in the evaluation process on any given day or for each security. The pricing vendor corroborates its finding on an on-going basis by monitoring market activity and events.
Third party pricing services provide security prices in good faith using rigorous methodologies; however, they do not warrant or guarantee the adequacy or accuracy of their information. Therefore, ASB utilizes a separate third party pricing vendor to corroborate security pricing of the first pricing vendor. If the pricing differential between the two pricing sources exceeds an established threshold, a pricing inquiry will be sent to both vendors or to an independent broker to determine a price that can be supported based on observable inputs found in the market. Such challenges to pricing are required infrequently and are generally resolved using additional security-specific information that was not available to a specific vendor.
Loans receivable. The estimated fair value of loans receivable is determined based on characteristics such as loan category, repricing features and remaining maturity, and includes prepayment estimates.
For residential real estate loans, fair values were estimated by discounting estimated cash flows using discount rates based on current industry pricing for loans with similar contractual characteristics and remaining maturity.
For other types of loans, fair values were estimated by discounting contractual cash flows using discount rates that reflect current industry pricing for loans with similar characteristics and remaining maturity. Where industry pricing is not available, discount rates are based on ASB's current pricing for loans with similar characteristics and remaining maturity.
The fair value of all loans was adjusted to reflect current assessments of loan collectability. Also see "Fair value measurements on a nonrecurring basis" below.
Deposit liabilities. The fair value of savings, negotiable orders of withdrawal, demand and money market deposits was the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit was estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.
Other bank borrowings. Fair value was estimated by discounting the future cash flows using the current rates available for borrowings with similar credit terms and remaining maturities.
Long-term debt. Fair value was obtained from third-party financial services providers based on the current rates offered for debt of the same or similar remaining maturities and from discounting the future cash flows using the current rates offered for debt of the same or similar remaining maturities.
Derivative financial instruments. See "Fair value measurements on a recurring basis" below.
Off-balance sheet financial instruments. The fair value of loans serviced for others was calculated by discounting expected net income streams using discount rates that reflect industry pricing for similar assets. Expected net income streams were estimated based on industry assumptions regarding prepayment speeds and income and expenses associated with servicing residential mortgage loans for others. The fair value of commitments to originate loans was estimated based on the change in current primary market prices of new commitments. Since lines of credit can expire

without being drawn and customers are under no obligation to utilize the lines, no fair value was assigned to unused lines of credit. The fair value of letters of credit was estimated based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements.

The estimated fair values of certain of the Company’s and the Utilities' financial instruments were as follows:

		Estimated fair value			
(in thousands)	Carrying or notional amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
June 30, 2014					
Financial assets					
Money market funds	$10	$—	$ 10	$—	$10
Available-for-sale investment and mortgage-related securities	549,321	—	549,321	—	549,321
Investment in stock of Federal Home Loan Bank of Seattle	80,863	—	80,863	—	80,863
Loans receivable, net	4,246,196	—	—	4,398,639	4,398,639
Derivative assets	6,932	—	—	—	—
Financial liabilities					
Deposit liabilities	4,524,860	—	4,526,690	—	4,526,690
Short-term borrowings—other than bank	185,175	—	185,175	—	185,175
The Utilities' short-term borrowings (included in amount above)	102,989	—	102,989	—	102,989
Other bank borrowings	242,455	—	252,868	—	252,868
Long-term debt, net—other than bank	1,517,945	—	1,636,175	—	1,636,175
The Utilities' long-term debt, net (included in amount above)	1,217,945	—	1,325,102	—	1,325,102
Derivative liabilities	7,887	—	—	—	—
December 31, 2013					
Financial assets					
Money market funds	$10	$—	$ 10	$—	$10
Available-for-sale investment and mortgage-related securities	529,007	—	529,007	—	529,007
Investment in stock of Federal Home Loan Bank of Seattle	92,546	—	92,546	—	92,546
Loans receivable, net	4,115,415	—	—	4,211,290	4,211,290
Derivative assets	46,356	98	531	—	629
Financial liabilities					
Deposit liabilities	4,372,477	—	4,374,377	—	4,374,377
Short-term borrowings—other than bank	105,482	—	105,482	—	105,482
Other bank borrowings	244,514	—	256,029	—	256,029
Long-term debt, net—other than bank	1,492,945	—	1,508,425	—	1,508,425
The Utilities' long-term debt, net (included in amount above)	1,217,945	—	1,228,966	—	1,228,966
Derivative liabilities	4,732	—	26	—	26

As of June 30, 2014 and December 31, 2013, loan commitments and unused lines and letters of credit issued by ASB had notional amounts of $1.7 billion and $1.6 billion, respectively, and their estimated fair value on such dates were $0.5 million and $0.2 million, respectively. As of June 30, 2014 and December 31, 2013, loans serviced by ASB for others had notional amounts of $1.4 billion, and the estimated fair value of the servicing rights for such loans was

$15.9 million and $15.7 million, respectively.

Fair value measurements on a recurring basis.

Securities. While securities held in ASB's investment portfolio trade in active markets, they do not trade on listed exchanges nor do the specific holdings trade in quoted markets by dealers or brokers. All holdings are valued using market-based approaches that are based on exit prices that are taken from identical or similar market transactions, even in situations where trading volume may be low when compared with prior periods. Inputs to these valuation techniques reflect the

assumptions that consider credit and nonperformance risk that market participants would use in pricing the asset based on market data obtained from independent sources. Available-for-sale securities were comprised of federal agency obligations and mortgage-backed securities and municipal bonds.
Derivative financial instruments. ASB enters into interest rate lock commitments (IRLC) for residential mortgage loans, which commit ASB to lend funds to a potential borrower at a specific interest rate and within a specified period of time. The estimated fair value of commitments to originate residential mortgage loans for sale is based on quoted prices for similar loans in active markets. IRLCs are classified as Level 2 measurements.
ASB utilizes forward commitments as economic hedges against potential changes in the values of the IRLCs and loans held for sale. To reduce the impact of price fluctuations of IRLC and mortgage loans held for sale, ASB will purchase to be announced (TBA) mortgage-backed securities forward commitments, mandatory and best effort commitments. These commitments help protect ASB's loan sale profit margin from fluctuations in interest rates. The changes in the fair value of these commitments are recognized as part of mortgage banking income on the consolidated statements of income. TBA forward commitments are classified as Level 1, and consist of publicly-traded debt securities for which identical fair values can be obtained through quoted market prices in active exchange markets. The fair values of ASB’s best efforts and mandatory delivery loan sale commitments are determined similarly to the IRLCs using quoted prices in the market place that are observable and are classified as Level 2 measurements.
Assets and liabilities measured at fair value on a recurring basis were as follows:

	June 30, 2014			December 31, 2013		
	Fair value measurements using			Fair value measurements using		
(in thousands)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Money market funds (“other” segment)	$—	$10	$—	$—	$10	$—
Available-for-sale securities (bank segment)						
Mortgage-related securities-FNMA, FHLMC and GNMA	$—	$447,292	$—	$—	$369,444	$—
U.S. Treasury and federal agency obligations	—	102,029	—	—	80,973	—
Municipal bonds	—	—	—	—	78,590	—
	$—	$549,321	$—	$—	$529,007	$—
Derivative assets [1]						
Interest rate lock commitments	$—	$—	$—	$—	$488	$—
Forward commitments	—	—	—	98	43	—
	$—	$—	$—	$98	$531	$—
Derivative liabilities [1]						
Interest rate lock commitments	$—	$—	$—	$—	$24	$—
Forward commitments	—	—	—	—	2	—
	$—	$—	$—	$—	$26	$—

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

Fair value measurements on a nonrecurring basis. From time to time, the Company and the Utilities may be required to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the writedowns of individual assets. ASB does not record loans at fair value on a recurring basis. However, from time to time, ASB records nonrecurring fair value adjustments based on the current appraised value of the collateral securing impaired loans or unobservable market assumptions. Unobservable assumptions reflect ASB’s own estimate of the fair value of collateral used in valuing impaired loans. ASB may also be required to measure goodwill at fair value on a nonrecurring basis. During the first six months of 2014, it was not required that a measurement of the fair value of goodwill be calculated and goodwill was not measured at fair value.

Assets measured at fair value on a nonrecurring basis were as follows:

		Fair value measurements		
(in millions)	Balance	Level 1	Level 2	Level 3
Loans				
June 30, 2014	$3	$—	$—	$3
December 31, 2013	4	—	—	4

At June 30, 2014 and 2013, there were no adjustments to fair value for ASB's loans held for sale.

Residential loans. The fair value of ASB's residential loans that were written down due to impairment was determined based on third party appraisals, which include the appraisers' assumptions and judgment, and therefore, is classified as a Level 3 measurement.

Home equity lines of credit. The fair value of ASB's home equity lines of credit that were written down due to impairment was determined based on third party appraisals, which include the appraisers' assumptions and judgment, and therefore, is classified as a Level 3 measurement.

Commercial loans. The fair value of ASB's commercial loans that were written down due to impairment was determined based on the value placed on the assets of the business, and therefore, is classified as a Level 3 measurement.

For loans classified as Level 3 as of June 30, 2014, the significant unobservable inputs used in the fair value measurement were as follows:

				Significant unobservable input value [1]	
($ in thousands)	Fair value	Valuation technique	Significant unobservable input	Range	Weighted Average
June 30, 2014					
Residential loans	$2,519	Fair value of property or collateral	Appraised value less 7% selling costs	61-96%	85%
Commercial loans	336	Fair value of property or collateral	Fair value of business assets	19-49%	25%
Total loans	$2,855				
December 31, 2013					
Residential loans	$2,361	Fair value of property or collateral	Appraised value less 7% selling costs	44-96%	87%
Home equity lines of credit	170	Fair value of property or collateral	Appraised value less 7% selling costs	45-50%	50%
Commercial loans	217	Fair value of property or collateral	Fair value of business assets		19%
Commercial loans	1,668	Discounted cash flow	Present value of expected future cash flows		58%
			Discount rate		4.5%
Total loans	$4,416				

[1] Represent percent of outstanding principal balance.

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

9 · Cash flows

Six months ended June 30	2014	2013
(in millions)		
Supplemental disclosures of cash flow information		
HEI consolidated		
Interest paid to non-affiliates	$44	$43
Income taxes paid	22	5
Income taxes refunded	24	4
Hawaiian Electric consolidated		
Interest paid	31	30
Income taxes paid	6	6
Income taxes refunded	8	32
Supplemental disclosures of noncash activities		
HEI consolidated		
Common stock dividends reinvested in HEI common stock [1]	—	12
Increases in common stock related to director and officer compensatory plans	2	1
Real estate acquired in settlement of loans	2	3
Loans transferred from held-for-investment to held-for-sale	—	25
Obligations to fund low income housing investments	8	—
HEI consolidated and Hawaiian Electric consolidated		
Additions to electric utility property, plant and equipment - unpaid invoices and other	28	5

[1] The amounts shown represent common stock dividends reinvested in HEI common stock under the HEI Dividend Reinvestment and Stock Purchase Plan (DRIP) in noncash transactions. As of March 6, 2014, HEI began satisfying the share purchase requirements of the DRIP through open market purchases of its common stock rather than through new issuances.

10 · Recent accounting pronouncements

Obligations resulting from joint and several liability. In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date," which provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance requires entities to measure these obligations as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information.

The Company and the Utilities retrospectively adopted ASU No. 2013-04 in the first quarter of 2014 and it did not have a material impact on the Company's or the Utilities' results of operations, financial condition or liquidity.

Unrecognized tax benefits (UTBs). In July 2013, the FASB issued ASU No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which requires the netting of UTBs against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. UTBs should be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs.

The Company and the Utilities prospectively adopted ASU No. 2013-11 in the first quarter of 2014 and it did not have a material impact on the Company's or the Utilities' results of operations, financial condition or liquidity.

Investments in Qualified Affordable Housing Projects. In January 2014, the FASB issued ASU No. 2014-01, Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable

Housing Projects," which permits entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The amendments also require additional disclosures.
The Company has not determined whether it will retrospectively adopt ASU No. 2014-01 in 2014 or the first quarter of 2015, as early adoption is permitted, nor has it determined the impact of adoption on its results of operations, financial condition or liquidity.

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

The Company plans to prospectively adopt ASU No. 2014-04 in the first quarter of 2015 and does not believe that such adoption will have a material impact on the Company's results of operations, financial condition or liquidity.

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

The Company will adopt ASU No. 2014-09 in the first quarter of 2017, but has not determined the method of adoption (full or modified retrospective application) nor the impact of adoption on its results of operations, financial condition or liquidity.

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

The Company will adopt ASU No. 2014-11 in the first quarter of 2015 and does not believe that such adoption will have a material impact on its results of operations, financial condition or liquidity.

11 · Credit agreements and long-term debt

Credit agreements.

HEI. On April 2, 2014, HEI and a syndicate of nine financial institutions entered into an amended and restated revolving non-collateralized credit agreement (HEI Facility). The HEI Facility increased HEI's line of credit to $150 million from $125 million, extended the term of the facility to April 2, 2019, and provided improved pricing compared to HEI's prior facility. Under the HEI Facility, draws would generally bear interest, based on HEI's current long-term credit ratings, at the "Adjusted LIBO Rate," as defined in the agreement, plus 137.5 basis points and annual fees on undrawn commitments of 20 basis points. The HEI Facility contains updated provisions for pricing adjustments in the event of a long-term ratings change based on the HEI Facility's ratings-based pricing grid. Certain modifications were made to incorporate some updated terms and conditions customary for facilities of this type. In addition, the HEI Consolidated Net Worth covenant, as defined in the original facility, was removed from the HEI Facility, leaving only one financial covenant (relating to HEI's ratio of funded debt to total capitalization, each on a non-consolidated basis). Under the credit agreement, it is an event of default if HEI fails to maintain an unconsolidated "Capitalization Ratio" (funded debt) of 50% or less (actual ratio of 18% as of June 30, 2014, as calculated under the agreement) or if HEI no longer owns Hawaiian Electric. The HEI Facility does not contain clauses that would affect access to the facility by reason of a ratings downgrade, nor does it have broad "material adverse change" clauses, but it continues to contain customary conditions which must be met in order to draw on it, including compliance with covenants (such as covenants preventing HEI's subsidiaries from entering into agreements that restrict the ability of the subsidiaries to pay dividends to, or to repay borrowings from, HEI).

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

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

Facility increased Hawaiian Electric's line of credit to $200 million from $175 million, provided for a term of the facility to April 1, 2015 (but which term is to be extended to up to April 2, 2019 upon approval by the PUC during the initial term, which approval is currently being requested), and provided improved pricing compared to Hawaiian Electric's prior facility. Under the Hawaiian Electric Facility, draws would generally bear interest, based on Hawaiian Electric's current long-term credit ratings, at the "Adjusted LIBO Rate," as defined in the agreement, plus 125 basis points and annual fees on undrawn commitments of 17.5 basis points. The Hawaiian Electric Facility contains updated provisions for pricing adjustments in the event of a long-term ratings change based on the Hawaiian Electric Facility's ratings-based pricing grid. Certain modifications were made to incorporate some updated terms and conditions customary for facilities of this type. The Hawaiian Electric Facility does not contain clauses that would affect access to the facility by reason of a ratings downgrade, nor does it have broad "material adverse change" clauses, but it continues to contain customary conditions which must be met in order to draw on it, including compliance with several covenants (such as covenants preventing its subsidiaries from entering into agreements that restrict the ability of the subsidiaries to pay dividends to, or to repay borrowings from, Hawaiian Electric, and restricting its ability as well as the ability of any of its subsidiaries to guarantee additional indebtedness of the subsidiaries if such additional debt would cause the subsidiary's "Consolidated Subsidiary Funded Debt to Capitalization Ratio" to exceed 65% (ratio of 42% for Hawaii Electric Light and 45% for Maui Electric as of June 30, 2014, as calculated under the agreement)). In addition to customary defaults, Hawaiian Electric's failure to maintain its financial ratios, as defined in its credit agreement, or meet other requirements may result in an event of default. For example, under the credit agreement, it is an event of default if Hawaiian Electric fails to maintain a "Consolidated Capitalization Ratio" (equity) of at least 35% (ratio of 54% as of June 30, 2014, as calculated under the credit agreement), or if Hawaiian Electric is no longer owned by HEI.

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

Changes in long-term debt.

May 2014 loan. On May 2, 2014, HEI entered into a loan agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd., Royal Bank of Canada and U.S. Bank, National Association, which agreement includes the same financial covenant and customary conditions as the HEI credit agreement described above. On May 2, 2014, HEI drew a $125 million Eurodollar term loan for a term of two years and at an initial interest rate of 1.12% for an initial three month interest period. The proceeds from the term loan were used to pay-off $100 million of 6.51% medium term notes at maturity on May 5, 2014, pay down maturing commercial paper and for general corporate purposes.

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

The following discussion updates "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in HEI's and Hawaiian Electric's 2013 Form 10-K and should be read in conjunction with such discussion and the 2013 annual consolidated financial statements of HEI and Hawaiian Electric and notes thereto included in HEI's and Hawaiian Electric's 2013 Form 10-K, as well as the quarterly (as of and for the three and six months ended June 30, 2014) financial statements and notes thereto included in this Form 10-Q.

HEI consolidated

RESULTS OF OPERATIONS

(in thousands, except per	Three months ended June 30		%	
share amounts)	2014	2013	change	Primary reason(s)*
Revenues	$798,657	$794,567	1	Increase for the electric utility segment, partly offset by decrease for the bank segment
Operating income	82,275	80,207	3	Increase for the electric utility segment, partly offset by decrease for the bank segment and higher losses at corporate
	41,421	40,588	2	

Net income for common stock				Higher operating income for the electric utility segment, partly offset by higher "interest expense, net—other than on deposit liabilities and other bank borrowings"
Basic earnings per common share	$0.41	$0.41	—	Higher net income, offset by the impact of higher weighted average shares outstanding
Weighted-average number of common shares outstanding	101,495	98,660	3	Issuances of shares under the HEI Dividend Reinvestment and Stock Purchase Plan and other plans

(in thousands, except per share amounts)	Six months ended June 30 2014	2013	% change	Primary reason(s)*
Revenues	$1,582,406	$1,576,799	—	Increase for the electric utility segment, partly offset by decrease for the bank segment
Operating income	170,581	149,032	14	Increase for the electric utility segment, partly offset by decrease for the bank segment and higher losses at corporate
Net income for common stock	87,348	74,267	18	Higher operating income for the electric utility segment, partly offset by higher "interest expense, net—other than on deposit liabilities and other bank borrowings"
Basic earnings per common share	$0.86	$0.75	15	Higher net income, partly offset by the impact of higher weighted average shares outstanding
Weighted-average number of common shares outstanding	101,439	98,399	3	Issuances of shares under the HEI Dividend Reinvestment and Stock Purchase Plan and other plans

* Also, see segment discussions which follow.

Notes: The Company's effective tax rates (combined federal and state) for the second quarters of 2014 and 2013 were 35% and 36%, respectively, and for each of the first six months of 2014 and 2013 were 35%.
HEI's consolidated ROACE was 10.3% for the twelve months ended June 30, 2014 and 8.5% for the twelve months ended June 30, 2013.

Dividends. The payout ratios for the first six months of 2014 and full year 2013 were 72% and 76%, respectively. HEI currently expects to maintain the dividend at its present level; however, the HEI Board of Directors evaluates the dividend quarterly and considers many factors in the evaluation, including but not limited to the Company's results of operations, the long-term prospects for the Company, and current and expected future economic conditions.

Economic conditions.

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

Hawaii's tourism industry, a significant driver of Hawaii's economy, ended the first half of 2014 with higher visitor expenditures and relatively flat arrivals as compared to the same period a year ago. Visitor expenditures increased 2.5% while arrivals decreased 0.1% in the first six months of 2014 compared to the first six months of 2013. The Hawaii Tourism Authority expects scheduled nonstop seats to Hawaii for the third quarter of 2014 to increase by 4.4% over the third quarter of 2013, driven by increases in air seats from North America, specifically Los Angeles and Seattle.

Hawaii's unemployment rate was relatively stable at 4.4% in June 2014, lower than the state's 4.7% rate in June 2013 and the June 2014 national unemployment rate of 6.1%.

Hawaii real estate activity, as indicated by the home resale market, experienced strong growth in median sales prices in the first half of 2014. Median sales prices for single family residential homes and condominiums on Oahu increased 7.1% over the first half of 2013. However, closed sales were relatively flat in the first half of 2014. Closed sales for single family residential homes were down 0.2% and condominiums were down 0.1% over the same period in 2013.

Hawaii's petroleum product prices reflect supply and demand in the Asia-Pacific region and the price of crude oil in international markets. The dramatic reduction in Japan's nuclear production following the tragic earthquake and tsunami in March 2011 increased regional demand for energy supplies, including petroleum, and the prices of the

Utilities' fuels have accordingly remained at the elevated 2011 level through the second quarter of 2014.
At its June 17-18, 2014 meeting, the Federal Open Market Committee (FOMC) noted that there is sufficient underlying strength in the broader economy to support ongoing improvement in labor market conditions. In light of this progress, the FOMC decided to make a further measured reduction in the pace of purchases of Treasury and agency mortgage-backed securities beyond the steps taken after its meeting in April 2014. The FOMC indicated that if economic data continues to support the outlook of ongoing improvement, the pace of asset purchases would likely be further reduced, however, asset

purchases are not on a preset course and are still contingent on FOMC evaluation. The FOMC maintained a highly accommodative stance regarding monetary policy. The federal funds rate target was held at 0% to 0.25% and is expected to remain at record low rates for a considerable time after the asset purchase program ends.

Overall, Hawaii's economy is expected to see moderate growth continuing in 2014 and 2015 driven largely by the construction industry. The visitor industry continues to fare well, but is not expected to contribute significantly to overall growth. Consumption tax increases in Japan, uncertainty surrounding the effects of the Fed's monetary policy and political instability in Eastern Europe pose possible risks to local economic growth.

Recent tax developments. The American Taxpayer Relief Act of 2012 provided a one year extension of 50% bonus depreciation through 2013, which increased federal tax depreciation for 2013 by an estimated $131 million, primarily attributable to the Utilities. Congress has not extended bonus depreciation for 2014 plant additions, but both Houses have proposed bills which would extend bonus depreciation into the future. No action on these bills is expected until after the November election. Without an extension of bonus depreciation, income tax cash payments are expected to increase in 2014 compared to 2013.

Also, see Note 3 of the Consolidated Financial Statements.

Health care reform. On June 28, 2012, the US Supreme Court upheld the Patient Protection and Affordable Care Act, the 2010 health care reform law. Currently, Hawaii's Prepaid Health Care Act generally provides greater benefits to employees and dependents because of cost sharing limitations. The Company will continue to comply with its obligations under these laws and to monitor the interaction of the state and federal laws.

Retirement benefits. For the first six months of 2014, the Company's defined benefit pension and other postretirement benefit plans' assets generated a gain, net of investment management fees, of 5.7%. The market value of these assets as of June 30, 2014 and December 31, 2013 was $1.4 billion (including $1.3 billion for the Utilities) and $1.4 billion (including $1.2 billion for the Utilities), respectively.

The Company estimates that the cash funding for its defined benefit pension and other postretirement benefit plans in 2014 will be $60 million ($59 million by the Utilities, $1 million by HEI and nil by ASB), which is expected to fully satisfy the minimum contribution requirements, including requirements of the Utilities' pension and other postretirement benefits tracking mechanisms and the plans' funding policies.

During the first quarter of 2014, the Society of Actuaries issued an exposure draft with a proposed revised mortality table for use by actuaries, insurance companies, governments, benefit plan sponsors and others in setting assumptions regarding life expectancy in the United States for purposes of estimating pension and OPEB obligations, costs and required contribution amounts. The newly proposed mortality tables indicate substantial life expectancy improvements since the last study published in 2000 (RP 2000). Adoption of the new mortality table would result in significantly increased future pension and OPEB plan obligations, costs and required contribution amounts across all plan sponsors. The Company is currently evaluating the exposure draft and potential impacts to the December 31, 2014 valuation and future expected pension and OPEB plan obligations, cost and contributions. The IRS has indicated the RP 2000 table with mortality improvements projected seven years beyond the valuation date for annuitants and fifteen years beyond the valuation date for non-annuitants should be used for Employee Retirement Income Security Act of 1974, as amended (ERISA) funding calculations impacting qualified pension plans in 2014 and 2015 by sponsors electing the static mortality option, meaning the earliest a new table is expected to be required for determining minimum ERISA funding requirements is January 1, 2016.

Commitments and contingencies. See Note 3, "Electric utility segment" and Note 4, "Bank segment," of the Consolidated Financial Statements.

Recent accounting pronouncements. See Note 10, "Recent accounting pronouncements," of the Consolidated Financial Statements.

"Other" segment.

(in thousands)	Three months ended June 30 2014	2013	Six months ended June 30 2014	2013	Primary reason(s)
Revenues	$(388)	$15	$(320)	$50	Writedown of venture capital investments
Operating loss	(4,841)	(3,473)	(8,824)	(7,520)	Writedown of venture capital investments and higher administrative and general expenses due to higher salaries, executive compensation and legal expenses, partly offset by lower retirement benefits expense
Net loss	(4,485)	(4,024)	(8,517)	(8,929)	Higher operating loss, partly offset by lower interest expense

The "other" business segment includes results of the stand-alone corporate operations of HEI and American Savings Holdings, Inc. (ASHI), both holding companies; HEI Properties, Inc., a company holding passive, venture capital investments; and The Old Oahu Tug Service, Inc., a maritime freight transportation company that ceased operations in 1999; as well as eliminations of intercompany transactions.

FINANCIAL CONDITION

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

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

(dollars in millions)	June 30, 2014		December 31, 2013	
Short-term borrowings—other than bank	$185	5 %	$105	3 %
Long-term debt, net—other than bank	1,518	44	1,493	45
Preferred stock of subsidiaries	34	1	34	1
Common stock equity	1,761	50	1,727	51
	$3,498	100 %	$3,359	100 %

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

(in millions)	Six months ended June 30, 2014 Average balance	Balance June 30, 2014	Balance December 31, 2013
Short-term borrowings [1]			
Commercial paper	$83	$82	$105
Line of credit draws	—	—	—
Undrawn capacity under HEI's line of credit facility (expiring December 5, 2016) [2]		150	125

[1] This table does not include Hawaiian Electric's separate commercial paper issuances and line of credit facilities and draws, which are disclosed below under "Electric utility—Financial Condition—Liquidity and capital resources." The maximum amount of HEI's external short-term borrowings during the first six months of 2014 was $102 million. At July 31, 2014, HEI had $60 million in outstanding commercial paper and its line of credit facility was undrawn.

[2] On April 2, 2014, HEI entered into an amended and restated revolving unsecured credit agreement, which increased HEI's line of credit to $150 million from $125 million and extended the term. See Note 11 of the Consolidated Financial Statements.

HEI has a line of credit facility, as amended and restated on April 2, 2014, of $150 million. See Note 11 of the Consolidated Financial Statements.

The Company raised $3 million through the issuance of approximately 0.1 million shares of common stock under the DRIP, the HEIRSP and ASB 401(k) Plan from January 1 through March 5, 2014. As of March 6, 2014, HEI began satisfying the share purchase requirements of the DRIP, HEIRSP and ASB 401(k) Plan through open market purchases of its common stock rather than through new issuances.

In March 2013, HEI entered into equity forward transactions in which a forward counterparty borrowed 7 million shares of

HEI's common stock from third parties and such borrowed shares were sold pursuant to an HEI registered public offering. See Note 7 of the Consolidated Financial Statements. In July 2014, HEI issued 1 million shares under the equity forward for proceeds of $23.9 million.

On May 2, 2014, HEI closed a two-year term loan from three banks for $125 million. See Note 11 of the Consolidated Financial Statements for a brief description of the loan agreement and the application of the proceeds of the loan.

On March 6, 2013, HEI issued $50 million of 3.99% Senior Notes due March 6, 2023 via a private placement. HEI used the net proceeds from the issuance of the Senior Notes to refinance $50 million of its 5.25% medium-term notes that matured on March 7, 2013. The Senior Notes contain customary representation and warranties, affirmative and negative covenants, and events of default (the occurrence of which may result in some or all of the notes then outstanding becoming immediately due and payable) and provisions requiring the maintenance by HEI of certain financial ratios generally consistent with those in HEI's line of credit facility.

For the first six months of 2014, net cash provided by operating activities of HEI consolidated was $46 million. Net cash used by investing activities for the same period was $272 million, due to Hawaiian Electric's consolidated capital expenditures, a net increase in ASB's loans held for investment and purchases of investment and mortgage-related securities, partly offset by ASB's proceeds from sales of investment securities, repayments of investment and mortgage-related securities and redemption of stock from the Federal Home Loan Bank of Seattle, and Hawaiian Electric's contributions in aid of construction. Net cash provided by financing activities during this period was $194 million as a result of several factors, including net increases in deposit liabilities and short-term borrowings and proceeds from the issuance of long-term debt (net of repayments), partly offset by the payment of common stock dividends. Other than capital contributions from their parent company, intercompany services (and related intercompany payables and receivables), Hawaiian Electric's periodic short-term borrowings from HEI (and related interest) and the payment of dividends to HEI, the electric utility and bank segments are largely autonomous in their operating, investing and financing activities. (See the electric utility and bank segments' discussions of their cash flows in their respective "Financial condition—Liquidity and capital resources" sections below.). During the first six months of 2014, Hawaiian Electric and ASB (through ASHI) paid cash dividends to HEI of $44 million and $19 million, respectively.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION

The Company's results of operations and financial condition can be affected by numerous factors, many of which are beyond the Company's control and could cause future results of operations to differ materially from historical results. For information about certain of these factors, see pages 45, 59 to 61, and 71 to 73 of HEI's MD&A included in Part II, Item 7 of HEI's 2013 Form 10-K.

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

MATERIAL ESTIMATES AND CRITICAL ACCOUNTING POLICIES

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

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

For information about these material estimates and critical accounting policies, see pages 46, 61 to 62, and 73 to 74 of HEI's MD&A included in Part II, Item 7 of HEI's 2013 Form 10-K.

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

Electric utility

RESULTS OF OPERATIONS

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

Transition to renewable energy. The Utilities are committed to achieving or exceeding the State's Renewable Portfolio Standard goal of 40% renewable energy by 2030 (see "Renewable energy strategy" below). In addition, while it will not take precedence over the Utilities' work to increase their use of renewable energy, the Utilities are also working with the State of Hawaii and other entities to examine the possibility of using liquefied natural gas (LNG) as a cleaner and lower cost fuel to replace, at least in part, the petroleum oil that would otherwise be used for the remaining generation. In December 2013, the Utilities executed a non-binding memorandum of understanding with The Gas Company, LLC d/b/a HawaiiGAS, documenting the parties' desire to work together to (a) develop and/or secure infrastructure for large scale importation of LNG into Hawaii and (b) establish a consortium to competitively procure the LNG and provide storage and regasification of it at an LNG terminal site. In March 2014, Hawaiian Electric issued a request for proposals (RFP) for the supply of containerized LNG. Hawaiian Electric received 3 final bid submissions in May 2014 and is currently evaluating them in detail. Also, see "Subsequent event" in Note 3 of the Consolidated Financial Statements for a description of Hawaiian Electric's agreement with Fortis BC Energy Inc.

During the second quarter of 2014, Hawaiian Electric began replacement of approximately 5,200 residential and commercial meters with smart meters in selected areas across Oahu as part of the initial phase of its smart grid project. The initial phase is expected to run through the end of 2014 and also includes the installation of fault circuit indicators and remote switching, as well as the integration of customer energy portals. In June 2014, the residential customer energy portal was launched and available for customer use. The smart grid should help customers manage their electric bills by providing them with more information about their energy use. Additionally, a fully developed smart grid will provide the Utilities the flexibility and ability to respond to changes in power flow from intermittent sources, like solar and wind, thus allowing for the integration of more low-cost renewable energy. Hawaiian Electric is planning to seek approval from the PUC in the first quarter of 2015 to commit funds for an expansion of the smart grid project, including at Hawaii Electric Light and Maui Electric.

Decoupling. In 2010, the PUC issued an order approving decoupling, which was implemented by the Utilities in 2011 and 2012. The decoupling model implemented delinks revenues from sales and includes annual revenue adjustments for certain O&M expenses and rate base changes.

Under decoupling, the most significant drivers for improving earnings are:

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

On May 31, 2013, as provided for in its original order issued in 2010 approving decoupling, the PUC opened an investigative docket to review whether the decoupling mechanisms are functioning as intended, are fair to the Utilities and their ratepayers, and are in the public interest. On February 7, 2014, in the first part of this bifurcated proceeding, the PUC issued a D&O on select issues, which made certain modifications to the decoupling mechanism. Among other things, the D&O requires:

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

The second part of this proceeding will continue this year with panel hearings scheduled for October 2014. See "Decoupling" in Note 3 of the Consolidated Financial Statements.

Actual and PUC-allowed (as of June 30, 2014) returns were as follows:

%	Return on rate base (RORB)*			ROACE**			Rate-making ROACE***		
Twelve months ended June 30, 2014	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Hawaiian Electric	Hawaii Electric Light	Maui Electric
Utility returns	8.16	7.08	7.01	9.56	7.58	8.16	10.47	8.07	8.55
PUC-allowed returns	8.11	8.31	7.34	10.00	10.00	9.00	10.00	10.00	9.00
Difference	0.05	(1.23)	(0.33)	(0.44)	(2.42)	(0.84)	0.47	(1.93)	(0.45)

* Based on recorded operating income and average rate base, both adjusted for items not included in determining electric rates.

** Recorded net income divided by average common equity.

*** ROACE adjusted to remove items not included by the PUC in establishing rates, such as executive bonuses and advertising.

The approval of decoupling by the PUC has helped the Utilities to gradually improve their ROACEs, which in turn will facilitate the Utilities' ability to effectively raise capital for needed infrastructure investments. However, the Utilities continue to expect an ongoing structural gap between their PUC-allowed ROACEs and the ROACEs actually achieved due to the following:

- the timing of general rate case decisions,
- the effective date of June 1 (rather than January 1) for the RAMs for Hawaii Electric Light and Maui Electric currently, and for Hawaiian Electric beginning in 2017,
- the 5-year historical average for baseline plant additions,
- the modifications to the rate base RAM and RBA interest rate per the PUC's February 2014 decision on decoupling (as discussed in Note 3 of the Consolidated Financial Statements), and
- the PUC's consistent exclusion of certain expenses from rates.

The structural gap in 2014 to 2016 is expected to be 100 to 130 basis points. Factors which impact the range of the structural gap include the actual sales impacting the size of the RBA regulatory asset, the actual level of baseline additions in any given year relative to the 5-year historical average, and the timing, nature, and size of any general rate case. Between rate cases, items not covered by the annual RAMs could also have a negative impact on the actual ROACEs achieved by the Utilities (primarily investments in software projects, changes in fuel inventory and O&M in excess of indexed escalations). The specific magnitude of the impact will depend on various factors, including the size of software projects, changes in fuel prices and management's ability to manage costs within the current mechanisms.
As part of decoupling, the Utilities also track their rate-making ROACEs as calculated under the earnings sharing mechanism, which includes only items considered in establishing rates. At year-end, each utility's rate-making ROACE is compared against its ROACE allowed by the PUC to determine whether earnings sharing has been triggered. Annual earnings of a utility over and above the ROACE allowed by the PUC are shared between the utility and its ratepayers on a tiered basis. For 2013, Maui Electric's rate-making ROACE was 9.35%, which was above the PUC allowed 9% ROACE and triggered the earnings sharing mechanism. As a result, Maui Electric will credit its customers $0.4 million for their portion of the earnings sharing. Maui Electric's 2013 ratemaking ROACE of 9.35% included adjustments to Maui Electric's actual ROACE of 8.91% such as the exclusion of expenses not considered in establishing electric rates (e.g., executive bonuses). For 2013, Hawaiian Electric's rate-making ROACE was 8.95% and Hawaii Electric Light's rate-making ROACE was 7.46%, which did not trigger the earnings sharing mechanism.
Annual decoupling filings. On May 30, 2014, the PUC approved the revised annual decoupling filings for tariffed rates for the Utilities that will be effective from June 1, 2014 through May 31, 2015. The tariffed rates include: (1) RAM adjusted revenues (the components of the annual incremental changes are shown below) with the 2014 rate base RAM return on investment calculated as the PUC ordered in its recent investigative docket on the decoupling mechanism, (2) accrued earnings sharing credits to be refunded, and (3) the amount of the accrued RBA balance as of December 31, 2013 (and associated

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revenue taxes) to be collected:

(in millions)	Hawaiian Electric	Hawaii Electric Light	Maui Electric
Annual incremental RAM adjusted revenues			
O&M	$4.0	$0.9	$1.0
Invested capital	26.8	3.9	4.4
Total annual incremental RAM adjusted revenues	$30.8	$4.8	$5.4
Accrued earnings sharing credits to be refunded	$—	$—	$(0.4)
Accrued RBA balance as of December 31, 2013 (and associated revenue taxes) to be collected	$72.6	$8.2	$9.6

Results.

Three months ended June 30		Increase		
2014	2013	(decrease)		(dollars in millions, except per barrel amounts)
$738	$729	$9		Revenues. Increase largely due to:
			$16	higher decoupling revenues, including the rate base (RB) and O&M RAM acceleration for Hawaiian Electric
			7	Maui Electric refund in 2013 due to final rate case decision
			(15)	lower fuel costs
270	289	(19)		Fuel oil expense. Decrease largely due to lower KWHs generated, resulting from higher purchased power and lower sales, partially offset by lower fuel efficiency performance of generators on Oahu and higher fuel handling costs