

HAWAIIAN ELECTRIC INDUSTRIES INC
 Form 10-K
 February 26, 2015

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

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

For the fiscal year ended December 31, 2014

OR

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

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	I.R.S. Employer Identification No.
1-8503	HAWAIIAN ELECTRIC INDUSTRIES, INC., a Hawaii corporation 1001 Bishop Street, Suite 2900, Honolulu, Hawaii 96813 Telephone (808) 543-5662	99-0208097
1-4955	HAWAIIAN ELECTRIC COMPANY, INC., a Hawaii corporation 900 Richards Street, Honolulu, Hawaii 96813 Telephone (808) 543-7771	99-0040500

Securities registered pursuant to Section 12(b) of the Act:

Registrant	Title of each class	Name of each exchange on which registered
Hawaiian Electric Industries, Inc.	Common Stock, Without Par Value	New York Stock Exchange
Hawaiian Electric Company, Inc.	Guarantee with respect to 6.50% Cumulative Quarterly Income Preferred Securities Series 2004 (QUIPSSM) of HECO Capital Trust III	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Registrant	Title of each class
Hawaiian Electric Industries, Inc.	None
Hawaiian Electric Company, Inc.	Cumulative Preferred Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

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

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

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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 No Hawaiian Electric Company, Inc. Yes No

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

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

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

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

Hawaiian Electric Industries Inc.	Large accelerated filer <input checked="" type="checkbox"/> Accelerated filer <input type="checkbox"/> Non-accelerated filer (Do not check if a smaller reporting company) <input type="checkbox"/> Smaller reporting company <input type="checkbox"/>	Hawaiian Electric Company, Inc.	Large accelerated filer <input type="checkbox"/> Accelerated filer <input type="checkbox"/> Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company) <input type="checkbox"/> Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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

	Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrants as of June 30, 2014	Number of shares of common stock outstanding of the registrants as of	
		June 30, 2014	February 13, 2015
Hawaiian Electric Industries, Inc. (HEI)	\$2,571,503,656	101,560,176 (Without par value)	102,710,867 (Without par value)
Hawaiian Electric Company, Inc. (Hawaiian Electric)	None	15,429,105 (\$6 2/3 par value)	15,805,327 (\$6 2/3 par value)

DOCUMENTS INCORPORATED BY REFERENCE

Hawaiian Electric's Exhibit 99.1, consisting of:
 Hawaiian Electric's Directors, Executive Officers and Corporate Governance—Part III

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Hawaiian Electric's Executive Compensation—Part III

Hawaiian Electric's Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters—

Part III

Hawaiian Electric's Certain Relationships and Related Transactions, and Director Independence—Part III

Hawaiian Electric's Principal Accounting Fees and Services—Part III

This combined Form 10-K represents separate filings by Hawaiian Electric Industries, Inc. and Hawaiian Electric Company, Inc. Information contained herein relating to any individual registrant is filed by each registrant on its own behalf. Hawaiian Electric makes no representations as to any information not relating to it or its subsidiaries.

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GLOSSARY OF TERMS

Defined below are certain terms used in this report:

Terms	Definitions
ABO	Accumulated benefit obligation
AES Hawaii	AES Hawaii, Inc.
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income (loss)
AOS	Adequacy of supply
APBO	Accumulated postretirement benefit obligation
ARO	Asset retirement obligations
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of American Savings Holdings, Inc.
ASB Hawaii	ASB Hawaii, Inc. (formerly American Savings Holdings, Inc.), a wholly-owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Btu	British thermal unit
CAA	Clean Air Act
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
Chevron	Chevron Products Company, a fuel oil supplier
CIP	Campbell Industrial Park
CIS	Customer Information System
Company	When used in Hawaiian Electric Industries, Inc. sections and in the Notes to Consolidated Financial Statements, "Company" refers to Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation, Hawaiian Electric Company, Inc. and its subsidiaries (listed under Hawaiian Electric); ASB Hawaii, Inc. and its subsidiary, American Savings Bank, F.S.B.; HEI Properties, Inc.; Hawaiian Electric Industries Capital Trust II and Hawaiian Electric Industries Capital Trust III (inactive financing entities); and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.). When used in Hawaiian Electric Company, Inc. sections, "Company" refers to Hawaiian Electric Company, Inc. and its direct subsidiaries.
Consolidated Financial Statements	HEI's and Hawaiian Electric's combined Consolidated Financial Statements, including notes, in Item 8 of this Form 10-K
Consumer Advocate	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii
CT-1	Combustion turbine No. 1
D&O	Decision and order
DBEDT	State of Hawaii Department of Business Economic Development and Tourism
DBF	State of Hawaii Department of Budget and Finance
DG	Distributed generation
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOH	Department of Health of the State of Hawaii
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
ECAC	Energy cost adjustment clause
EGU	Electrical generating unit
EIP	2010 Executive Incentive Plan, as amended

Energy Agreement Agreement, dated October 20, 2008, signed by the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and Hawaiian Electric, for itself and on behalf of its electric utility subsidiaries, committing to actions to develop renewable energy and reduce dependence on fossil fuels in support of the HCEI. In September 2014, the parties to the Energy Agreement concluded that the agreements and policy directives in the Energy Agreement had been advanced or superseded by subsequent events, as well as by decisions and orders issued by the PUC, and accordingly ended the Energy Agreement as of September 14, 2014.

EOTP East Oahu Transmission Project
EPA Environmental Protection Agency - federal
EPS Earnings per share

GLOSSARY OF TERMS (continued)

Terms	Definitions
ERISA	Employee Retirement Income Security Act of 1974, as amended
ERL	Environmental Response Law of the State of Hawaii
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
federal	U.S. Government
FERC	Federal Energy Regulatory Commission
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FICO	Financing Corporation
Fitch	Fitch Ratings, Inc.
FNMA	Federal National Mortgage Association
FRB	Federal Reserve Board
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse gas
GNMA	Government National Mortgage Association
Gramm Act	Gramm-Leach-Bliley Act of 1999
HCEI	Hawaii Clean Energy Initiative
HC&S	Hawaiian Commercial & Sugar Company, a division of A&B-Hawaii, Inc.
Hawaii Electric Light	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
Hawaiian Electric	Hawaiian Electric Company, Inc., an electric utility subsidiary of Hawaiian Electric Industries, Inc. and parent company of Hawaii Electric Light Company, Inc., Maui Electric Company, Limited, HECO Capital Trust III (unconsolidated financing subsidiary), Renewable Hawaii, Inc. and Uluwehiokama Biofuels Corp.
Hawaiian Electric's MD&A	Hawaiian Electric Company, Inc.'s Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., ASB Hawaii, Inc., HEI Properties, Inc., Hawaiian Electric Industries Capital Trust II, Hawaiian Electric Industries Capital Trust III and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.).
HEI's MD&A	Hawaiian Electric Industries, Inc.'s Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K
HEIPI	HEI Properties, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HEP	Hamakua Energy Partners, L.P., formerly known as Encogen Hawaii, L.P.
HTB	Hawaiian Tug & Barge Corp. On November 10, 1999, HTB sold substantially all of its operating assets and the stock of its subsidiary, Young Brothers, Limited, and changed its name to The Old Oahu Tug Services, Inc.
HPower	City and County of Honolulu with respect to a power purchase agreement for a refuse-fired plant
IPP	Independent power producer
IRP	Integrated resource plan
IRR	Interest rate risk

Kalaeloa	Kalaeloa Partners, L.P.
kV	Kilovolt
kW	Kilowatt/s (as applicable)
KWH	Kilowatthour/s (as applicable)
LSFO	Low sulfur fuel oil
LTIP	Long-term incentive plan
Maui Electric	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
MBtu	Million British thermal unit
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Merger	As provided in the Merger Agreement, merger of Merger Sub I with and into HEI, with HEI surviving, and then merger of HEI with and into Merger Sub II, with Merger Sub II surviving as a wholly owned subsidiary of NEE

GLOSSARY OF TERMS (continued)

Terms	Definitions
Merger Agreement	Agreement and Plan of Merger by and among HEI, NEE, Merger Sub II and Merger Sub I, dated December 3, 2014
Merger Sub I	NEE Acquisition Sub II, Inc., a Delaware corporation and a wholly owned subsidiary of NEE
Merger Sub II	NEE Acquisition Sub I, LLC, a Delaware limited liability company and a wholly owned subsidiary of NEE
Moody's	Moody's Investors Service's
MSFO	Medium sulfur fuel oil
MOU	Memorandum of Understanding
MW	Megawatt/s (as applicable)
NA	Not applicable
NAAQS	National Ambient Air Quality Standard
NEE	NextEra Energy, Inc.
NII	Net interest income
NM	Not meaningful
NPBC	Net periodic benefits costs
NQSO	Nonqualified stock options
O&M	Other operation and maintenance
OCC	Office of the Comptroller of the Currency
OPEB	Postretirement benefits other than pensions
OTS	Office of Thrift Supervision, Department of Treasury
OTTI	Other-than-temporary impairment
PBO	Projected benefit obligation
PCB	Polychlorinated biphenyls
PGV	Puna Geothermal Venture
PPA	Power purchase agreement
PPAC	Purchased power adjustment clause
PSD	Prevention of Significant Deterioration
PUC	Public Utilities Commission of the State of Hawaii
PURPA	Public Utility Regulatory Policies Act of 1978
QF	Qualifying Facility under the Public Utility Regulatory Policies Act of 1978
QTL	Qualified Thrift Lender
RAM	Rate adjustment mechanism
RBA	Revenue balancing account
Registrant	Each of Hawaiian Electric Industries, Inc. and Hawaiian Electric Company, Inc.
REIP	Renewable Energy Infrastructure Program
RFP	Request for proposals
RHI	Renewable Hawaii, Inc., a wholly-owned nonregulated subsidiary of Hawaiian Electric Company, Inc.
ROA	Return on assets
ROACE	Return on average common equity
RORB	Return on rate base
RPS	Renewable portfolio standards
S&P	Standard & Poor's
SAR	Stock appreciation right

SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference (or means refer to the referenced section in this document or the referenced exhibit or other document)
SLHCs	Savings & Loan Holding Companies
SOIP	1987 Stock Option and Incentive Plan, as amended
Spin-Off	The distribution to HEI shareholders of all of the common stock of ASB Hawaii immediately prior to the Merger
SPRBs	Special Purpose Revenue Bonds
ST	Steam turbine
state	State of Hawaii
TDR	Troubled debt restructuring

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GLOSSARY OF TERMS (continued)

Terms	Definitions
Tesoro	Tesoro Hawaii Corporation dba BHP Petroleum Americas Refining Inc., a fuel oil supplier
TOOTS	The Old Oahu Tug Service, Inc., a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
Trust III	HECO Capital Trust III
UBC	Uluwehiokama Biofuels Corp., a wholly-owned nonregulated subsidiary of Hawaiian Electric Company, Inc.
Utilities	Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited
VIE	Variable interest entity

Forward-Looking Statements

This report and other presentations made by Hawaiian Electric Industries, Inc. (HEI) and Hawaiian Electric Company, Inc. (Hawaiian Electric) and their subsidiaries contain “forward-looking statements,” which include statements that are predictive in nature, depend upon or refer to future events or conditions, and usually include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “predicts,” “estimates” or similar expressions. In addition, any statements concerning future financial performance, ongoing business strategies or prospects or possible future actions are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and the accuracy of assumptions concerning HEI and its subsidiaries (collectively, the Company), the performance of the industries in which they do business and economic and market factors, among other things. These forward-looking statements are not guarantees of future performance. Risks, uncertainties and other important factors that could cause actual results to differ materially from those described in forward-looking statements and from historical results include, but are not limited to, the following:

- the successful and timely completion of the proposed Merger with NextEra Energy, Inc. (NEE), which could be materially and adversely affected by, among other things, resolving the litigation brought in connection with the proposed Merger, the timing and terms and conditions of required governmental and regulatory approvals, the ability to obtain the required shareholder approval and the ability to maintain relationships with employees, customers or suppliers, as well as the ability to integrate the businesses;
- the ability of ASB to operate successfully after the Spin-Off of its parent ASB Hawaii;
- international, national and local economic conditions, including the state of the Hawaii tourism, defense and construction industries, the strength or weakness of the Hawaii and continental U.S. real estate markets (including the fair value and/or the actual performance of collateral underlying loans held by American Savings Bank, F.S.B. (ASB), which could result in higher loan loss provisions and write-offs), decisions concerning the extent of the presence of the federal government and military in Hawaii, the implications and potential impacts of U.S. and foreign capital and credit market conditions and federal, state and international responses to those conditions, and the potential impacts of global developments (including global economic conditions and uncertainties, unrest, ongoing conflicts in North Africa and the Middle East, terrorist acts, potential conflict or crisis with North Korea or Iran, developments in the Ukraine and potential pandemics);
- the effects of future actions or inaction of the U.S. government or related agencies, including those related to the U.S. debt ceiling and monetary policy;
- weather and natural disasters (e.g., hurricanes, earthquakes, tsunamis, lightning strikes, lava flows and the potential effects of climate change, such as more severe storms and rising sea levels), including their impact on the Company's and Utilities' operations and the economy;
- the timing and extent of changes in interest rates and the shape of the yield curve;
- the ability of the Company and the Utilities to access the credit and capital markets (e.g., to obtain commercial paper and other short-term and long-term debt financing, including lines of credit, and, in the case of HEI, to issue common stock) under volatile and challenging market conditions, and the cost of such financings, if available;
- the risks inherent in changes in the value of the Company's pension and other retirement plan assets and ASB's securities available for sale;
- changes in laws, regulations, market conditions and other factors that result in changes in assumptions used to calculate retirement benefits costs and funding requirements;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and of the rules and regulations that the Dodd-Frank Act requires to be promulgated;
- increasing competition in the banking industry (e.g., increased price competition for deposits, or an outflow of deposits to alternative investments, which may have an adverse impact on ASB's cost of funds);
- the PUC's potential delay in considering (and potential disapproval of actual or proposed) Hawaii Clean Energy Initiative (HCEI)-related costs; reliance by the Utilities on outside parties such as the state, independent power producers (IPPs) and developers; potential changes in political support for the HCEI; and uncertainties surrounding wind power, proposed undersea cables, biofuels, environmental assessments and the impacts of implementation of the HCEI on future costs of electricity);

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

capacity and supply constraints or difficulties, especially if generating units (utility-owned or IPP-owned) fail or measures such as demand-side management (DSM), distributed generation, combined heat and power or other firm capacity supply-side resources fall short of achieving their forecasted benefits or are otherwise insufficient to reduce or meet peak demand;

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

the continued availability to the electric utilities of other cost recovery mechanisms, including the purchased power adjustment clauses (PPACs), rate adjustment mechanisms (RAMs) and pension and postretirement benefits other than pensions (OPEB) tracking mechanisms, and the continued decoupling of revenues from sales to mitigate the effects of declining kilowatt-hour sales;

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

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

the growing risk that energy production from renewable generating resources may be curtailed and the interconnection of additional resources will be constrained as more generating resources are added to the Utilities' electric systems and as customers reduce their energy usage;

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

the ability of the Utilities to negotiate, periodically, favorable agreements for significant resources such as fuel supply contracts and collective bargaining agreements;

new technological developments that could affect the operations and prospects of HEI and ASB or their competitors;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PART I

ITEM 1. BUSINESS

HEI Consolidated

HEI and subsidiaries and lines of business. HEI was incorporated in 1981 under the laws of the State of Hawaii and is a holding company with its principal subsidiaries engaged in electric utility and banking businesses operating primarily in the State of Hawaii. HEI's predecessor, Hawaiian Electric, was incorporated under the laws of the Kingdom of Hawaii (now the State of Hawaii) on October 13, 1891. As a result of a 1983 corporate reorganization, Hawaiian Electric became an HEI subsidiary and common shareholders of Hawaiian Electric became common shareholders of HEI.

Hawaiian Electric and its operating utility subsidiaries, Hawaii Electric Light Company, Inc. (Hawaii Electric Light) and Maui Electric Company, Limited (Maui Electric), are regulated electric public utilities. Hawaiian Electric also owns all the common securities of HECO Capital Trust III (a Delaware statutory trust), which was formed to effect the issuance of \$50 million of cumulative quarterly income preferred securities in 2004, for the benefit of Hawaiian Electric, Hawaii Electric Light and Maui Electric. In December 2002, Hawaiian Electric formed a subsidiary, Renewable Hawaii, Inc., to invest in renewable energy projects, but it has made no investments and currently is inactive. In September 2007, Hawaiian Electric formed another subsidiary, Uluwehiokama Biofuels Corp. (UBC), to invest in a biodiesel refining plant to be built on the island of Maui, which project has been terminated.

Besides Hawaiian Electric and its subsidiaries, HEI also currently owns directly or indirectly the following subsidiaries: ASB Hawaii, Inc. (ASB Hawaii) (a holding company, formerly known as American Savings Holdings, Inc.) and its subsidiary, American Savings Bank, F.S.B. (ASB); HEI Properties, Inc. (HEIPI); Hawaiian Electric Industries Capital Trusts II and III (both formed in 1997 to be available for trust securities financings); and The Old Oahu Tug Service, Inc. (TOOTS).

ASB, acquired by HEI in 1988, is one of the largest financial institutions in the State of Hawaii with assets of \$5.6 billion as of December 31, 2014.

HEIPI, whose predecessor company was formed in February 1998, holds venture capital investments with a carrying value of \$0.1 million as of December 31, 2014.

TOOTS administers certain employee and retiree-related benefit programs and monitors matters related to its predecessor's former maritime freight transportation operations.

The proposed Merger and Merger Agreement. On December 3, 2014, HEI, NextEra Energy, Inc., a Florida corporation (NEE), NEE Acquisition Sub I, LLC, a Delaware limited liability company and a wholly owned subsidiary of NEE (Merger Sub II) and NEE Acquisition Sub II, Inc., a Delaware corporation and a wholly owned subsidiary of NEE (Merger Sub I), entered into an Agreement and Plan of Merger (the Merger Agreement). The Merger Agreement provides for Merger Sub I to merge with and into HEI, with HEI surviving, and then for HEI to merge with and into Merger Sub II, with Merger Sub II surviving (the Merger). The Merger Agreement provides that, prior to completion of the Merger, HEI will distribute to its shareholders, on a pro-rata basis, all of the issued and outstanding shares of ASB Hawaii, Inc., a Hawaii corporation and wholly owned subsidiary of HEI and direct parent company of ASB (the Spin-Off). The closing of the Merger is subject to various conditions, including federal and state regulatory approvals and the approval of holders of 75% of the outstanding shares of HEI common stock. For additional information concerning the proposed Merger, see Note 2 of the Consolidated Financial Statements.

Additional information. For additional information about the Company required by this item, see HEI's "Management's Discussion and Analysis of Financial Condition and Results of Operations" (HEI's MD&A), HEI's "Quantitative and Qualitative Disclosures about Market Risk" and HEI's Consolidated Financial Statements.

The Company's website address is www.hei.com. The information on the Company's website is not incorporated by reference in this annual report on Form 10-K unless, and except to the extent, specifically incorporated herein by reference. HEI and Hawaiian Electric currently make available free of charge through this website their annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports (since 1994) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. HEI and Hawaiian Electric intend to continue to use HEI's website as a means of disclosing additional information. Such disclosures will be included on HEI's website in the Investor Relations section. Accordingly, investors should

routinely monitor such portions of HEI's website, in addition to following HEI's, Hawaiian Electric's and ASB's press releases, SEC filings and public conference calls and webcasts. Investors may also wish to refer to the PUC website at dms.puc.hawaii.gov/dms in order to review documents filed with and issued by the PUC. No information at the PUC website is incorporated herein by reference.

Commitments and contingencies. See “HEI Consolidated—Liquidity and capital resources –Selected contractual obligations and commitments” in HEI’s MD&A, Hawaiian Electric’s “Commitments and contingencies” below and Notes 2 and 5 of the Consolidated Financial Statements.

Regulation. HEI and Hawaiian Electric are each holding companies within the meaning of the Public Utility Holding Company Act of 2005 and implementing regulations, which requires holding companies and their subsidiaries to grant the Federal Energy Regulatory Commission (FERC) access to books and records relating to FERC’s jurisdictional rates. FERC granted HEI and Hawaiian Electric a waiver from its record retention, accounting and reporting requirements, effective May 2006.

HEI is subject to an agreement entered into with the PUC (the PUC Agreement) which, among other things, requires PUC approval of any change in control of HEI, including the proposed Merger. See “PUC application” in Note 2 to the Consolidated Financial Statements. The PUC Agreement also requires HEI to provide the PUC with periodic financial information and other reports concerning intercompany transactions and other matters. It also prohibits the electric utilities from loaning funds to HEI or its nonutility subsidiaries and from redeeming common stock of the electric utility subsidiaries without PUC approval. Further, the PUC could limit the ability of the electric utility subsidiaries to pay dividends on their common stock. See “Restrictions on dividends and other distributions” and “Electric utility—Regulation” below.

HEI and ASB Hawaii are subject to Federal Reserve Board (FRB) registration, supervision and reporting requirements as savings and loan holding companies. As a result of the enactment of the Dodd-Frank Act, supervision and regulation of HEI and ASB Hawaii, as thrift holding companies, moved to the FRB, and supervision and regulation of ASB, as a federally chartered savings bank, moved to the Office of the Comptroller of the Currency (OCC) in July 2011. In the event the OCC has reasonable cause to believe that any activity of HEI or ASB Hawaii constitutes a serious risk to the financial safety, soundness or stability of ASB, the OCC is authorized to impose certain restrictions on HEI, ASB Hawaii and/or any of their subsidiaries. Possible restrictions include precluding or limiting: (i) the payment of dividends by ASB; (ii) transactions between ASB, HEI or ASB Hawaii, and their subsidiaries or affiliates; and (iii) any activities of ASB that might expose ASB to the liabilities of HEI and/or ASB Hawaii and their other affiliates. See “Restrictions on dividends and other distributions” below.

Bank regulations generally prohibit savings and loan holding companies and their nonthrift subsidiaries from engaging in activities other than those which are specifically enumerated in the regulations. However, the unitary savings and loan holding company relationship among HEI, ASB Hawaii and ASB is “grandfathered” under the Gramm-Leach-Bliley Act of 1999 (Gramm Act) so that HEI and its subsidiaries are able to continue to engage in their current activities so long as ASB satisfies the qualified thrift lender (QTL) test discussed under “Bank—Regulation—Qualified thrift lender test.” ASB met the QTL test at all times during 2014; however, the failure of ASB to satisfy the QTL test in the future could result in a need for HEI to divest ASB. If the Spin-Off and Merger are completed, these regulatory limitations will be eliminated since ASB Hawaii and ASB will no longer be affiliated with HEI and will not become affiliates of NextEra.

HEI is also affected by provisions of the Dodd-Frank Act relating to corporate governance and executive compensation, including provisions requiring shareholder “say on pay” and “say on pay frequency” votes, mandating additional disclosures concerning executive compensation and compensation consultants and advisors and further restricting proxy voting by brokers in the absence of instructions. See “Bank—Legislation and regulation” in HEI’s MD&A for a discussion of effects of the Dodd-Frank Act on HEI and ASB.

Restrictions on dividends and other distributions. HEI is a legal entity separate and distinct from its various subsidiaries. As a holding company with no significant operations of its own, HEI’s principal sources of funds are dividends or other distributions from its operating subsidiaries, borrowings and sales of equity. The rights of HEI and, consequently, its creditors and shareholders, to participate in any distribution of the assets of any of its subsidiaries are subject to the prior claims of the creditors and preferred shareholders of such subsidiary, except to the extent that claims of HEI in its capacity as a creditor are recognized as primary.

The abilities of certain of HEI’s subsidiaries to pay dividends or make other distributions to HEI are subject to contractual and regulatory restrictions. Under the PUC Agreement, in the event that the consolidated common stock equity of the electric utility subsidiaries falls below 35% of the total capitalization of the electric utilities (including

the current maturities of long-term debt, but excluding short-term borrowings), the electric utility subsidiaries would, absent PUC approval, be restricted in their payment of cash dividends to 80% of the earnings available for the payment of dividends in the current fiscal year and preceding five years, less the amount of dividends paid during that period. The PUC Agreement also provides that the foregoing dividend restriction shall not be construed as relinquishing any right the PUC may have to review the dividend policies of the electric utility subsidiaries. As of December 31, 2014, the consolidated common stock equity of HEI's electric utility subsidiaries was 56% of their total capitalization (as calculated for purposes of the PUC Agreement). As of December 31, 2014, Hawaiian Electric and its subsidiaries had common stock equity of \$1.7 billion of which approximately \$668 million was not available for transfer to HEI without regulatory approval.

The ability of ASB to make capital distributions to HEI and other affiliates is restricted under federal law. Subject to a limited exception for stock redemptions that do not result in any decrease in ASB's capital and would improve ASB's financial condition, ASB is prohibited from declaring any dividends, making any other capital distributions, or paying a management fee to a controlling person if, following the distribution or payment, ASB would be deemed to be undercapitalized, significantly undercapitalized or critically undercapitalized. See "Bank—Regulation—Prompt corrective action." All capital distributions are subject to prior approval by the OCC and FRB. Also see Note 14 to the Consolidated Financial Statements.

HEI and its subsidiaries are also subject to debt covenants, preferred stock resolutions and the terms of guarantees that could limit their respective abilities to pay dividends. The Company does not expect that the regulatory and contractual restrictions applicable to HEI and/or its subsidiaries will significantly affect the operations of HEI or its ability to pay dividends on its common stock, including the special dividend expected to be paid to shareholders of HEI if the Merger is consummated.

Environmental regulation. HEI and its subsidiaries are subject to federal and state statutes and governmental regulations pertaining to water quality, air quality and other environmental factors. See the "Environmental regulation" discussions in the "Electric utility" and "Bank" sections below.

Securities ratings. See the Fitch Ratings, Inc. (Fitch), Moody's Investors Service's (Moody's) and Standard & Poor's (S&P) ratings of HEI's and Hawaiian Electric's securities and discussion under "Liquidity and capital resources" (both "HEI Consolidated" and "Electric utility") in HEI's MD&A. These ratings reflect only the view, at the time the ratings are issued, of the applicable rating agency from whom an explanation of the significance of such ratings may be obtained. There is no assurance that any such credit rating will remain in effect for any given period of time or that such rating will not be lowered, suspended or withdrawn entirely by the applicable rating agency if, in such rating agency's judgment, circumstances so warrant. Any such lowering, suspension or withdrawal of any rating may have an adverse effect on the market price or marketability of HEI's and/or Hawaiian Electric's securities, which could increase the cost of capital of HEI and Hawaiian Electric, and could affect costs, including interest charges, under HEI's and/or Hawaiian Electric's debt securities and credit facilities. Neither HEI nor Hawaiian Electric management can predict future rating agency actions or their effects on the future cost of capital of HEI or Hawaiian Electric.

Revenue bonds have been issued by the Department of Budget and Finance of the State of Hawaii for the benefit of Hawaiian Electric and its subsidiaries, but the source of their repayment are the unsecured obligations of Hawaiian Electric and its subsidiaries under loan agreements and notes issued to the Department, including Hawaiian Electric's guarantees of its subsidiaries' obligations. The payment of principal and interest due on revenue bonds currently outstanding and issued prior to 2009 are insured, but the ratings of these insurers have been withdrawn—see "Electric Utility—Liquidity and capital resources" in HEI's MD&A.

Employees. The Company had full-time employees as follows:

December 31	2014	2013	2012	2011	2010
HEI	44	43	42	40	34
Hawaiian Electric and its subsidiaries	2,759	2,764	2,658	2,518	2,317
ASB and its subsidiaries	1,162	1,159	1,170	1,096	1,075
	3,965	3,966	3,870	3,654	3,426

The employees of HEI and its direct and indirect subsidiaries, other than the electric utilities, are not covered by any collective bargaining agreement. The International Brotherhood of Electrical Workers Local 1260 represents roughly half of the Utilities' workforce covered by a collective bargaining agreement that expires on October 31, 2018.

Properties. HEI leases office space from nonaffiliated lessors in downtown Honolulu under leases that expire in March 2016 and December 2017. See the discussions under "Electric Utility" and "Bank" below for a description of properties owned by HEI subsidiaries.

Electric utility

Hawaiian Electric and subsidiaries and service areas. Hawaiian Electric, Hawaii Electric Light and Maui Electric (Utilities) are regulated operating electric public utilities engaged in the production, purchase, transmission, distribution and sale of electricity on the islands of Oahu; Hawaii; and Maui, Lanai and Molokai, respectively. Hawaiian Electric acquired Maui Electric in 1968 and Hawaii Electric Light in 1970. In 2014, the electric utilities' revenues and net income amounted to approximately 92% and 82%, respectively, of HEI's consolidated revenues and net income, compared to approximately 92% and 76% in 2013 and approximately 92% and 72% in 2012, respectively. The islands of Oahu, Hawaii, Maui, Lanai and Molokai have a combined population estimated at 1.3 million, or approximately 95% of the total population of the State of Hawaii, and comprise a service area of 5,815 square miles. The principal communities served include Honolulu (on Oahu), Hilo and Kona (on Hawaii) and Wailuku and Kahului (on Maui). The service areas also include numerous suburban communities, resorts, U.S. Armed Forces installations and agricultural operations. The state has granted Hawaiian Electric, Hawaii Electric Light and Maui Electric nonexclusive franchises, which authorize the Utilities to construct, operate and maintain facilities over and under public streets and sidewalks. Each of these franchises will continue in effect for an indefinite period of time until forfeited, altered, amended or repealed.

Sales of electricity.

Years ended December 31	2014		2013		2012	
(dollars in thousands)	Customer accounts*	Electric sales revenues	Customer accounts*	Electric sales revenues	Customer accounts*	Electric sales revenues
Hawaiian Electric	301,953	\$2,134,094	299,528	\$2,116,214	297,529	\$2,216,675
Hawaii Electric Light	83,421	420,647	82,637	430,272	81,792	439,249
Maui Electric	70,042	420,734	69,577	422,205	68,922	436,836
	455,416	\$2,975,475	451,742	\$2,968,691	448,243	\$3,092,760

* As of December 31.

Seasonality. Kilowatthour (KWH) sales of the Utilities follow a seasonal pattern, but they do not experience extreme seasonal variations due to extreme weather variations experienced by some electric utilities on the U.S. mainland. KWH sales in Hawaii tend to increase in the warmer, more humid months, probably as a result of increased demand for air conditioning.

Significant customers. The Utilities derived approximately 12%, 11%, and 11% of their operating revenues in 2014, 2013 and 2012, respectively, from the sale of electricity to various federal government agencies.

Under the Energy Policy Act of 2005, the Energy Independence and Security Act of 2007 and/or executive orders: (1) federal agencies must establish energy conservation goals for federally funded programs, (2) goals were set to reduce federal agencies' energy consumption by 3% per year up to 30% by fiscal year 2015 relative to fiscal year 2003, and (3) renewable energy goals were established for electricity consumed by federal agencies. Hawaiian Electric continues to work with various federal agencies to implement measures that will help them achieve their energy reduction and renewable energy objectives.

Energy Agreement, State of Hawaii and U.S. Department of Energy MOU, energy efficiency and decoupling. On October 20, 2008, the Governor, the Hawaii Department of Business Economic Development and Tourism (DBEDT), the Consumer Advocate and the Utilities entered into an Energy Agreement pursuant to which they agreed to undertake a number of initiatives to help accomplish the objectives of the Hawaii Clean Energy Initiative (HCEI) established under a memorandum of understanding between the State of Hawaii and U.S. Department of Energy. The primary objective of the HCEI and Energy Agreement was to reduce Hawaii's dependence on imported fuels through substantial increases in the use of renewable energy and implementation of new programs intended to secure greater energy efficiency and conservation. In September 2014, the parties to the Energy Agreement now regard the agreements and policy directives within the Energy Agreement to have been advanced or superseded by subsequent events, as well as by decisions and orders issued by the PUC, and accordingly have ended the Energy Agreement as of September 14, 2014. On September 15, 2014, the State of Hawaii and the U.S. Department of Energy executed a Memorandum of Understanding (MOU) recognizing that Hawaii is embarking on the next phase of its clean energy future. The MOU provides the framework for a comprehensive, sustained effort to better realize its vast renewable

energy potential and allow Hawaii to push forward in three main areas: the power sector, transportation and energy efficiency. This next phase will focus on stimulating deployment of clean energy infrastructure as a catalyst for economic growth, energy system innovation and test bed investments.

One of the initiatives under the Energy Agreement was advanced when, in 2009, the state legislature enacted Act 155, which gave the PUC the authority to establish an Energy Efficiency Portfolio Standard (EEPS) goal of 4,300 GWH of

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electricity use reductions by 2030. The PUC issued a decision and order (D&O) on January 3, 2012 approving a framework for EEPS that set 2008 as the initial base year for evaluation and linearly allocated the 2030 goal to interim incremental reduction goals of 1,375 GWH by 2015 and 975 GWH by each of the years 2020, 2025 and 2030. These goals may be revised through goal evaluations scheduled every five years or as the result of recommendations by an EEPS technical working group (TWG) for consideration by the PUC. The interim and final reduction goals will be allocated among contributing entities by the EEPS TWG. The PUC may establish penalties in the future for failure to meet the goals. Another of the initiatives under the Energy Agreement was advanced when the PUC approved the implementation of revenue decoupling for the Utilities under which they are allowed to recover PUC-approved revenue requirements that are not based on the amount of electricity sold. Both the EEPS and the implementation of revenue decoupling could have an impact on sales.

The statewide Energy Efficiency Potential Study issued in December 2013 indicated that Hawaii is on track to meet the 2015 interim EEPS target, and that available untapped energy efficiency resources in Hawaii exceed the EEPS goal of 4,300 GWH. The PUC convened a meeting of the EEPS Technical Working Group in January 2014 to review the results of the statewide Energy Efficiency Potential Study. Although the results of the potential study indicate that available untapped energy efficiency resources in Hawaii exceed the overall goal, no changes were made to the goals or Framework that govern the achievement of EEPS. Neither HEI nor Hawaiian Electric management can predict with certainty the impact of these or other governmental mandates, the HCEI or the September 2014 MOU on HEI's or Hawaiian Electric's future results of operations, financial condition or liquidity.

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Selected consolidated electric utility operating statistics.

Years ended December 31	2014	2013	2012	2011	2010
KWH sales (millions)					
Residential	2,379.7	2,450.9	2,582.0	2,769.7	2,830.0
Commercial	3,022.0	3,105.9	3,074.4	3,203.8	3,185.0
Large light and power	3,524.5	3,462.7	3,499.8	3,503.4	3,512.8
Other	50.0	50.0	49.8	50.0	50.8
	8,976.2	9,069.5	9,206.0	9,526.9	9,578.6
KWH net generated and purchased (millions)					
Net generated	5,131.3	5,352.0	5,601.7	6,022.2	6,053.6
Purchased	4,306.7	4,195.2	4,093.2	4,009.7	4,062.8
	9,438.0	9,547.2	9,694.9	10,031.9	10,116.4
Losses and system uses (%)	4.7	4.8	4.8	4.8	5.1
Energy supply (December 31)					
Net generating capability—MW	1,787	1,787	1,787	1,787	1,785
Firm purchased capability—MW	575	567	545	540	540
	2,362	2,354	2,332	2,327	2,325
Net peak demand—MW	1,554	1,535	1,535	1,530	1,562
Btu per net KWH generated	10,613	10,570	10,533	10,609	10,617
Average fuel oil cost per Mbtu (cents)	2,087.6	2,103.2	2,210.4	1,986.7	1,404.8
Customer accounts (December 31)					
Residential	398,256	394,910	392,025	390,133	388,307
Commercial	54,924	54,616	54,005	53,904	54,374
Large light and power	596	556	577	567	548
Other	1,640	1,660	1,636	1,625	1,627
	455,416	451,742	448,243	446,229	444,856
Electric revenues (thousands)					
Residential	\$879,605	\$892,438	\$952,159	\$946,653	\$781,467
Commercial	1,027,588	1,044,166	1,060,983	1,024,725	814,109
Large light and power	1,051,119	1,015,079	1,062,226	976,949	752,056
Other	17,163	17,008	17,392	16,172	13,004
	\$2,975,475	\$2,968,691	\$3,092,760	\$2,964,499	\$2,360,636
Average revenue per KWH sold (cents)					
Residential	33.15	32.73	33.60	31.12	24.65
Commercial	36.93	36.41	36.88	34.18	27.61
Large light and power	34.00	33.62	34.51	31.99	25.56
Other	29.82	29.31	30.35	27.89	21.41
	34.36	34.02	34.93	32.37	25.63
Residential statistics					
Average annual use per customer account (KWH)	6,000	6,220	6,596	7,117	7,317
Average annual revenue per customer account	\$2,218	\$2,265	\$2,432	\$2,433	\$2,021
Average number of customer accounts	396,640	394,024	391,437	389,160	386,767

¹ Sum of the net peak demands on all islands served, noncoincident and nonintegrated.

Generation statistics. The following table contains certain generation statistics as of and for the year ended December 31, 2014. The net generating and firm purchased capability available for operation at any given time may be more or less than shown because of capability restrictions or temporary outages for inspection, maintenance, repairs or unforeseen circumstances.

	Island of Oahu- Hawaiian Electric	Island of Hawaii- Hawaii Electric Light	Island of Maui- Maui Electric	Island of Lanai- Maui Electric	Island of Molokai- Maui Electric	Total
Net generating and firm purchased capability (MW) as of December 31, 2014 ¹						
Conventional oil-fired steam units	1,106.8	63.8	35.9	—	—	1,206.5
Diesel	—	30.8	96.8	10.1	9.6	147.3
Combustion turbines (peaking units)	214.8	—	—	—	—	214.8
Other combustion turbines	—	46.3	—	—	2.2	48.5
Combined-cycle unit	—	56.2	113.6	—	—	169.8
Firm contract power ²	464.5	94.6	16.0	—	—	575.1
	1,786.1	291.7	262.3	10.1	11.8	2,362.0
Net peak demand (MW)	1,165.0	187.8	190.7	5.0	5.4	1,553.9 ³
Reserve margin	56.1	% 55.3	% 37.7	% 102.0	% 118.5	% 54.5
Annual load factor	69.6	% 69.3	% 68.1	% 63.0	% 67.3	% 69.3
KWH net generated and purchased (millions)	7,101.9	1,139.7	1,137.0	27.6	31.8	9,438.0

¹ Hawaiian Electric units at normal ratings; Maui Electric and Hawaii Electric Light units at reserve ratings.

Nonutility generators— Hawaiian Electric: 208 MW (Kalaeloa Partners, L.P., oil-fired), 180 MW (AES Hawaii, Inc., coal-fired), 68.5 MW (HPower, refuse-fired) and 8 MW (Airport Dispatchable Standby Generation, biodiesel);

² Hawaii Electric Light: 34.6 MW (Puna Geothermal Venture, geothermal) and 60 MW (Hamakua Energy Partners, L.P., oil-fired); Maui Electric: 16 MW (Hawaiian Commercial & Sugar Company, primarily bagasse-fired; reduced to 8 MW effective January 1, 2015).

³ Noncoincident and nonintegrated.

Generating reliability and reserve margin. Hawaiian Electric serves the island of Oahu and Hawaii Electric Light serves the island of Hawaii. Maui Electric has three separate electrical systems—one each on the islands of Maui, Molokai and Lanai. Hawaiian Electric, Hawaii Electric Light and Maui Electric have isolated electrical systems that are not currently interconnected to each other or to any other electrical grid and, thus, each maintains a higher level of reserve generation than is typically carried by interconnected mainland U.S. utilities, which are able to share reserve capacity. These higher levels of reserve margins are required to meet peak electric demands, to provide for scheduled maintenance of generating units (including the units operated by IPPs relied upon for firm capacity) and to allow for the forced outage of the largest generating unit in the system.

See “Adequacy of supply” in HEI’s MD&A under “Electric utility.”

Nonutility generation. The Company has supported state and federal energy policies which encourage the development of renewable energy sources that reduce the use of fuel oil as well as the development of qualifying facilities. The Company’s renewable energy sources and potential sources range from wind, solar, photovoltaic, geothermal, wave and hydroelectric power to energy produced by the burning of bagasse (sugarcane waste), municipal waste and other biofuels.

The rate schedules of the electric utilities contain ECACs and PPACs that allow them to recover costs of fuel and purchase power expenses. The PUC approved the PPACs for the first time for Hawaiian Electric, Hawaii Electric Light and Maui Electric in March 2011, February 2012 and May 2012, respectively.

In addition to the firm capacity PPAs described below, the electric utilities also purchase energy on an as-available basis directly from nonutility generators and through its Feed-In Tariff programs. The electric utilities also receive renewable energy from customers under its Net Energy Metering programs.

The PUC has allowed rate recovery for the firm capacity and purchased energy costs for the electric utilities' approved firm capacity and as-available energy PPAs.

Hawaiian Electric firm capacity PPAs. Hawaiian Electric currently has three major PPAs that provide a total of 456.5 MW of firm capacity, representing 26% of Hawaiian Electric's total net generating and firm purchased capacity on Oahu as of

December 31, 2014. In March 1988, Hawaiian Electric entered into a PPA with AES Barbers Point, Inc. (now known as AES Hawaii, Inc. (AES Hawaii)), a Hawaii-based, indirect subsidiary of The AES Corporation. The agreement with AES Hawaii, as amended, provides that, for a period of 30 years beginning September 1992, Hawaiian Electric will purchase 180 megawatts (MW) of firm capacity. The AES Hawaii 180 MW coal-fired cogeneration plant utilizes a “clean coal” technology and is designed to sell sufficient steam to be a “Qualifying Facility” (QF) under the Public Utility Regulatory Policies Act of 1978 (PURPA). In August 2012, Hawaiian Electric filed an application with the PUC seeking an exemption from the PUC’s Competitive Bidding Framework to negotiate an amendment to the PPA to purchase 186 MW of firm capacity, extend the PPA term until September 2032, and amend the energy pricing formula in the PPA. The PUC approved the exemption in April 2013, and Hawaiian Electric has been in negotiations with AES Hawaii.

In October 1988, Hawaiian Electric entered into an agreement with Kalaeloa Partners, L.P. (Kalaeloa), a limited partnership, which, through affiliates, contracted to design, build, operate and maintain a QF. The agreement with Kalaeloa, as amended, provided that Hawaiian Electric would purchase 180 MW of firm capacity for a period of 25 years beginning in May 1991 and terminating in May 2016. The Kalaeloa facility is a combined-cycle operation, consisting of two oil-fired combustion turbines burning low sulfur fuel oil (LSFO) and a steam turbine that utilizes waste heat from the combustion turbines. Following two additional amendments, effective in 2005, Kalaeloa currently supplies Hawaiian Electric with 208 MW of firm capacity. In January 2011, Hawaiian Electric initiated renegotiation of the agreement with Kalaeloa (exempt from the PUC’s Competitive Bidding Framework).

Hawaiian Electric also entered into a PPA in March 1986 and a firm capacity amendment in April 1991 with the City and County of Honolulu with respect to a refuse-fired plant (HPower). Under the amended PPA, the HPower facility supplied Hawaiian Electric with 46 MW of firm capacity. In May 2012, Hawaiian Electric entered into an amended and restated PPA with the City and County of Honolulu to purchase additional firm capacity (including the then existing 46 MW) from the expanded HPower facility for a term of 20 years from the commercial operation date (April 2, 2013). Under the amended and restated PPA, which the PUC approved, Hawaiian Electric purchases 68.5 MW of firm capacity.

Hawaii Electric Light and Maui Electric firm capacity PPAs. As of December 31, 2014, Hawaii Electric Light has PPAs for 119.5 MW (of which 94.6 MW are currently available; 3.4 MW are pending and 21.5 MW are expected to be added in 2016) and Maui Electric has a PPA for 16 MW (including 4 MW of system protection) of firm capacity. Hawaii Electric Light has a 35-year PPA with Puna Geothermal Venture (PGV) for 30 MW of firm capacity from its geothermal steam facility, which will expire on December 31, 2027. In February 2011, Hawaii Electric Light and PGV amended the PPA for the pricing on a portion of the energy payments and entered into a new PPA for Hawaii Electric Light to acquire an additional 8 MW of firm, dispatchable capacity. The PUC approved the amendment and the new PPA in December 2011. PGV’s expansion became commercially operational in March 2012 for a total facility capacity of 34.6 MW.

In October 1997, Hawaii Electric Light entered into an agreement with Encogen, which has been succeeded by Hamakua Energy Partners, L. P. (HEP). The agreement requires Hawaii Electric Light to purchase up to 60 MW (net) of firm capacity for a period of 30 years, expiring on December 31, 2030. The dual-train combined-cycle DTCC facility, which primarily burns naphtha, consists of two oil-fired combustion turbines and a steam turbine that utilizes waste heat from the combustion turbines.

In March 2012, Hawaii Electric Light entered into an agreement with Hu Honua Bioenergy LLC, which requires Hawaii Electric Light to purchase up to 21.5 MW (net) of renewable dispatchable firm capacity for a period of 20 years from its commercial operation date. Hu Honua will restore (i.e., refurbish and modernize) the Hilo Coast Power Company power plant to operate using biomass fuel from on-island sources. The PUC approved the PPA on December 20, 2013.

Maui Electric had a PPA with Hawaiian Commercial & Sugar Company (HC&S) for 16 MW of firm capacity. In March 2014, HC&S exercised its one-time right to decrease firm capacity to 8 MW effective January 1, 2015. The HC&S generating units primarily burn bagasse (sugar cane waste) along with secondary fuels of diesel oil or coal. In 2014, Maui Electric filed a request for an exemption or waiver from the Competitive Bidding Framework for the proposed extension, which the PUC approved. In February, the parties agreed to extend the PPA and renegotiated

terms and conditions, including amending the PPA from a firm capacity contract to a scheduled energy contract. If the PUC does not approve the amendment to the PPA by September 30, 2015, the PPA will remain in full force and effect as before the amendment including being subject to termination by either party with 90 days written notice.

Fuel oil usage and supply. The rate schedules of the Company's electric utility subsidiaries include ECACs under which electric rates (and consequently the revenues of the electric utility subsidiaries generally) are adjusted for changes in the weighted-average price paid for fuel oil and certain components of purchased power, and the relative amounts of company-generated power and purchased power. See discussion of rates and issues relating to the ECAC below under "Rates," and

“Electric utility—Certain factors that may affect future results and financial condition—Regulation of electric utility rates” and “Electric utility—Material estimates and critical accounting policies—Revenues” in HEI’s MD&A.

Hawaiian Electric’s steam generating units consume LSFO and Hawaiian Electric’s combustion turbine peaking units consume diesel fuel (diesel), except for CIP CT-1 which operates exclusively on B99 grade biodiesel. A Hawaiian Electric steam unit has successfully completed a co-firing project to test burn mixtures of LSFO and biofuel.

Maui Electric’s and Hawaii Electric Light’s steam generating units burn medium sulfur fuel oil (MSFO) and Hawaii Electric Light’s and Maui Electric’s Maui combustion turbine generating units burn diesel. Hawaii Electric Light’s and Maui Electric’s Maui, Molokai and Lanai diesel engine generating units burn ultra-low-sulfur diesel and biodiesel. A Maui Electric diesel generating unit has successfully completed a biodiesel test fire project.

See the fuel oil commitments information set forth in the “Fuel contracts” section in Note 4 of the Consolidated Financial Statements.

The following table sets forth the average cost of fuel oil used by Hawaiian Electric, Hawaii Electric Light and Maui Electric to generate electricity in 2014, 2013 and 2012:

	Hawaiian Electric		Hawaii Electric Light		Maui Electric		Consolidated	
	\$/Barrel	¢/MBtu	\$/Barrel	¢/MBtu	\$/Barrel	¢/MBtu	\$/Barrel	¢/MBtu
2014	130.71	2,075.4	121.49	2,002.5	130.51	2,198.9	129.65	2,087.6
2013	130.85	2,068.2	125.81	2,064.7	135.57	2,286.3	131.10	2,103.2
2012	139.14	2,195.5	129.27	2,112.5	138.60	2,327.4	138.09	2,210.4

The average per-unit cost of fuel oil consumed to generate electricity for Hawaiian Electric, Hawaii Electric Light and Maui Electric reflects a different volume mix of fuel types and grades as follows:

	Hawaiian Electric		Hawaii Electric Light		Maui Electric	
	LSFO	Diesel/Biodiesel	MSFO	Diesel	MSFO	Diesel/Biodiesel
2014	97	% 3	% 47	% 53	% 20	% 80
2013	98	2	53	47	18	82
2012	99	1	59	41	22	78

In general, MSFO is the least costly fuel, biodiesel and diesel are the most expensive fuels and the price of LSFO falls in-between on a per-barrel basis. In 2014, prices of all petroleum fuels plateaued during the first three quarters of the year before falling strongly over the course of 2014’s final quarter. LSFO prices were relatively weaker than other fuel types and ended 2014 about a third lower than at the end of the previous year, MSFO prices and diesel prices also ended the year below where they began and on average, MSFO and diesel were lower in 2014 by approximately 25% and 12%, respectively. The per-unit price of biodiesel before the retroactive application of the federal blender’s credit was generally flat over the course of the year. Similar to 2013, 2014 again saw the \$1 per gallon federal blenders credit enacted at the end of the year, requiring retroactive application against biodiesel purchases earlier in the calendar year.

In December 2000, Hawaii Electric Light and Maui Electric executed contracts of private carriage with Hawaiian Interisland Towing, Inc. for the employment of a double-hull tank barge for the shipment of MSFO and diesel supplies from their fuel suppliers’ facilities on Oahu to storage locations on the islands of Hawaii and Maui, respectively, commencing January 1, 2002. The contracts have been extended through December 31, 2016. In July 2011, the carriage contracts were assigned to Kirby Corporation (Kirby), which provides refined petroleum and other products for marine transportation, distribution and logistics services in the U.S. domestic marine transportation industry.

Kirby never takes title to the fuel oil or diesel fuel, but does have custody and control while the fuel is in transit from Oahu. If there were an oil spill in transit, Kirby is generally contractually obligated to indemnify Hawaii Electric Light and/or Maui Electric for resulting clean-up costs, fines and damages. Kirby maintains liability insurance coverage for an amount in excess of \$1 billion for oil spill related damage. State law provides a cap of \$700 million on liability for releases of heavy fuel oil transported interisland by tank barge. In the event of a release, Hawaii Electric Light and/or Maui Electric may be responsible for any clean-up, damages, and/or fines that Kirby and its insurance carrier do not cover.

The prices that Hawaiian Electric, Hawaii Electric Light and Maui Electric pay for purchased energy from certain older nonutility generators are generally linked to the price of oil. The AES Hawaii energy prices vary primarily with an inflation index. The energy prices for Kalaeloa, which purchases LSFO from Hawaiian Independent Energy (formerly Tesoro Hawaii Corporation), vary primarily with the price of Asian crude oil. The HC&S and a portion of PGV energy prices are based on the

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electric utilities' respective short-run avoided energy cost rates (which vary with their respective composite fuel costs), subject to minimum floor rates specified in their approved PPAs. HEP energy prices vary primarily with Hawaii Electric Light's diesel costs.

The Utilities estimate that 68% of the net energy they generate or purchase will come from fossil fuel oil in 2015 compared to 69% in 2014. Hawaiian Electric generally maintains an average system fuel inventory level equivalent to 47 days of forward consumption. Hawaii Electric Light and Maui Electric generally maintain an average system fuel inventory level equivalent to approximately one month's supply of both MSFO and diesel. The PPAs with AES Hawaii and HEP require that they maintain certain minimum fuel inventory levels.

Rates. Hawaiian Electric, Hawaii Electric Light and Maui Electric are subject to the regulatory jurisdiction of the PUC with respect to rates, issuance of securities, accounting and certain other matters. See "Regulation" below.

Rate schedules of Hawaiian Electric and its subsidiaries contain ECACs and PPACs. Under current law and practices, specific and separate PUC approval is not required for each rate change pursuant to automatic rate adjustment clauses previously approved by the PUC. All other rate increases require the prior approval of the PUC after public and contested case hearings. PURPA requires the PUC to periodically review the ECACs of electric and gas utilities in the state, and such clauses, as well as the rates charged by the utilities generally, are subject to change.

See "Electric utility—Most recent rate proceedings," "Electric utility—Certain factors that may affect future results and financial condition—Regulation of electric utility rates" and "Electric utility—Material estimates and critical accounting policies—Revenues" in HEI's MD&A and "Interim increases" and "Utility projects" under "Commitments and contingencies" in Note 4 of the Consolidated Financial Statements.

Public Utilities Commission and Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs of the State of Hawaii. On January 12, 2015, Hermina M. Morita resigned as Chair of the PUC, a position she held since 2011. On January 16, 2015, Governor David Ige appointed Randy Iwase to the PUC and designated him as Chair of the PUC. Mr. Iwase was formerly a state legislator, Honolulu city council member, supervising deputy attorney general, and Chair of the Hawaii State Tax Review Commission. He earned his bachelor's degree from the University of Florida and his J.D. from the University of San Francisco School of Law.

The other commissioners are Michael E. Champley (for a term that will expire in June 2016), who previously was a senior energy consultant and a senior executive with DTE Energy, and Lorraine H. Akiba (for a term that will expire in June 2018), who previously was an attorney in private practice who earlier served as the Director of the State Department of Labor and Industrial Relations.

The Executive Director of the Division of Consumer Advocacy is Jeffrey T. Ono, previously an attorney in private practice.

Competition. See "Electric utility—Certain factors that may affect future results and financial condition—Competition" in HEI's MD&A.

Electric and magnetic fields. The generation, transmission and use of electricity produces low-frequency (50Hz-60Hz) electrical and magnetic fields (EMF). While EMF has been classified as a possible human carcinogen by more than one public health organization and remains the subject of ongoing studies and evaluations, no definite causal relationship between EMF and health risks has been clearly demonstrated to date and there are no federal standards in the U.S. limiting occupational or residential exposure to 50Hz-60Hz EMF. The Utilities are continuing to monitor the ongoing research and continue to participate in utility industry funded studies on EMF and, where technically feasible and economically reasonable, continue to pursue a policy of prudent avoidance in the design and installation of new transmission and distribution facilities. Management cannot predict the impact, if any, the EMF issue may have on the Utilities in the future.

Global climate change and greenhouse gas (GHG) emissions reduction. The Company shares the concerns of many regarding the potential effects of global climate changes and the human contributions to this phenomenon, including burning of fossil fuels for electricity production, transportation, manufacturing and agricultural activities, as well as deforestation. Recognizing that effectively addressing global climate changes requires commitment by the private sector, all levels of government, and the public, the Company is committed to taking direct action to mitigate GHG emissions from its operations. See "Environmental regulation—Global climate change and greenhouse gas emissions reduction" under "Commitments and contingencies" in Note 4 of the Consolidated Financial Statements.

Legislation. See “Electric utility–Legislation and regulation” in HEI’s MD&A.

Commitments and contingencies. See “Selected contractual obligations and commitments” in Hawaiian Electric’s MD&A and “Electric utility–Certain factors that may affect future results and financial condition–Other regulatory and permitting

contingencies” in HEI’s MD&A, Item 1A. Risk Factors, and Note 4 of the Consolidated Financial Statements for a discussion of important commitments and contingencies.

Regulation. The PUC regulates the rates, issuance of securities, accounting and certain other aspects of the operations of Hawaiian Electric and its electric utility subsidiaries. See the previous discussion under “Rates” and the discussions under “Electric utility—Results of operations—Most recent rate proceedings” and “Electric utility—Certain factors that may affect future results and financial condition—Regulation of electric utility rates” in HEI’s MD&A.

Any adverse decision or policy made or adopted by the PUC, or any prolonged delay in rendering a decision, could have a material adverse effect on consolidated Hawaiian Electric’s and the Company’s results of operations, financial condition or liquidity.

In January 2015, NEE and Hawaiian Electric filed an application with the PUC requesting approval of the proposed Merger. See “PUC application” in Note 2 to the Consolidated Financial Statements

On October 20, 2008, Hawaiian Electric signed an Energy Agreement (see “Hawaii Clean Energy Initiative” under “Commitments and contingencies” in Note 4 of the Consolidated Financial Statements) setting forth goals, objectives and actions with the purpose of decreasing Hawaii’s dependence on imported fossil fuels through substantial increases in the use of renewable energy and implementation of new programs intended to secure greater energy efficiency and conservation. As a result of the Energy Agreement, numerous PUC proceedings have been initiated, many of which have been completed, as described elsewhere in this report. In September 2014, the parties to the Energy Agreement concluded that the agreements and policy directives in the Energy Agreement had been advanced or superseded by subsequent events, as well as by decisions and orders issued by the PUC, and accordingly ended the Energy Agreement as of September 14, 2014. On September 15, 2014, the State of Hawaii and the U.S. Department of Energy executed a MOU recognizing that Hawaii is embarking on the next phase of its clean energy future. The MOU provides the framework for a comprehensive, sustained effort to better realize Hawaii’s vast renewable energy potential and allow it to push forward in three main areas: the power sector, transportation and energy efficiency. This next phase will focus on stimulating deployment of clean energy infrastructure as a catalyst for economic growth, energy system innovation and test bed investments.

In 2009, the State Legislature amended Hawaii’s RPS law to require electric utilities (either individually or on a consolidated basis) to meet an RPS of 10%, 15%, 25% and 40% by December 31, 2010, 2015, 2020 and 2030, respectively. Energy savings resulting from energy efficiency programs do not count toward the RPS after 2014 (only electrical generation using renewable energy as a source counts).

Certain transactions between HEI’s electric public utility subsidiaries (Hawaiian Electric, Hawaii Electric Light and Maui Electric) and HEI and affiliated interests (as defined by statute) are subject to regulation by the PUC. All contracts of \$300,000 or more in a calendar year for management, supervisory, construction, engineering, accounting, legal, financial and similar services and for the sale, lease or transfer of property between a public utility and affiliated interests must be filed with the PUC to be effective, and the PUC may issue cease and desist orders if such contracts are not filed. All such “affiliated contracts” for capital expenditures (except for real property) must be accompanied by comparative price quotations from two nonaffiliates, unless the quotations cannot be obtained without substantial expense. Moreover, all transfers of \$300,000 or more of real property between a public utility and affiliated interests require the prior approval of the PUC and proof that the transfer is in the best interest of the public utility and its customers. If the PUC, in its discretion, determines that an affiliated contract is unreasonable or otherwise contrary to the public interest, the utility must either revise the contract or risk disallowance of payments under the contract for rate-making purposes. In rate-making proceedings, a utility must also prove the reasonableness of payments made to affiliated interests under any affiliated contract of \$300,000 or more by clear and convincing evidence.

In December 1996, the PUC issued an order in a docket that had been opened to review the relationship between HEI and Hawaiian Electric and the effects of that relationship on the operations of Hawaiian Electric. The order adopted the report of the consultant the PUC had retained and ordered Hawaiian Electric to continue to provide the PUC with periodic status reports on its compliance with the PUC Agreement (pursuant to which HEI became the holding company of Hawaiian Electric). Hawaiian Electric files such status reports annually. In the order, the PUC also required the Utilities to present a comprehensive analysis of the impact that the holding company structure and investments in nonutility subsidiaries have on a case-by-case basis on the cost of capital to each utility in future rate

cases and remove any such effects from the cost of capital. The Utilities have made presentations in their subsequent rate cases to support their positions that there was no evidence that would modify the PUC's finding that Hawaiian Electric's access to capital did not suffer as a result of HEI's involvement in nonutility activities and that HEI's diversification did not permanently raise or lower the cost of capital incorporated into the rates paid by Hawaiian Electric's utility customers.

The Utilities are not subject to regulation by the FERC under the Federal Power Act, except under Sections 210 through 212 (added by Title II of PURPA and amended by the Energy Policy Act of 1992), which permit the FERC to order electric

utilities to interconnect with qualifying cogenerators and small power producers, and to wheel power to other electric utilities. Title I of PURPA, which relates to retail regulatory policies for electric utilities, and Title VII of the Energy Policy Act of 1992, which addresses transmission access, also apply to the Utilities. The Utilities are also required to file various operational reports with the FERC.

Because they are located in the State of Hawaii, Hawaiian Electric and its subsidiaries are exempt by statute from limitations set forth in the Powerplant and Industrial Fuel Use Act of 1978 on the use of petroleum as a primary energy source.

See also “HEI–Regulation” above.

Environmental regulation. Hawaiian Electric, Hawaii Electric Light and Maui Electric, like other utilities, are subject to periodic inspections by federal, state and, in some cases, local environmental regulatory agencies, including agencies responsible for the regulation of water quality, air quality, hazardous and other waste, and hazardous materials. These inspections may result in the identification of items needing corrective or other action. Except as otherwise disclosed in this report (see “Certain factors that may affect future results and financial condition–Environmental matters” for HEI Consolidated, the Electric utility and the Bank sections in HEI’s MD&A and Note 4 of the Consolidated Financial Statements, which are incorporated herein by reference), the Company believes that each subsidiary has appropriately responded to environmental conditions requiring action and that, as a result of such actions, such environmental conditions will not have a material adverse effect on the Company or Hawaiian Electric.

Water quality controls. The generating stations, substations and other utility facilities operate under federal and state water quality regulations and permits, including but not limited to the Clean Water Act National Pollution Discharge Elimination System (governing point source discharges, including wastewater and storm water discharges), Underground Injection Control (regulating disposal of wastewater into the subsurface), the Spill Prevention, Control and Countermeasure (SPCC) program, the Oil Pollution Act of 1990 (OPA) (governing actual or threatened oil releases and imposing strict liability on responsible parties for clean up costs and damages to natural resources and property), and other regulations associated with discharges of oil and other substances to surface water. The federal Environmental Protection Agency (EPA) regulations under OPA also require certain facilities that use or store petroleum to prepare and implement SPCC Plans in order to prevent releases of petroleum to navigable waters of the U.S. The Utilities’ facilities that are subject to SPCC Plan requirements, including most power plants, base yards, and certain substations, have prepared and are implementing SPCC Plans.

In 2014 and 2015 to date, the Utilities did not experience any significant petroleum releases. The Company believes that each subsidiary’s costs of responding to petroleum releases to date will not have a material adverse effect on the respective subsidiary or the Company.

Air quality controls. The Clean Air Act (CAA) amendments of 1990, among other things, established a federal operating permits program (in Hawaii known as the Covered Source Permit program) and greatly expanded the hazardous air pollutant program. More stringent National Ambient Air Quality Standards (NAAQS) will affect new or modified generating units requiring a permit to construct under the Prevention of Significant Deterioration (PSD) program and the controls necessary to meet the NAAQS.

CAA operating permits (Title V permits) have been issued for all affected generating units.

Hazardous waste and toxic substances controls. The operations of the electric utility and former freight transportation subsidiaries of HEI are subject to EPA regulations that implement provisions of the Resource Conservation and Recovery Act (RCRA), the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA, also known as Superfund), the Superfund Amendments and Reauthorization Act (SARA) and the Toxic Substances Control Act (TSCA).

RCRA underground storage tank (UST) regulations require all facilities that use USTs for storing petroleum products to comply with established leak detection, spill prevention, standards for tank design and retrofits, financial assurance, and tank decommissioning and closure. All of the Utilities’ USTs currently meet the applicable requirements.

The Emergency Planning and Community Right-to-Know Act under SARA Title III requires the Utilities to report potentially hazardous chemicals present in their facilities in order to provide the public with information so that emergency procedures can be established to protect the public in the event of hazardous chemical releases. All of the

Utilities' facilities are in compliance with applicable annual reporting requirements to the State Emergency Planning Commission, the Local Emergency Planning Committee and local fire departments. Since January 1, 1998, the steam electric industry category has been subject to Toxics Release Inventory (TRI) reporting requirements. All of the Utilities' facilities are in compliance with TRI reporting requirements.

The TSCA regulations specify procedures for the handling and disposal of polychlorinated biphenyls (PCBs), a compound found in some transformer and capacitor dielectric fluids. The TSCA regulations also apply to responses to releases of PCBs to

the environment. The Utilities have instituted procedures to monitor compliance with these regulations and have implemented a program to identify and replace PCB transformers and capacitors in their systems. Management believes that all of the Utilities' facilities are currently in compliance with PCB regulations. In April 2010, the EPA issued an Advance Notice of Proposed Rule Making announcing its intent to reassess PCB regulations. The EPA projects that it will publish a notice of proposed rule making in July 2015.

Hawaii's Environmental Response Law, as amended (ERL), governs releases of hazardous substances, including oil, to the environment in areas within the state's jurisdiction. Responsible parties under the ERL are jointly, severally, and strictly liable for a release of a hazardous substance. Responsible parties include owners or operators of a facility where a hazardous substance is located and any person who at the time of disposal of the hazardous substance owned or operated any facility at which such hazardous substance was disposed.

The Utilities periodically identify leaking petroleum-containing equipment such as USTs, piping, and transformers. In a few instances, small amounts of PCBs have been identified in the leaking equipment. Each subsidiary reports releases from such equipment when and as required by applicable law and addresses in all material respects impacts due to the releases in compliance with applicable regulatory requirements.

Research and development. The Utilities expensed approximately \$2.9 million, \$3.4 million, and \$4.0 million in 2014, 2013 and 2012, respectively, for research and development (R&D). In 2014, 2013 and 2012, the electric utilities' contributions to the Electric Power Research Institute accounted for approximately 76%, 64% and 55% of R&D expenses, respectively. There were also utility expenditures in 2014, 2013 and 2012 related to new technologies, biofuels, energy storage, demand response, seawater cooling traveling screens, electric and hybrid plug in vehicles and other renewables (e.g., wind and solar power integration and solar resource evaluation).

Additional information. For additional information about Hawaiian Electric, see Hawaiian Electric's MD&A, Hawaiian Electric's "Quantitative and Qualitative Disclosures about Market Risk" and Hawaiian Electric's Consolidated Financial Statements.

Properties. Hawaiian Electric owns and operates four generating plants on the island of Oahu at Honolulu, Waiau, Kahe and Campbell Industrial Park (CIP). These plants have an aggregate net generating capability of 1,322 MW as of December 31, 2014. The four plants are situated on Hawaiian Electric-owned land having a combined area of 535 acres and three parcels of land totaling 5.5 acres under leases expiring between June 30, 2016 and December 31, 2018, with options to extend to June 30, 2026. In addition, Hawaiian Electric owns a total of 132 acres of land on which substations, transformer vaults, distribution baseyards and the Kalaeloa cogeneration facility are located. Hawaiian Electric owns buildings and approximately 11.6 acres of land located in Honolulu which house its operating, engineering and information services departments and a warehousing center. It also leases an office building and certain office space in Honolulu. The lease for the office building expires in November 2021, with an option to extend through November 2024. Leases for certain office and warehouse spaces expire on various dates from May 31, 2015 through July 31, 2025, some with options to extend to various dates through December 31, 2034. Hawaiian Electric's Barbers Point Tank Farm (BPTF) has three storage tanks with an aggregate of 1 million barrels of storage for LSFO. The BPTF is located in Campbell Industrial Park, on the same property as the CIP Generating Station, and is the central fuel storage facility where LSFO purchased by Hawaiian Electric is received and stored. From the BPTF, LSFO is transported via Hawaiian Electric owned underground pipelines to the Kahe and Waiau Power Plants. Hawaiian Electric also has fuel storage facilities at each of its plant sites with a nominal aggregate capacity of 732,000 barrels for LSFO storage, 44,000 barrels for diesel storage, and 88,000 barrels for biodiesel storage. Hawaiian Electric also owns a fuel storage facility at Iwilei that was used to provide fuel to the Honolulu Power Plant. As the Honolulu Power Plant was deactivated on January 31, 2014 and any future fuel supplies to the plant will be delivered by truck, the Iwilei fuel storage facility may no longer be needed.

Hawaii Electric Light owns and operates four generating plants on the island of Hawaii in Hilo, Waimea, Keahole and Puna, along with distributed generators at substation sites. These plants have an aggregate net generating capability of 197.1 MW as of December 31, 2014 (excluding several small run-of-river hydro units). Hawaii Electric Light's Shipman plant in Hilo was deactivated in 2014. The plants are situated on Hawaii Electric Light-owned land having a combined area of approximately 44 acres. The distributed generators are located within Hawaii Electric Light-owned substation sites having a combined area of approximately 4 acres. Hawaii Electric Light also owns fuel storage

facilities at these sites with a usable storage capacity of 51,500 barrels of bunker oil and 81,802 barrels of diesel. There are an additional 19,200 barrels of diesel and 22,770 barrels of bunker oil storage capacity for Hawaii Electric Light-owned fuel off-site at Chevron Products Company (Chevron)-owned terminalling facilities. Hawaii Electric Light pays a storage fee to Chevron and has no other interest in the property, tanks or other infrastructure situated on Chevron's property. Hawaii Electric Light also owns 6 acres of land in Kona,

which is used for a baseyard, and one acre of land in Hilo, which houses its accounting, customer services and administrative offices. Hawaii Electric Light also leases 3.7 acres of land for its baseyard in Hilo under a lease expiring in 2030. In addition, Hawaii Electric Light owns a total of approximately 100 acres of land, and leases a total of approximately 8.5 acres of land, on which hydro facilities, substations and switching stations, microwave facilities, and transmission lines are located. The deeds to the sites located in Hilo contain certain restrictions, but the restrictions do not materially interfere with the use of the sites for public utility purposes.

Maui Electric owns and operates two generating plants on the island of Maui, at Kahului and Maalaea, with an aggregate net generating capability of 244.3 MW as of December 31, 2014. The plants are situated on Maui Electric-owned land having a combined area of 28.6 acres. Maui Electric also owns fuel oil storage facilities at these sites with a total maximum usable capacity of 81,272 barrels of bunker oil, and 94,586 barrels of diesel. There are an additional 56,358 barrels of diesel oil storage capacity for Maui Electric-owned fuel off-site at Aloha Petroleum, Ltd. (Aloha Petroleum)-owned terminalling facilities and 10,000 barrels of diesel oil storage capacity for Maui Electric-owned fuel off-site at Chevron Products Company (Chevron)-owned terminalling facilities. Maui Electric pays storage fees to Aloha Petroleum and Chevron. Maui Electric owns two 1 MW stand-by diesel generators and a 6,000 gallon fuel storage tank located in Hana. Maui Electric owns 65.7 acres of undeveloped land at Waena. Most of this Waena land is currently used for agricultural purposes by the former landowner.

Maui Electric's administrative offices and engineering and distribution departments are located on 9.1 acres of Maui Electric-owned land in Kahului.

Maui Electric also owns and operates smaller distribution systems, generation systems (with an aggregate net capability of 21.9 MW as of December 31, 2014) and fuel storage facilities on the islands of Lanai and Molokai, primarily on land owned by Maui Electric.

Other properties. The Utilities own overhead transmission and distribution lines, underground cables, poles (some jointly) and metal high voltage towers. Electric lines are located over or under public and nonpublic properties. Lines are added when needed to serve increased loads and/or for reliability reasons. In some design districts on Oahu, lines must be placed underground. Under Hawaii law, the PUC generally must determine whether new 46 kilovolt (kV), 69 kV or 138 kV lines can be constructed overhead or must be placed underground.

See "Hawaiian Electric and subsidiaries and service areas" above for a discussion of the nonexclusive franchises of Hawaiian Electric and subsidiaries. Most of the leases, easements and licenses for Hawaiian Electric's, Hawaii Electric Light's and Maui Electric's lines have been recorded.

See "Generation statistics" above and "Limited insurance" in HEI's MD&A for a further discussion of some of the electric utility properties.

Bank

General. ASB was granted a federal savings bank charter in January 1987. Prior to that time, ASB had operated since 1925 as the Hawaii division of American Savings & Loan Association of Salt Lake City, Utah. As of December 31, 2014, ASB was one of the largest financial institutions in the State of Hawaii based on total assets of \$5.6 billion and deposits of \$4.6 billion. In 2014, ASB's revenues and net income amounted to approximately 8% and 31% of HEI's consolidated revenues and net income, respectively, compared to approximately 8% and 36% in 2013 and approximately 8% and 42% in 2012, respectively.

At the time of HEI's acquisition of ASB in 1988, HEI agreed with the OTS' predecessor regulatory agency that ASB's regulatory capital would be maintained at a level of at least 6% of ASB's total liabilities, or at such greater amount as may be required from time to time by regulation. Under the agreement, HEI's obligation to contribute additional capital to ensure that ASB would have the capital level required by the OTS was limited to a maximum aggregate amount of approximately \$65.1 million. As of December 31, 2014, as a result of certain HEI contributions of capital to ASB, HEI's maximum obligation under the agreement to contribute additional capital has been reduced to approximately \$28.3 million. ASB is subject to OCC regulations on dividends and other distributions and ASB must receive a letter of non-objection from the OCC and FRB before it can declare and pay a dividend to HEI.

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The following table sets forth selected data for ASB (average balances calculated using the average daily balances):

Years ended December 31	2014	2013	2012
Common equity to assets ratio			
Average common equity divided by average total assets	9.89	% 9.90	% 10.14
Return on assets			
Net income for common stock divided by average total assets	0.95	1.13	1.18
Return on common equity			
Net income for common stock divided by average common equity	9.62	11.38	11.68

Asset/liability management. See HEI's "Quantitative and Qualitative Disclosures about Market Risk."

Consolidated average balance sheet and interest income and interest expense. See "Bank—Results of operations—Average balance sheet and net interest margin" in HEI's MD&A.

The following table shows the effect on net interest income of (1) changes in interest rates (change in weighted-average interest rate multiplied by prior year average balance) and (2) changes in volume (change in average balance multiplied by prior period weighted-average interest rate). Any remaining change is allocated to the above two categories on a prorata basis.

(in thousands)	2014 vs. 2013			2013 vs. 2012		
	Rate	Volume	Total	Rate	Volume	Total
Interest income						
Other investments	\$70	\$1	\$71	\$18	\$(48)	\$(30)
Securities purchased under resale agreements	1	(24)	(23)	22	21	43
Available-for-sale investment securities						
Taxable	—	144	144	55	(903)	(848)
Non-taxable	60	(2,125)	(2,065)	(52)	218	166
Total available-for-sale investment securities	60	(1,981)	(1,921)	3	(685)	(682)
Loans						
Residential 1-4 family	(5,112)	2,410	(2,702)	(9,670)	3,907	(5,763)
Commercial real estate	(636)	4,993	4,357	(612)	1,772	1,160
Home equity line of credit	1,791	3,483	5,274	1,561	2,775	4,336
Residential land	111	(313)	(202)	64	(853)	(789)
Commercial	(2,106)	2,212	106	(2,246)	509	(1,737)
Consumer	(113)	(348)	(461)	(1,422)	1,127	(295)
Total loans	(6,065)	12,437	6,372	(12,325)	9,237	(3,088)
Total increase (decrease) in interest income	(5,934)	10,433	4,499	(12,282)	8,525	(3,757)
Interest expense						
Savings	—	(82)	(82)	139	(63)	76
Interest-bearing checking	—	(20)	(20)	—	5	5
Money market	10	8	18	57	30	87
Time certificates	(48)	147	99	592	571	1,163
Advances from Federal Home Loan Bank	459	(1,173)	(714)	322	(578)	(256)
Securities sold under agreements to repurchase	107	(139)	(32)	(291)	431	140
Total (increase) decrease in interest expense	528	(1,259)	(731)	819	396	1,215
Increase (decrease) in net interest income	\$(5,406)	\$9,174	\$3,768	\$(11,463)	\$8,921	\$(2,542)

See “Bank—Results of operations” in HEI’s MD&A for an explanation of significant changes in earning assets and costing liabilities.

Noninterest income. In addition to net interest income, ASB has various sources of noninterest income, including fee income from credit and debit cards, fee income from deposit liabilities, mortgage banking income and other financial products and services. See “Bank—Results of operations” in HEI’s MD&A for an explanation of significant changes in noninterest income.

Lending activities.

General. The following table sets forth the composition of ASB's loans receivable held for investment:

December 31	2014		2013		2012		2011		2010	
(dollars in thousands)	Balance	% of total	Balance	% of total	Balance	% of total	Balance	% of total	Balance	% of total
Real estate: ¹										
Residential 1-4 family	\$2,044,205	46.0	\$2,006,007	48.2	\$1,866,450	49.2	\$1,926,774	52.2	\$2,087,813	58.9
Commercial real estate	531,917	12.0	440,443	10.6	375,677	9.9	331,931	9.0	300,689	8.5
Home equity line of credit	818,815	18.4	739,331	17.8	630,175	16.6	535,481	14.5	416,453	11.7
Residential land	16,240	0.4	16,176	0.4	25,815	0.7	45,392	1.2	65,599	1.8
Commercial construction	96,438	2.2	52,112	1.3	43,988	1.2	41,950	1.1	38,079	1.1
Residential construction	18,961	0.4	12,774	0.3	6,171	0.2	3,327	0.1	5,602	0.2
Total real estate	3,526,576	79.4	3,266,843	78.6	2,948,276	77.8	2,884,855	78.1	2,914,235	82.2
Commercial	791,757	17.8	783,388	18.8	721,349	19.0	716,427	19.4	551,683	15.5
Consumer	122,656	2.8	108,722	2.6	121,231	3.2	93,253	2.5	80,138	2.3
Total loans	4,440,989	100.0	4,158,953	100.0	3,790,856	100.0	3,694,535	100.0	3,546,056	100.0
Less: Deferred fees and discounts	(6,338)		(8,724)		(11,638)		(13,811)		(15,530)	
Allowance for loan losses	(45,618)		(40,116)		(41,985)		(37,906)		(40,646)	
Total loans, net	\$4,389,033		\$4,110,113		\$3,737,233		\$3,642,818		\$3,489,880	

¹ Includes renegotiated loans.

The increase in the loans receivable balance in 2014 was primarily due to growth in commercial real estate, home equity lines of credit (HELOC), commercial construction and residential 1-4 family loan portfolios. The growth in the commercial real estate and commercial construction loan portfolios were driven by demand for these loan types as the Hawaii economy continues to improve. The growth in the HELOC and residential loan portfolios were consistent with ASB's mix target and loan growth strategy. The increase in the loans receivable balance in 2013 was primarily due to growth in the residential, HELOC, commercial and commercial real estate loan portfolios. The growth in these portfolios was consistent with ASB's mix target and loan growth strategy. The increase in the loans receivable balance in 2012 and 2011 was primarily due to growth in commercial, commercial real estate, consumer and HELOC loans as ASB targeted these portfolios because of their shorter duration and/or variable rates. Offsetting these 2012 and 2011 loan portfolio increases was a decrease in the residential loan portfolio. Although ASB produced nearly \$1.0 billion of new, long-term residential loans in 2012, nearly double the level for 2011, it sold more than half those loans to control interest rate risk and repayments were also higher than in 2011.

The following table summarizes our loans receivable held for investment based upon contractually scheduled principal payments allocated to the indicated maturity categories:

December 31 Due	2014			Total
	In 1 year or less	After 1 year through 5 years	After 5 years	
(in millions)				
Commercial – Fixed	\$46	\$112	\$21	\$179
Commercial – Adjustable	217	361	35	613
Total commercial	263	473	56	792
Commercial construction – Fixed	—	—	—	—
Commercial construction – Adjustable	63	33	—	96
Total commercial construction	63	33	—	96
Residential construction – Fixed	19	—	—	19
Residential construction – Adjustable	—	—	—	—
Total residential construction	19	—	—	19
Total loans – Fixed	65	112	21	198
Total loans – Adjustable	280	394	35	709
Total loans	\$345	\$506	\$56	\$907

Origination, purchase and sale of loans. Generally, residential and commercial real estate loans originated by ASB are collateralized by real estate located in Hawaii. For additional information, including information concerning the geographic distribution of ASB’s mortgage-related securities portfolio and the geographic concentration of credit risk, see Note 15 of the Consolidated Financial Statements. The demand for loans is primarily dependent on the Hawaii real estate market, business conditions, interest rates and loan refinancing activity.

Residential mortgage lending. ASB originates fixed rate and adjustable rate loans secured by single family residential property, including investor-owned properties, with maturities of up to 30 years. ASB’s general policy is to require private mortgage insurance when the loan-to-value ratio of the property exceeds 80% of the lower of the appraised value or purchase price at origination. For nonowner-occupied residential properties, the loan-to-value ratio may not exceed 80% of the lower of the appraised value or purchase price at origination.

Construction and development lending. ASB provides both fixed- and adjustable-rate loans for the construction of one-to-four unit residential and commercial properties. Construction loan projects are typically short term in nature. Construction and development financing generally involves a higher degree of credit risk than long-term financing on improved, occupied real estate. Accordingly, construction and development loans are generally priced higher than loans collateralized by completed structures. ASB’s underwriting, monitoring and disbursement practices with respect to construction and development financing are designed to ensure sufficient funds are available to complete construction projects. See “Loan portfolio risk elements” and “Multifamily residential and commercial real estate lending” below.

Multifamily residential and commercial real estate lending. ASB provides permanent financing and construction and development financing collateralized by multifamily residential properties (including apartment buildings) and collateralized by commercial and industrial properties (including office buildings, shopping centers and warehouses) for its own portfolio as well as for participation with other lenders. Commercial real estate lending typically involves long lead times to originate and fund. As a result, production results can vary significantly from period to period.

Consumer lending. ASB offers a variety of secured and unsecured consumer loans. Loans collateralized by deposits are limited to 90% of the available account balance. ASB offers home equity lines of credit, clean energy loans, secured and unsecured VISA cards (through a third party issuer), checking account overdraft protection and other general purpose consumer loans.

Commercial lending. ASB provides both secured and unsecured commercial loans to business entities. This lending activity is designed to diversify ASB’s asset structure, shorten maturities, improve rate sensitivity of the loan portfolio and attract commercial checking deposits. ASB offers commercial loans with terms up to ten years.

Loan origination fee and servicing income. In addition to interest earned on residential mortgage loans, ASB receives income from servicing loans, for late payments and from other related services. Servicing fees are received on loans originated and subsequently sold by ASB where ASB acts as collection agent on behalf of third-party purchasers.

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ASB generally charges the borrower at loan settlement a loan origination fee of 1% of the amount borrowed. See “Loans receivable” in Note 1 of the Consolidated Financial Statements.

Loan portfolio risk elements. When a borrower fails to make a required payment on a loan and does not cure the delinquency promptly, the loan is classified as delinquent. If delinquencies are not cured promptly, ASB normally commences a collection action, including foreclosure proceedings in the case of real estate secured loans. In a foreclosure action, the property collateralizing the delinquent debt is sold at a public auction in which ASB may participate as a bidder to protect its interest. If ASB is the successful bidder, the property is classified as real estate owned until it is sold. As of December 31, 2014, 2013 and 2012, ASB had \$0.9 million, \$1.2 million and \$6.1 million, respectively, of real estate acquired in settlement of loans.

In addition to delinquent loans, other significant lending risk elements include: (1) loans which accrue interest and are 90 days or more past due as to principal or interest, (2) loans accounted for on a nonaccrual basis (nonaccrual loans), and (3) loans on which various concessions are made with respect to interest rate, maturity, or other terms due to the inability of the borrower to service the obligation under the original terms of the agreement (troubled debt restructured loans). ASB loans that were 90 days or more past due on which interest was being accrued as of December 31, 2014, 2013, 2012, 2011 and 2010 were immaterial or nil. The following table sets forth certain information with respect to nonaccrual and troubled debt restructured loans:

December 31	2014	2013	2012	2011	2010
(dollars in thousands)					
Nonaccrual loans—					
Real estate					
Residential 1-4 family	\$19,253	\$19,679	\$26,721	\$28,298	\$36,420
Commercial real estate	5,112	4,439	6,750	3,436	—
Home equity line of credit	1,087	2,060	2,349	2,258	1,659
Residential land	720	3,161	8,561	14,535	15,479
Residential construction	—	—	—	—	—
Total real estate	26,172	29,339	44,381	48,527	53,558
Commercial	10,053	18,781	20,222	17,946	4,956
Consumer	661	401	284	281	341
Total nonaccrual loans	\$36,886	\$48,521	\$64,887	\$66,754	\$58,855
Troubled debt restructured loans not included above—					
Real estate					
Residential 1-4 family	\$13,525	\$9,744	\$6,759	\$5,029	\$5,150
Commercial real estate	—	—	—	—	1,963
Home equity line of credit	480	171	—	—	—
Residential land	7,130	7,476	11,090	24,828	27,689
Total real estate	21,135	17,391	17,849	29,857	34,802
Commercial	2,972	1,649	43	15,386	4,035
Total troubled debt restructured loans	\$24,107	\$19,040	\$17,892	\$45,243	\$38,837

Impact of nonperforming loans on interest income. The following table presents the gross interest income for both nonaccrual and restructured loans that would have been recognized if such loans had been current in accordance with their original contractual terms, and had been outstanding throughout the period or since origination if held for only part of the period. The table also presents the interest income related to these loans that was actually recognized for the period.

(dollars in millions)	Year ended December 31, 2014
Gross amount of interest income that would have been recorded in accordance with original contractual terms, and had been outstanding throughout the period or since origination, if held for only part of the period ¹	
Interest income actually recognized	1

Total interest income foregone \$2

¹ Based on the contractual rate that was being charged at the time the loan was restructured or placed on nonaccrual status.

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In 2014, nonaccrual loans decreased \$11.6 million primarily due to the payoff of commercial loans that were on nonaccrual status and repayments in the residential land portfolio. ASB evaluates a restructured loan transaction to determine if the borrower is in financial difficulty and if the restructured terms are considered concessions—typically terms that are out of market, beyond normal or reasonable standards, or otherwise not available to a non-troubled borrower in the normal market place. A loan classified as TDR must meet both criteria of financial difficulty and concession. TDR loans increased \$5.1 million in 2014 primarily due to increases of \$3.8 million and \$1.3 million of residential 1-4 and commercial loans, respectively, classified as TDR. In 2013, nonaccrual loans decreased \$16.4 million due to improved credit quality in the residential 1-4 family, commercial real estate and commercial loans, and repayments in the residential land portfolio. The improvement is attributed to the continued stabilization or increase of property values, more financial flexibility of borrowers, and overall general economic improvement in the State of Hawaii. TDR loans increased \$1.1 million in 2013 primarily due to increases of \$3.0 million and \$1.6 million of residential 1-4 and commercial loans, respectively, classified as TDR, partly offset by a \$3.6 million decrease in residential land loans classified as TDR. In 2012, nonaccrual loans decreased by \$1.9 million due to improved credit quality in the residential 1-4 family and consumer portfolios (residential 1-4 family lower by \$1.6 million and residential land loans lower by \$5.9 million), partially offset by higher nonaccrual commercial real estate and commercial loans of \$5.6 million. The improvement was attributed to stabilized or increasing property values, more financial flexibility of borrowers, and overall general economic improvement in the State of Hawaii. TDR loans decreased by \$27.4 million in 2012 due to decreases of \$15.3 million and \$13.7 million of commercial loans and residential land loans, respectively, classified as TDR. In 2011, nonaccrual loans increased by \$7.9 million due to certain commercial loans that were current as to principal and interest payments but were classified and placed on nonaccrual status. The increase in troubled debt restructured loans was due to two commercial loans that were renegotiated.

Allowance for loan losses. See “Allowance for loan losses” in Note 1 of the Consolidated Financial Statements.

The following table presents the changes in the allowance for loan losses:

(dollars in thousands)	2014	2013	2012	2011	2010	
Allowance for loan losses, January 1	\$40,116	\$41,985	\$37,906	\$40,646	\$41,679	
Provision for loan losses	6,126	1,507	12,883	15,009	20,894	
Charge-offs						
Residential 1-4 family	987	1,162	3,183	5,528	6,142	
Home equity line of credit	196	782	716	1,439	2,517	
Residential land	81	485	2,808	4,071	6,487	
Total real estate	1,264	2,429	6,707	11,038	15,146	
Commercial	1,872	3,056	3,606	5,335	6,261	
Consumer	2,414	2,717	2,517	3,117	3,408	
Total charge-offs	5,550	8,202	12,830	19,490	24,815	
Recoveries						
Residential 1-4 family	1,180	1,881	1,328	110	744	
Home equity line of credit	752	358	108	25	63	
Residential land	469	868	1,443	170	63	
Total real estate	2,401	3,107	2,879	305	870	
Commercial	1,636	1,089	649	869	1,537	
Consumer	889	630	498	567	481	
Total recoveries	4,926	4,826	4,026	1,741	2,888	
Allowance for loan losses, December 31	\$45,618	\$40,116	\$41,985	\$37,906	\$40,646	
Ratio of allowance for loan losses to loans receivable held for investment	1.03	% 0.97	% 1.11	% 1.03	% 1.15	%
Ratio of provision for loan losses during the year to average total loans	0.14	% 0.04	% 0.35	% 0.42	% 0.58	%
	0.01	% 0.09	% 0.24	% 0.49	% 0.61	%

Ratio of net charge-offs during the year to
average total loans

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The following table sets forth the allocation of ASB's allowance for loan losses and the percentage of loans in each category to total loans:

December 31	2014			2013			2012		
(dollars in thousands)	Allowance balance	to loan receivable %	Loan receivable % of total	Allowance balance	to loan receivable %	Loan receivable % of total	Allowance balance	to loan receivable %	Loan receivable % of total
Real estate									
Residential 1-4 family	\$4,662	0.23	46.0	\$5,534	0.28	48.2	\$6,068	0.33	49.2
Commercial real estate	8,954	1.68	12.0	5,059	1.15	10.6	2,965	0.79	9.9
Home equity line of credit	6,982	0.85	18.4	5,229	0.71	17.8	4,493	0.71	16.6
Residential land	1,875	11.55	0.4	1,817	11.23	0.4	4,275	16.56	0.7
Commercial construction	5,471	5.67	2.2	2,397	4.60	1.3	2,023	4.60	1.2
Residential construction	28	0.15	0.4	19	0.15	0.3	9	0.15	0.2
Total real estate	27,972	0.79	79.4	20,055	0.61	78.6	19,833	0.67	77.8
Commercial	14,017	1.77	17.8	15,803	2.02	18.8	15,931	2.21	19.0
Consumer	3,629	2.96	2.8	2,367	2.18	2.6	4,019	3.32	3.2
	45,618	1.03	100.0	38,225	0.92	100.0	39,783	1.05	100.0
Unallocated	—			1,891			2,202		
Total allowance for loan losses	\$45,618			\$40,116			\$41,985		

December 31	2011			2010		
(dollars in thousands)	Allowance balance	to loan receivable %	Loan receivable % of total	Allowance balance	to loan receivable %	Loan receivable % of total
Real estate						
Residential 1-4 family	\$6,500	0.34	52.2	\$6,497	0.31	58.9
Commercial real estate	1,688	0.51	9.0	1,474	0.49	8.5
Home equity line of credit	4,354	0.81	14.5	4,269	1.03	11.7
Residential land	3,795	8.36	1.2	6,411	9.77	1.8
Commercial construction	1,888	4.50	1.1	1,714	4.50	1.1
Residential construction	4	0.12	0.1	7	0.12	0.2
Total real estate	18,229	0.63	78.1	20,372	0.70	82.2
Commercial	14,867	2.08	19.4	16,015	2.90	15.5
Consumer	3,806	4.08	2.5	3,325	4.15	2.3
	36,902	1.00	100.0	39,712	1.12	100.0
Unallocated	1,004			934		
Total allowance for loan losses	\$37,906			\$40,646		

In 2014, ASB's allowance for loan losses increased by \$5.5 million primarily due to growth in the loan portfolio (\$282 million or 6.8% growth in outstanding balances) and increases in the loss rates of loan portfolios with higher risk such as commercial real estate and unsecured personal loans. Overall loan quality continues to improve as total delinquencies of \$25.5 million at December 31, 2014 was a decrease of \$8.3 million compared to total delinquencies

of \$33.8 million at December 31, 2013 due to a decrease in delinquent commercial, commercial real estate and residential land loans. The ratio of delinquent loans to total loans decreased from 0.81% of total loans outstanding at December 31, 2013 to 0.58% of total loans outstanding at December 31, 2014. Net charge-offs for 2014 were \$0.6 million, a decrease of \$2.8 million compared to \$3.4 million for 2013 primarily due to a decrease in commercial, HELOC and residential land loan charge-offs as a result of the strong economic growth in Hawaii and partially due to the sale of the credit card portfolio in 2013. ASB's provision for loan losses was \$6.1 million for 2014, an increase of \$4.6 million compared to provision for loan losses of \$1.5 million for 2013 primarily due to growth in the loan portfolio.

In 2013, ASB's allowance for loan losses decreased by \$1.9 million, despite the increase in the loan portfolios (9.7% growth or \$368.1 million increase in outstanding balances) primarily due to the release of reserves as a result of repayments in the higher risk purchased loan and residential land loans portfolios and the sale of the credit card portfolio. Overall loan quality

has improved as delinquencies decreased significantly in 2013, primarily in the residential 1-4 family, residential land and commercial real estate portfolios. Net loan charge-offs for 2013 were \$3.4 million compared to \$8.8 million in 2012 as the Hawaii economy in general and the housing market in particular continued to improve. ASB's provision for loan losses was \$1.5 million in 2013, compared to \$12.9 million in 2012.

In 2012, ASB's allowance for loan losses increased by \$4.1 million due to growth in the loan portfolios (2.6% growth or \$96.3 million increase in outstanding balances) and higher impairment reserves for the commercial and commercial real estate loan portfolios. Although overall loan quality improved, a number of commercial borrowers experienced financial stress during the year. A loan is deemed impaired when it is probable (more likely than not) that the bank will be unable to collect all amounts due according to the loan's original contractual terms. In 2012, delinquencies significantly improved in the residential 1-4 family and consumer loan portfolios, while total bank net loan charge-offs of \$8.8 million were about half the level in 2011, reflecting the gradual improvement in the local economy including a recovery of the housing market. ASB's provision for loan losses was \$12.9 million in 2012, compared to \$15.0 million in 2011.

In 2011, ASB's allowance for loan losses decreased by \$2.7 million from 2010 due to a lower historical loss ratio for the commercial markets portfolio and the decline of the residential land portfolio, which was a higher risk and had a higher historical loss ratio assigned to it. Partly offsetting these decreases was an increase in the allowance for loan losses for the commercial real estate portfolios due to a higher average loan balance. The levels of delinquencies and losses in 2011 declined from a year ago. ASB's 2011 provision for loan losses was \$15.0 million, or a decrease of \$5.9 million from the prior year's provision for loan losses. Although the economy had gradually recovered during the year and businesses stabilized, the housing market remained stagnant.

Investment activities. Currently, ASB's investment portfolio consists of mortgage-related securities, stock of the FHLB of Seattle and U.S. Treasury and federal agency obligations. ASB owns mortgage-related securities issued by the Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) and federal agency obligations. The weighted-average yield on investments during 2014, 2013 and 2012 was 1.91%, 2.01% and 1.99%, respectively. ASB did not maintain a portfolio of securities held for trading during 2014, 2013 and 2012.

As of December 31, 2014, 2013 and 2012, ASB's stock in FHLB of Seattle amounted to \$69 million, \$93 million and \$96 million, respectively. The amount that ASB is required to invest in FHLB of Seattle stock is determined by FHLB requirements and ASB's investment is in excess of that requirement. Since the third quarter of 2012, the FHLB of Seattle was granted authority to repurchase excess stock from its members. ASB's pro-rata share of the repurchase amount in 2014, 2013 and 2012 was \$23 million, \$3 million and \$2 million, respectively. See "Stock in FHLB of Seattle" in HEI's MD&A. Also, see "Regulation—Federal Home Loan Bank System" below.

ASB does not have any exposure to securities backed by subprime mortgages. See "Investment securities" in Note 5 of the Consolidated Financial Statements for a discussion of other-than-temporarily impaired securities.

The following table summarizes the current face amount of ASB's investment portfolio (excluding stock of the FHLB of Seattle, which has no contractual maturity), as of December 31, 2014, based upon contractually scheduled principal payments and expected prepayments allocated to the indicated maturity categories:

	In 1 year or less	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
(dollars in millions)					
U.S. Treasury and federal agency obligations	\$26	\$44	\$41	\$8	\$119
Mortgage-related securities - FNMA, FHLMC and GNMA	87	205	106	27	425
	\$113	\$249	\$147	\$35	\$544
Weighted average yield ²	2.09	% 2.15	% 2.36	% 2.30	%

¹ As of December 31, 2014, no investment exceeded 10% of stockholder's equity.

² There are no tax exempt obligations.

Deposits and other sources of funds.

General. Deposits traditionally have been the principal source of ASB's funds for use in lending, meeting liquidity requirements and making investments. ASB also derives funds from the receipt of interest and principal on outstanding loans receivable and mortgage-related securities, borrowings from the FHLB of Seattle, securities sold under agreements to repurchase and other sources. ASB borrows on a short-term basis to compensate for seasonal or other reductions in deposit flows. ASB also may borrow on a longer-term basis to support expanded lending or investment activities. Advances from the

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FHLB and securities sold under agreements to repurchase continue to be a source of funds, but they are a higher cost source than deposits.

Deposits. ASB's deposits are obtained primarily from residents of Hawaii. Net deposit inflow or outflow, measured as the year-over-year difference in year-end deposits, was an inflow of \$251 million in 2014, compared to an inflow of \$143 million in 2013 and \$160 million in 2012.

The following table presents the average deposits and average rates by type of deposit. Average balances have been calculated using the average daily balances.

Years ended December 31	2014			2013			2012		
(dollars in thousands)	Average balance	% of total deposits	Weighted average rate %	Average balance	% of total deposits	Weighted average rate %	Average balance	% of total deposits	Weighted average rate %
Interest-bearing deposit liabilities									
Savings	\$1,879,373	58.3	% 0.06	% \$1,805,363	58.1	% 0.06	% \$1,727,754	56.5	% 0.07
Checking	738,651	22.9	0.02	665,941	21.4	0.02	612,629	20.0	0.02
Money market	171,889	5.3	0.12	182,343	5.9	0.13	202,539	6.6	0.16
Certificate	434,934	13.5	0.83	454,021	14.6	0.82	517,752	16.9	0.94
Total interest-bearing deposit liabilities	\$3,224,847	100.0	% 0.16	% \$3,107,668	100.0	% 0.16	% \$3,060,674	100.0	% 0.21
Total noninterest-bearing demand deposit liabilities									
Total deposit liabilities	\$4,510,811			\$4,287,227			\$4,120,795		

The following table presents the amount of time certificates of deposit of \$100,000 or more, segregated by time remaining until maturity:

(in thousands)	Amount
Three months or less	\$18,819
Greater than three months through six months	12,996
Greater than six months through twelve months	26,045
Greater than twelve months	62,027
	\$119,887

Deposit-insurance premiums and regulatory developments. For a discussion of changes to the deposit insurance system, premiums and Financing Corporation (FICO) assessments, see "Regulation—Deposit insurance coverage" below.

Other borrowings. See "Other borrowings" in Note 5 of the Consolidated Financial Statements. ASB may obtain advances from the FHLB of Seattle provided that certain standards related to creditworthiness have been met.

Advances are collateralized by a blanket pledge of certain notes held by ASB and the mortgages securing them. To the extent that advances exceed the amount of mortgage loan collateral pledged to the FHLB of Seattle, the excess must be covered by qualified marketable securities held under the control of and at the FHLB of Seattle or at an approved third-party custodian. FHLB advances generally are available to meet seasonal and other withdrawals of deposit accounts, to expand lending and to assist in the effort to improve asset and liability management. FHLB advances are made pursuant to several different credit programs offered from time to time by the FHLB of Seattle.

The increase in other borrowings in 2014 compared to 2013 was due to an increase in repurchase agreements with the State of Hawaii. The increase in other borrowings in 2013 compared to 2012 was due to \$50 million of additional FHLB advances taken out in 2013. The decrease in other borrowings in 2012 compared to 2011 was due to a decrease in retail repurchase agreements.

Competition. See “Bank—Executive overview and strategy” and “Bank—Certain factors that may affect future results and financial condition—Competition” in HEI’s MD&A.

The banking industry in Hawaii is highly competitive. At December 31, 2014, there were 9 financial institutions insured by the FDIC headquartered in the State of Hawaii. While ASB is one of the largest financial institutions in Hawaii, based on total assets, ASB faces vigorous competition for deposits and loans from two larger banking institutions based in Hawaii and from smaller institutions that heavily promote their services in niche areas, such as providing financial services to small and medium-sized businesses, as well as national financial services organizations. Competition for loans and deposits comes primarily from other savings institutions, commercial banks, credit unions, securities brokerage firms, money market and mutual funds and

other investment alternatives. ASB faces additional competition in seeking deposit funds from various types of corporate and government borrowers, including insurance companies. Competition for origination of mortgage loans comes primarily from mortgage banking and brokerage firms, commercial banks, other savings institutions, insurance companies and real estate investment trusts.

To remain competitive and continue building core franchise value, ASB continues to develop and introduce new products and services to meet the needs of its consumer and commercial customers. Additionally, the banking industry is constantly changing and ASB is making the investment in its people and technology necessary to adapt and remain competitive. ASB competes for deposits primarily on the basis of the variety of types of savings and checking accounts it offers at competitive rates, the quality of the services it provides, the convenience of its branch locations and business hours, and convenient automated teller machines. The primary factors in ASB's competition for mortgage and other loans are the competitive interest rates and loan origination fees it charges, the wide variety of loan programs it offers and the quality and efficiency of the services it provides to borrowers and the business community. Regulation. ASB, a federally chartered savings bank, and its holding companies are subject to the regulatory supervision of the OCC and FRB, respectively, and in certain respects, the FDIC. See "HEI-Regulation" above and "Bank-Certain factors that may affect future results and financial condition-Regulation" in HEI's MD&A. In addition, ASB must comply with FRB reserve requirements.

Deposit insurance coverage. The Federal Deposit Insurance Act, as amended, and regulations promulgated by the FDIC, govern insurance coverage of deposit accounts. In July 2010, the Dodd-Frank Act permanently raised the current standard maximum deposit insurance amount to \$250,000. Generally, the amount of all deposits held by a depositor in the same capacity (even if held in separate accounts) is aggregated for purposes of applying the insurance limit.

See "Federal Deposit Insurance Corporation assessment" in Note 5 of the Consolidated Financial Statements for a discussion of FDIC deposit insurance assessment rates, the prepayment of estimated assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012 and changes to the assessment rates and base. FICO will continue to impose an assessment on average total assets minus average tangible equity to service the interest on FICO bond obligations. As of December 31, 2014, ASB's annual FICO assessment was 0.62 cents per \$100 of average total assets minus average tangible equity.

Federal thrift charter. See "Bank-Certain factors that may affect future results and financial condition-Regulation-Unitary savings and loan holding company" in HEI's MD&A, including the discussion of previously proposed legislation that would abolish the charter.

Recent legislation and issuances. See "Bank-Legislation and regulation" in HEI's MD&A.

Capital requirements. The OCC has set three capital standards for financial institutions. As of December 31, 2014, ASB was in compliance with all of the minimum standards with a core capital ratio of 8.9% (compared to a 4.0% requirement), a tangible capital ratio of 8.9% (compared to a 1.5% requirement) and total risk-based capital ratio of 12.3% (based on risk-based capital of \$539.6 million, \$190.0 million in excess of the 8.0% requirement).

The OCC requires that financial institutions with a composite rating of "1" under the Uniform Financial Institution Rating System (i.e., CAMELS rating system) must maintain core capital in an amount equal to at least 3% of adjusted total assets. All other institutions must maintain a minimum core capital of 4% of adjusted total assets, and higher capital ratios may be required if warranted by particular circumstances. As of December 31, 2014, ASB met the applicable minimum core capital requirement.

See "Bank-Legislation and regulation" in HEI's MD&A for the final capital rules under the Basel III regulatory capital framework.

Affiliate transactions. Significant restrictions apply to certain transactions between ASB and its affiliates, including HEI and its direct and indirect subsidiaries. For example, ASB is prohibited from making any loan or other extens