ST MARY LAND & EXPLORATION CO
Form 424B7
July 20, 2007

PROSPECTUS SUPPLEMENT NO. 1
(To Prospectus Dated June 15, 2007)

Filed Pursuant to Rule 424(b)(7)
Registration No. 333-143815

$287,500,000

St. Mary Land & Exploration Company

3.50% Senior Convertible Notes due 2027

and Common Stock Issuable Upon Conversion of 3.50% Senior Convertible Notes due 2027

This prospectus supplement no. 1 supplements and amends our prospectus dated June 15, 2007 relating to the resale from time to time by certain selling securityholders of up to $287,500,000 principal amount of the notes and the shares of common stock issuable upon conversion of the notes.

This prospectus supplement no. 1 should be read in conjunction with and accompanied by the prospectus and is qualified by reference to the prospectus, except to the extent that the information in this prospectus supplement no. 1 supersedes the information contained in the prospectus.

The information appearing in the table below, which is based on information provided by or on behalf of the named selling securityholders, supplements and amends, by addition or substitution, as applicable, the information in the table appearing under the heading Selling Securityholders in the prospectus. The percentage of notes outstanding beneficially owned by each selling securityholder is based on $287,500,000 aggregate initial principal amount of notes outstanding.

Name	Aggregate Principal Amount of Notes That May Be Sold	Percentage of Notes Outstanding	Number of Shares of Common Stock That May Be Sold (1)	Percentage of Shares of Common Stock Outstanding
American Century Capital Portfolios, Inc. - Equity Income Fund	$ 16,686,000	5.80 %	306,617	0.48 %
Board of Trustees of the Sheet Metal Workers Local Union No. 224	$ 19,000	*	350	*
Brookline Avenue Master Fund, LP (2)	$ 1,500,000	0.52 %	27,564	0.04 %
Credit Suisse Securities (USA) LLC (3)	$ 6,000,000	2.09 %	110,255	0.17 %
Focused SICAV Convert Global (EUR) (4)	$ 12,600,000	4.38 %	231,534	0.37 %
Froley Revy Alternative Strategies	$ 500,000	0.17 %	9,188	0.01 %
Morley AISF Convertible Bond Arbitrage Fund (5)	$ 3,000,000	1.04 %	55,128	0.09 %
Privilege Portfolio SICAV (5)	$ 6,000,000	2.09 %	110,255	0.17 %
S.A.C. Arbitrage Fund, LLC (6)	$ 10,000,000	3.48 %	183,757	0.29 %
The Northwestern Mutual Life Insurance Company (7) (8)	$ 3,500,000	1.22 %	64,315	0.10 %
UBS (Lux) Bond SICAV Convert Global USD B (4)	$ 900,000	0.31 %	16,539	0.03 %
UBS Securities LLC (3) (9)	$ 5,350,000	1.86 %	98,310	0.16 %

* Less than 0.01%

(1) Represents the maximum number of shares of our common stock issuable upon conversion of all of the holder s notes, based on the initial conversion rate of 18.3757 shares of our common stock per $1,000

principal amount at maturity of the notes. However, this conversion rate will be subject to adjustment as described under Description of Notes Conversion Rights. As a result, the amount of common stock issuable upon conversion of the notes may increase or decrease in the future.

(2) This selling securityholder has advised us that voting power and investment control with respect to the notes and common stock held by this selling securityholder are exercised by Brookline Avenue Partners, LP, its investment advisor.

(3) The selling securityholder is a broker-dealer.

(4) This selling securityholder has advised us that voting power and investment control with respect to the notes and common stock held by this selling securityholder are exercised by Andreas Jacobs, Managing Director of UBS AG, Basel und Zürich (UBS AG Basel), Dirk Spiegel, Executive Director of UBS AG Basel, Gerhard Fusenig, Managing Director of UBS AG Basel, Gilbert Schintgen, Executive Director of UBS Fund Services (Luxembourg) S.A., Luxembourg (UBS Luxembourg), and Aloyse Hemmen, Executive Director of UBS Luxembourg.

(5) This selling securityholder has advised us that voting power and investment control with respect to the notes and common stock held by this selling securityholder are exercised by David Clott.

(6) This selling securityholder has advised us that, pursuant to investment agreements, each of S.A.C. Capital Advisors, LLC, a Delaware limited liability company (SAC Capital Advisors), and S.A.C. Capital Management, LLC, a Delaware limited liability company (SAC Capital Management), share all investment and voting power with respect to the notes and common stock held by this selling securityholder. Mr. Steven A. Cohen controls both SAC Capital Advisors and SAC Capital Management. Each of SAC Capital Advisors, SAC Capital Management and Mr. Cohen disclaim beneficial ownership of the notes and common stock held by this selling securityholder.

(7) The Northwestern Mutual Life Insurance Company (Northwestern Mutual) has advised us that Northwestern Investment Management Company, LLC (NIMC), a wholly owned company of Northwestern Mutual, is one of the investment advisers to Northwestern Mutual and is the investment adviser to Northwestern Mutual with respect to the notes and common stock held by Northwestern Mutual. NIMC may be deemed to be an indirect beneficial owner with shared voting power and investment power with respect to the notes and common stock held by Northwestern Mutual. Jerome R. Baier is a portfolio manager for NIMC and manages the portfolio which holds the notes and common stock held by Northwestern Mutual. Jerome R. Baier may be deemed to be an indirect beneficial owner with shared voting power and investment power with respect to the notes and common stock held by Northwestern Mutual. Northwestern Mutual has advised us that, pursuant to Rule 13d-4 under the Securities Exchange Act of 1934 (the Exchange Act), the foregoing sentences shall not be construed as an admission that Jerome R. Baier is, for the purposes of Section 13(d) or 13(g) of the Exchange Act, the beneficial owner of any of the notes and common stock held by Northwestern Mutual. Northwestern Mutual has also advised us that Mason Street Advisors, LLC, a wholly owned company of Northwestern Mutual, is an investment adviser to Northwestern Mutual and certain Northwestern Mutual-affiliated entities and may be deemed to be the indirect beneficial owner with shared voting power and investment power with respect to 1,821 shares of our common stock held by Northwestern Mutual Series Fund, Inc./Index 600 Stock Portfolio as of July 11, 2007.

(8) This selling securityholder is an affiliate of a broker-dealer. Northwestern Mutual has advised us that it is affiliated with the following broker-dealers: Northwestern Mutual Investment Services, LLC, Russell Institutional Services, Russell Implementation Services, Inc., Russell Fund Distributors, Inc., and Todd Securities, L.L.C.

(9) This selling securityholder has advised us that, as of June 25, 2007, it held a beneficial ownership interest in 21,257 shares of our common stock, not including the shares of our common stock issuable upon conversion of the notes.

Based upon information provided by the selling securityholders, none of the selling securityholders nor any of their affiliates, officers, directors or principal equity holders has held any position or office or has had any material relationship with us within the past three years, except as disclosed in the prospectus. None of the selling securityholders listed above will own 1% or more of our outstanding common stock after this offering.

Selling securityholders who are registered broker-dealers or affiliates of registered broker-dealers may be deemed to be underwriters within the meaning of the Securities Act. To our knowledge, no selling securityholder

who is a registered broker-dealer or an affiliate of a registered broker-dealer received any securities as underwriting compensation.

Information concerning the selling securityholders may change from time to time and any changed information will be set forth in additional supplements to the prospectus if and when necessary. In addition, the conversion rate and, therefore, the number of shares of common stock issuable upon conversion of the notes, is subject to adjustment under certain circumstances.

The prospectus is also hereby supplemented by adding the following sentence to the Incorporation of Certain Documents by Reference section as the second paragraph thereof:

We also incorporate by reference the description of our common stock that is contained in our registration statement on Form 8-A filed November 12, 2002, including any amendment or report filed for the purpose of updating such description.

Investing in the notes and our common stock issuable upon conversion of the notes involves risks that are described in the Risk Factors section beginning on page 8 of the prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is July 20, 2007.

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2012
2011
(dollars in thousands)
Average
balance

Interest

Yield/
rate (%)

Average
balance

Interest

Yield/
rate (%)
Average
balance

Interest

Yield/

rate (%)
Assets:

Other investments [1]
$
170,695

$
239

0.14

$
203,751

$
269

$
0.13

$
233,909

$
342

0.15

Securities purchased under resale agreements
11,370

43

0.38

—

—

—

—

—

—

Available-for-sale investment and mortgage-related securities
588,597

13,686

2.33

623,438

14,368

2.30

637,123

14,763

2.32

Loans

Residential 1-4 family
1,970,918

93,293

4.73

1,894,603

99,056

5.23

2,016,224

109,908

5.45

Commercial real estate
441,734

19,547

4.42

402,410

18,387

4.57

351,832

17,911

5.09

Home equity line of credit
680,445

20,442

3.00

585,797

16,106

2.75

474,029

13,935

2.94

Residential land
20,985

1,308

6.23

34,744

2,097

6.04

53,904

2,979

5.53

Commercial loans
726,597

29,188

4.02

714,679

30,925

4.33

637,182

31,432

4.93

Consumer loans
114,871

9,191

8.00

101,933

9,486

9.31

85,356

8,320

9.75

Total loans [2,3]
3,955,550

172,969

4.37

3,734,166

176,057

4.71

3,618,527

184,485

5.10

Total interest-earning assets [4]
4,726,212

186,937

3.96

4,561,355

190,694

4.18

4,489,559

199,590

4.45

Allowance for loan losses
(42,114
)

(39,323
)

(39,263
)

Non-interest-earning assets
424,376

431,680

423,183

Total Assets
$
5,108,474

$
4,953,712

$
4,873,479

Liabilities and Shareholder's Equity:

Savings
$
1,805,363

1,052

0.06

$
1,727,754

1,128

$
0.07

$
1,672,033

1,756

0.11

Interest-bearing checking
665,941

106

0.02

612,629

111

0.02

593,891

184

0.03

Money market
182,343

232

0.13

202,539

319

0.16

250,682

650

0.26

Time certificates
454,021

3,702

0.82

517,752

4,865

0.94

598,360

6,393

1.07

Total interest-bearing deposits
3,107,668

5,092

0.16

3,060,674

6,423

0.21

3,114,966

8,983

0.29

Advances from Federal Home Loan Bank
64,630

2,432

3.76

50,014

2,176

4.35

64,466

2,553

3.96

Securities sold under agreements to repurchase
146,758

2,553

1.74

172,683

2,693

1.56

182,655

2,933

1.61

Total interest-bearing liabilities
3,319,056

10,077

0.30

3,283,371

11,292

0.34

3,362,087

14,469

0.43

Non-interest bearing liabilities:

Deposits
1,179,559

1,060,121

916,957

Other
104,276

108,161

95,363

Shareholder's equity
505,583

502,059

499,072

Total Liabilities and Shareholder's Equity
$
5,108,474

$
4,953,712

$
4,873,479

Net interest income

$
176,860

$
179,402

$
185,121

Net interest margin (%) [5]

3.74

3.93

4.12

[1] Includes federal funds sold, interest bearing deposits and stock in the Federal Home Loan Bank of Seattle ($95 million, $97 million and $98 million as of December 31, 2013, 2012 and 2011 respectively).
[2] Includes loans held for sale.
[3] Includes loan fees of $5.2 million, $4.9 million and $3.9 million for 2013, 2012 and 2011, respectively, together with interest accrued prior to suspension of interest accrual on nonaccrual loans.
[4] Interest income includes taxable equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of $0.9 million, $0.8 million and $0.5 million for 2013, 2012 and 2011, respectively.
[5] Defined as net interest income as a percentage of average earning assets.

Earning assets, costing liabilities and other factors. Earnings of ASB depend primarily on net interest income, which is the difference between interest earned on earning assets and interest paid on costing liabilities. The interest rate environment has been impacted by disruptions in the financial markets over a period of several years and these conditions have continued to have a negative impact on ASB’s net interest margin.

Loan originations and mortgage-related securities are ASB’s primary earning assets.

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Loan portfolio. ASB's loan volumes and yields are affected by market interest rates, competition, demand for financing, availability of funds and management's responses to these factors. See Note 4 of the Consolidated Financial Statements for the composition of ASB's loans receivable.

The increase in the total loan portfolio from $3.7 billion at the end of 2012 to $4.1 billion at the end of 2013 was primarily due to growth in the residential 1-4, commercial real estate, home equity line of credit and commercial loan portfolios, which was consistent with ASB's portfolio mix targets and loan growth strategy.

Home equity — key credit statistics.

December 31	2013	2012
Outstanding balance (in thousands)	$739,331	$630,175
Percent of portfolio in first lien position	38.2 %	29.9 %
Net charge-off ratio	0.06 %	0.10 %
Delinquency ratio	0.28 %	0.40 %

			End of draw period – interest only			Current
December 31, 2013	Total	Interest only	2013-2014	2015-2017	Thereafter	amortizing
Outstanding balance (in thousands)	$739,331	$544,072	$136	$11,459	$532,477	$195,259
% of total	100 %	74 %	— %	2 %	72 %	26 %

The home equity line of credit (HELOC) portfolio makes up 18% of the total loan portfolio and is generally an interest-only revolving loan for a 10-year period, after which time the HELOC outstanding balance converts to a fully amortizing variable rate term loan with a 20-year amortization period. This product type comprises 91% of the total HELOC portfolio and is the current product offering. Within this product type, borrowers also have a "Fixed Rate Loan Option" to convert a part of their available line of credit into a 5, 7 or 10-year fully amortizing fixed rate loan with level principal and interest payments. As of December 31, 2013, approximately 18% of the portfolio balances were amortizing loans under the Fixed Rate Loan Option. Nearly all originations prior to 2008 consisted of amortizing equity lines that have structured principal payments during the draw period. These older vintage equity lines represent 9% of the portfolio and are included in the amortizing balances identified in the table above.

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 secured loans. In a foreclosure action, the property securing 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.

See "Allowance for loan losses" in Note 4 of the Consolidated Financial Statements for information with respect to nonperforming assets. The level of nonperforming loans has continued to decrease with the improving Hawaii economy.

Allowance for loan losses. See "Allowance for loan losses" in Note 4 of the Consolidated Financial Statements for the tables which sets forth the allocation of ASB's allowance for loan losses. For 2013, the allowance for loan losses decreased by $1.9 million, due to improved overall credit quality and higher recoveries in the residential 1-4 family and residential land loan portfolios.

Investment and mortgage-related securities. ASB's investment portfolio was comprised as follows:

December 31	2013		2012	
(dollars in thousands)	Balance	% of total	Balance	% of total
Federal agency obligations	$80,973	15 %	$171,491	26 %
Mortgage-related securities — FNMA, FHLMC and GNMA	369,444	70	417,383	62
Municipal bonds	78,590	15	82,484	12
	$529,007	100 %	$671,358	100 %

Principal and interest on mortgage-related securities issued by Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) are guaranteed by the issuer and, in the case of GNMA, backed by the full faith and credit of the U.S. The decrease in federal agency obligations was

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primarily due to the sale of $70 million of agency obligations in the second quarter of 2013. The decrease in mortgage-related securities was due to paydowns in the portfolio.

The unrealized losses on ASB's investment in federal agency mortgage-backed securities were primarily caused by higher interest rates. The higher interest rate environment coupled with tighter spreads on all mortgage collateralized securities caused the market value of the securities held to decrease below the carrying book value. All contractual cash flows of those investments are guaranteed by an agency of the U.S. government. See "Investment and mortgage-related securities" in Note 1 for a discussion of securities impairment assessment.

As of December 31, 2013, 2012 and 2011, ASB did not have any private-issue mortgage-related securities.

Deposits and other borrowings. Deposits continue to be the largest source of funds for ASB and are affected by market interest rates, competition and management's responses to these factors. Deposit retention and growth will remain challenging in the current environment due to competition for deposits and the low level of short-term interest rates. Advances from the FHLB of Seattle and securities sold under agreements to repurchase continue to be additional sources of funds. As of December 31, 2013, ASB's costing liabilities consisted of 95% deposits and 5% other borrowings. As of December 31, 2012, ASB's costing liabilities consisted of 96% deposits and 4% other borrowings. See Note 4 of the Consolidated Financial Statements for the composition of ASB's deposit liabilities and other borrowings.

Other factors. Interest rate risk is a significant risk of ASB's operations and also represents a market risk factor affecting the fair value of ASB's investment securities. Increases and decreases in prevailing interest rates generally translate into decreases and increases in the fair value of those instruments, respectively. In addition, changes in credit spreads also impact the fair values of those instruments.

As of December 31, 2013 and 2012, ASB had an unrealized loss, net of taxes, on available-for-sale investments and mortgage-related securities (including securities pledged for repurchase agreements) in AOCI of $4 million compared to an unrealized gain, net of taxes, of $11 million as of December 31, 2012. See "Quantitative and qualitative disclosures about market risk."

Legislation and regulation. ASB is subject to extensive regulation, principally by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC). Depending on ASB's level of regulatory capital and other considerations, these regulations could restrict the ability of ASB to compete with other institutions and to pay dividends to its shareholder. See the discussion below under "Liquidity and capital resources." Also see "Federal Deposit Insurance Corporation restoration plan" and "Deposit insurance coverage" in Note 4 of the Consolidated Financial Statements.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Regulation of the financial services industry, including regulation of HEI, ASHI and ASB, has changed and will continue to change as a result of the enactment of the Dodd-Frank Act, which became law in July 2010. Importantly for HEI, ASHI and ASB, under the Dodd-Frank Act, on July 21, 2011, all of the functions of the Office of Thrift Supervision (OTS) transferred to the OCC, the FDIC, the Federal Reserve Board (FRB) and the Consumer Financial Protection Bureau (Bureau). Supervision and regulation of HEI and ASHI, as thrift holding companies, moved to the FRB, and supervision and regulation of ASB, as a federally chartered savings bank, moved to the OCC. While the laws and regulations applicable to HEI and ASB did not generally change, the applicable laws and regulations are being interpreted, and new and amended regulations may be adopted, by the FRB, OCC and the Bureau. In addition, HEI will continue to be required to serve as a source of strength to ASB in the event of its financial distress. The Dodd-Frank Act also imposes new restrictions on the ability of a savings bank to pay dividends should it fail to remain a qualified thrift lender.

More stringent affiliate transaction rules now apply to ASB in the securities lending, repurchase agreement and derivatives areas. Standards were raised with respect to the ability of ASB to merge with or acquire another institution. In reviewing a potential merger or acquisition, the approving federal agency will need to consider the extent to which the proposed transaction will result in "greater or more concentrated risks to the stability of the U.S. banking or financial system."

The Dodd-Frank Act established the Bureau. It has authority to prohibit practices it finds to be unfair, deceptive or abusive, and it may also issue rules requiring specified disclosures and the use of new model forms. On January 10,

2013, the Bureau issued the Ability-to-Repay rule which closed for comment on February 25, 2013. For mortgages, under the proposed Ability-to-Repay rule, among other things, (i) potential borrowers will have to supply financial information, and lenders must verify it, (ii) to qualify for a particular loan, a consumer will have to have sufficient assets or income to pay back the loan, and (iii) lenders will have to determine the consumer's ability to repay both the principal and the interest over the long term - not just during an introductory period when the rate may be lower.

On May 22, 2012, the Bureau issued the Final Remittance Rule (an amendment to Regulation E). It became effective on October 28, 2013. For consumer international wires, the rule now provides flexibility regarding the disclosure of foreign taxes,

as well as fees imposed by a designated recipient's institution for receiving a remittance transfer in an account. Second, the rule limits a remittance transfer provider's obligation to disclose foreign taxes to those imposed by a country's central government. And third, the rule revises the error resolution provisions that apply when a remittance transfer is not delivered to a designated recipient because the sender provided incorrect or insufficient information, and, in particular, when a sender provides an incorrect account number and that incorrect account number results in the funds being deposited in the wrong account. This rule has not had a significant impact on ASB's results of operations.

ASB may also be subject to new state regulation because of a provision in the Dodd-Frank Act that acknowledges that a federal savings bank may be subject to state regulation and allows federal law to preempt a state consumer financial law on a "case by case" basis only when (1) the state law would have a discriminatory effect on the bank compared to that on a bank chartered in that state; (2) the state law prevents or significantly interferes with a bank's exercise of its power; or (3) the state law is preempted by another federal law.

The Dodd-Frank Act also adopts a number of provisions that will impact the mortgage industry, including the imposition of new specific duties on the part of mortgage originators (such as ASB) to act in the best interests of consumers and to take steps to ensure that consumers will have the capability to repay loans they may obtain, as well as provisions imposing new disclosure requirements and requiring appraisal reforms.

The "Durbin Amendment" to the Dodd-Frank Act required the FRB to issue rules to ensure that debit card interchange fees are "reasonable and proportional" to the processing costs incurred. In June 2011, the FRB issued a final rule establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. Under the final rule, effective October 1, 2011, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction is 21-24 cents, depending on certain components. Financial institutions and their affiliates that have less than $10 billion in assets are exempt from this Amendment; however, on July 1, 2013, ASB became non-exempt as the consolidated assets of HEI exceeded $10 billion. For the second half of 2013, ASB earned an average of 23 cents per electronic debit transaction, compared to an average of 49 cents per electronic debit transaction in the first half. ASB estimates debit card interchange fees to be lower, as a result of the application of this Amendment, by approximately $6 million after tax in 2014.

Many of the provisions of the Dodd-Frank Act, as amended, will not become effective until implementing regulations are issued and effective.

Final Capital Rules. On July 2, 2013, the FRB finalized its rule implementing the Basel III regulatory capital framework. The final rule would apply to banking organizations of all sizes and types regulated by the FRB and the OCC, except bank holding companies subject to the FRB's Small Bank Holding Company Policy Statement and Savings & Loan Holding Companies (SLHCs) substantially engaged in insurance underwriting or commercial activities. HEI currently meets the requirements of the exemption as a top-tier grandfathered unitary SLHC that derived, as of June 30 of the previous calendar year, either 50% or more of its total consolidated assets or 50% or more of its total revenues on an enterprise-wide basis (calculated under GAAP) from activities that are not financial in nature pursuant to Section 4(k) of the Bank Holding Company Act. The FRB is temporarily excluding these SLHCs from the final rule while it considers a proposal relating to capital and other requirements for SLHC intermediate holding companies. The FRB anticipates that it will release a proposal on intermediate holding companies in the near term that would specify the criteria for establishing and transferring activities to intermediate holding companies and propose to apply the FRB's capital requirements to such intermediate holding companies.

Pursuant to the final rule and consistent with the proposals, all banking organizations, including covered holding companies, would initially be subject to the following minimum regulatory capital requirements: a common equity tier 1 capital ratio of 4.5%, a tier 1 capital ratio of 6%, a total capital ratio of 8% of risk-weighted assets and a leverage ratio of 4%, and these requirements would increase in subsequent years. In order to avoid restrictions on capital distributions and discretionary bonus payments to executive officers, the final rule requires a banking organization to hold a buffer of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets (capital conservation buffer). In addition, a countercyclical capital buffer would expand the capital conservation buffer by up to 2.5% of a banking organization's total risk-weighted assets for advanced approaches banking organizations. The final rule would establish qualification criteria for common equity, additional tier 1 and tier 2 capital instruments that help to ensure their ability to absorb losses. All banking

organizations would be required to calculate risk-weighted assets under the standardized approach, which harmonizes the banking agencies' calculation of risk-weighted assets and address shortcomings in risk-based capital requirements identified by the agencies. The phased-in effective dates of the capital requirements under the final rule are:

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Minimum Capital Requirements

Effective dates	1/1/2015	1/1/2016	1/1/2017	1/1/2018	1/1/2019
Capital conservation buffer		0.625 %	1.25 %	1.875 %	2.50 %
Common equity ratio + conservation buffer	4.50 %	5.125 %	5.75 %	6.375 %	7.00 %
Tier 1 capital ratio + conservation buffer	6.00 %	6.625 %	7.25 %	7.875 %	8.50 %
Total capital ratio + conservation buffer	8.00 %	8.625 %	9.25 %	9.875 %	10.50 %
Tier 1 leverage ratio	4.00 %	4.00 %	4.00 %	4.00 %	4.00 %
Countercyclical capital buffer — not applicable to ASB		0.625 %	1.25 %	1.875 %	2.50 %

The final rule is effective January 1, 2015 for ASB. Subject to the timing and final outcome of the FRB's SLHC intermediate holding company proposal, HEI anticipates that the capital requirements in the final rule will be effective for HEI or ASHI on January 1, 2015 as well. If the fully phased-in capital requirements were currently applicable to HEI and ASB, management believes HEI and ASB would satisfy the capital requirements, including the fully phased-in capital conservation buffer.

FHLB of Seattle stock. As of December 31, 2013, ASB's investment in stock of the FHLB of Seattle of $92.5 million was carried at cost because it can only be redeemed at par. There is a minimum required investment in such stock based on measurements of ASB's capital, assets and/or borrowing levels, and ASB's investment is substantially in excess of that requirement. In 2013, the FHLB of Seattle paid ASB cash dividends of $47,000. FHLB of Seattle did not pay any cash dividends in 2011 or 2012.

In September 2012, the Federal Housing Finance Agency (Finance Agency) classified the FHLB of Seattle as "adequately capitalized" and after receiving approval from the Finance Agency, began repurchasing excess stock. The FHLB of Seattle repurchased a total of $3.5 million and $1.7 million of excess stock from ASB in 2013 and 2012, respectively.

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

Recent accounting pronouncements. See "Recent accounting pronouncements and interpretations" in Note 1 of the Consolidated Financial Statements.

Liquidity and capital resources.

December 31 (dollars in millions)	2013	% change	2012	% change
Total assets	$5,244	4	$5,042	3
Available-for-sale investment and mortgage-related securities	529	(21)	671	8
Loans receivable held for investment, net	4,110	10	3,737	3
Deposit liabilities	4,372	3	4,230	4
Other bank borrowings	245	25	196	(16)

As of December 31, 2013, ASB was one of Hawaii's largest financial institutions based on assets of $5.2 billion and deposits of $4.4 billion.

ASB's principal sources of liquidity are customer deposits, borrowings and the maturity and repayment of portfolio loans and securities. ASB's deposits as of December 31, 2013 were $143 million higher than December 31, 2012. ASB's principal sources of borrowings are advances from the FHLB and securities sold under agreements to repurchase from broker/dealers. As of December 31, 2013, FHLB borrowings totaled $100 million, representing 1.9% of assets. ASB is approved to borrow from the FHLB up to 35% of ASB's assets to the extent it provides qualifying collateral and holds sufficient FHLB stock. As of December 31, 2013, ASB's unused FHLB borrowing capacity was approximately $1.1 billion. As of December 31, 2013, securities sold under agreements to repurchase totaled $145 million, representing 2.8% of assets. ASB utilizes deposits, advances from the FHLB and securities sold under agreements to repurchase to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans and purchase investment and mortgage-related securities. As of December 31, 2013, ASB had commitments to borrowers for loan commitments and unused lines and letters of credit of $1.6 billion, including commitments to lend $0.3 million to borrowers whose loan terms have been impaired or modified in troubled debt restructurings. Management believes ASB's current sources of funds will enable it to meet these obligations while

maintaining liquidity at satisfactory levels.

As of December 31, 2013 and 2012, ASB had $48.5 million and $64.9 million of loans on nonaccrual status, respectively, or 1.2% and 1.7% of net loans outstanding, respectively. As of December 31, 2013 and 2012, ASB had $1.2 million and $6.1 million, respectively, of real estate acquired in settlement of loans.

In 2013, operating activities provided cash of $74 million. Net cash of $253 million was used by investing activities primarily due to purchases of investment and mortgage-related securities, a net increase in loans held for investment and capital expenditures, partly offset by repayments of investment and mortgage-related securities and proceeds from the sales of investment securities and real estate acquired in settlement of loans. Financing activities provided net cash of $151 million due to a net increase in deposits and a net increase in other borrowings, partly offset by the payment of common stock dividends.

ASB believes that maintaining a satisfactory regulatory capital position provides a basis for public confidence, affords protection to depositors, helps to ensure continued access to capital markets on favorable terms and provides a foundation for growth. FDIC regulations restrict the ability of financial institutions that are not well-capitalized to compete on the same terms as well-capitalized institutions, such as by offering interest rates on deposits that are significantly higher than the rates offered by competing institutions. As of December 31, 2013, ASB was well-capitalized (see “Regulation—Capital requirements” below for ASB’s capital ratios).

For a discussion of ASB dividends, see “Common stock equity” in Note 4 of the Consolidated Financial Statements.

Certain factors that may affect future results and financial condition. Also see “Forward-Looking Statements” and “Certain factors that may affect future results and financial condition” for Consolidated HEI above.

Competition. The banking industry in Hawaii is highly competitive. ASB is one of Hawaii’s largest financial institutions, based on total assets, and is in direct competition for deposits and loans, not only with larger institutions, but also with smaller institutions that are heavily promoting their services in certain niche areas, such as providing financial services to small- and medium-sized businesses, and national organizations offering financial services. ASB’s main competitors are banks, savings associations, credit unions, mortgage brokers, finance companies and securities brokerage firms. These competitors offer a variety of lending, deposit and investment products to retail and business customers.

The primary factors in competing for deposits are interest rates, the quality and range of services offered, marketing, convenience of locations, hours of operation and perceptions of the institution’s financial soundness and safety. To meet competition, ASB offers a variety of savings and checking accounts at competitive rates, convenient business hours, convenient branch locations with interbranch deposit and withdrawal privileges at each branch and convenient automated teller machines. ASB also conducts advertising and promotional campaigns.

The primary factors in competing for first mortgage and other loans are interest rates, loan origination fees and the quality and range of lending and other services offered. ASB believes that it is able to compete for such loans primarily through the competitive interest rates and loan fees it charges, the type of mortgage loan programs it offers and the efficiency and quality of the services it provides to individual borrowers and the business community.

ASB is a full-service community bank serving both consumer and commercial customers and has been diversifying its loan portfolio from single-family home mortgages to higher-spread, shorter-duration consumer, commercial and commercial real estate loans. The origination of consumer, commercial and commercial real estate loans involves risks and other considerations different from those associated with originating residential real estate loans. For example, the sources and level of competition may be different and credit risk is generally higher than for mortgage loans. These different risk factors are considered in the underwriting and pricing standards and in the allowance for loan losses established by ASB for its consumer, commercial and commercial real estate loans.

U.S. capital markets and credit and interest rate environment. Volatility in U.S. capital markets may negatively impact the fair values of investment and mortgage-related securities held by ASB. As of December 31, 2013, the fair value and carrying value of the investment and mortgage-related securities held by ASB were $0.5 billion.

Interest rate risk is a significant risk of ASB’s operations. ASB actively manages this risk, including managing the relationship of its interest-sensitive assets to its interest-sensitive liabilities. Persistent low levels of interest rates have made it challenging to find investments with adequate risk-adjusted returns and had a negative impact on ASB’s asset yields and net interest margin. If the current interest rate environment persists, the potential for compression of ASB’s net interest margin will continue. ASB also manages the credit risk associated with its lending and securities

portfolios, but a deep and prolonged recession led by a material decline in housing prices could materially impair the value of its portfolios. See “Quantitative and Qualitative Disclosures about Market Risk” below.

Technological developments. New technological developments (e.g., significant advances in internet banking) may impact ASB’s future competitive position, results of operations and financial condition.

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Environmental matters. Prior to extending a loan collateralized by real property, ASB conducts due diligence to assess whether or not the property may present environmental risks and potential cleanup liability. In the event of default and foreclosure of a loan, ASB may become the owner of the mortgaged property. For that reason, ASB seeks to avoid lending upon the security of, or acquiring through foreclosure, any property with significant potential environmental risks; however, there can be no assurance that ASB will successfully avoid all such environmental risks.

Regulation. ASB is subject to examination and comprehensive regulation by the Department of Treasury, OCC and the FDIC, and is subject to reserve requirements established by the Board of Governors of the Federal Reserve System. Regulation by these agencies focuses in large measure on the adequacy of ASB's capital and the results of periodic "safety and soundness" examinations conducted by the OCC.

Capital requirements. The OCC, which is ASB's principal regulator, administers two sets of capital standards—minimum regulatory capital requirements and prompt corrective action requirements. The FDIC also has prompt corrective action capital requirements. As of December 31, 2013, ASB was in compliance with OCC minimum regulatory capital requirements and was "well-capitalized" within the meaning of OCC prompt corrective action regulations and FDIC capital regulations, as follows:

- ASB met applicable minimum regulatory capital requirements (noted in parentheses) as of December 31, 2013 with a tangible capital ratio of 9.1% (1.5%), a core capital ratio of 9.1% (4.0%) and a total risk-based capital ratio of 12.1% (8.0%).
- ASB met the capital requirements to be generally considered "well-capitalized" (noted in parentheses) as of December 31, 2013 with a leverage ratio of 9.1% (5.0%), a Tier-1 risk-based capital ratio of 11.2% (6.0%) and a total risk-based capital ratio of 12.1% (10.0%).

The purpose of the prompt corrective action capital requirements is to establish thresholds for varying degrees of oversight and intervention by regulators. Declines in levels of capital, depending on their severity, will result in increasingly stringent mandatory and discretionary regulatory consequences. Capital levels may decline for any number of reasons, including reductions that would result if there were losses from operations, deterioration in collateral values or the inability to dispose of real estate owned (typically acquired by foreclosure). The regulators have substantial discretion in the corrective actions they might direct and could include restrictions on dividends and other distributions that ASB may make to HEI (through ASHI) and the requirement that ASB develop and implement a plan to restore its capital. Under an agreement with regulators entered into by HEI when it acquired ASB, HEI currently could be required to contribute to ASB up to an additional $28.3 million of capital, if necessary, to maintain ASB's capital position.

Examinations. ASB is subject to periodic "safety and soundness" examinations and other examinations by the OCC. In conducting its examinations, the OCC utilizes the Uniform Financial Institutions Rating System adopted by the Federal Financial Institutions Examination Council, which system utilizes the "CAMELS" criteria for rating financial institutions. The six components in the rating system are: Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk. The OCC examines and rates each CAMELS component. An overall CAMELS rating is also given, after taking into account all of the component ratings. A financial institution may be subject to formal regulatory or administrative direction or supervision such as a "memorandum of understanding" or a "cease and desist" order following an examination if its CAMELS rating is not satisfactory. An institution is prohibited from disclosing the OCC's report of its safety and soundness examination or the component and overall CAMELS rating to any person or organization not officially connected with the institution as an officer, director, employee, attorney or auditor, except as provided by regulation. The OCC also regularly examines ASB's information technology practices and its performance under Community Reinvestment Act measurement criteria.

The Federal Deposit Insurance Act, as amended, addresses the safety and soundness of the deposit insurance system, supervision of depository institutions and improvement of accounting standards. Pursuant to this Act, federal banking agencies have promulgated regulations that affect the operations of ASB and its holding companies (e.g., standards for safety and soundness, real estate lending, accounting and reporting, transactions with affiliates and loans to insiders). FDIC regulations restrict the ability of financial institutions that fail to meet relevant capital measures to engage in certain activities, such as offering interest rates on deposits that are significantly higher than the rates offered by

competing institutions. As of December 31, 2013, ASB was “well-capitalized” and thus not subject to these restrictions. Qualified Thrift Lender status. ASB is a “qualified thrift lender” (QTL) under its federal thrift charter and, in order to maintain this status, ASB is required to maintain at least 65% of its assets in “qualified thrift investments,” which include housing-related loans (including mortgage-related securities) as well as certain small business loans, education loans, loans made through credit card accounts and a basket (not exceeding 20% of total assets) of other consumer loans and other assets. Institutions that fail to maintain QTL status are subject to various penalties, including limitations on their activities. In ASB’s

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case, the activities of HEI, ASHI and HEI's other subsidiaries would also be subject to restrictions if ASB failed to maintain its QTL status, and a failure or inability to comply with those restrictions could effectively result in the required divestiture of ASB. As of December 31, 2013, ASB was a qualified thrift lender.

Unitary savings and loan holding company. The Gramm-Leach-Bliley Act of 1999 (Gramm Act) permitted banks, insurance companies and investment firms to compete directly against each other, thereby allowing "one-stop shopping" for an array of financial services. Although the Gramm Act further restricted the creation of so-called "unitary savings and loan holding companies" (i.e., companies such as HEI whose subsidiaries include one or more savings associations and one or more nonfinancial subsidiaries), the unitary savings and loan holding company relationship among HEI, ASHI and ASB is "grandfathered" under the Gramm Act so that HEI and its subsidiaries will be able to continue to engage in their current activities so long as ASB maintains its QTL status. Under the Gramm Act, any proposed sale of ASB would have to satisfy applicable statutory and regulatory requirements and potential acquirers of ASB would most likely be limited to companies that are already qualified as, or capable of qualifying as, either a traditional savings and loan association holding company or a bank holding company, or as one of the authorized financial holding companies permitted under the Gramm Act. There have been legislative proposals in the past which would operate to eliminate the thrift charter or the grandfathered status of HEI as a unitary thrift holding company and effectively require the divestiture of ASB.

Material estimates and critical accounting policies. Also see "Material estimates and critical accounting policies" for Consolidated HEI above.

Investment and mortgage-related securities. ASB owns federal agency obligations and mortgage-related securities issued by the FNMA, GNMA and FHLMC and municipal bonds, all of which are classified as available-for-sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported in AOCI.

ASB views the determination of whether an investment security is temporarily or other-than-temporarily impaired as a critical accounting policy since the estimate is susceptible to significant change from period to period because it requires management to make significant judgments, assumptions and estimates in the preparation of its consolidated financial statements.

See "Investment and mortgage-related securities" in Note 1 of the Consolidated Financial Statements for a discussion of securities impairment assessment and other-than-temporary impaired securities.

Prices for investments and mortgage-related securities are provided by an independent third party pricing service and are based on observable inputs, including historical trading levels or sector yields, using market-based valuation techniques. The price of these securities is generally based on observable inputs, which include market liquidity, credit considerations of the underlying collateral, the levels of interest rates, expectations of prepayments and defaults, limited investor base, market sector concerns and overall market psychology. To validate the accuracy and completeness of security pricing, a separate third party pricing service is used on a quarterly basis to compare prices that were received from the initial third party pricing service. If the pricing differential between the two pricing sources exceeds an established threshold, the security price will be re-evaluated by sending a re-pricing request to both independent third party pricing services, to another third party vendor or to an independent broker to determine the most accurate price based on all observable inputs found in the market place. The third party price selected will be based on the value that best reflects the data and observable characteristics of the security. As of December 31, 2013, ASB had investment and mortgage-related securities issued by FHLMC, GNMA and FNMA valued at $0.5 billion.

Allowance for loan losses. See Note 1 of the Consolidated Financial Statements and the discussion above under "Earning assets, costing liabilities and other factors." As of December 31, 2013, ASB's allowance for loan losses was $40.1 million and ASB had $48.5 million of loans on nonaccrual status, compared to $42.0 million and $64.9 million at December 31, 2012, respectively. In 2013, ASB recorded a provision for loan losses of $1.5 million, compared to a provision of $12.9 million in 2012.

The determination of the allowance for loan losses is sensitive to the credit risk ratings assigned to ASB's loan portfolio and loss ratios inherent in the ASB loan portfolio at any given point in time. A sensitivity analysis provides insight regarding the impact that adverse changes in credit risk ratings may have on ASB's allowance for loan losses. At December 31, 2013, in the event that 1% of the homogenous loans move down one delinquency classification (e.g., 1% of the loans in the 0-29 days delinquent category move to the 30-59 days delinquent category, 1% of the loans in

the 30-59 days delinquent category move to the 60-89 days delinquent category and 1% of the loans in the 60-89 days delinquent category move to the 90+ days delinquent category) and 1% of non-homogenous loans were downgraded one credit risk rating category for each category (e.g., 1% of the loans in the “pass” category moved to the “special mention” category, 1% of the loans in the “special mention” category moved to the “substandard” category, 1% of the loans in the “substandard” category moved to the “doubtful” category and 1% of the loans in the “doubtful” category moved to the “loss” category), the allowance for loan losses would have

increased by approximately $0.4 million. The sensitivity analyses do not imply any expectation of future deterioration in ASB loans' risk ratings and they do not necessarily reflect the nature and extent of future changes in the allowance for loan losses due to the numerous quantitative and qualitative factors considered in determining ASB's allowance for loan losses. The example above is only one of a number of possible scenarios.

Although management believes ASB's allowance for loan losses is adequate, the actual loan losses, provision for loan losses and allowance for loan losses may be materially different if conditions change (e.g., if there is a significant change in the Hawaii economy or real estate market), and material increases in those amounts could have a material adverse effect on the Company's results of operations, financial condition and liquidity.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

HEI and Hawaiian Electric (in the case of Hawaiian Electric, only the information related to Hawaiian Electric and its subsidiaries is applicable):

The Company manages various market risks in the ordinary course of business, including credit risk and liquidity risk. The Company believes the electric utility and the "other" segment's exposures to these two risks are not material as of December 31, 2013.

Credit risk for ASB is the risk that borrowers or issuers of securities will not be able to repay their obligations to the bank. Credit risk associated with ASB's lending portfolios is controlled through its underwriting standards, loan rating of commercial and commercial real estate loans, on-going monitoring by loan officers, credit review and quality control functions in these lending areas and adequate allowance for loan losses. Credit risk associated with the securities portfolio is mitigated through investment portfolio limits, experienced staff working with analytical tools, monthly fair value analysis and on-going monitoring and reporting such as investment watch reports and loss sensitivity analysis. See "Allowance for loan losses" above and in Note 4 of the Consolidated Financial Statements.

Liquidity risk for ASB is the risk that the bank will not meet its obligations when they become due. Liquidity risk is mitigated by ASB's asset/liability management process, on-going analytical analysis, monitoring and reporting information such as weekly cash-flow analyses and maintenance of liquidity contingency plans.

The Utilities are exposed to some commodity price risk primarily related to their fuel supply and IPP contracts. The Utilities' commodity price risk is substantially mitigated so long as they have their current ECACs in their rate schedules. The Utilities currently have no hedges against its commodity price risk.

The Company currently has no direct exposure to market risk from trading activities nor foreign currency exchange rate risk.

The Company considers interest rate risk to be a very significant market risk as it could potentially have a significant effect on the Company's results of operations, financial condition and liquidity, especially as it relates to ASB, but also as it may affect the discount rate used to determine retirement benefit liabilities, the market value of retirement benefit plans' assets and the Utilities' allowed rates of return. Interest rate risk can be defined as the exposure of the Company's earnings to adverse movements in interest rates.

Bank interest rate risk

The Company's success is dependent, in part, upon ASB's ability to manage interest rate risk (IRR). ASB's interest-rate risk profile is strongly influenced by its primary business of making fixed-rate residential mortgage loans and taking in retail deposits. Large mismatches in the amounts or timing between the maturity or repricing of interest sensitive assets or liabilities could adversely affect ASB's earnings and the market value of its interest-sensitive assets and liabilities in the event of significant changes in the level of interest rates. Many other factors also affect ASB's exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, and competition for loans or deposits.

ASB's Asset/Liability Management Committee (ALCO), whose voting members are officers and employees of ASB, is responsible for managing interest rate risk and carrying out the overall asset/liability management objectives and activities of ASB as approved by the ASB Board of Directors. ALCO establishes policies under which management monitors and coordinates ASB's assets and liabilities.

See Note 4 of the Consolidated Financial Statements for a discussion of the use of rate lock commitments on loans held for sale and forward sale contracts to manage some interest rate risk associated with ASB's residential loan sale program.

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Management of ASB measures interest-rate risk using simulation analysis with an emphasis on measuring changes in net interest income (NII) and the market value of interest-sensitive assets and liabilities in different interest-rate environments. The simulation analysis is performed using a dedicated asset/liability management software system enhanced with a mortgage prepayment model and a collateralized mortgage obligation database. The simulation software is capable of generating scenario-specific cash flows for all instruments using the specified contractual information for each instrument and product specific prepayment assumptions for mortgage loans and mortgage-related securities.

NII sensitivity analysis measures the change in ASB's twelve-month, pretax NII in alternate interest rate scenarios. NII sensitivity is measured as the change in NII in the alternate interest-rate scenarios as a percentage of the base case NII. The base case interest-rate scenario is established using the current yield curve and assumes interest rates remain constant over the next twelve months. The alternate scenarios are created by assuming "rate ramps" or gradual interest changes and accomplished by moving the yield curve in a parallel fashion, over the next twelve month period, in increments of +/- 100 basis points. The simulation model forecasts scenario-specific principal and interest cash flows for the interest-bearing assets and liabilities, and the NII is calculated for each scenario. Key balance sheet modeling assumptions used in the NII sensitivity analysis include: the size of the balance sheet remains relatively constant over the simulation horizon and maturing assets or liabilities are reinvested in similar instruments in order to maintain the current mix of the balance sheet. In addition, assumptions are made about the prepayment behavior of mortgage-related assets, future pricing spreads for new assets and liabilities, and the speed and magnitude with which deposit rates change in response to changes in the overall level of interest rates. Other NII sensitivity analysis may include scenarios such as yield curve twists or non-static balance sheet changes (such as changes to key balance sheet drivers).

Consistent with OCC guidelines, the market value or economic capitalization of ASB is measured as economic value of equity (EVE). EVE represents the theoretical market value of ASB's net worth and is defined as the present value of expected net cash flows from existing assets minus the present value of expected cash flows from existing liabilities plus the present value of expected net cash flows from existing off-balance sheet contracts. Key assumptions used in the calculation of ASB's EVE include the prepayment behavior of loans and investments, the possible distribution of future interest rates, pricing spreads for assets and liabilities in the alternate scenarios and the rate and balance behavior of deposit accounts with indeterminate maturities. EVE is calculated in multiple scenarios. As with the NII simulation, the base case is represented by the current yield curve. Alternate scenarios are created by assuming immediate parallel shifts in the yield curve in increments of +/- 100 basis points (bp) up to + 300 bp. The change in EVE is measured as the change in EVE in a given rate scenario from the base case and expressed as a percentage. To gain further insight into the IRR profile, additional analysis is periodically performed in alternate scenarios including rate shifts of greater magnitude, yield curve twists and changes in key balance sheet drivers.

ASB's interest-rate risk sensitivity measures as of December 31, 2013 and 2012 constitute "forward-looking statements" and were as follows:

	Change in NII (gradual change in interest rates)				Change in EVE (instantaneous change in interest rates)			
Change in interest rates (basis points)	December 31, 2013		December 31, 2012		December 31, 2013		December 31, 2012	
+300	1.3	%	1.6	%	(10.7	)%	(9.4	)%
+200	0.3		0.5		(6.9	)	(4.9	)
+100	—		0.1		(3.3	)	(1.9	)
-100	(0.5	)	(0.2	)	0.6		(1.7	)

Management believes that ASB's interest rate risk position as of December 31, 2013 represents a reasonable level of risk. The NII profile under the rising interest rate scenarios was less asset sensitive for all rate increases as of December 31, 2013 compared to December 31, 2012 due to changes in the mix of assets and steepening of the yield curve which resulted in less cash flows maturing or repricing within the 12 month horizon.

ASB's base EVE increased to $906 million as of December 31, 2013 compared to $767 million as of December 31, 2012 due to growth in capital, steepening of the yield curve and changes in assumptions about the behavior of core

deposits.

The change in EVE was more sensitive in the rising scenarios as of December 31, 2013 compared to December 31, 2012 due to steepening of the yield curve which extended the duration of fixed-rate mortgage-related assets, the shift in the investment portfolio towards a longer duration mix, and changes in the mix of retail loans and core deposits.

The computation of the prospective effects of hypothetical interest rate changes on the NII sensitivity and the percentage change in EVE is based on numerous assumptions, including relative levels of market interest rates, loan prepayments, balance changes and pricing strategies, and should not be relied upon as indicative of actual results. To the extent market conditions and

other factors vary from the assumptions used in the simulation analysis, actual results may differ materially from the simulation results. Furthermore, NII sensitivity analysis measures the change in ASB's twelve-month, pretax NII in alternate interest rate scenarios, and is intended to help management identify potential exposures in ASB's current balance sheet and formulate appropriate strategies for managing interest rate risk. The simulation does not contemplate any actions that ASB management might undertake in response to changes in interest rates. Further, the changes in NII vary in the twelve-month simulation period and are not necessarily evenly distributed over the period. These analyses are for analytical purposes only and do not represent management's views of future market movements, the level of future earnings, or the timing of any changes in earnings within the twelve month analysis horizon. The actual impact of changes in interest rates on NII will depend on the magnitude and speed with which rates change, actual changes in ASB's balance sheet, and management's responses to the changes in interest rates.

Other than bank interest rate risk

The Company's general policy is to manage "other than bank" interest rate risk through use of a combination of short-term debt, long-term debt (currently fixed-rate debt) and preferred securities. As of December 31, 2013, management believes the Company is exposed to "other than bank" interest rate risk because of its periodic borrowing requirements, the impact of interest rates on the discount rate and the market value of plan assets used to determine retirement benefits expenses and obligations (see "Retirement benefits" in HEI's MD&A and Note 10 of the Consolidated Financial Statements) and the possible effect of interest rates on the electric utilities' allowed rates of return (see "Electric utility—Certain factors that may affect future results and financial condition—Regulation of electric utility rates"). Other than these exposures, management believes its exposure to "other than bank" interest rate risk is not material. The Company's longer-term debt, in the form of borrowings of proceeds of revenue bonds, registered Medium-Term Notes and privately-placed Senior Notes, is at fixed rates (see Note 16 of the Consolidated Financial Statements for the fair value of long-term debt, net-other than bank).

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HEI and Hawaiian Electric:

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Report of Independent Registered Public Accounting Firm
To the Board of Directors and Shareholders of
Hawaiian Electric Industries, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Hawaiian Electric Industries, Inc. and its subsidiaries (the "Company") at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Annual Report of Management on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
February 21, 2014

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Report of Independent Registered Public Accounting Firm
To the Board of Directors and Shareholder
of Hawaiian Electric Company, Inc.:
In our opinion, the accompanying consolidated balance sheets and statements of capitalization and the related consolidated statements of income, comprehensive income, changes in common stock equity and cash flows present fairly, in all material respects, the financial position of Hawaiian Electric Company, Inc. and its subsidiaries (the "Company") at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
February 21, 2014

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

Years ended December 31	2013	2012	2011
(in thousands, except per share amounts)			
Revenues			
Electric utility	$2,980,172	$3,109,439	$2,978,690
Bank	258,147	265,539	264,407
Other	151	17	(762)
Total revenues	3,238,470	3,374,995	3,242,335
Expenses			
Electric utility	2,734,659	2,896,427	2,763,556
Bank	171,090	177,106	172,806
Other	17,302	17,266	16,277
Total expenses	2,923,051	3,090,799	2,952,639
Operating income (loss)			
Electric utility	245,513	213,012	215,134
Bank	87,057	88,433	91,601
Other	(17,151)	(17,249)	(17,039)
Total operating income	315,419	284,196	289,696
Interest expense, net – other than on deposit liabilities and other bank borrowings	(75,479)	(78,151)	(82,106)
Allowance for borrowed funds used during construction	2,246	4,355	2,498
Allowance for equity funds used during construction	5,561	7,007	5,964
Income before income taxes	247,747	217,407	216,052
Income taxes	84,341	76,859	75,932
Net income	163,406	140,548	140,120
Preferred stock dividends of subsidiaries	1,890	1,890	1,890
Net income for common stock	$161,516	$138,658	$138,230
Basic earnings per common share	$1.63	$1.43	$1.45
Diluted earnings per common share	$1.62	$1.42	$1.44
Dividends per common share	$1.24	$1.24	$1.24
Weighted-average number of common shares outstanding	98,968	96,908	95,510
Net effect of potentially dilutive shares	655	430	310
Adjusted weighted-average shares	99,623	97,338	95,820

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

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

Years ended December 31 (in thousands)	2013	2012	2011
Net income for common stock	$161,516	$138,658	$138,230
Other comprehensive income (loss), net of taxes:			
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) on securities arising during the period, net of (taxes) benefits of $9,037, ($631) and ($4,343) for 2013, 2012 and 2011, respectively	(13,686)	956	6,578
Less: reclassification adjustment for net realized gains included in net income, net of taxes of $488, $53 and $148 for 2013, 2012 and 2011, respectively	(738)	(81)	(224)
Derivatives qualified as cash flow hedges:			
Net unrealized holding losses arising during the period, net of tax benefits of $4 for 2011	—	—	(8)
Less: reclassification adjustment to net income, net of tax benefits of $150, $150 and $115 for 2013, 2012 and 2011, respectively	235	236	181
Retirement benefit plans:			
Prior service credit arising during the period, net of taxes of $4,422 for 2011	—	—	6,943
Net gains (losses) arising during the period, net of (taxes) benefits of ($142,478), $63,303 and $83,147 for 2013, 2012 and 2011, respectively	223,177	(99,159)	(130,191)
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $14,870, $9,764 and $5,976 for 2013, 2012 and 2011, respectively	23,280	15,291	9,364
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of (taxes) benefits of $141,777, ($48,299) and ($64,134) for 2013, 2012 and 2011, respectively	(222,595)	75,471	100,692
Other comprehensive income (loss), net of taxes	9,673	(7,286)	(6,665)
Comprehensive income attributable to Hawaiian Electric Industries, Inc.	$171,189	$131,372	$131,565

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

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Consolidated Balance Sheets
Hawaiian Electric Industries, Inc. and Subsidiaries

December 31 (dollars in thousands)		2013		2012
ASSETS				
Cash and cash equivalents		$220,036		$219,662
Accounts receivable and unbilled revenues, net		346,785		362,823
Available-for-sale investment and mortgage-related securities		529,007		671,358
Investment in stock of Federal Home Loan Bank of Seattle		92,546		96,022
Loans receivable held for investment, net		4,110,113		3,737,233
Loans held for sale, at lower of cost or fair value		5,302		26,005
Property, plant and equipment, net				
Land	$74,272		$70,799	
Plant and equipment	5,829,132		5,492,963	
Construction in progress	146,742		156,353	
	6,050,146		5,720,115	
Less – accumulated depreciation	(2,191,199)	3,858,947	(2,125,286)	3,594,829
Regulatory assets		575,924		864,596
Other		519,194		494,414
Goodwill		82,190		82,190
Total assets		$10,340,044		$10,149,132
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Accounts payable		$212,331		$212,379
Interest and dividends payable		26,716		26,258
Deposit liabilities		4,372,477		4,229,916
Short-term borrowings—other than bank		105,482		83,693
Other bank borrowings		244,514		195,926
Long-term debt, net—other than bank		1,492,945		1,422,872
Deferred income taxes		529,260		439,329
Regulatory liabilities		349,299		324,152
Contributions in aid of construction		432,894		405,520
Defined benefit pension and other postretirement benefit plans liability		288,539		656,394
Other		524,224		524,535
Total liabilities		8,578,681		8,520,974
Preferred stock of subsidiaries - not subject to mandatory redemption		34,293		34,293
Commitments and contingencies (Notes 3 and 4)				
Shareholders' equity				
Preferred stock, no par value, authorized 10,000,000 shares; issued: none		—		—
Common stock, no par value, authorized 200,000,000 shares; issued and outstanding: 101,259,800 shares and 97,928,403 shares in 2013 and 2012, respectively		1,488,126		1,403,484
Retained earnings		255,694		216,804

Accumulated other comprehensive income (loss), net of taxes				
Net unrealized gains (losses) on securities	$(3,663)		$10,761	
Unrealized losses on derivatives	(525)		(760)	
Retirement benefit plans	(12,562)	(16,750)	(36,424)	(26,423)
Total shareholders’ equity		1,727,070		1,593,865
Total liabilities and shareholders’ equity		$10,340,044		$10,149,132

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

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

	Common stock		Retained	Accumulated other comprehensive	
(in thousands, except per share amounts)	Shares	Amount	earnings	income (loss)	Total
Balance, December 31, 2010	94,691	$1,314,199	$178,667	$(12,472)	$1,480,394
Net income for common stock	—	—	138,230	—	138,230
Other comprehensive loss, net of tax benefits	—	—	—	(6,665)	(6,665)
Issuance of common stock:					
Dividend reinvestment and stock purchase plan	879	21,217	—	—	21,217
Retirement savings and other plans	468	10,318	—	—	10,318
Expenses and other, net	—	3,712	—	—	3,712
Common stock dividends ($1.24 per share)	—	—	(118,500)	—	(118,500)
Balance, December 31, 2011	96,038	1,349,446	198,397	(19,137)	1,528,706
Net income for common stock	—	—	138,658	—	138,658
Other comprehensive loss, net of tax benefits	—	—	—	(7,286)	(7,286)
Issuance of common stock:					
Dividend reinvestment and stock purchase plan	1,560	41,295	—	—	41,295
Retirement savings and other plans	330	8,196	—	—	8,196
Expenses and other, net	—	4,547	—	—	4,547
Dividend equivalents paid on equity-classified awards	—	—	(101)	—	(101)
Common stock dividends ($1.24 per share)	—	—	(120,150)	—	(120,150)
Balance, December 31, 2012	97,928	1,403,484	216,804	(26,423)	1,593,865
Net income for common stock	—	—	161,516	—	161,516
Other comprehensive income, net of taxes	—	—	—	9,673	9,673
Issuance of common stock:					
Partial settlement of equity forward	1,300	33,409	—	—	33,409
Dividend reinvestment and stock purchase plan	1,612	41,692	—	—	41,692
Retirement savings and other plans	420	9,203	—	—	9,203
Expenses and other, net	—	338	—	—	338
Common stock dividends ($1.24 per share)	—	—	(122,626)	—	(122,626)
Balance, December 31, 2013	101,260	$1,488,126	$255,694	$(16,750)	$1,727,070

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

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

Years ended December 31	2013	2012	2011
(in thousands)			
Cash flows from operating activities			
Net income	$163,406	$140,548	$140,120
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation of property, plant and equipment	160,061	150,389	148,152
Other amortization	4,667	7,958	19,318
Provision for loan losses	1,507	12,883	15,009
Impairment of utility assets	—	40,000	9,215
Loans receivable originated and purchased, held for sale	(249,022)	(519,622)	(267,656)
Proceeds from sale of loans receivable, held for sale	273,775	513,000	273,932
Gain on sale of credit card portfolio	(2,251)	—	—
Increase in deferred income taxes	80,399	90,848	79,444
Excess tax benefits from share-based payment arrangements	(430)	(61)	—
Allowance for equity funds used during construction	(5,561)	(7,007)	(5,964)
Change in cash overdraft	1,038	—	(2,688)
Changes in assets and liabilities			
Decrease (increase) in accounts receivable and unbilled revenues, net	16,038	(18,501)	(77,326)
Decrease (increase) in fuel oil stock	27,332	10,129	(18,843)
Increase in regulatory assets	(65,461)	(72,401)	(40,132)
Decrease in accounts, interest and dividends payable	(23,153)	(39,738)	(34,480)
Change in prepaid and accrued income taxes and utility revenue taxes	(19,406)	21,079	73,153
Decrease in defined benefit pension and other postretirement benefit plans liability	(33,014)	(228)	(6,922)
Change in other assets and liabilities	(2,779)	(94,734)	(53,966)
Net cash provided by operating activities	327,146	234,542	250,366
Cash flows from investing activities			
Available-for-sale investment and mortgage-related securities purchased	(112,654)	(243,633)	(361,876)
Principal repayments on available-for-sale investment and mortgage-related securities	158,558	191,253	389,906
Proceeds from sale of available-for-sale investment and mortgage-related securities	71,367	3,548	32,799
Net increase in loans held for investment	(398,426)	(112,730)	(181,080)
Proceeds from sale of real estate acquired in settlement of loans	9,212	11,336	8,020
Capital expenditures	(353,879)	(325,480)	(235,116)
Contributions in aid of construction	32,160	45,982	23,534
Proceeds from sale of credit card portfolio	26,386	—	—
Other	3,516	2,677	(2,974)
Net cash used in investing activities	(563,760)	(427,047)	(326,787)
Cash flows from financing activities			
Net increase in deposit liabilities	142,561	159,884	94,660
Net increase in short-term borrowings with original maturities of three months or less	21,789	14,872	43,898
Net increase (decrease) in retail repurchase agreements	(1,418)	(37,291)	10,910
Proceeds from other bank borrowings	130,000	5,000	—
Repayments of other bank borrowings	(80,000)	(5,000)	(15,000)
Proceeds from issuance of long-term debt	286,000	457,000	125,000

Repayment of long-term debt	(216,000)	(375,500)	(150,000)
Excess tax benefits from share-based payment arrangements	430	61	—
Net proceeds from issuance of common stock	55,086	23,613	15,979
Common stock dividends	(98,383)	(96,202)	(106,812)
Preferred stock dividends of subsidiaries	(1,890)	(1,890)	(1,890)
Other	(1,187)	(2,645)	(710)
Net cash provided by financing activities	236,988	141,902	16,035
Net increase (decrease) in cash and cash equivalents	374	(50,603)	(60,386)
Cash and cash equivalents, January 1	219,662	270,265	330,651
Cash and cash equivalents, December 31	$220,036	$219,662	$270,265

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

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

Years ended December 31 (in thousands)	2013	2012	2011
Revenues	$2,980,172	$3,109,439	$2,978,690
Expenses			
Fuel oil	1,185,552	1,297,419	1,265,126
Purchased power	710,681	724,240	689,652
Other operation and maintenance	403,270	397,429	380,084
Depreciation	154,025	144,498	142,975
Taxes, other than income taxes	281,131	292,841	276,504
Impairment of utility assets	—	40,000	9,215
Total expenses	2,734,659	2,896,427	2,763,556
Operating income	245,513	213,012	215,134
Allowance for equity funds used during construction	5,561	7,007	5,964
Interest expense and other charges, net	(59,279)	(62,055)	(60,031)
Allowance for borrowed funds used during construction	2,246	4,355	2,498
Income before income taxes	194,041	162,319	163,565
Income taxes	69,117	61,048	61,584
Net income	124,924	101,271	101,981
Preferred stock dividends of subsidiaries	915	915	915
Net income attributable to Hawaiian Electric	124,009	100,356	101,066
Preferred stock dividends of Hawaiian Electric	1,080	1,080	1,080
Net income for common stock	$122,929	$99,276	$99,986

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

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

Years ended December 31 (in thousands)	2013	2012	2011
Net income for common stock	$122,929	$99,276	$99,986
Other comprehensive income (loss), net of taxes:			
Retirement benefit plans:			
Prior service credit arising during the period, net of taxes of $4,408 for 2011	—	—	6,921
Net gains (losses) arising during the period, net of (taxes) benefits of ($129,601), $57,375 and $74,346 for 2013, 2012 and 2011, respectively	203,479	(90,082)	(116,726)
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $13,180, $8,709 and $5,332 for 2013, 2012 and 2011, respectively	20,694	13,673	8,372
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of (taxes) benefits of $141,777, ($48,069) and ($64,134) for 2013, 2012 and 2011, respectively	(222,595)	75,471	100,692
Other comprehensive income (loss), net of taxes	1,578	(938)	(741)
Comprehensive income attributable to Hawaiian Electric Company, Inc.	$124,507	$98,338	$99,245

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

Consolidated Balance Sheets
Hawaiian Electric Company, Inc. and Subsidiaries

December 31 (in thousands)	2013	2012
Assets		
Utility plant, at cost		
Land	$51,883	$51,568
Plant and equipment	5,701,875	5,364,400
Less accumulated depreciation	(2,111,229)	(2,040,789)
Construction in progress	143,233	151,378
Net utility plant	3,785,762	3,526,557
Current assets		
Cash and equivalents	62,825	17,159
Customer accounts receivable, net	175,448	210,779
Accrued unbilled revenues, net	144,124	134,298
Other accounts receivable, net	14,062	28,176
Fuel oil stock, at average cost	134,087	161,419
Materials and supplies, at average cost	59,044	51,085
Prepayments and other	52,857	32,865
Regulatory assets	69,738	51,267
Total current assets	712,185	687,048
Other long-term assets		
Regulatory assets	506,186	813,329
Unamortized debt expense	9,003	10,554
Other	73,993	71,305
Total other long-term assets	589,182	895,188
Total assets	$5,087,129	$5,108,793
Capitalization and liabilities		
Capitalization (see Consolidated Statements of Capitalization)		
Common stock equity	$1,593,564	$1,472,136
Cumulative preferred stock – not subject to mandatory redemption	34,293	34,293
Commitments and contingencies (Note 3)		
Long-term debt, net	1,206,545	1,147,872
Total capitalization	2,834,402	2,654,301
Current liabilities		
Current portion of long-term debt	11,400	—
Accounts payable	189,559	186,824
Interest and preferred dividends payable	21,652	21,092
Taxes accrued	249,445	251,066
Regulatory liabilities	1,916	1,212
Other	63,881	60,801
Total current liabilities	537,853	520,995
Deferred credits and other liabilities		
Deferred income taxes	507,161	417,611
Regulatory liabilities	347,383	322,940
Unamortized tax credits	73,539	66,584
Defined benefit pension and other postretirement benefit plans liability	262,162	620,205
Other	91,735	100,637
Total deferred credits and other liabilities	1,281,980	1,527,977

Contributions in aid of construction	432,894	405,520
Total capitalization and liabilities	$5,087,129	$5,108,793

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

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Consolidated Statements of Capitalization
Hawaiian Electric Company, Inc. and Subsidiaries

December 31	2013	2012
(dollars in thousands, except par value)		
Common stock equity		
Common stock of $6 2/3 par value		
Authorized: 50,000,000 shares. Outstanding:		
2013, 15,429,105 shares and 2012, 14,665,264 shares	$102,880	$97,788
Premium on capital stock	541,452	468,045
Retained earnings	948,624	907,273
Accumulated other comprehensive income (loss), net of taxes - retirement benefit plans	608	(970)
Common stock equity	1,593,564	1,472,136

Cumulative preferred stock not subject to mandatory redemption
Authorized: 5,000,000 shares of $20 par value and 7,000,000 shares of $100 par value.

Series	Par Value	Par Value	Shares outstanding December 31, 2013 and 2012	2013	2012
(dollars in thousands, except par value and shares outstanding)					
C-4 1/4%	$20	(Hawaiian Electric)	150,000	$3,000	$3,000
D-5%	20	(Hawaiian Electric)	50,000	1,000	1,000
E-5%	20	(Hawaiian Electric)	150,000	3,000	3,000
H-5 1/4%	20	(Hawaiian Electric)	250,000	5,000	5,000
I-5%	20	(Hawaiian Electric)	89,657	1,793	1,793
J-4 3/4%	20	(Hawaiian Electric)	250,000	5,000	5,000
K-4.65%	20	(Hawaiian Electric)	175,000	3,500	3,500
G-7 5/8%	100	(Hawaii Electric Light)	70,000	7,000	7,000
H-7 5/8%	100	(Maui Electric)	50,000	5,000	5,000
			1,234,657	34,293	34,293

(continued)

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

Consolidated Statements of Capitalization (continued)
Hawaiian Electric Company, Inc. and Subsidiaries

December 31 (in thousands)	2013	2012
Long-term debt		
Obligations to the State of Hawaii for the repayment of Special Purpose Revenue Bonds (subsidiary obligations unconditionally guaranteed by Hawaiian Electric):		
Hawaiian Electric, 6.50%, series 2009, due 2039	$90,000	$90,000
Hawaii Electric Light, 6.50%, series 2009, due 2039	60,000	60,000
Hawaiian Electric, 4.60%, refunding series 2007B, due 2026	62,000	62,000
Hawaii Electric Light, 4.60%, refunding series 2007B, due 2026	8,000	8,000
Maui Electric, 4.60%, refunding series 2007B, due 2026	55,000	55,000
Hawaiian Electric, 4.65%, series 2007A, due 2037	100,000	100,000
Hawaii Electric Light, 4.65%, series 2007A, due 2037	20,000	20,000
Maui Electric, 4.65%, series 2007A, due 2037	20,000	20,000
Hawaiian Electric, 4.80%, refunding series 2005A, due 2025	40,000	40,000
Hawaii Electric Light, 4.80%, refunding series 2005A, due 2025	5,000	5,000
Maui Electric, 4.80%, refunding series 2005A, due 2025	2,000	2,000
Hawaiian Electric, 5.00%, refunding series 2003B, due 2022	—	40,000
Hawaii Electric Light, 5.00%, refunding series 2003B, due 2022	—	12,000
Hawaii Electric Light, 4.75%, refunding series 2003A, due 2020	—	14,000
Hawaii Electric Light, 5.50%, refunding series 1999A, due 2014	11,400	11,400
Hawaiian Electric, 5.65%, series 1997A, due 2027	—	50,000
Hawaii Electric Light, 5.65%, series 1997A, due 2027	—	30,000
Maui Electric, 5.65%, series 1997A, due 2027	—	20,000
Total obligations to the State of Hawaii	473,400	639,400
Other long-term debt – unsecured:		
Taxable senior notes:		
Hawaii Electric Light, 3.83%, Series 2013A, due 2020	14,000	—
Hawaiian Electric, 4.45%, Series 2013A, due 2022	40,000	—
Hawaii Electric Light, 4.45%, Series 2013B, due 2022	12,000	—
Hawaiian Electric, 4.84%, Series 2013B, due 2027	50,000	—
Hawaii Electric Light, 4.84%, Series 2013C, due 2027	30,000	—
Maui Electric, 4.84%, Series 2013A, due 2027	20,000	—
Hawaiian Electric, 5.65%, Series 2013C, due 2043	50,000	—
Maui Electric, 5.65%, Series 2013B, due 2043	20,000	—
Hawaiian Electric, 3.79%, Series 2012A, due 2018	30,000	30,000
Hawaii Electric Light, 3.79%, Series 2012A, due 2018	11,000	11,000
Maui Electric, 3.79%, Series 2012A, due 2018	9,000	9,000
Hawaiian Electric, 4.03%, Series 2012B, due 2020	62,000	62,000
Maui Electric, 4.03%, Series 2012B, due 2020	20,000	20,000
Hawaiian Electric, 4.55%, Series 2012C, due 2023	50,000	50,000
Hawaii Electric Light, 4.55%, Series 2012B, due 2023	20,000	20,000
Maui Electric, 4.55%, Series 2012C, due 2023	30,000	30,000
Hawaiian Electric, 4.72%, Series 2012D, due 2029	35,000	35,000
Hawaiian Electric, 5.39%, Series 2012E, due 2042	150,000	150,000
Hawaiian Electric, 4.53%, Series 2012F, due 2032	40,000	40,000
Total taxable senior notes	693,000	457,000
6.50 %, series 2004, Junior subordinated deferrable interest debentures, due 2034	51,546	51,546

Total other long-term debt – unsecured	744,546	508,546
Total long-term debt	1,217,946	1,147,946
Less unamortized discount	1	74
Less current portion long-term debt	11,400	—
Long-term debt, net	1,206,545	1,147,872
Total capitalization	$2,834,402	$2,654,301

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

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

(in thousands)	Common stock Shares	Amount	Premium on capital stock	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2010	13,831	$92,224	$389,609	$851,613	$709	$1,334,155
Net income for common stock	—	—	—	99,986	—	99,986
Other comprehensive loss, net of tax benefits	—	—	—	—	(741)	(741)
Issuance of common stock, net of expenses	403	2,687	37,312	—	—	39,999
Common stock dividends	—	—	—	(70,558)	—	(70,558)
Balance, December 31, 2011	14,234	94,911	426,921	881,041	(32)	1,402,841
Net income for common stock	—	—	—	99,276	—	99,276
Other comprehensive loss, net of tax benefits	—	—	—	—	(938)	(938)
Issuance of common stock, net of expenses	431	2,877	41,124	—	—	44,001
Common stock dividends	—	—	—	(73,044)	—	(73,044)
Balance, December 31, 2012	14,665	97,788	468,045	907,273	(970)	1,472,136
Net income for common stock	—	—	—	122,929	—	122,929
Other comprehensive income, net of taxes	—	—	—	—	1,578	1,578
Issuance of common stock, net of expenses	764	5,092	73,407	—	—	78,499
Common stock dividends	—	—	—	(81,578)	—	(81,578)
Balance, December 31, 2013	15,429	$102,880	$541,452	$948,624	$608	$1,593,564

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

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

Years ended December 31 (in thousands)	2013	2012	2011
Cash flows from operating activities			
Net income	$124,924	$101,271	$101,981
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation of property, plant and equipment	154,025	144,498	142,975
Other amortization	5,077	6,998	17,378
Impairment of utility assets	—	40,000	9,215
Increase in deferred income taxes	64,507	86,878	69,091
Change in tax credits, net	7,017	6,075	2,087
Allowance for equity funds used during construction	(5,561)	(7,007)	(5,964)
Change in cash overdraft	1,038	—	(2,688)
Changes in assets and liabilities			
Decrease (increase) in accounts receivable	49,445	(47,004)	(44,404)
Decrease (increase) in accrued unbilled revenues	(9,826)	3,528	(33,442)
Decrease (increase) in fuel oil stock	27,332	10,129	(18,843)
Increase in materials and supplies	(7,959)	(7,897)	(6,471)
Increase in regulatory assets	(65,461)	(72,401)	(40,132)
Decrease in accounts payable	(20,828)	(38,913)	(35,815)
Change in prepaid and accrued income taxes and revenue taxes	(2,028)	25,239	69,736
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	2,240	(744)	(27,004)
Change in other assets and liabilities	(31,499)	(73,419)	(36,306)
Net cash provided by operating activities	292,443	177,231	161,394
Cash flows from investing activities			
Capital expenditures	(342,485)	(310,091)	(226,022)
Contributions in aid of construction	32,160	45,982	23,534
Other	(230)	—	77
Net cash used in investing activities	(310,555)	(264,109)	(202,411)
Cash flows from financing activities			
Common stock dividends	(81,578)	(73,044)	(70,558)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(1,995)	(1,995)	(1,995)
Proceeds from issuance of common stock	78,500	44,000	40,000
Proceeds from issuance of long-term debt	236,000	457,000	—
Repayment of long-term debt	(166,000)	(368,500)	—
Other	(1,149)	(2,230)	(560)
Net cash provided by (used in) financing activities	63,778	55,231	(33,113)
Net increase (decrease) in cash and cash equivalents	45,666	(31,647)	(74,130)
Cash and cash equivalents, January 1	17,159	48,806	122,936
Cash and cash equivalents, December 31	$62,825	$17,159	$48,806

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

Notes to Consolidated Financial Statements
1 · Summary of significant accounting policies
General
Hawaiian Electric Industries, Inc. (HEI) is a holding company with direct and indirect subsidiaries principally engaged in electric utility and banking businesses, primarily in the State of Hawaii. HEI is the parent holding company of Hawaiian Electric Company, Inc. (Hawaiian Electric) and indirect parent holding company of American Savings Bank, F. S. B. (ASB). HEI's common stock is traded on the New York Stock Exchange.
Hawaiian Electric and its wholly-owned operating subsidiaries, Hawaii Electric Light Company, Inc. (Hawaii Electric Light) and Maui Electric Company, Limited (Maui Electric), are regulated public electric utilities (collectively, the Utilities) in the business of generating, purchasing, transmitting, distributing and selling electric energy on all major islands in Hawaii other than Kauai. Hawaiian Electric also owns Renewable Hawaii, Inc. (RHI), Uluwehiokama Biofuels Corp. (UBC) and HECO Capital Trust III. See Note 2.
ASB is a federally chartered savings bank providing a full range of banking services to individual and business customers through its branch system in Hawaii.
HEI and Hawaiian Electric have combined their financial statements. Also, Hawaiian Electric changed its consolidated statements of income from a utility presentation to a commercial company presentation, resulting in more consistency between HEI's and Hawaiian Electric's consolidated financial statements. The combined notes to the consolidated financial statements apply to both HEI and Hawaiian Electric unless otherwise described.
Basis of presentation. In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change for the Company include the amounts reported for investment and mortgage-related securities (ASB only); property, plant and equipment; pension and other postretirement benefit obligations; contingencies and litigation; income taxes; regulatory assets and liabilities (Utilities only); electric utility revenues (Utilities only); and allowance for loan losses (ASB only).
Consolidation. The HEI consolidated financial statements include the accounts of HEI and its subsidiaries (collectively, the Company). The Hawaiian Electric consolidated financial statements include the accounts of Hawaiian Electric and its subsidiaries. The consolidated financial statements exclude subsidiaries which are variable interest entities (VIEs) when the Company or the Utilities are not the primary beneficiaries. Investments in companies over which the Company or the Utilities have the ability to exercise significant influence, but not control, are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated in consolidation. See Note 5 for information regarding unconsolidated VIEs.
Cash and cash equivalents. The Utilities consider cash on hand, deposits in banks, money market accounts, certificates of deposit, short-term commercial paper of non-affiliates and liquid investments (with original maturities of three months or less) to be cash and cash equivalents. The Company considers the same items to be cash and cash equivalents as well as ASB's deposits with the Federal Home Loan Bank (FHLB) of Seattle, federal funds sold (excess funds that ASB loans to other banks overnight at the federal funds rate) and securities purchased under resale agreements.
Investment and mortgage-related securities. Debt securities that the Company intends to and has the ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Marketable equity securities and debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Marketable equity securities and debt securities not classified as either held-to-maturity or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses and other-than-temporary impairment (OTTI) not related to credit losses excluded from earnings and reported on a net basis in accumulated other comprehensive income (loss) (AOCI).
For securities that are not trading securities, individual securities are assessed for impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant. An investment is impaired if the fair value

of the security is

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less than its carrying value at the financial statement date. When a security is impaired, the Company determines whether this impairment is temporary or other-than-temporary. If the Company does not expect to recover the entire amortized cost basis of the security, an OTTI exists. If the Company intends to sell the security, or will more likely than not be required to sell the security before recovery of its amortized cost, the OTTI must be recognized in earnings. If the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost, the OTTI must be separated into the amount representing the credit loss and the amount related to all other factors. The amount of OTTI related to the credit loss is recognized in earnings while the remaining OTTI is recognized in other comprehensive income. Once an OTTI has been recognized on a security, the Company accounts for the security as if the security had been purchased on the measurement date of the OTTI at an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. The difference between the new amortized cost basis and the cash flows expected to be collected is accreted in accordance with existing applicable guidance as interest income. Any discount or reduced premium recorded for the security will be amortized over the remaining life of the security in a prospective manner based on the amount and timing of future estimated cash flows. If upon subsequent evaluation, there is a significant increase in cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, such changes shall be accounted for as a prospective adjustment to the accretable yield.

The specific identification method is used in determining realized gains and losses on the sales of securities. Discounts and premiums on investment securities are accreted or amortized over the remaining lives of the securities, adjusted for actual portfolio prepayments, using the interest method. Discounts and premiums on mortgage-related securities are accreted or amortized over the remaining lives of the securities, adjusted based on changes in anticipated prepayments, using the interest method.

Equity method. Investments in up to 50%-owned affiliates over which the Company or the Utilities have the ability to exercise significant influence over the operating and financing policies and investments in unconsolidated subsidiaries (e.g. HECO Capital Trust III) are accounted for under the equity method, whereby the investment is carried at cost, plus (or minus) the equity in undistributed earnings (or losses) and minus distributions since acquisition. Equity in earnings or losses is reflected in operating revenues. Equity method investments are also evaluated for OTTI. Also see Note 5 below.

Property, plant and equipment. Property, plant and equipment are reported at cost. Self-constructed electric utility plant includes engineering, supervision, administrative and general costs and an allowance for the cost of funds used during the construction period. These costs are recorded in construction in progress and are transferred to utility plant when construction is completed and the facilities are either placed in service or become useful for public utility purposes. Costs for betterments that make utility plant more useful, more efficient, of greater durability or of greater capacity are also capitalized. Upon the retirement or sale of electric utility plant, generally no gain or loss is recognized. The cost of the plant retired is charged to accumulated depreciation. Amounts collected from customers for cost of removal (expected to exceed salvage value in the future) are included in regulatory liabilities.

Depreciation. Depreciation is computed primarily using the straight-line method over the estimated lives of the assets being depreciated. Electric utility plant additions in the current year are depreciated beginning January 1 of the following year in accordance with rate-making. Electric utility plant has lives ranging from 20 to 88 years for production plant, from 25 to 65 years for transmission and distribution plant and from 5 to 65 years for general plant. The Utilities' composite annual depreciation rate, which includes a component for cost of removal, was 3.1% in 2013, 3.1% in 2012 and 3.2% in 2011.

Leases. HEI, the Utilities and ASB have entered into lease agreements for the use of equipment and office space. The provisions of some of the lease agreements contain renewal options.

The Company's operating lease expense was $19 million, $19 million and $14 million in 2013, 2012 and 2011, respectively, and future minimum lease payments are $18 million, $16 million, $13 million, $10 million, $7 million and $29 million for 2014, 2015, 2016, 2017, 2018 and thereafter, respectively. The Utilities' operating lease expense was $8 million, $8 million and $6 million in 2013, 2012 and 2011, respectively, and future minimum lease payments are $9 million, $8 million, $6 million, $5 million, $3 million and $18 million for 2014, 2015, 2016, 2017, 2018 and thereafter, respectively.

Retirement benefits. Pension and other postretirement benefit costs are charged primarily to expense and electric utility plant (in the case of the Utilities). Funding for the Company's qualified pension plans (Plans) is based on actuarial assumptions adopted by the Pension Investment Committee administering the Plans on the advice of an enrolled actuary. The participating employers contribute amounts to a master pension trust for the Plans in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA), including changes promulgated by the Pension Protection Act of 2006, and considering the deductibility of contributions under the Internal Revenue Code. The Company generally funds at least the net periodic pension cost during the year, subject to limits and targeted funded status as determined with the consulting actuary. Under a pension tracking mechanism approved by the Public Utilities Commission of the State of

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Hawaii (PUC), the Utilities generally will make contributions to the pension fund at the greater of the minimum level required under the law or net periodic pension cost.

Certain health care and/or life insurance benefits are provided to eligible retired employees and the employees' beneficiaries and covered dependents. The Company generally funds the net periodic postretirement benefit costs other than pensions and the amortization of the regulatory asset for postretirement benefits other than pensions (OPEB), while maximizing the use of the most tax advantaged funding vehicles, subject to cash flow requirements and reviews of the funded status with the consulting actuary. The Utilities must fund OPEB costs as specified in the OPEB tracking mechanisms, which were approved by the PUC. Future decisions in rate cases could further impact funding amounts.

The Company and the Utilities recognize on their respective balance sheets the funded status of their defined benefit pension and other postretirement benefit plans, as adjusted by the impact of decisions of the PUC.

Environmental expenditures. The Company and the Utilities are subject to numerous federal and state environmental statutes and regulations. In general, environmental contamination treatment costs are charged to expense, unless it is probable that the PUC would allow such costs to be recovered in future rates, in which case such costs would be capitalized as regulatory assets. Also, environmental costs are capitalized if the costs extend the life, increase the capacity, or improve the safety or efficiency of property; the costs mitigate or prevent future environmental contamination; or the costs are incurred in preparing the property for sale. Environmental costs are either capitalized or charged to expense when environmental assessments and/or remedial efforts are probable and the cost can be reasonably estimated.

Financing costs. Financing costs related to the registration and sale of HEI common stock are recorded in shareholders' equity.

HEI uses the straight-line method, which approximates the effective interest method, to amortize the long-term debt financing costs of the holding company over the term of the related debt.

The Utilities use the straight-line method, which approximates the effective interest method, to amortize long-term debt financing costs and premiums or discounts over the term of the related debt. Unamortized financing costs and premiums or discounts on the Utilities' long-term debt retired prior to maturity are classified as regulatory assets (costs and premiums) or liabilities (discounts) and are amortized on a straight-line basis over the remaining original term of the retired debt. The method and periods for amortizing financing costs, premiums and discounts, including the treatment of these items when long-term debt is retired prior to maturity, have been established by the PUC as part of the rate-making process.

HEI and the Utilities use the straight-line method to amortize the fees and related costs paid to secure a firm commitment under their line-of-credit arrangements.

Income taxes. Deferred income tax assets and liabilities are established for the temporary differences between the financial reporting bases and the tax bases of the Company's and the Utilities' assets and liabilities at federal and state tax rates expected to be in effect when such deferred tax assets or liabilities are realized or settled. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized.

The Company recognizes investment tax credits as a reduction of income tax expense in the period the assets giving rise to such credits are placed in service, except for the Utilities' investment tax credits, which are deferred and amortized over the estimated useful lives of the properties to which the credits relate, in accordance with Accounting Standards Codification (ASC) Topic 980, "Regulated Operations."

The Utilities are included in the consolidated income tax returns of HEI. However, income tax expense has been computed for financial statement purposes as if the Utilities filed separate consolidated Hawaiian Electric income tax returns.

Governmental tax authorities could challenge a tax return position taken by management. If the Company's position does not prevail, the Company's results of operations and financial condition may be adversely affected as the related deferred or current income tax asset might be impaired and written down or an unanticipated tax liability might be incurred.

The Company and the Utilities use a "more-likely-than-not" recognition threshold and measurement standard for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.
Earnings per share (HEI only). Basic earnings per share (EPS) is computed by dividing net income for common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed similarly, except that dilutive common shares for stock compensation and the equity forward transactions are added to the denominator. HEI uses the two-

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class method of computing EPS as restricted stock grants include non-forfeitable rights to dividends and are participating securities.
Under the two-class method, HEI's EPS was comprised as follows for both participating securities and unrestricted common stock:

	2013		2012		2011	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Distributed earnings	$1.24	$1.24	$1.24	$1.24	$1.24	$1.24
Undistributed earnings	0.39	0.38	0.19	0.18	0.21	0.20
	$1.63	$1.62	$1.43	$1.42	$1.45	$1.44

As of December 31, 2013 and 2012, the antidilutive effect of stock appreciation rights (SARs) on 102,000 shares of HEI common stock (for which the exercise prices were greater than the closing market prices of HEI’s common stock on such dates), was not included in the computation of diluted EPS. As of December 31, 2011, there were no shares that were antidilutive.
Share-based compensation. The Company and the Utilities apply the fair value based method of accounting to account for its stock compensation, including the use of a forfeiture assumption. See Note 11.
Impairment of long-lived assets and long-lived assets to be disposed of. The Company and the Utilities review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.
Recent accounting pronouncements and interpretations.
Obligations resulting from joint and several liability. In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-04, “Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date,” which provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance requires entities to measure these obligations as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information.
The Company and the Utilities retrospectively adopted ASU No. 2013-04 in the first quarter of 2014 and it did not have a material impact on the Company’s or the Utilities' results of operations, financial condition or liquidity.
Unrecognized tax benefits (UTBs). In July 2013, the FASB issued ASU No. 2013-11, “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists,” which requires the netting of UTBs against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. UTBs should be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs.
The Company and the Utilities plan to prospectively adopt ASU No. 2013-11 in the first quarter of 2014 and does not believe that such adoption will have a material impact on the Company’s or the Utilities' results of operations, financial condition or liquidity.
Reclassification of loans upon foreclosure. In January 2014, the FASB issued ASU No. 2014-04, "Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure,” which clarifies when an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer loan. A creditor is considered to have received physical possession of residential real estate property collateralizing a consumer loan upon either: (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (2) the borrower conveying all interest in the residential real

estate property to the creditor to satisfy that loan through a deed in lieu of foreclosure or through a similar legal agreement. The amendment also requires additional disclosures.

The Company plans to prospectively adopt ASU No. 2014-04 in the first quarter of 2015 and does not believe that such adoption will have a material impact on the Company's results of operations, financial condition or liquidity.
Reclassifications. In the fourth quarter of 2013, Hawaiian Electric changed its consolidated statements of income for 2013 and prior comparative periods from a utility presentation to a commercial company presentation, under which all operating revenues and expenses (including non-regulated revenues and expenses) are included in the determination of operating income. Additionally, income tax expense, which was previously included partially in operating expenses and partially in other income (deductions), is now entirely presented directly above net income in income taxes and includes income taxes related to non-regulated revenues and expenses. These and other reclassifications made to prior years' financial statements to conform to the 2013 presentation did not affect previously reported results of operations.
Electric utility
Regulation by the Public Utilities Commission of the State of Hawaii (PUC). The Utilities are regulated by the PUC and account for the effects of regulation under FASB ASC Topic 980, "Regulated Operations." As a result, the actions of regulators can affect the timing of recognition of revenues, expenses, assets and liabilities. Management believes the Utilities' operations currently satisfy the ASC Topic 980 criteria. If events or circumstances should change so that those criteria are no longer satisfied, the Utilities expect that their regulatory assets, net of regulatory liabilities, would be charged to the statement of income in the period of discontinuance.
Accounts receivable. Accounts receivable are recorded at the invoiced amount. The Utilities generally assess a late payment charge on balances unpaid from the previous month. The allowance for doubtful accounts is the Utilities' best estimate of the amount of probable credit losses in the Utilities existing accounts receivable. On a monthly basis, the Utilities adjust their allowance, with a corresponding charge (credit) on the statement of income, based on its historical write-off experience. Account balances are charged off against the allowance after collection efforts have been exhausted and the potential for recovery is considered remote. At both December 31, 2013 and 2012, the allowance for customer accounts receivable, accrued unbilled revenues and other accounts receivable was $2 million.
Contributions in aid of construction. The Utilities receive contributions from customers for special construction requirements. As directed by the PUC, contributions are amortized on a straight-line basis over 30 to 55 years as an offset against depreciation expense.
Electric utility revenues. Electric utility revenues are based on rates authorized by the PUC. Prior to the implementation of decoupling, revenues related to the sale of energy were generally recorded when service was rendered or energy was delivered to customers and included revenues applicable to energy consumed in the accounting period but not yet billed to the customers.
The rate schedules of the Utilities include energy cost adjustment clauses (ECACs) under which electric rates 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. The rate schedules also include purchased power adjustment clauses (PPACs) under which the remaining purchase power expenses are recovered through surcharge mechanisms. The amounts collected through the ECACs and PPACs are required to be reconciled quarterly.
Upon the implementation of decoupling (Hawaiian Electric on March 1, 2011, Hawaii Electric Light on April 9, 2012 and Maui Electric on May 4, 2012), the Utilities: (1) recognize monthly revenue balancing account (RBA) revenues or refunds for the difference between PUC-approved target revenues and recorded adjusted revenues, which delinks revenues from kilowatthour sales, (2) recognize a revenue escalation component via a revenue adjustment mechanism (RAM) for certain operation and maintenance (O&M) expenses and rate base changes and (3) recognize (when applicable) an earnings sharing mechanism, which would provide for a reduction of revenues between rate cases in the event the utility's ratemaking return on average common equity (ROACE) exceeds the ROACE allowed in its most recent rate case.
The Utilities' operating revenues include amounts for various Hawaii state revenue taxes. Revenue taxes are generally recorded as an expense in the year the related revenues are recognized. However, the Utilities' revenue tax payments to the taxing authorities in the period are based on the prior year's billed revenues (in the case of public service company taxes and PUC fees) or on the current year's cash collections from electric sales (in the case of franchise taxes). For 2013, 2012 and 2011, the Utilities included approximately $266 million, $280 million and $264 million, respectively, of revenue taxes in "operating revenues" and in "taxes, other than income taxes" expense.

Power purchase agreements. If a power purchase agreement (PPA) falls within the scope of ASC Topic 840, “Leases,” and results in the classification of the agreement as a capital lease, the Utilities would recognize a capital asset and a lease obligation. Currently, none of the PPAs are required to be recorded as a capital lease.

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The Utilities evaluate PPAs to determine if the PPAs are VIEs, if the Utilities are primary beneficiaries and if consolidation is required. See Note 5.

Repairs and maintenance costs. Repairs and maintenance costs for overhauls of generating units are generally expensed as they are incurred.

Allowance for funds used during construction (AFUDC). AFUDC is an accounting practice whereby the costs of debt and equity funds used to finance plant construction are credited on the statement of income and charged to construction in progress on the balance sheet. If a project under construction is delayed for an extended period of time, AFUDC on the delayed project may be stopped after assessing the causes of the delay and probability of recovery. The weighted-average AFUDC rate was 7.6% in 2013, 7.6% in 2012 and 8.0% in 2011, and reflected quarterly compounding.

Bank (HEI only)

Loans receivable. ASB states loans receivable at amortized cost less the allowance for loan losses, loan origination fees (net of direct loan origination costs), commitment fees and purchase premiums and discounts. Interest on loans is credited to income as it is earned. Discounts and premiums are accreted or amortized over the life of the loans using the interest method.

Loan origination fees (net of direct loan origination costs) are deferred and recognized as an adjustment in yield over the life of the loan using the interest method or taken into income when the loan is paid off or sold. Nonrefundable commitment fees (net of direct loan origination costs, if applicable) received for commitments to originate or purchase loans are deferred and, if the commitment is exercised, recognized as an adjustment of yield over the life of the loan using the interest method. Nonrefundable commitment fees received for which the commitment expires unexercised are recognized as income upon expiration of the commitment.

Loans held for sale, gain on sale of loans, and mortgage servicing assets and liabilities. Mortgage loans held for sale are stated at the lower of cost or estimated fair value on an aggregate basis. Generally, the determination of fair value is based on the fair value of the loans. A sale is recognized only when the consideration received is other than beneficial interests in the assets sold and control over the assets is transferred irrevocably to the buyer. Gains or losses on sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the allocated basis of the loans sold.

ASB capitalizes mortgage servicing assets or liabilities when the related loans are sold with servicing rights retained. Accounting for the servicing of financial assets requires that mortgage servicing assets or liabilities resulting from the sale or securitization of loans be initially measured at fair value at the date of transfer, and permits a class-by-class election between fair value and the lower of amortized cost or fair value for subsequent measurements of mortgage servicing asset classes. Mortgage servicing assets or liabilities are included as a component of gain on sale of loans. Under ASC Topic 860, “Transfers and Servicing,” ASB elected to continue to amortize all mortgage servicing assets in proportion to and over the period of estimated net servicing income and assess servicing assets for impairment based on fair value at each reporting date. Such amortization is reflected as a component of revenues on the consolidated statements of income. The fair value of mortgage servicing assets, for the purposes of impairment, is calculated by discounting expected net income streams using discount rates that reflect industry pricing for similar assets. Expected net income streams are estimated based on industry assumptions regarding prepayment speeds and income and expenses associated with servicing residential mortgage loans for others. ASB measures impairment of mortgage servicing assets on a disaggregated basis based on certain risk characteristics including loan type and note rate. Impairment losses are recognized through a valuation allowance for each impaired stratum, with any associated provision recorded as a component of loan servicing fees included in ASB’s noninterest income.

Allowance for loan losses. ASB maintains an allowance for loan losses that it believes is adequate to absorb losses inherent in its loan portfolio. The level of allowance for loan losses is based on a continuing assessment of existing risks in the loan portfolio, historical loss experience, changes in collateral values and current conditions (e.g., economic conditions, real estate market conditions and interest rate environment). Adverse changes in any of these factors could result in higher charge-offs and provision for loan losses.

Commercial and commercial real estate loans are defined as non-homogeneous loans and ASB utilizes a ten-point risk rating system for evaluating the credit quality of the loans. Loans are rated based on the degree of risk at origination

and periodically thereafter, as appropriate. Ratings are applied separately to the probability of default (borrower risk) and loss given default (transaction risk). ASB's credit review department performs an evaluation of these loan portfolios to ensure compliance with the internal risk rating system and timeliness of rating changes.

Non-homogeneous loans are categorized into the regulatory asset quality classifications – Pass (Risk Rating 1 to 6), Special Mention (Risk Rating 7), Substandard (Risk Rating 8), Doubtful (Risk Rating 9), and Loss (Risk Rating 10) based on credit quality. The allowance for loan loss allocations for

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

Residential, consumer and credit scored business loans are considered homogeneous loans, which are typically underwritten based on common, uniform standards, and are generally classified as to the level of loss exposure based on delinquency status. The homogeneous loan portfolios are stratified into individual products with common risk characteristics and the allowance for loan loss allocations for these loan types uses historical loss ratio analyses based on actual net charge-offs. For residential loans, the loan portfolio is segmented by loan categories and geographic location within the State of Hawaii. The consumer loan portfolio is segmented into various secured and unsecured loan product types. The credit scored business loan portfolio is segmented by loans under lines of credit or term loans, and corporate credit cards. The look-back period of actual loss experience is reviewed annually and may vary depending on the credit environment.

In addition to actual loss experience, ASB considers the following qualitative factors for all loans in estimating the allowance for loan losses:

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

For all loan segments, ASB generally ceases the accrual of interest on loans when they become contractually 90 days past due or when there is reasonable doubt as to collectability. Subsequent recognition of interest income for such loans is on the cash or cost recovery method. When, in management's judgment, supported by underwriting, the borrower's ability to make principal and interest payments has resumed and collectability is reasonably assured, a loan not accruing interest (nonaccrual loan) is returned to accrual status. ASB uses either the cash or cost-recovery method to record cash receipts on impaired loans that are not accruing interest. While the majority of consumer loans are subject to ASB's policies regarding nonaccrual loans, all past due unsecured consumer loans may be charged off upon reaching a predetermined delinquency status varying from 120 to 180 days.

Management believes its allowance for loan losses adequately estimates actual loan losses that will ultimately be incurred. However, such estimates are based on currently available information and historical experience, and future adjustments may be required from time to time to the allowance for loan losses based on new information and changes that occur (e.g., due to changes in economic conditions, particularly in Hawaii). Actual losses could differ from management's estimates, and these differences and subsequent adjustments could be material.

Loans modified in a troubled debt restructuring. Loans are considered to have been modified in a troubled debt restructuring (TDR) when, due to a borrower's financial difficulties, ASB makes concessions to the borrower that it would not otherwise consider for a non-troubled borrower. Modifications may include interest rate reductions, interest only payments for an extended period of time, protracted terms such as amortization and maturity beyond the customary length of time found in the normal market place, and other actions intended to minimize economic loss and to provide alternatives to foreclosure or repossession of collateral. Generally, a nonaccrual loan that has been modified in a TDR remains on nonaccrual status until the borrower has demonstrated sustained repayment performance for a period of six consecutive months. However, performance

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prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, or there is reasonable doubt over the full collectability of principal and interest, the loan remains on nonaccrual status.

Real estate acquired in settlement of loans. ASB records real estate acquired in settlement of loans at fair value, less estimated selling expenses. ASB obtains appraisals based on recent comparable sales to assist management in estimating the fair value of real estate acquired in settlement of loans. Subsequent declines in value are charged to expense through a valuation allowance. Costs related to holding real estate are charged to operations as incurred.

Goodwill and other intangibles. Goodwill is tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with ASC 350, "Intangibles—Goodwill and other" (ASC 350).

Goodwill. At December 31, 2013 and 2012, the amount of goodwill was $82.2 million. The goodwill is with respect to ASB and is the Company's only intangible asset with an indefinite useful life and is tested for impairment annually in the fourth quarter using data as of September 30.

To determine if there was any impairment to the book value of goodwill pertaining to ASB, the fair value of ASB was estimated using a valuation method based on a market approach and discounted cash flow method with each method having an equal weighting in determining the fair value of ASB. The market approach considers publicly traded financial institutions with assets of $3.5 billion to $8 billion and measures the institutions' market values as a multiple to (1) net income and (2) book equity. ASB used the median market value multiples for net income and book equity from its selection criteria and applied the multiples to its net income and book equity to calculate ASB's fair value using the market approach. In order to reflect a premium that a buyer would pay for a controlling interest in ASB, a control premium of 18.3% was included in determining the market approach fair value. The control premium was based on control premiums paid in 18 acquisitions completed within the last two years where 100% interest was purchased and control premium information was available. The discounted cash flow method values a company on a going concern basis and is based on the concept that the future benefits derived from a particular company can be measured by its sustainable after-tax cash flows in the future. ASB's discounted cash flow analysis was based on its income statement forecasts and a discount rate of 8.5% was applied to present value the cash flows. ASB used a Capital Asset Pricing Model analysis to determine its discount rate. As of September 30, 2013, the estimated fair value of ASB using this valuation methodology exceeded its book value by approximately 60%. For the three years ended December 31, 2013, there has been no impairment of goodwill.

Amortized intangible assets. The table below presents the gross carrying amount, accumulated amortization, valuation allowance and net carrying amount of ASB's mortgage servicing assets as of December 31, 2013 and 2012:

December 31	2013				2012			
(in thousands)	Gross carrying amount	Accumulated amortization	Valuation allowance	Net carrying amount	Gross carrying amount	Accumulated amortization	Valuation allowance	Net carrying amount
Mortgage servicing assets	$25,644	(13,706)	(251)	$11,687	$25,835	(14,519)	(498)	$10,818

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

(in thousands)	2013	2012	2011
Valuation allowance, January 1	$498	$175	$128
Provision (recovery)	(60)	504	121
Other-than-temporary impairment	(187)	(181)	(74)
Valuation allowance, December 31	$251	$498	$175

The estimated aggregate amortization expenses for mortgage servicing assets for 2014, 2015, 2016, 2017 and 2018 are $1.6 million, $1.4 million, $1.3 million, $1.1 million and $1.0 million, respectively. ASB capitalizes mortgage servicing assets acquired through either the purchase or origination of mortgage loans for sale or the securitization of mortgage loans with servicing rights retained. Changes in mortgage interest rates impact the value of ASB's mortgage

servicing assets. Rising interest rates typically result in slower prepayment speeds in the loans being serviced for others which increases the value of mortgage servicing assets, whereas declining interest rates typically result in faster prepayment speeds which decrease the value of mortgage servicing assets and increase the amortization of the mortgage servicing assets. In 2013, 2012 and 2011, mortgage servicing assets acquired through the sale or securitization of loans held for sale were $2.6 million, $4.8 million and $2.8 million, respectively. Amortization expenses for ASB's mortgage servicing assets amounted to $1.8 million, $1.7 million

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and $1.1 million for 2013, 2012 and 2011, respectively, and are recorded as a reduction in revenues on the consolidated statements of income.

2 · Segment financial information

The electric utility and bank segments are strategic business units of the Company that offer different products and services and operate in different regulatory environments. The accounting policies of the segments are the same as those described for the Company in the summary of significant accounting policies, except as otherwise indicated and except that federal and state income taxes for each segment are calculated on a "stand-alone" basis. HEI evaluates segment performance based on net income. Each segment accounts for intersegment sales and transfers as if the sales and transfers were to third parties, that is, at current market prices. Intersegment revenues consist primarily of interest, rent and preferred stock dividends.

Electric utility

Hawaiian Electric and its wholly-owned operating subsidiaries, Hawaii Electric Light and Maui Electric, are public electric utilities in the business of generating, purchasing, transmitting, distributing and selling electric energy on all major islands in Hawaii other than Kauai, and are regulated by the PUC. The Utilities have been aggregated into the electric utility segment primarily because all three entities: (1) are involved in the business of supplying electric energy in the same geographical location (i.e., the State of Hawaii), (2) have similar production processes that include electric generators (e.g., conventional oil-fired steam units and combustion turbines), (3) serve similar customers within their franchise territories (e.g., residential, commercial and industrial customers), (4) use similar electric grids to distribute the energy to their customers, (5) are regulated by the PUC and undergo similar rate-making processes and (6) have similar economic characteristics. Hawaiian Electric also owns the following nonregulated subsidiaries: Renewable Hawaii, Inc. (RHI), which was formed to invest in renewable energy projects; HECO Capital Trust III, which is a financing entity; and Uluwehiokama Biofuels Corp. (UBC), which was formed to own a new biodiesel refining plant to be built on the island of Maui, which project has been terminated.

Bank

ASB is a federally chartered savings bank providing a full range of banking services to individual and business customers through its branch system in Hawaii. ASB is subject to examination and comprehensive regulation by the Office of the Comptroller of the Currency (OCC) (previously by the Department of Treasury, Office of Thrift Supervision (OTS)) and the Federal Deposit Insurance Corporation (FDIC), and is subject to reserve requirements established by the Board of Governors of the Federal Reserve System.

Other

"Other" includes amounts for the holding companies (HEI and American Savings Holdings, Inc.), other subsidiaries not qualifying as reportable segments and intercompany eliminations.

Segment financial information was as follows:

(in thousands)	Electric utility	Bank	Other	Total
2013				
Revenues from external customers	$2,980,139	$258,147	$184	$3,238,470
Intersegment revenues (eliminations)	33	—	(33)	—
Revenues	2,980,172	258,147	151	3,238,470
Depreciation and amortization	159,102	4,230	1,396	164,728
Interest expense, net	59,279	10,077	16,200	85,556
Income (loss) before income taxes	194,041	87,059	(33,353)	247,747
Income taxes (benefit)	69,117	29,525	(14,301)	84,341
Net income (loss)	124,924	57,534	(19,052)	163,406
Preferred stock dividends of subsidiaries	1,995	—	(105)	1,890
Net income (loss) for common stock	122,929	57,534	(18,947)	161,516
Capital expenditures	342,485	11,193	201	353,879
Assets (at December 31, 2013)	5,087,129	5,243,824	9,091	10,340,044
2012				
Revenues from external customers	$3,109,353	$265,539	$103	$3,374,995
Intersegment revenues (eliminations)	86	—	(86)	—
Revenues	3,109,439	265,539	17	3,374,995
Depreciation and amortization	151,496	5,334	1,517	158,347
Interest expense, net	62,055	11,292	16,096	89,443
Income (loss) before income taxes	162,319	89,021	(33,933)	217,407
Income taxes (benefit)	61,048	30,384	(14,573)	76,859
Net income (loss)	101,271	58,637	(19,360)	140,548
Preferred stock dividends of subsidiaries	1,995	—	(105)	1,890
Net income (loss) for common stock	99,276	58,637	(19,255)	138,658
Capital expenditures	310,091	14,979	410	325,480
Assets (at December 31, 2012)	5,108,793	5,041,673	(1,334)	10,149,132
2011				
Revenues from external customers	$2,978,547	$264,407	$(619)	$3,242,335
Intersegment revenues (eliminations)	143	—	(143)	—
Revenues	2,978,690	264,407	(762)	3,242,335
Depreciation and amortization	160,353	5,909	1,208	167,470
Interest expense, net	60,031	14,469	22,075	96,575
Income (loss) before income taxes	163,565	91,536	(39,049)	216,052
Income taxes (benefit)	61,584	31,693	(17,345)	75,932
Net income (loss)	101,981	59,843	(21,704)	140,120
Preferred stock dividends of subsidiaries	1,995	—	(105)	1,890
Net income (loss) for common stock	99,986	59,843	(21,599)	138,230
Capital expenditures	226,022	8,984	110	235,116
Assets (at December 31, 2011)	4,674,007	4,909,974	10,496	9,594,477

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

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

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3 · Electric utility segment

Regulatory assets and liabilities. In accordance with ASC Topic 980, "Regulated Operations," the Utilities' financial statements reflect assets, liabilities, revenues and expenses based on current cost-based rate-making regulations. Their continued accounting under ASC Topic 980 generally requires that rates are established by an independent, third-party regulator; rates are designed to recover the costs of providing service; and it is reasonable to assume that rates can be charged to and collected from customers. Management believes the Utilities' operations currently satisfy the ASC Topic 980 criteria. If events or circumstances should change so that those criteria are no longer satisfied, the Utilities expect that the regulatory assets, net of regulatory liabilities, would be charged to the statement of income in the period of discontinuance, which may result in a material adverse effect on the Company's and the Utilities' financial condition, results of operations and/or liquidity.

Regulatory assets represent deferred costs expected to be fully recovered through rates over PUC-authorized periods. Generally, the Utilities do not earn a return on their regulatory assets; however, they have been allowed to recover interest on certain regulatory assets and to include certain regulatory assets in rate base. Regulatory liabilities represent amounts included in rates and collected from ratepayers for costs expected to be incurred in the future. For example, the regulatory liability for cost of removal in excess of salvage value represents amounts that have been collected from ratepayers for costs that are expected to be incurred in the future to retire utility plant. Generally, the Utilities include regulatory liabilities in rate base or are required to apply interest to certain regulatory liabilities. In the table below, noted in parentheses are the original PUC authorized amortization or recovery periods and, if different, the remaining amortization or recovery periods as of December 31, 2013 are noted.

Regulatory assets were as follows:

December 31 (in thousands)	2013	2012
Retirement benefit plans (balance primarily varies with plans' funded statuses)	$350,821	$660,835
Income taxes, net (1 to 55 years)	85,430	84,931
Decoupling revenue balancing account (1 to 2 years)	90,386	66,076
Unamortized expense and premiums on retired debt and equity issuances (14 to 30 years; 2 to 20 years remaining)	17,342	17,130
Vacation earned, but not yet taken (1 year)	9,149	8,493
Postretirement benefits other than pensions (18 years; 1 year remaining)	62	249
Other (1 to 50 years; 1 to 47 years remaining)	22,734	26,882
	$575,924	$864,596
Included in:		
Current assets	$69,738	$51,267
Long-term assets	506,186	813,329
	$575,924	$864,596

Regulatory liabilities were as follows:

December 31 (in thousands)	2013	2012
Cost of removal in excess of salvage value (1 to 60 years)	$315,164	$305,978
Retirement benefit plans (5 years beginning with respective utility's next rate case; primarily 5 years remaining)	31,546	15,563
Other (5 years; 1 to 2 years remaining)	2,589	2,611
	$349,299	$324,152
Included in:		
Current liabilities	$1,916	$1,212
Long-term liabilities	347,383	322,940
	$349,299	$324,152

The regulatory asset and liability relating to retirement benefit plans was recorded as a result of pension and OPEB tracking mechanisms adopted by the PUC in rate case decisions for the Utilities in 2007 (see Note 10).

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Major customers. The Utilities received 11% ($340 million), 11% ($349 million) and 11% ($316 million) of their operating revenues from the sale of electricity to various federal government agencies in 2013, 2012 and 2011, respectively.

Cumulative preferred stock. The following series of cumulative preferred stock are redeemable only at the option of the respective company at the following prices in the event of voluntary liquidation or redemption:

December 31, 2013	Voluntary liquidation price	Redemption price
Series		
C, D, E, H, J and K (Hawaiian Electric)	$ 20	$21
I (Hawaiian Electric)	20	20
G (Hawaii Electric Light)	100	100
H (Maui Electric)	100	100

Hawaiian Electric is obligated to make dividend, redemption and liquidation payments on the preferred stock of each of its subsidiaries if the respective subsidiary is unable to make such payments, but this obligation is subordinated to Hawaiian Electric's obligation to make payments on its own preferred stock.

Related-party transactions. HEI charged the Utilities $6.2 million, $6.1 million and $4.9 million for general management and administrative services in 2013, 2012 and 2011, respectively. The amounts charged by HEI to its subsidiaries for services provided by HEI employees are allocated primarily on the basis of time expended in providing such services.

Hawaiian Electric’s short-term borrowings from HEI fluctuate during the year, and totaled nil at December 31, 2013 and 2012. The interest charged on short-term borrowings from HEI is based on the lower of HEI’s or Hawaiian Electric’s effective weighted average short-term external borrowing rate. If both HEI and Hawaiian Electric do not have short-term external borrowings, the interest is based on the average of the effective rate for 30-day dealer-placed commercial paper quoted by the Wall Street Journal plus 0.15%.

Borrowings among the Utilities are eliminated in consolidation. Interest charged by HEI to Hawaiian Electric was nil in 2013, nil in 2012 and de minimis in 2011.

Commitments and contingencies.

Fuel contracts. The Utilities have contractual agreements to purchase minimum quantities of fuel oil, diesel fuel and biodiesel for multi-year periods, some through December 31, 2016. Fossil fuel prices are tied to the market prices of crude oil and petroleum products in the Far East and U.S. West Coast and the biodiesel price is tied to the market prices of animal fat feedstocks in the U.S. West Coast and U.S. Midwest. Based on the average price per barrel as of December 31, 2013, the estimated cost of minimum purchases under the fuel supply contracts is $0.9 billion in 2014, $0.7 billion in 2015 and $0.4 billion in 2016. The actual cost of purchases in 2014 and future years could vary substantially from this estimate as a result of changes in market prices, quantities actually purchased and/or other factors. The Utilities purchased $1.1 billion, $1.3 billion and $1.3 billion of fuel under contractual agreements in 2013, 2012 and 2011, respectively.

Hawaiian Electric and Chevron Products Company (Chevron), a division of Chevron USA, Inc., are parties to an amended contract for the purchase/sale of low sulfur fuel oil (LSFO), which terminates on December 31, 2016 and may automatically renew for annual terms thereafter unless earlier terminated by either party. The PUC approved the recovery of costs incurred under this contract on April 30, 2013.

Hawaiian Electric and Tesoro Hawaii Corp. (Tesoro) are parties to an amended LSFO supply contract (LSFO contract), which runs through December 31, 2014 and may automatically renew for annual terms thereafter unless earlier terminated by either party. The PUC approved the recovery of costs incurred under this contract on April 30, 2013. On September 25, 2013, Tesoro sold its Hawaii refinery and related distribution and marketing assets to Hawaii Independent Energy, LLC, a wholly owned subsidiary of Par Petroleum Corporation of Houston Texas.

The Utilities are parties to amended contracts for the supply of industrial fuel oil and diesel fuels with Chevron and Tesoro, respectively, which end December 31, 2015. Both agreements may be automatically renewed for annual terms thereafter unless earlier terminated by either of the respective parties.

The energy charge for energy purchased from Kalaeloa Partners, L.P. (Kalaeloa) under Hawaiian Electric's PPA with Kalaeloa is based, in part, on the price Kalaeloa pays Tesoro for LSFO under a Facility Fuel Supply Contract (fuel contract) between them. The fuel contract between Kalaeloa and Tesoro term ends May 31, 2016 and may be extended for terms thereafter unless terminated by one of the parties.

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The costs incurred under the Utilities' fuel contracts are included in their respective ECACs, to the extent such costs are not recovered through the Utilities' base rates.

Power purchase agreements. As of December 31, 2013, the Utilities had six firm capacity PPAs for a total of 567 megawatts (MW) of firm capacity. Purchases from these six independent power producers (IPPs) and all other IPPs totaled $0.7 billion for each of 2013, 2012 and 2011. The PUC allows rate recovery for energy and firm capacity payments to IPPs under these agreements. Assuming that each of the agreements remains in place for its current term (and as amended) and the minimum availability criteria in the PPAs are met, aggregate minimum fixed capacity charges are expected to be approximately $0.1 billion per year for 2014 through 2018 and a total of $0.6 billion in the period from 2019 through 2033.

In general, the Utilities base their payments under the PPAs upon available capacity and actually supplied energy and they are generally not required to make payments for capacity if the contracted capacity is not available, and payments are reduced, under certain conditions, if available capacity drops below contracted levels. In general, the payment rates for capacity have been predetermined for the terms of the agreements. Energy payments will vary over the terms of the agreements. The Utilities pass on changes in the fuel component of the energy charges to customers through the ECAC in their rate schedules. The Utilities do not operate, or participate in the operation of, any of the facilities that provide power under the agreements. Title to the facilities does not pass to Hawaiian Electric or its subsidiaries upon expiration of the agreements, and the agreements do not contain bargain purchase options for the facilities.

Purchase power adjustment clause. The PUC has approved purchased power adjustment clauses (PPACs) for the Utilities. Purchased power capacity, O&M and other non-energy costs previously recovered through base rates are now recovered in the PPACs, and subject to approval by the PUC, such costs resulting from new purchased power agreements can be added to the PPACs outside of a rate case. Purchased energy costs will continue to be recovered through the ECAC to the extent they are not recovered through base rates.

Hawaii Clean Energy Initiative. In January 2008, the State of Hawaii (State) and the U.S. Department of Energy signed a memorandum of understanding establishing the Hawaii Clean Energy Initiative (HCEI). In October 2008, the Governor of the State, the State Department of Business, Economic Development and Tourism (DBEDT), the Division of Consumer Advocacy of the State Department of Commerce and Consumer Affairs and the Utilities (collectively, the parties), signed an agreement setting forth goals and objectives under the HCEI and the related commitments of the parties (the Energy Agreement), including pursuing a wide range of actions to decrease the State's dependence on imported fossil fuels through substantial increases in renewable energy and programs intended to secure greater energy efficiency and conservation. Many of the actions and programs included in the Energy Agreement require approval of the PUC.

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

In May 2011, the PUC ordered independently conducted regulatory audits on the reasonableness of costs incurred for Hawaiian Electric's East Oahu Transmission Project (EOTP), Campbell Industrial Park (CIP) combustion turbine No. 1 (CT-1) project, and Customer Information System (CIS) project. However, in March 2012, the PUC eliminated the requirement for a regulatory audit for the EOTP Phase I in connection with an approved settlement of the EOTP Phase I project cost issues and, in March 2013, the PUC eliminated the requirement for an audit of the CIP CT-1 and CIS project costs as described below.

On January 28, 2013, the Utilities and the Consumer Advocate signed a settlement agreement (2013 Agreement), subject to PUC approval, to write off $40 million of costs in lieu of conducting the regulatory audits of the CIP CT-1 project and the CIS project. Based on the 2013 Agreement, as of December 31, 2012, the Utilities recorded an after-tax charge to net income of approximately $24 million — $17.1 million for Hawaiian Electric, $3.4 million for Hawaii Electric Light, and $3.2 million for Maui Electric. The remaining recoverable costs for these projects of $52 million were included in rate base as of December 31, 2012.

As part of the 2013 Agreement, Hawaii Electric Light would withdraw its 2013 test year rate case, and delay filing a new rate case until a 2016 test year. Additionally, Hawaiian Electric would delay the filing of its scheduled 2014 test year rate case to no earlier than January 2, 2014. For both Utilities, the existing terms of the last rate case decisions would continue. Hawaiian Electric would also be allowed to record Revenue Adjustment Mechanism (RAM) revenues starting on January 1 of 2014, 2015 and 2016. The cash collection of RAM revenues would remain unchanged, starting June 1 of each year through May 31 of the following year.

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On March 19, 2013, the PUC issued a decision and order (2013 D&O) approving the 2013 Agreement, with the following clarifications, none of which changed the financial impact of the settlement recorded as of December 31, 2012: (1) the PUC reiterated its authority to examine and ascertain what post go-live CIS costs would be subject to regulatory review in future rate cases; (2) the PUC discouraged requesting single issue cost deferral accounting and/or cost recovery mechanisms during the period of rate case deferral by Hawaiian Electric and Hawaii Electric Light; (3) the PUC approved the agreed-upon recovery of CIP CT-1 and CIS project costs through the RAM, as set forth in the 2013 Agreement, however not setting a precedent for future projects; and (4) the PUC reaffirmed its right to rule on the substance of the Maui Electric 2012 test year rate case in its ongoing rate case proceeding. On May 31, 2013, the PUC issued a final D&O in the Maui Electric 2012 test year rate case. See “Maui Electric 2012 test year rate case” below.

In March 2012, the PUC approved a settlement agreement reached among Hawaiian Electric, the Consumer Advocate and the Department of Defense, under which, in lieu of a regulatory audit, Hawaiian Electric would write off $9.5 million of EOTP Phase 1 gross plant in service and associated adjustments. This resulted in an after-tax charge to net income in the fourth quarter of 2011 of approximately $6 million and the elimination of the requirement for a Phase 1 regulatory audit. The PUC also provided for an additional increase of approximately $5 million in Hawaiian Electric’s 2011 test year rate case for the additional revenue requirements reflecting all remaining Phase 1 costs not previously included in rates or agreed to be written off.

Renewable energy projects. The Utilities are committed to achieving or exceeding the State’s Renewable Portfolio Standard (RPS) goal of 40% renewable energy by 2030 and to meeting their commitments relating to decreasing the State’s dependence on imported fossil fuels under their 2008 Energy Agreement with the Governor, the DBEDT and the Consumer Advocate (Energy Agreement). The Utilities continue to evaluate and pursue opportunities with developers of proposed projects to integrate power into its grid from a variety of renewable energy sources, including solar, biomass, wind, ocean thermal energy conversion, wave, geothermal and others.

In December 2009, the PUC allowed Hawaiian Electric to defer the costs of studies for a large wind project for later review of prudence and reasonableness. In April 2013, the PUC approved the recovery of $3.9 million in costs for stage 1 studies for the large wind project over a three-year period, with carrying costs to be accrued over the recovery period at the rate of 1.75% per annum, through the Renewable Energy Infrastructure Program (REIP) Surcharge.

In November 2011, Hawaiian Electric and Maui Electric filed their application to seek PUC approval to defer for later recovery approximately $555,000 (split evenly between Hawaiian Electric and Maui Electric) also through the REIP surcharge for additional studies to determine the value proposition of interconnecting the islands of Oahu and of Maui County (Maui, Lanai, and Molokai) and if doing so would be operationally beneficial and cost-effective. In August 2012, the PUC allowed Hawaiian Electric and Maui Electric to defer the outside service costs for the additional studies for later review of prudence and reasonableness. The specific amount to be recovered, as well as the recovery mechanism and the terms of the recovery mechanism, were to be determined at a later date.

A revised draft Request for Proposals (RFP) for 200MW or more of renewable energy to be delivered to Oahu from any of the Hawaiian Islands was posted on Hawaiian Electric's website prior to the issuance of a proposed final RFP. In February 2012, the PUC granted Hawaiian Electric’s request for deferred accounting treatment for the inter-island project support costs. The amount of the deferred costs was limited to $5.89 million. On July 11, 2013, the PUC issued orders related to the 200 MW RFP. First, it issued an order that Hawaiian Electric shall amend its current draft of the Oahu 200 MW RFP to remove references to the Lanai Wind Project, eliminate solicitations for an undersea transmission cable, and amend the draft RFP to reflect other guidance provided in the order. Second, it initiated an investigative proceeding to review the progress of the Lanai Wind Project stating that there was an uncertainty whether the project developer retained an equivalent ability to develop the project as when it submitted its bid in 2008 and its term sheet in 2011. The PUC also stated that it will review the PPA (if one is completed) and, as part of that process, determine whether the Lanai Wind Project should be developed taking into account potential as-available renewable energy projects and grid infrastructure options. The PUC stated it intends to evaluate the project as a combined resources proposal (i.e., wind project and generation tie transmission cable between the islands of Oahu and Lanai). Third, the PUC initiated a proceeding to solicit information and evaluate whether an interisland grid interconnection transmission system between the islands of Oahu and Maui is in the public interest, given the potential

for large-scale wind and solar projects on Maui.

In May 2012, the PUC instituted a proceeding for a competitive bidding process for up to 50MW of firm renewable geothermal dispatchable energy (Geothermal RFP) on the island of Hawaii, and in July 2012, Hawaii Electric Light filed an application to defer 2012 costs related to the Geothermal RFP. In February 2013, Hawaii Electric Light issued the Final Geothermal RFP. Six bids were received in April 2013 and are being evaluated.

In June 2013, Hawaiian Electric filed an application requesting PUC approval of Waivers from the Framework for Competitive Bidding for 5 projects (4 photovoltaic and 1 wind) selected as part of Hawaiian Electric's "Invitation for Low Cost

Renewable Energy Projects on Oahu through Request for Waiver from Competitive Bidding." Subsequently, two of the projects were withdrawn and in February 2014, three of the projects were granted waivers from the Competitive Bidding Framework. In November 2013, Hawaiian Electric filed a second waiver application requesting PUC approval for two additional projects (6 photovoltaic) selected as part of Hawaiian Electric's pricing refresh opportunity provided to developers that originally submitted proposals in response to the "Invitation for Low Cost Renewable Energy Projects on Oahu through Request for Waiver from Competitive Bidding."

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

On April 20, 2011, the Federal Register published the federal Environmental Protection Agency's (EPA's) proposed regulations required by section 316(b) of the CWA designed to protect aquatic organisms from adverse impacts associated with existing power plant cooling water intake structures. The proposed regulations would apply to the cooling water systems for the steam generating units at Hawaiian Electric's power plants on the island of Oahu. If adopted as proposed, management believes the proposed regulations would require significant capital and annual O&M expenditures. On June 11, 2012, the EPA published additional information on the section 316(b) rule making that indicates that the EPA is considering establishing lower cost compliance alternatives in the final rule. The EPA has delayed issuance of the final section 316(b) rule.

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

On February 6, 2013, the EPA issued a guidance document titled "Next Steps for Area Designations and Implementation of the Sulfur Dioxide National Ambient Air Quality Standard," which outlines a process that will provide the states additional flexibility and time for their development of one-hour sulfur dioxide NAAQS implementation plans. Hawaiian Electric will work with the DOH and the EPA in the rulemaking process for these implementation plans to ensure development of cost-effective strategies for NAAQS compliance. Based on the February 6, 2013 EPA guidance document, current estimates of the compliance date for the one-hour sulfur dioxide NAAQS is in the 2022 or later timeframe. Pending litigation may result in an accelerated timeframe, but the impact of the litigation cannot be predicted at this time.

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

Hawaiian Electric, Hawaii Electric Light and Maui Electric, like other utilities, periodically experience petroleum or other chemical releases into the environment associated with current operations and report and take action on these

releases when and as required by applicable law and regulations. The Utilities believe the costs of responding to such releases identified to date will not have a material adverse effect, individually or in the aggregate, on Hawaiian Electric's consolidated results of operations, financial condition or liquidity.

Potential Clean Air Act Enforcement. On July 1, 2013, Hawaii Electric Light and Maui Electric received a letter from the U.S. Department of Justice (DOJ) asserting potential violations of the Prevention of Significant Deterioration (PSD) and Title V requirements of the Clean Air Act involving the Hill and Kahului Power Plants. The EPA referred the matter to the DOJ for enforcement based on Hawaii Electric Light's and Maui Electric's responses to information requests in 2010 and 2012. The letter expresses an interest in resolving the matter without the issuance of a notice of violation. The parties are scheduled to meet in February 2014 to engage in settlement discussions. Hawaii Electric Light and Maui Electric cannot currently estimate

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the amount or effect of a settlement, if any. Hawaii Electric Light and Maui Electric continue to investigate the potential bases for the DOJ's claims.

Former Molokai Electric Company generation site. In 1989, Maui Electric acquired by merger Molokai Electric Company. Molokai Electric Company had sold its former generation site (Site) in 1983, but continued to operate at the Site under a lease until 1985. The EPA has since performed Brownfield assessments of the Site that identified environmental impacts in the subsurface. Although Maui Electric never operated at the Site and operations there had stopped four years before the merger, in discussions with the EPA and the DOH, Maui Electric agreed to undertake additional investigations at the Site and an adjacent parcel that Molokai Electric Company had used for equipment storage (the Adjacent Parcel) to determine the extent of impacts of subsurface contaminants. A 2011 assessment by a Maui Electric contractor of the Adjacent Parcel identified environmental impacts, including elevated polychlorinated biphenyls (PCBs) in the subsurface soils. In cooperation with the DOH and EPA, Maui Electric is further investigating the Site and the Adjacent Parcel to determine the extent of impacts of PCBs, fuel oils, and other subsurface contaminants. In March 2012, Maui Electric accrued an additional $3.1 million (reserve balance of $3.6 million as of December 31, 2013) for the additional investigation and estimated cleanup costs at the Site and the Adjacent Parcel; however, final costs of remediation will depend on the results of continued investigation. Maui Electric received DOH and EPA comments on a revised draft site investigation plan for site characterization in October and November 2013, respectively, both of which did not result in a change to the reserve balance. Maui Electric is currently revising the draft site investigation plan to address the DOH and EPA comments.

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

In July 2007, Act 234, which requires a statewide reduction of GHG emissions by January 1, 2020 to levels at or below the statewide GHG emission levels in 1990, became law in Hawaii. The Utilities participated in a Task Force established under Act 234, which was charged with developing a work plan and regulatory approach to reduce GHG emissions, as well as in initiatives aimed at reducing their GHG emissions, such as those being implemented under the Energy Agreement. On October 19, 2012, the DOH posted the proposed regulations required by Act 234 for public hearing and comment. In general, the proposed regulations would require affected sources that have the potential to emit GHGs in excess of established thresholds to reduce GHG emissions by 25% below 2010 emission levels by 2020. The proposed regulations also assess affected sources an annual fee based on tons per year of GHG emissions, beginning with emissions in calendar year 2012. The proposed DOH GHG rule also tracks the federal "Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule" (GHG Tailoring Rule, see below) and would create new thresholds for GHG emissions from new and existing stationary source facilities. Hawaiian Electric submitted comments on the proposed regulations in January 2013. In October 2013, the DOH announced that it intends to issue a final rule that would change the required emission reduction from 25% to 16% and delay the accrual of GHG emissions fees until after the rule is promulgated, among other changes, but the final rule has not yet been formally approved or released. Hawaiian Electric continues to monitor this rulemaking proceeding and will participate in the further development of the regulations.

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

On September 22, 2009, the EPA issued its Final Mandatory Reporting of Greenhouse Gases Rule, which requires that sources emitting GHGs above certain threshold levels monitor and report GHG emissions. The Utilities have submitted the required reports for 2010, 2011 and 2012 to the EPA. In December 2009, the EPA made the finding that motor vehicle GHG emissions endanger public health or welfare. Since then, the EPA has also issued rules that begin to address GHG emissions from stationary sources, like the Utilities' EGUs.

In June 2010, the EPA issued its GHG Tailoring Rule. Effective January 2, 2011, under the Prevention of Significant Deterioration program, permitting of new or modified stationary sources that have the potential to emit GHGs in greater quantities than the thresholds in the GHG Tailoring Rule will entail GHG emissions evaluation, analysis and, potentially, control requirements. On January 8, 2014, the EPA published in the Federal Register its new proposal for

New Source Performance Standards for GHG from new generating units. This proposed rule on GHG from new EGUs does not apply to oil-fired combustion turbines or diesel engine generators, and is not otherwise expected to have significant impacts on the Utilities. President Obama also directed the EPA Administrator to issue proposed standards, regulations, or guidelines for GHG emissions from existing, modified and reconstructed power plants by no later than June 1, 2014, and final standards no later than June 1, 2015. Hawaiian Electric will participate in the federal GHG rulemaking process. The Utilities will continue to evaluate the impact of proposed GHG rules and regulations as they develop. Final regulations may impose significant compliance costs, and may require reductions in fossil fuel use and the addition of renewable energy resources in excess of the requirements of the RPS law.

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

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

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

Maui Electric 2012 test year rate case. On May 31, 2013, the PUC issued a final D&O in the Maui Electric 2012 test year rate case. Final rates became effective August 1, 2013. The final D&O approved an increase in annual revenues of $5.3 million, which is $7.8 million less than the interim increase in annual revenues that had been in effect since June 1, 2012. Reductions from the interim D&O relate primarily to:

(in millions)	
Lower ROACE	$4.0
Customer Information System expenses	0.3
Pension and OPEB expense based on 3-year average	1.5
Integrated resource planning expenses	0.9
Operational and Renewable Energy Integration study costs	1.1
Total adjustment	$7.8

According to the PUC, the reduction in the allowed ROACE from the stipulated 10% to the final approved 9% is composed of 0.5% allocation due to updated economic and financial market conditions manifested in lower interest rates in the 2012 test year and 0.5% for system inefficiencies reflected in over curtailment of renewable energy produced by independent power producers.

The PUC found that the record did not sufficiently support the normalization of 2013 and 2014 Customer Information System costs into the 2012 test year and ordered a downward adjustment to remove these costs from the test year.

The reduction in the pension and OPEB expense is due to applying a 3-year average in the calculation of pension costs for the purpose of the 2012 test year. This is not a PUC decision to change the pension and OPEB tracking mechanisms, although the PUC emphasizes the need to evaluate alternatives to decrease or limit the growth in employee benefits costs.

The PUC removed integrated resource planning (IRP) expenses from the test year as it could not determine whether these expenses have been reasonably incurred for the 2012 test year as required by the PUC's IRP Framework and stated that it will determine the appropriate level and method of cost recovery for Maui Electric's IRP expenses in the pending IRP proceeding.

The PUC reduced operational and renewable energy integration study costs because of the uncertainty regarding the scope of work and actual costs of these studies.

The PUC also continued Maui Electric's existing energy cost adjustment clause (ECAC) and power purchase adjustment clause (PPAC) design. The PUC stated that it will consider the Utilities' future actions to reduce fuel costs and increase use of renewable energy as it continues to review the design of the ECAC in the future.

On July 2, 2013, the PUC issued an order denying Maui Electric's requests for an evidentiary hearing and for partial reconsideration of the final D&O, and dismissed Maui Electric's motion for partial stay. The order allowed Maui

Electric to defer IRP costs incurred since June 2012, which through December 31, 2013 totaled approximately $0.9 million, until the level of costs are determined and a method of recovery is decided in the IRP proceeding.
Since the final rate increase was lower than the interim increase previously in effect, Maui Electric recorded a charge, net of revenue taxes, of $7.6 million in the second quarter of 2013 and refunded to customers approximately $9.7 million (which

includes interest accrued since June 1, 2012) between September 2013 and early November 2013. As a result of the D&O, in the second quarter of 2013 Maui Electric also recorded adjustments to reduce expenses by reducing employee benefits expenses by $1.8 million for adjustments to pension and OPEB costs, and to reclassify $0.7 million of IRP costs to deferred accounts.

As directed by the PUC, in June 2013 Maui Electric made its curtailment information available to the public on its website and in July 2013 filed documentation regarding the re-setting of its target heat rates to take into account the operation of the Auwahi wind farm.

In addition, as required by the final D&O, Maui Electric filed in September 2013 a System Improvement and Curtailment Reduction Plan, which identified actions that Maui Electric had already implemented to increase the use of wind energy and further actions that it is committed to implement to benefit customers. In separate filings in October 2013, Maui Electric submitted additional information on the re-setting of its target heat rates and metrics to measure the success of its efforts to reduce or limit curtailment and execute on key actions. In December 2013, Maui Electric filed documentation regarding the re-setting of its target heat rates based on certain operational changes identified in the System Improvement and Curtailment Reduction Plan to be effective in May 2014. Management cannot predict any actions by the PUC as a result of these filings.

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

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

(in thousands)	2013	2012
Balance, January 1	$48,431	$50,871
Accretion expense	1,263	1,563
Liabilities incurred	—	—
Liabilities settled	(5,672)	(4,003)
Revisions in estimated cash flows	(916)	—
Balance, December 31	$43,106	$48,431

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

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

should be made prospectively after 2016, consistent with the 2013 Agreement, unless the Utilities and the Consumer Advocate mutually agree to the change in this proceeding. The PUC granted several parties' motions to intervene. In October 2013, the PUC issued orders that bifurcated the proceeding (Schedule A and Schedule B) and identified issues and procedural schedules for both Schedules. The schedule B part of the proceeding is intended to take place over a longer period, with panel hearings scheduled for August 2014.

Schedule A issues include:

- for the RBA, the reasonableness of the interest rate related to the carrying charge of the outstanding RBA balance and whether there should be a risk sharing adjustment to the RBA;

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

Schedule B issues include:

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

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

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

The D&O requires the Utilities to immediately investigate the possibility of deferring the payment of income taxes on the accrued amounts of decoupling revenue, and to report the results with recommendations to the PUC within 120 days. The PUC reserves the right to determine in the next decoupling and rate case filings whether each Utilities’ allowed income taxes should be adjusted for this change.

The Utilities are required to develop websites to present certain performance metrics first for review by the PUC and the parties and then to the public following PUC approval.

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

Management cannot predict the outcome of the proceedings or the ultimate impact of the proceedings on the results of operation of the Utilities.

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

Hawaiian Electric also unconditionally guarantees Hawaii Electric Light’s and Maui Electric’s obligations (a) to the State of Hawaii for the repayment of principal and interest on Special Purpose Revenue Bonds issued for the benefit of Hawaii Electric Light and Maui Electric and (b) under their respective private placement note agreements and the Hawaii Electric Light notes and Maui Electric notes issued thereunder (see Hawaiian Electric and Subsidiaries' Consolidated Statements of Capitalization) and (c) relating to the trust preferred securities of Trust III (see Note 5). Hawaiian Electric is also obligated, after the satisfaction of its obligations on its own preferred stock, to make dividend, redemption and liquidation payments on Hawaii Electric Light’s and Maui Electric’s preferred stock if the respective subsidiary is unable to make such payments.

Consolidating statement of income
Year ended December 31, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$2,124,174	431,517	424,603	—	(122) [1]	$2,980,172
Expenses						
Fuel oil	851,365	125,516	208,671	—	—	1,185,552
Purchased power	527,839	128,368	54,474	—	—	710,681
Other operation and maintenance	283,768	61,418	58,081	3	—	403,270
Depreciation	99,738	34,188	20,099	—	—	154,025
Taxes, other than income taxes	200,962	40,092	40,077	—	—	281,131
Total expenses	1,963,672	389,582	381,402	3	—	2,734,659
Operating income (loss)	160,502	41,935	43,201	(3)	(122)	245,513
Allowance for equity funds used during construction	4,495	643	423	—	—	5,561
Equity in earnings of subsidiaries	41,410	—	—	—	(41,410) [2]	—
Interest expense and other charges, net	(39,107)	(11,341)	(8,953)	—	122 [1]	(59,279)
Allowance for borrowed funds used during construction	1,814	263	169	—	—	2,246
Income (loss) before income taxes	169,114	31,500	34,840	(3)	(41,410)	194,041
Income taxes	45,105	10,830	13,182	—	—	69,117
Net income (loss)	124,009	20,670	21,658	(3)	(41,410)	124,924
Preferred stock dividends of subsidiaries	—	534	381	—	—	915
Net income (loss) attributable to Hawaiian Electric	124,009	20,136	21,277	(3)	(41,410)	124,009
Preferred stock dividends of Hawaiian Electric	1,080	—	—	—	—	1,080
Net income (loss) for common stock	$122,929	20,136	21,277	(3)	(41,410)	$122,929

Consolidating statement of comprehensive income
Year ended December 31, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income (loss) for common stock	$122,929	20,136	21,277	(3)	(41,410)	$122,929
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Net gains arising during the period, net of taxes	203,479	30,542	27,919	—	(58,461) [1]	203,479
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	20,694	2,880	2,557	—	(5,437) [1]	20,694

Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(222,595)	(33,277)	(30,377)	—	63,654	[1]	(222,595)
Other comprehensive income, net of taxes	1,578	145	99	—	(244)		1,578
Comprehensive income (loss) attributable to common shareholder	$124,507	20,281	21,376	(3)	(41,654)		$124,507

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Consolidating statement of income
Year ended December 31, 2012

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments		Hawaiian Electric Consolidated
Revenues	$2,228,233	441,013	440,270	—	(77)	[1]	$3,109,439
Expenses							
Fuel oil	945,246	116,866	235,307	—	—		1,297,419
Purchased power	540,802	145,386	38,052	—	—		724,240
Other operation and maintenance	266,208	60,447	70,771	3	—		397,429
Depreciation	90,783	33,337	20,378	—	—		144,498
Taxes, other than income taxes	209,943	41,370	41,528	—	—		292,841
Impairment of utility assets	29,000	5,500	5,500	—	—		40,000
Total expenses	2,081,982	402,906	411,536	3	—		2,896,427
Operating income (loss)	146,251	38,107	28,734	(3)	(77)		213,012
Allowance for equity funds used during construction	5,735	585	687	—	—		7,007
Equity in earnings of subsidiaries	28,836	—	—	—	(28,836)	[2]	—
Interest expense and other charges, net	(40,842)	(12,066)	(9,224)		77	[1]	(62,055)
Allowance for borrowed funds used during construction	3,642	235	478	—	—		4,355
Income (loss) before income taxes	143,622	26,861	20,675	(3)	(28,836)		162,319
Income taxes	43,266	10,115	7,667	—	—		61,048
Net income (loss)	100,356	16,746	13,008	(3)	(28,836)		101,271
Preferred stock dividends of subsidiaries	—	534	381	—	—		915
Net income (loss) attributable to Hawaiian Electric	100,356	16,212	12,627	(3)	(28,836)		100,356
Preferred stock dividends of Hawaiian Electric	1,080	—	—	—	—		1,080
Net income (loss) for common stock	$99,276	16,212	12,627	(3)	(28,836)		$99,276

Consolidating statement of comprehensive income
Year ended December 31, 2012

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments		Hawaiian Electric Consolidated
Net income (loss) for common stock	$99,276	16,212	12,627	(3)	(28,836)		$99,276
Other comprehensive income (loss), net of taxes:							
Retirement benefit plans:							
Net losses arising during the period, net of tax benefits	(90,082)	(13,577)	(10,935)	—	24,512	[1]	(90,082)
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net	13,673	2,101	1,771	—	(3,872)	[1]	13,673

of tax benefits													
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of tax benefits	75,471		11,442		9,093		—		(20,535	)	[1]	75,471	
Other comprehensive loss, net of tax benefits	(938	)	(34	)	(71	)	—		105			(938	)
Comprehensive income (loss) attributable to common shareholder	$98,338		16,178		12,556		(3	)	(28,731	)		$98,338	

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Consolidating statement of income
Year ended December 31, 2011

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$2,114,066	444,891	419,760	—	(27) [1]	$2,978,690
Expenses						
Fuel oil	909,172	121,839	234,115	—	—	1,265,126
Purchased power	522,503	137,453	29,696	—	—	689,652
Other operation and maintenance	266,807	56,066	57,202	9	—	380,084
Depreciation	89,324	32,767	20,884	—	—	142,975
Taxes, other than income taxes	196,170	41,028	39,306	—	—	276,504
Impairment of utility assets	9,215	—	—	—	—	9,215
Total expenses	1,993,191	389,153	381,203	9	—	2,763,556
Operating income (loss)	120,875	55,738	38,557	(9)	(27)	215,134
Allowance for equity funds used during construction	4,572	592	800	—	—	5,964
Equity in earnings of subsidiaries	44,616	—	—	—	(44,616) [2]	—
Interest expense and other charges, net	(37,624)	(12,554)	(9,880)	—	27 [1]	(60,031)
Allowance for borrowed funds used during construction	1,941	248	309	—	—	2,498
Income (loss) before income taxes	134,380	44,024	29,786	(9)	(44,616)	163,565
Income taxes	33,314	16,839	11,431	—	—	61,584
Net income (loss)	101,066	27,185	18,355	(9)	(44,616)	101,981
Preferred stock dividends of subsidiaries	—	534	381	—	—	915
Net income (loss) attributable to Hawaiian Electric	101,066	26,651	17,974	(9)	(44,616)	101,066
Preferred stock dividends of Hawaiian Electric	1,080	—	—	—	—	1,080
Net income (loss) for common stock	$99,986	26,651	17,974	(9)	(44,616)	$99,986

Consolidating statement of comprehensive income
Year ended December 31, 2011

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income (loss) for common stock	$99,986	26,651	17,974	(9)	(44,616)	$99,986
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Prior service credit arising during the period, net of taxes	6,921	1,419	1,239	—	(2,658) [1]	6,921
Net losses arising during the period, net of tax benefits	(116,726)	(18,224)	(16,816)	—	35,040 [1]	(116,726)
Less: amortization of transition obligation, prior service credit and net	8,372	1,324	1,158	—	(2,482) [1]	8,372

losses recognized during the period in net periodic benefit cost, net of tax benefits						
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of tax benefits	100,692	15,436	14,366	—	(29,802) [1]	100,692
Other comprehensive loss, net of tax benefits	(741)	(45)	(53)	—	98	(741)
Comprehensive income (loss) attributable to common shareholder	$99,245	26,606	17,921	(9)	(44,518)	$99,245

Consolidating balance sheet
December 31, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Assets						
Utility plant, at cost						
Land	$43,407	5,460	3,016	—	—	$51,883
Plant and equipment	3,558,569	1,136,923	1,006,383	—	—	5,701,875
Less accumulated depreciation	(1,222,129)	(453,721)	(435,379)	—	—	(2,111,229)
Construction in progress	124,494	7,709	11,030	—	—	143,233
Net utility plant	2,504,341	696,371	585,050	—	—	3,785,762
Investment in wholly-owned subsidiaries, at equity	523,674	—	—	—	(523,674) [2]	—
Current assets						
Cash and equivalents	61,245	1,326	153	101	—	62,825
Advances to affiliates	6,839	1,000	—	—	(7,839) [1]	—
Customer accounts receivable, net	121,282	28,088	26,078	—	—	175,448
Accrued unbilled revenues, net	107,752	17,100	19,272	—	—	144,124
Other accounts receivable, net	16,373	4,265	2,451	—	(9,027) [1]	14,062
Fuel oil stock, at average cost	99,613	14,178	20,296	—	—	134,087
Materials and supplies, at average cost	37,377	6,883	14,784	—	—	59,044
Prepayments and other	29,798	8,334	16,140	—	(1,415) [3]	52,857
Regulatory assets	54,979	6,931	7,828	—	—	69,738
Total current assets	535,258	88,105	107,002	101	(18,281)	712,185
Other long-term assets						
Regulatory assets	381,346	64,552	60,288	—	—	506,186
Unamortized debt expense	6,051	1,580	1,372	—	—	9,003
Other	47,116	11,352	15,525	—	—	73,993
Total other long-term assets	434,513	77,484	77,185	—	—	589,182
Total assets	$3,997,786	861,960	769,237	101	(541,955)	$5,087,129
Capitalization and liabilities						
Capitalization						
Common stock equity	$1,593,564	274,802	248,771	101	(523,674) [2]	$1,593,564
Cumulative preferred stock–not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	830,547	189,998	186,000	—	—	1,206,545
Total capitalization	2,446,404	471,800	439,771	101	(523,674)	2,834,402
Current liabilities						
Current portion of long-term debt	—	11,400	—	—	—	11,400
Short-term borrowings-affiliate	1,000	—	6,839	—	(7,839) [1]	—
Accounts payable	145,062	24,383	20,114	—	—	189,559
Interest and preferred dividends payable	15,190	3,885	2,585	—	(8) [1]	21,652
Taxes accrued	175,790	37,899	37,171	—	(1,415) [3]	249,445
Regulatory liabilities	1,705	—	211	—	—	1,916
Other	48,443	9,033	15,424	—	(9,019) [1]	63,881
Total current liabilities	387,190	86,600	82,344	—	(18,281)	537,853

Deferred credits and other liabilities						
Deferred income taxes	359,621	79,947	67,593	—	—	507,161
Regulatory liabilities	235,786	76,475	35,122	—	—	347,383
Unamortized tax credits	44,931	14,245	14,363	—	—	73,539
Defined benefit pension and other postretirement benefit plans liability	202,396	28,427	31,339	—	—	262,162
Other	63,374	14,703	13,658	—	—	91,735
Total deferred credits and other liabilities	906,108	213,797	162,075	—	—	1,281,980
Contributions in aid of construction	258,084	89,763	85,047	—	—	432,894
Total capitalization and liabilities	$3,997,786	861,960	769,237	101	(541,955)	$5,087,129

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Consolidating balance sheet
December 31, 2012

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Assets						
Utility plant, at cost						
Land	$43,370	5,182	3,016	—	—	$51,568
Plant and equipment	3,325,862	1,086,048	952,490	—	—	5,364,400
Less accumulated depreciation	(1,185,899)	(433,531)	(421,359)	—	—	(2,040,789)
Construction in progress	130,143	12,126	9,109	—	—	151,378
Net utility plant	2,313,476	669,825	543,256	—	—	3,526,557
Investment in wholly-owned subsidiaries, at equity	497,939	—	—	—	(497,939) [2]	—
Current assets						
Cash and equivalents	8,265	5,441	3,349	104	—	17,159
Advances to affiliates	9,400	18,050	—	—	(27,450) [1]	—
Customer accounts receivable, net	154,316	29,772	26,691	—	—	210,779
Accrued unbilled revenues, net	100,600	14,393	19,305	—	—	134,298
Other accounts receivable, net	33,313	1,122	3,016	—	(9,275) [1]	28,176
Fuel oil stock, at average cost	123,176	15,485	22,758	—	—	161,419
Materials and supplies, at average cost	31,779	5,336	13,970	—	—	51,085
Prepayments and other	21,708	5,146	6,011	—	—	32,865
Regulatory assets	42,675	4,056	4,536	—	—	51,267
Total current assets	525,232	98,801	99,636	104	(36,725)	687,048
Other long-term assets						
Regulatory assets	601,451	109,815	102,063	—	—	813,329
Unamortized debt expense	7,042	2,066	1,446	—	—	10,554
Other	46,586	9,871	14,848	—	—	71,305
Total other long-term assets	655,079	121,752	118,357	—	—	895,188
Total assets	$3,991,726	890,378	761,249	104	(534,664)	$5,108,793
Capitalization and liabilities						
Capitalization						
Common stock equity	$1,472,136	268,908	228,927	104	(497,939) [2]	$1,472,136
Cumulative preferred stock–not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	780,546	201,326	166,000	—	—	1,147,872
Total capitalization	2,274,975	477,234	399,927	104	(497,939)	2,654,301
Current liabilities						
Short-term borrowings-affiliate	18,050	—	9,400	—	(27,450) [1]	—
Accounts payable	134,651	27,457	24,716	—	—	186,824
Interest and preferred dividends payable	14,479	4,027	2,593	—	(7) [1]	21,092
Taxes accrued	174,477	38,778	37,811	—	—	251,066
Regulatory liabilities	1,212	—	—	—	—	1,212
Other	45,125	10,310	14,634	—	(9,268) [1]	60,801
Total current liabilities	387,994	80,572	89,154	—	(36,725)	520,995
Deferred credits and other liabilities						

Deferred income taxes	302,569	68,479	46,563	—	—	417,611
Regulatory liabilities	219,303	67,359	36,278	—	—	322,940
Unamortized tax credits	39,827	13,450	13,307	—	—	66,584
Defined benefit pension and other postretirement benefit plans liability	459,765	80,686	79,754	—	—	620,205
Other	68,783	17,799	14,055	—	—	100,637
Total deferred credits and other liabilities	1,090,247	247,773	189,957	—	—	1,527,977
Contributions in aid of construction	238,510	84,799	82,211	—	—	405,520
Total capitalization and liabilities	$3,991,726	890,378	761,249	104	(534,664)	$5,108,793

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Consolidating statements of changes in common stock equity

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Balance, December 31, 2010	$1,334,155	269,986	229,651	91	(499,728)	$1,334,155
Net income (loss) for common stock	99,986	26,651	17,974	(9)	(44,616)	99,986
Other comprehensive loss, net of tax benefit	(741)	(45)	(53)	—	98	(741)
Issuance of common stock, net of expenses	39,999	—	—	25	(25)	39,999
Common stock dividends	(70,558)	(16,124)	(12,004)	—	28,128	(70,558)
Balance, December 31, 2011	$1,402,841	280,468	235,568	107	(516,143)	$1,402,841
Net income (loss) for common stock	99,276	16,212	12,627	(3)	(28,836)	99,276
Other comprehensive loss, net of tax benefit	(938)	(34)	(71)	—	105	(938)
Issuance of common stock, net of expenses	44,001	—	—	—	—	44,001
Common stock dividends	(73,044)	(27,738)	(19,197)	—	46,935	(73,044)
Balance, December 31, 2012	$1,472,136	268,908	228,927	104	(497,939)	$1,472,136
Net income (loss) for common stock	122,929	20,136	21,277	(3)	(41,410)	122,929
Other comprehensive income, net of taxes	1,578	145	99	—	(244)	1,578
Issuance of common stock, net of expenses	78,499	—	—	—	—	78,499
Common stock dividends	(81,578)	(14,387)	(1,532)	—	15,919	(81,578)
Balance, December 31, 2013	$1,593,564	274,802	248,771	101	(523,674)	$1,593,564

Consolidating statement of cash flows
Year ended December 31, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments		Hawaiian Electric Consolidated
Cash flows from operating activities							
Net income (loss)	$124,009	20,670	21,658	(3)	(41,410)	[2]	$124,924
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities							
Equity in earnings	(41,510)	—	—	—	41,410	[2]	(100)
Common stock dividends received from subsidiaries	28,505	—	—	—	(28,405)	[2]	100
Depreciation of property, plant and equipment	99,738	34,188	20,099	—	—		154,025
Other amortization	554	1,979	2,544	—	—		5,077
Increase in deferred income taxes	41,409	10,569	12,529	—	—		64,507
Change in tax credits, net	5,152	818	1,047	—	—		7,017
Allowance for equity funds used during construction	(4,495)	(643)	(423)	—	—		(5,561)
Change in cash overdraft	—	—	1,038	—	—		1,038
Changes in assets and liabilities:							
Decrease (increase) in accounts receivable	49,974	(1,459)	1,178	—	(248)	[1]	49,445
Decrease (increase) in accrued unbilled revenues	(7,152)	(2,707)	33	—	—		(9,826)
Decrease in fuel oil stock	23,563	1,307	2,462	—	—		27,332
Increase in materials and supplies	(5,598)	(1,547)	(814)	—	—		(7,959)
Increase in regulatory assets	(46,047)	(9,237)	(10,177)	—	—		(65,461)
Decrease in accounts payable	(6,136)	(4,756)	(9,936)	—	—		(20,828)
Change in prepaid and accrued income taxes and revenue taxes	4,632	(4,114)	(2,546)	—	—		(2,028)
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	2,325	(1)	(84)	—	—		2,240
Change in other assets and liabilities	(17,941)	(6,262)	(7,544)	—	248	[1]	(31,499)
Net cash provided by (used in) operating activities	250,982	38,805	31,064	(3)	(28,405)		292,443
Cash flows from investing activities							
Capital expenditures	(237,899)	(52,135)	(52,451)	—	—		(342,485)
Contributions in aid of construction	21,686	7,590	2,884	—	—		32,160
Advances from affiliates	2,561	17,050	—	—	(19,611)	[1]	—
Other	—	(230)	—	—	—		(230)
Investment in consolidated subsidiary	(12,461)	—	—	—	12,461	[2]	—
Net cash used in investing activities	(226,113)	(27,725)	(49,567)	—	(7,150)		(310,555)
Cash flows from financing activities							
Common stock dividends	(81,578)	(14,388)	(14,017)	—	28,405	[2]	(81,578)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(1,080)	(534)	(381)	—	—		(1,995)

Proceeds from issuance of common stock	78,500		12,461	—	(12,461)	[2]	78,500
Proceeds from issuance of long-term debt	140,000	56,000	40,000	—	—		236,000
Repayment of long-term debt	(90,000)	(56,000)	(20,000)	—	—		(166,000)
Net decrease in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	(17,050)	—	(2,561)	—	19,611	[2]	—
Other	(681)	(273)	(195)	—	—		(1,149)
Net cash provided by (used in) financing activities	28,111	(15,195)	15,307	—	35,555		63,778
Net increase (decrease) in cash and cash equivalents	52,980	(4,115)	(3,196)	(3)	—		45,666
Cash and cash equivalents, January 1	8,265	5,441	3,349	104	—		17,159
Cash and cash equivalents, December 31	$61,245	1,326	153	101	—		$ 62,825

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Consolidating statement of cash flows
Year ended December 31, 2012

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income (loss)	$100,356	16,746	13,008	(3)	(28,836) [2]	$101,271
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities						
Equity in earnings	(28,936)	—	—	—	28,836 [2]	(100)
Common stock dividends received from subsidiaries	47,035	—	—	—	(46,935) [2]	100
Depreciation of property, plant and equipment	90,783	33,337	20,378	—	—	144,498
Other amortization	1,508	3,252	2,238	—	—	6,998
Impairment of utility assets	29,000	5,500	5,500	—	—	40,000
Increase in deferred income taxes	66,968	7,457	12,453	—	—	86,878
Change in tax credits, net	5,006	522	547	—	—	6,075
Allowance for equity funds used during construction	(5,735)	(585)	(687)	—	—	(7,007)
Changes in assets and liabilities:						
Increase in accounts receivable	(48,451)	(1,106)	(2,164)	—	4,717 [1]	(47,004)
Decrease (increase) in accrued unbilled revenues	2,728	4,106	(3,306)	—	—	3,528
Decrease in fuel oil stock	4,861	3,732	1,536	—	—	10,129
Increase in materials and supplies	(6,683)	(636)	(578)	—	—	(7,897)
Increase in regulatory assets	(55,605)	(9,649)	(7,147)	—	—	(72,401)
Increase (decrease) in accounts payable	(31,743)	(8,110)	940	—	—	(38,913)
Change in prepaid and accrued income taxes and revenue taxes	19,871	1,935	3,433	—	—	25,239
Decrease in defined benefit pension and other postretirement benefit plans liability	(434)	(191)	(119)	—	—	(744)
Change in other assets and liabilities	(44,880)	(11,143)	(12,678)	(1)	(4,717) [1]	(73,419)
Net cash provided by (used in) operating activities	145,649	45,167	33,354	(4)	(46,935)	177,231
Cash flows from investing activities						
Capital expenditures	(233,792)	(41,060)	(35,239)	—	—	(310,091)
Contributions in aid of construction	32,285	8,184	5,513	—	—	45,982
Advances from (to) affiliates	(9,400)	28,100	18,500	—	(37,200) [1]	—
Net cash used in investing activities	(210,907)	(4,776)	(11,226)	—	(37,200)	(264,109)
Cash flows from financing activities						
Common stock dividends	(73,044)	(27,738)	(19,197)	—	46,935 [2]	(73,044)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(1,080)	(534)	(381)	—	—	(1,995)
Proceeds from the issuance of common stock	44,000	—	—	—	—	44,000

Proceeds from the issuance of long-term debt	367,000	31,000	59,000	—	—	457,000
Repayment of long-term debt	(259,580)	(41,200)	(67,720)	—	—	(368,500)
Net increase (decrease) in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	(46,600)	—	9,400	—	37,200 [1]	—
Other	(1,992)	139	(377)	—	—	(2,230)
Net cash provided by (used in) financing activities	28,704	(38,333)	(19,275)	—	84,135	55,231
Net increase (decrease) in cash and cash equivalents	(36,554)	2,058	2,853	(4)	—	(31,647)
Cash and cash equivalents, January 1	44,819	3,383	496	108	—	48,806
Cash and cash equivalents, December 31	$8,265	5,441	3,349	104	—	$17,159

Consolidating statement of cash flows
Year ended December 31, 2011

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments		Hawaiian Electric Consolidated
Cash flows from operating activities							
Net income (loss)	$101,066	27,185	18,355	(9)	(44,616)	[2]	$101,981
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities							
Equity in earnings	(44,716)	—	—	—	44,616	[2]	(100)
Common stock dividends received from subsidiaries	28,228	—	—	—	(28,128)	[2]	100
Depreciation of property, plant and equipment	89,324	32,767	20,884	—	—		142,975
Other amortization	9,890	2,528	4,960	—	—		17,378
Impairment of utility assets	9,215	—	—	—	—		9,215
Increase in deferred income taxes	38,548	16,101	14,442	—	—		69,091
Change in tax credits, net	1,464	117	506	—	—		2,087
Allowance for equity funds used during construction	(4,572)	(592)	(800)	—	—		(5,964)
Change in cash overdraft	—	(2,527)	(161)	—	—		(2,688)
Changes in assets and liabilities:							
Increase in accounts receivable	(34,167)	(2,985)	(5,663)	—	(1,589)	[1]	(44,404)
Decrease (increase) in accrued unbilled revenues	(31,616)	(2,481)	655	—	—		(33,442)
Increase in fuel oil stock	(6,757)	(3,466)	(8,620)	—	—		(18,843)
Increase in materials and supplies	(6,206)	(202)	(63)	—	—		(6,471)
Increase in regulatory assets	(31,774)	(2,025)	(6,333)	—	—		(40,132)
Increase (decrease) in accounts payable	(34,515)	4,391	(5,691)	—	—		(35,815)
Change in prepaid and accrued income taxes and revenue taxes	51,593	9,641	8,502	—	—		69,736
Decrease in defined benefit pension and other postretirement benefits plans liability	(20,439)	(3,241)	(3,324)	—	—		(27,004)
Change in other assets and liabilities	(17,432)	(13,124)	(7,337)	(2)	1,589	[1]	(36,306)
Net cash provided by (used in) operating activities	97,134	62,087	30,312	(11)	(28,128)		161,394
Cash flows from investing activities							
Capital expenditures	(160,528)	(34,230)	(31,264)	—	—		(226,022)
Contributions in aid of construction	15,003	6,271	2,260	—	—		23,534
Advances from (to) affiliates	—	(15,200)	11,000	—	4,200	[1]	—
Other	77	—	—	—	—		77
Investment in consolidated subsidiary	(25)	—	—	—	25	[2]	—
Net cash used in investing activities	(145,473)	(43,159)	(18,004)	—	4,225		(202,411)
Cash flows from financing activities							
Common stock dividends	(70,558)	(16,124)	(12,004)	—	28,128	[2]	(70,558)
	(1,080)	(534)	(381)	—	—		(1,995)

Preferred stock dividends of Hawaiian Electric and subsidiaries						
Proceeds from issuance of common stock	40,000	—	—	25	(25) [2]	40,000
Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	4,200	—	—	—	(4,200) [1]	—
Other	(423)	(116)	(21)	—	—	(560)
Net cash provided by (used in) financing activities	(27,861)	(16,774)	(12,406)	25	23,903	(33,113)
Net increase (decrease) in cash and cash equivalents	(76,200)	2,154	(98)	14	—	(74,130)
Cash and cash equivalents, January 1	121,019	1,229	594	94	—	122,936
Cash and cash equivalents, December 31	$44,819	3,383	496	108	—	$48,806

Explanation of consolidating adjustments on consolidating schedules:

[1] Eliminations of intercompany receivables and payables and other intercompany transactions.

[2] Elimination of investment in subsidiaries, carried at equity.

[3] Reclassification of accrued income taxes for financial statement presentation.

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4 · Bank subsidiary (HEI only)
Selected financial information
American Savings Bank, F.S.B.
Statements of Income Data

Years ended December 31 (in thousands)	2013	2012	2011
Interest and dividend income			
Interest and fees on loans	$172,969	$176,057	$184,485
Interest and dividends on investment and mortgage-related securities	13,095	13,822	14,568
Total interest and dividend income	186,064	189,879	199,053
Interest expense			
Interest on deposit liabilities	5,092	6,423	8,983
Interest on other borrowings	4,985	4,869	5,486
Total interest expense	10,077	11,292	14,469
Net interest income	175,987	178,587	184,584
Provision for loan losses	1,507	12,883	15,009
Net interest income after provision for loan losses	174,480	165,704	169,575
Noninterest income			
Fees from other financial services	27,099	31,361	28,881
Fee income on deposit liabilities	18,363	17,775	18,026
Fee income on other financial products	8,405	6,577	6,704
Mortgage banking income	8,309	14,628	5,028
Gains on sale of securities	1,226	134	371
Other income, net	8,681	5,185	6,344
Total noninterest income	72,083	75,660	65,354
Noninterest expense			
Compensation and employee benefits	82,910	75,979	71,137
Occupancy	16,747	17,179	17,154
Data processing	10,952	10,098	8,155
Services	9,015	9,866	7,396
Equipment	7,295	7,105	6,903
Office supplies, printing and postage	4,233	3,870	3,934
Marketing	3,373	3,260	3,001
Communication	1,864	1,809	1,764
Other expense	23,115	23,177	23,949
Total noninterest expense	159,504	152,343	143,393
Income before income taxes	87,059	89,021	91,536
Income taxes	29,525	30,384	31,693
Net income	$57,534	$58,637	$59,843

Statements of Comprehensive Income

Years ended December 31 (in thousands)	2013	2012	2011
Net income	$57,534	$58,637	$59,843
Other comprehensive income (loss), net of taxes:			
Net unrealized gains (losses) on securities:			
Net unrealized gains (losses) on securities arising during the period, net of (taxes) benefits of $9,037, ($631) and ($4,343), for 2013, 2012 and 2011, respectively	(13,686)	956	6,578
	(738)	(81)	(224)

Less: reclassification adjustment for net realized gains included in net income, net of taxes of $488, $53 and $148 for 2013, 2012 and 2011, respectively			
Retirement benefit plans:			
Net gains (losses) arising during the period, net of (taxes) benefits of ($10,450), $5,240 and $6,577 for 2013, 2012 and 2011, respectively	15,826	(7,936)	(9,960)
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $1,187, $684 and $346 for 2013, 2012 and 2011, respectively	1,797	1,036	523
Other comprehensive income (loss), net of taxes	3,199	(6,025)	(3,083)
Comprehensive income	$60,733	$52,612	$56,760

Balance Sheet Data December 31 (in thousands)		2013		2012
Assets				
Cash and cash equivalents		$156,603		$184,430
Available-for-sale investment and mortgage-related securities		529,007		671,358
Investment in stock of Federal Home Loan Bank of Seattle		92,546		96,022
Loans receivable held for investment		4,150,229		3,779,218
Allowance for loan losses		(40,116)		(41,985)
Loans receivable held for investment, net		4,110,113		3,737,233
Loans held for sale, at lower of cost or fair value		5,302		26,005
Other		268,063		244,435
Goodwill		82,190		82,190
Total assets		$5,243,824		$5,041,673
Liabilities and shareholder's equity				
Deposit liabilities–noninterest-bearing		$1,214,418		$1,164,308
Deposit liabilities–interest-bearing		3,158,059		3,065,608
Other borrowings		244,514		195,926
Other		105,679		117,752
Total liabilities		4,722,670		4,543,594
Commitments and contingencies (see "Litigation" below)				
Common stock		336,054		333,712
Retained earnings		197,297		179,763
Accumulated other comprehensive loss, net of tax benefits				
Net unrealized gains (losses) on securities	$(3,663)		$10,761	
Retirement benefit plans	(8,534)	(12,197)	(26,157)	(15,396)
Total shareholder's equity		521,154		498,079
Total liabilities and shareholder's equity		$5,243,824		$5,041,673
Other assets				
Bank-owned life insurance		$129,963		$125,726
Premises and equipment, net		67,766		62,458
Prepaid expenses		3,616		13,199
Accrued interest receivable		13,133		13,228
Mortgage-servicing rights		11,687		10,818
Real estate acquired in settlement of loans, net		1,205		6,050
Other		40,693		12,956
		$268,063		$244,435
Other liabilities				
Accrued expenses		$19,989		$17,103
Federal and state income taxes payable		37,807		35,408
Cashier's checks		21,110		23,478
Advance payments by borrowers		9,647		9,685
Other		17,126		32,078
		$105,679		$117,752

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

Investment and mortgage-related securities. ASB owns investment securities (federal agency obligations) and mortgage-related securities issued by the Federal National Mortgage Association (FNMA), Federal Home Loan

Mortgage Corporation (FHLMC), Government National Mortgage Association (GNMA) and municipal bonds.
As of December 31, 2013, ASB’s investment portfolio distribution was 70% mortgage-related securities issued by FNMA, FHLMC or GNMA, 15% federal agency obligations and 15% municipal bonds. These investment and mortgage-related securities are widely traded in the market and have observable transactions that allow them to be readily priced.
Prices for investments and mortgage-related securities are provided by an independent third party pricing service and are based on observable inputs, including historical trading levels or sector yields, using market-based valuation techniques. The third party pricing service uses applications, models and pricing matrices that correlate security prices to benchmark securities

which are adjusted for various inputs. Inputs include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark security bids and offers, TBA prices, monthly payment information, and reference data including market research. The pricing service may prioritize inputs differently on any given day for any security, and not all inputs are available for use in the evaluation process on any given day or for each security. The pricing vendor corroborates its findings on an on-going basis by monitoring market activity and events.

Third party pricing services provide security prices in good faith using rigorous methodologies; however, they do not warrant or guarantee the adequacy or accuracy of their information. Therefore, ASB utilizes a separate third party pricing vendor to corroborate security pricing of the first pricing vendor. If the pricing differential between the two pricing sources exceeds an established threshold, a pricing inquiry will be sent to both vendors or to an independent broker to determine a price that can be supported based on observable inputs found in the market. Such challenges to pricing are required infrequently and are generally resolved using additional security-specific information that was not available to a specific vendor.

					Gross unrealized losses			
		Gross	Gross	Estimated	Less than 12 months		12 months or longer	
(dollars in thousands)	Amortized cost	unrealized gains	unrealized losses	fair value	Fair value	Amount	Fair value	Amount
December 31, 2013								
Available-for-sale								
Federal agency obligations	$83,193	$174	$(2,394)	$80,973	$70,799	$(2.394)	$—	$—
Mortgage-related securities- FNMA, FHLMC and GNMA	374,993	4,911	(10,460)	369,444	228,543	(8,819)	19,655	(1,641)
Municipal bonds	76,904	1,826	(140)	78,590	14,478	(140)	—	—
	$535,090	$6,911	$(12,994)	$529,007	$313,820	$(11,353)	$19,655	$(1,641)
December 31, 2012								
Available-for-sale								
Federal agency obligations	$168,324	$3,167	$—	$171,491	$—	$—	$—	$—
Mortgage-related securities- FNMA, FHLMC and GNMA	407,175	10,412	(204)	417,383	32,269	(204)	—	—
Municipal bonds	77,993	4,491	—	82,484	—	—	—	—
	$653,492	$18,070	$(204)	$671,358	$32,269	$(204)	$—	$—

Federal agency obligations have contractual terms to maturity. Mortgage-related securities have contractual terms to maturity, but require periodic payments to reduce principal. In addition, expected maturities will differ from contractual maturities because borrowers have the right to prepay the underlying mortgages (see contractual maturities table below).

The contractual maturities of available-for-sale securities were as follows:

(in thousands)	Amortized Cost	Fair value
Due in one year or less	$—	$—
Due after one year through five years	42,920	43,137
Due after five years through ten years	95,860	96,751
Due after ten years	21,317	19,675
	160,097	159,563
Mortgage-related securities-FNMA,FHLMC and GNMA	374,993	369,444
Total available-for-sale securities	$535,090	$529,007

All positions with variable maturities (e.g. callable debentures and mortgage-related securities) are disclosed based upon the bond’s contractual maturity. Actual maturities will likely differ from these contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

In 2013, 2012 and 2011, proceeds from sales of available-for-sale mortgage-related securities were nil, $3.5 million and $30.7 million, resulting in gross realized gains of nil, $0.1 million and $0.4 million, respectively, and there were no gross realized losses. In 2013, proceeds from the sale of federal agency obligations were $71.4 million resulting in gross realized gains of $1.2 million and no gross realized losses. There were no federal agency obligation sales in 2012 and 2011. In 2011, proceeds from the sale of municipal bonds were $2.1 million resulting in gross realized gains of $5,000 and no gross realized losses. There were no sales of municipal bonds in 2013 and 2012.

ASB pledged mortgage-related securities and federal agency obligations with a market value of approximately $87.1 million and $98.0 million as of December 31, 2013 and 2012, respectively, as collateral for public funds deposits, automated clearinghouse transactions with Bank of Hawaii, and deposits in ASB's bankruptcy account with the Federal Reserve Bank of San Francisco. As of December 31, 2013 and 2012, mortgage-related securities and federal agency obligations with a carrying value of $187.1 million and $189.3 million, respectively, were pledged as collateral for securities sold under agreements to repurchase.

FHLB of Seattle stock. As of December 31, 2013 and 2012, ASB's investment in stock of the FHLB of Seattle was carried at cost because it can only be redeemed at par and it is a required investment based on measurements of ASB's capital, assets and/or borrowing levels. Periodically and as conditions warrant, ASB reviews its investment in the stock of the FHLB of Seattle for impairment. ASB evaluated its investment in FHLB stock for OTTI as of December 31, 2013, consistent with its accounting policy. ASB did not recognize an OTTI loss for 2013 based on its evaluation of the underlying investment, including:

- the net income and growth in retained earnings recorded by the FHLB of Seattle in the first nine months of 2013;
- compliance by the FHLB of Seattle with all of its regulatory capital requirements and being classified "adequately capitalized" by the Federal Housing Finance Agency (Finance Agency);
- being allowed by the Finance Agency to repurchase excess stock;
- commitments by the FHLB of Seattle to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB of Seattle;
- the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB of Seattle;
- the liquidity position of the FHLB of Seattle; and
- ASB's intent and assessment of whether it will more likely than not be required to sell the FHLB stock before recovery of its par value.

Deterioration in the FHLB of Seattle's financial position may result in future impairment losses.

Other-than-temporary impaired securities. All securities are reviewed for impairment in accordance with accounting standards for OTTI recognition. Under these standards ASB's intent to sell the security, the probability of more-likely-than-not being forced to sell the position prior to recovery of its cost basis and the probability of more-likely-than-not recovering the amortized cost of the position was determined. If ASB's intent is to hold positions determined to be other-than-temporarily impaired, credit losses, which are recognized in earnings, are quantified using the position's pre-impairment discount rate and the net present value of cash flows expected to be collected from the security. Non-credit related impairments are reflected in other comprehensive income. ASB did not recognize OTTI for 2013, 2012 or 2011.

Loans receivable.

December 31 (in thousands)	2013	2012
Real estate loans:		
Residential 1-4 family	$2,006,007	$1,866,450
Commercial real estate	440,443	375,677
Home equity line of credit	739,331	630,175
Residential land	16,176	25,815
Commercial construction	52,112	43,988
Residential construction	12,774	6,171
Total real estate loans	3,266,843	2,948,276
Commercial loans	783,388	721,349
Consumer loans	108,722	121,231
Total loans	4,158,953	3,790,856
Deferred loan fees, net and unamortized discounts	(8,724)	(11,638)
Allowance for loan losses	(40,116)	(41,985)
Total loans, net	$4,110,113	$3,737,233

As of December 31, 2013 and 2012, ASB’s commitments to originate loans approximated $163.7 million and $97.9 million, respectively. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any

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condition established in the commitments. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. ASB minimizes its exposure to loss under these commitments by requiring that customers meet certain conditions prior to disbursing funds. The amount of collateral, if any, is based on a credit evaluation of the borrower and may include residential real estate, accounts receivable, inventory and property, plant and equipment.

As of December 31, 2013 and 2012, standby, commercial and banker's acceptance letters of credit totaled $15.7 million and $10.5 million, respectively. Letters of credit are conditional commitments issued by ASB to guarantee payment and performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. ASB holds collateral supporting those commitments for which collateral is deemed necessary. As of December 31, 2013 and 2012, undrawn consumer lines of credit, including credit cards, totaled $1.1 billion and $1.0 billion, respectively, and undrawn commercial loans including lines of credit totaled $396.4 million and $376.2 million, respectively.

ASB services real estate loans for investors ($1.4 billion, $1.3 billion and $1.0 billion as of December 31, 2013, 2012 and 2011, respectively), which are not included in the accompanying consolidated balance sheet data. ASB reports fees earned for servicing such loans as income when the related mortgage loan payments are collected and charges loan servicing costs to expense as incurred.

As of December 31, 2013 and 2012, ASB had pledged loans with an amortized cost of approximately $1.7 billion and $1.0 billion, respectively, as collateral to secure advances from the FHLB of Seattle.

As of December 31, 2013 and 2012, the aggregate amount of loans to directors and executive officers of ASB and its affiliates and any related interests (as defined in Federal Reserve Board (FRB) Regulation O) of such individuals, was $45.8 million and $70.9 million, respectively. The $25.1 million decrease in such loans in 2013 was attributed to new commitments and loans of $0.5 million to new and existing directors and executive officers, offset by closed lines of credits and repayments of $25.6 million. As of December 31, 2013 and 2012, $40.5 million and $65.9 million of the loan balances, respectively, were to related interests of individuals who are directors of ASB. All such loans were made at ASB's normal credit terms except that residential real estate loans and consumer loans to directors and executive officers of ASB were made at preferred employee interest rates. Management believes these loans do not represent more than a normal risk of collection.

Allowance for loan losses. As discussed in Note 1, ASB must maintain an allowance for loan losses that is adequate to absorb estimated probable credit losses associated with its loan portfolio. The allowance for loan losses consists of an allocated portion, which estimates credit losses for specifically identified loans and pools of loans, and an unallocated portion.

Segmentation. ASB segments its loan portfolio by three levels. In the first level, the loan portfolio is separated into homogeneous and non-homogeneous loan portfolios. Residential, consumer and credit scored business loans are considered homogeneous loans. These are loans that are typically underwritten based on common, uniform standards, and are generally classified as to the level of loss exposure based on delinquency status. Commercial loans and commercial real estate (CRE) loans are defined as non-homogeneous loans and ASB utilizes a uniform ten–point risk rating system for evaluating the credit quality of the loans. These are loans where the underwriting criteria are not uniform and the risk rating classification is based upon considerations broader than just delinquency performance.

In the second level of segmentation, the loan portfolios are further stratified into individual products with common risk characteristics. For residential loans, the loan portfolio is segmented by loan categories and geographic location first within the State of Hawaii (Oahu vs. the neighbor islands) and second collectively outside of the state. The consumer loan portfolio is segmented into various secured and unsecured loan product types. The credit scored business loan portfolio is segmented by loans under lines of credit or term loans. For commercial loans, the portfolio is differentiated by separating Commercial & Industrial (C&I) loans, C&I National Lending loans and C&I loans guaranteed by Small Business Administration programs while CRE loans are grouped by owner-occupied loans, investor loans, construction loans, and vacant land loans.

For the third and last level of segmentation, loans are categorized into the regulatory asset quality classifications – Pass, Substandard, and Loss for homogeneous loans based primarily on delinquency status, and Pass (Risk Rating 1 to 6),

Special Mention (Risk Rating 7), Substandard (Risk Rating 8), Doubtful (Risk Rating 9), and Loss (Risk Rating 10) for non-homogeneous loans based on credit quality.
Specific allocation.
Residential real estate. All residential real estate loans that are 180 days delinquent, or where ASB has initiated foreclosure action or have been modified in a TDR are reviewed for impairment based on the fair value of the collateral, net of costs to sell. Generally, impairment amounts derived under this method are immediately charged off.

Consumer. The consumer loan portfolio specific allocation is determined based on delinquency; unsecured consumer loans are generally charged-off based on delinquency status varying from 120 to 180 days.
Commercial and CRE. A specific allocation is determined for impaired commercial and CRE loans. See further discussion in Note 1.
Pooled allocation.
Residential real estate and consumer. Pooled allocation for non-impaired residential real estate and consumer loans are determined using a historical loss rate analysis and qualitative factor considerations.
Commercial and CRE. Pooled allocation for pass, special mention, substandard, and doubtful grade commercial and CRE loans that share common risk characteristics and properties are determined using a historical loss rate analysis and qualitative factor considerations.
Qualitative adjustments. Qualitative adjustments to historical loss rates or other static sources may be necessary since these rates may not fully consider all losses inherent in the current portfolio (for example, risks in growing and/or unseasoned portfolios). To estimate the level of adjustments, management considers factors, including levels and trends in problem loans, the nature, volume and term of the loan portfolios, changes in lending policies and practices, changes in management and staffing, economic conditions, industry trends, and credit concentrations.
Unallocated allowance. ASB’s allowance incorporates an unallocated portion to cover risk factors and events that may have occurred as of the evaluation date that have not been reflected in the risk measures due to inherent limitations to the precision of the estimation process. These risk factors, in addition to micro- and macro- economic factors, past, current and anticipated events based on facts at the balance sheet date, and realistic courses of action that management expects to take, are assessed in determining the level of unallocated allowance.

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

(in thousands)	Residential 1-4 family	Commercial real estate	Home equity line of credit	Residential land	Commercial construction	Residential construction	Commercial loans	Consumer loans	Unallocated	Total
December 31, 2013										
Allowance for loan losses:										
Beginning balance	$6,068	$2,965	$4,493	$4,275	$2,023	$9	$15,931	$4,019	$2,202	$41,985
Charge-offs	(1,162)	—	(782)	(485)	—	—	(3,056)	(2,717)	—	(8,202)
Recoveries	1,881	—	358	868	—	—	1,089	630	—	4,826
Provision	(1,253)	2,094	1,160	(2,841)	374	10	1,839	435	(311)	1,507
Ending balance	$5,534	$5,059	$5,229	$1,817	$2,397	$19	$15,803	$2,367	$1,891	$40,116
Ending balance: individually evaluated for impairment	$642	$1,118	$—	$1,332	$—	$—	$2,246	$—	$—	$5,338
Ending balance: collectively evaluated for impairment	$4,892	$3,941	$5,229	$485	$2,397	$19	$13,557	$2,367	$1,891	$34,778
Financing Receivables:										
Ending balance	$2,006,007	$440,443	$739,331	$16,176	$52,112	$12,774	$783,388	$108,722	$—	$4,158,953
Ending balance: individually evaluated for impairment	$20,317	$4,604	$1,179	$10,577	$—	$—	$21,225	$19	$—	$57,921
Ending balance: collectively evaluated for impairment	$1,985,690	$435,839	$738,152	$5,599	$52,112	$12,774	$762,163	$108,703	$—	$4,101,032
December 31, 2012										
Allowance for loan losses:										
Beginning balance	$6,500	$1,688	$4,354	$3,795	$1,888	$4	$14,867	$3,806	$1,004	$37,906
Charge-offs	(3,183)	—	(716)	(2,808)	—	—	(3,606)	(2,517)	—	(12,830)
Recoveries	1,328	—	108	1,443	—	—	649	498	—	4,026

Provision	1,423	1,277	747	1,845	135	5	4,021	2,232	1,198	12,883
Ending balance	$6,068	$2,965	$4,493	$4,275	$2,023	$9	$15,931	$4,019	$2,202	$41,985
Ending balance: individually evaluated for impairment	$384	$535	$—	$3,221	$—	$—	$2,659	$—	$—	$6,799
Ending balance: collectively evaluated for impairment	$5,684	$2,430	$4,493	$1,054	$2,023	$9	$13,272	$4,019	$2,202	$35,186
Financing Receivables:										
Ending balance	$1,866,450	$375,677	$630,175	$25,815	$43,988	$6,171	$721,349	$121,231	$—	$3,790,856
Ending balance: individually evaluated for impairment	$25,279	$6,751	$1,560	$18,563	$—	$—	$20,298	$22	$—	$72,473
Ending balance: collectively evaluated for impairment	$1,841,171	$368,926	$628,615	$7,252	$43,988	$6,171	$701,051	$121,209	$—	$3,718,383

Changes in the allowance for loan losses were as follows:

(dollars in thousands)	2013	2012	2011
Allowance for loan losses, January 1	$41,985	$37,906	$40,646
Provision for loan losses	1,507	12,883	15,009
Charge-offs, net of recoveries			
Real estate loans	(678)	3,828	10,733
Other loans	4,054	4,976	7,016
Net charge-offs	3,376	8,804	17,749
Allowance for loan losses, December 31	$40,116	$41,985	$37,906
Ratio of net charge-offs to average loans outstanding	0.09 %	0.24 %	0.49 %

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

A dual ten-point risk rating system is used to reflect the probability of default (borrower risk rating) and loss given default (transaction risk rating). The borrower risk rating addresses risk presented by the individual borrower and is based on the overall assessment of the borrower's financial and operating strength including earnings, operating cash flow, debt service capacity, asset and liability structure, competitive issues, experience and quality of management, financial reporting quality and industry/economic factors. Separately, the transaction risk rating addresses risk in the transaction and is a function of the type of collateral control exercised over the collateral, loan structure, guarantees, and other structural support or enhancements to the loan.

The numerical representation of the risk categories are:

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

Grades 1 through 6 are considered pass grades. Pass exposures generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral.

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

December 31	2013			2012		
(in thousands)	Commercial real estate	Commercial construction	Commercial	Commercial real estate	Commercial construction	Commercial
Grade:						
Pass	$375,217	$52,112	$703,053	$314,182	$39,063	$638,854
Special mention	33,436	—	17,634	25,437	4,925	24,511
Substandard	28,020	—	59,663	29,308	—	53,538
Doubtful	3,770	—	3,038	6,750	—	4,446
Loss	—	—	—	—	—	—
Total	$440,443	$52,112	$783,388	$375,677	$43,988	$721,349

The increase in commercial real estate and commercial construction loans graded special mention, substandard or doubtful was due to the downgrade of a small number of specific large commercial credits that are being closely monitored and managed. This risk migration reflects both adverse financial trends affecting those borrowers and improved risk rating accuracy of loans across all portfolios.

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

(in thousands)	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Current	Total financing receivables	Recorded Investment> 90 days and accruing
December 31, 2013							
Real estate loans:							
Residential 1-4 family	$2,728	$622	$15,411	$18,761	$1,987,246	$2,006,007	$—
Commercial real estate	—	—	3,770	3,770	436,673	440,443	—
Home equity line of credit	765	312	960	2,037	737,294	739,331	—
Residential land	184	48	2,756	2,988	13,188	16,176	—
Commercial construction	—	—	—	—	52,112	52,112	—
Residential construction	—	—	—	—	12,774	12,774	—
Commercial loans	1,668	612	3,026	5,306	778,082	783,388	—
Consumer loans	436	158	304	898	107,824	108,722	—
Total loans	$5,781	$1,752	$26,227	$33,760	$4,125,193	$4,158,953	$—
December 31, 2012							
Real estate loans:							
Residential 1-4 family	$6,353	$1,741	$24,054	$32,148	$1,834,302	$1,866,450	$—
Commercial real estate	85	—	6,750	6,835	368,842	375,677	—
Home equity line of credit	1,077	142	1,319	2,538	627,637	630,175	—
Residential land	2,851	75	7,788	10,714	15,101	25,815	—
Commercial construction	—	—	—	—	43,988	43,988	—
Residential construction	—	—	—	—	6,171	6,171	—
Commercial loans	3,052	2,814	1,098	6,964	714,385	721,349	131
Consumer loans	598	348	424	1,370	119,861	121,231	242
Total loans	$14,016	$5,120	$41,433	$60,569	$3,730,287	$3,790,856	$373

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

December 31	2013		2012	
	Nonaccrual loans	Accruing loans 90 days or more past due	Nonaccrual loans	Accruing loans 90 days or more past due
(in thousands)				
Real estate loans:				
Residential 1–4 family	$19,679	$—	$26,721	$—
Commercial real estate	4,439	—	6,750	—
Home equity line of credit	2,060	—	2,349	—
Residential land	3,161	—	8,561	—
Commercial construction	—	—	—	—
Residential construction	—	—	—	—
Commercial loans	18,781	—	20,222	131
Consumer loans	401	—	284	242
Total	$48,521	$—	$64,887	$373

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

December 31	2013					2012				
(in thousands)	Recorded investment	Unpaid principal balance	Related Allow-ance	Average recorded investment	Interest income recognized	Recorded investment	Unpaid principal balance	Related allow-ance	Average recorded investment	Interest income recognized
With no related allowance recorded										
Real estate loans:										
Residential 1-4 family	$9,708	$12,144	$—	$11,674	$386	$14,633	$20,247	$—	$16,688	$294
Commercial real estate	—	—	—	802	—	2,929	2,929	—	7,771	237
Home equity line of credit	672	1,227	—	623	2	581	1,374	—	632	1
Residential land	2,622	3,612	—	6,675	482	7,691	10,624	—	21,589	1,185
Commercial construction	—	—	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—	—	—
Commercial loans	3,466	4,715	—	4,837	12	4,265	6,994	—	24,605	986
Consumer loans	19	19	—	20	—	21	21	—	23	—
	16,487	21,717	—	24,631	882	30,120	42,189	—	71,308	2,703
With an allowance recorded										
Real estate loans:										
Residential 1-4 family	6,216	6,236	642	6,455	372	4,803	4,803	384	4,204	250
Commercial real estate	4,604	4,686	1,118	5,745	152	3,821	3,840	535	1,295	—
Home equity line of credit	—	—	—	—	—	—	—	—	26	—
Residential land	7,452	7,623	1,332	6,844	409	9,984	10,364	3,221	7,428	575
Commercial construction	—	—	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—	—	—
Commercial loans	17,759	20,640	2,246	15,635	139	16,033	16,912	2,659	8,429	23
Consumer loans	—	—	—	—	—	—	—	—	—	—
	36,031	39,185	5,338	34,679	1,072	34,641	35,919	6,799	21,382	848
Total										
Real estate loans:										
Residential 1-4 family	15,924	18,380	642	18,129	758	19,436	25,050	384	20,892	544
Commercial real estate	4,604	4,686	1,118	6,547	152	6,750	6,769	535	9,066	237
Home equity line of credit	672	1,227	—	623	2	581	1,374	—	658	1

Residential land	10,074	11,235	1,332	13,519	891	17,675	20,988	3,221	29,017	1,760
Commercial construction	—	—	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—	—	—
Commercial loans	21,225	25,355	2,246	20,472	151	20,298	23,906	2,659	33,034	1,009
Consumer loans	19	19	—	20	—	21	21	—	23	—
	$52,518	$60,902	$5,338	$ 59,310	$ 1,954	$64,761	$78,108	$6,799	$ 92,690	$ 3,551

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

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

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

	2013			2012			2011		
	Number of contracts	Outstanding recorded investment		Number of contracts	Outstanding recorded investment		Number of contracts	Outstanding recorded investment	
(dollars in thousands)		Pre-modification	Post-modification		Pre-modification	Post-modification		Pre-modification	Post-modification
Troubled debt restructurings									
Real estate loans:									
Residential 1-4 family	34	$8,876	$ 8,957	35	$8,805	$ 8,232	42	$11,233	$ 9,853
Commercial real estate	—	—	—	—	—	—	—	—	—
Home equity line of credit	5	637	390	—	—	—	1	93	93
Residential land	20	6,215	6,206	26	6,149	5,484	46	9,965	9,946
Commercial loans	7	4,646	4,646	19	2,583	2,583	56	35,349	35,349
Consumer loans	—	—	—	—	—	—	1	25	25
	66	$20,374	$ 20,199	80	$17,537	$ 16,299	146	$56,665	$ 55,266

Loans modified in TDRs that experienced a payment default of 90 days or more in 2013, 2012 and 2011, and for which the payment default occurred within one year of the modification, were as follows:

	2013		2012		2011	
(dollars in thousands)	Number of contracts	Recorded investment	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Troubled debt restructurings that subsequently defaulted						
Real estate loans:						
Residential 1-4 family	—	$—	—	$—	—	$—
Commercial real estate	—	—	—	—	—	—
Home equity line of credit	1	67	—	—	—	—
Residential land	—	—	—	—	1	528
Commercial loans	2	660	1	482	4	799
Consumer loans	—	—	—	—	—	—
	3	$727	1	$482	5	$1,327

If loans modified in a TDR subsequently default, ASB evaluates the loan for further impairment. Based on its evaluation, adjustments may be made in the allocation of the allowance or partial charge-offs may be taken to further write-down the carrying value of the loan. Commitments to lend additional funds to borrowers whose loan terms have been impaired or modified in TDRs totaled $0.3 million at December 31, 2013.

Deposit liabilities.

December 31	2013		2012	
(dollars in thousands)	Weighted-average stated rate	Amount	Weighted-average stated rate	Amount
Savings	0.06 %	$1,826,907	0.06 %	$1,758,547
Other checking				
Interest-bearing	0.02	721,700	0.02	641,970
Noninterest-bearing	—	643,628	—	621,806
Commercial checking	—	570,790	—	542,502
Money market	0.13	182,546	0.13	191,398
Term certificates	0.80	426,906	0.86	473,693
	0.11 %	$4,372,477	0.13 %	$4,229,916

As of December 31, 2013 and 2012, certificate accounts of $100,000 or more totaled $102 million and $106 million, respectively.

The approximate amounts of term certificates outstanding as of December 31, 2013 with scheduled maturities for 2014 through 2018 were $244 million in 2014, $94 million in 2015, $46 million in 2016, $22 million in 2017, $16 million in 2018, and $5 million thereafter.

Interest expense on deposit liabilities by type of deposit was as follows:

(in thousands)	2013	2012	2011
Term certificates	$3,702	$4,865	$6,393
Savings	1,052	1,128	1,756
Money market	232	319	650
Interest-bearing checking	106	111	184
	$5,092	$6,423	$8,983

Other borrowings.

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

(in millions)	Gross amount of recognized liabilities	Gross amount offset in the Balance Sheet	Net amount of liabilities presented in the Balance Sheet
Repurchase agreements			
December 31, 2013	$ 145	$—	$ 145
December 31, 2012	146	—	146

(in millions)	Gross amount not offset in the Balance Sheet Net amount of liabilities presented in the Balance Sheet	Financial instruments	Cash collateral pledged	Net amount
December 31, 2013				
Financial institution	$51	$51	$—	$—
Commercial account holders	94	94	—	—
Total	$145	$145	$—	$—
December 31, 2012				
Financial institution	$50	$50	$—	$—
Commercial account holders	96	96	—	—
Total	$146	$146	$—	$—

December 31, 2013

Maturity	Repurchase liability		Weighted-average interest rate		Collateralized by mortgage-related securities and federal agency obligations–fair value plus accrued interest
(dollars in thousands)					
Overnight	$94,224		0.15	%	$127,293
1 to 29 days	—		—		—
30 to 90 days	—		—		—
Over 90 days	50,290	[1]	4.75		60,233
	$144,514		1.75	%	$187,526

[1] Callable quarterly at par until maturity in 2016.

The securities underlying the agreements to repurchase are book-entry securities and were delivered by appropriate entry into the counterparties' accounts and segregated safekeeping accounts at the FHLB of Seattle. Securities sold under agreements to repurchase are accounted for as financing transactions and the obligations to repurchase these securities are recorded as liabilities in the consolidated balance sheets. The securities underlying the agreements to repurchase continue to be reflected in ASB's asset accounts.

Information concerning securities sold under agreements to repurchase, which provided for the repurchase of identical securities, was as follows:

(dollars in millions)	2013		2012		2011	
Amount outstanding as of December 31	$145		$146		$183	
Average amount outstanding during the year	$147		$173		$183	
Maximum amount outstanding as of any month-end	$151		$189		$186	
Weighted-average interest rate as of December 31	1.75	%	1.74	%	1.56	%
Weighted-average interest rate during the year	1.74	%	1.56	%	1.61	%
Weighted-average remaining days to maturity as of December 31	367		489		490	

Advances from Federal Home Loan Bank.

December 31, 2013	Weighted-average stated rate		Amount	
(dollars in thousands)				
Due in				
2014	—	%	$—	
2015	—		—	
2016	—		—	
2017	4.28		50,000	[1]
2018	1.95		50,000	
Thereafter	—		—	
	3.12	%	$100,000	

[1] Callable quarterly at par until maturity in 2017.

ASB and the FHLB of Seattle are parties to an Advances, Security and Deposit Agreement (Advances Agreement), which applies to currently outstanding and future advances, and governs the terms and conditions under which ASB borrows and the FHLB of Seattle makes loans or advances from time to time. Under the Advances Agreement, ASB agrees to abide by the FHLB of Seattle's credit policies, and makes certain warranties and representations to the FHLB of Seattle. Upon the occurrence of and during the continuation of an "Event of Default" (which term includes any event of nonpayment of interest or principal of any advance when due or failure to perform any promise or obligation under the Advances Agreement or other credit arrangements between the parties), the FHLB of Seattle may, at its option, declare all indebtedness and accrued interest thereon, including any prepayment fees or charges, to be immediately due and payable. Advances from the FHLB of Seattle are collateralized by loans and stock in the FHLB of Seattle. ASB is required to obtain and hold a specific number of shares of capital stock of the FHLB of Seattle. ASB was in compliance with all Advances Agreement requirements as of December 31, 2013 and 2012.

Common stock equity. In 1988, HEI agreed with the OTS predecessor regulatory agency at the time, to contribute additional capital to ASB up to a maximum aggregate amount of approximately $65.1 million (Capital Maintenance Agreement). As of December 31, 2013, as a result of capital contributions in prior years, HEI's maximum obligation to contribute additional capital under the Capital Maintenance Agreement has been reduced to approximately $28.3 million. As of December 31, 2013, ASB was in compliance with the minimum capital requirements under OCC regulations.

In 2013, ASB paid cash dividends of $40 million to HEI, compared to cash dividends of $45 million in 2012. The FRB and OCC approved the dividends.

Related-party transactions. HEI charged ASB $2.3 million, $1.9 million and $1.4 million for general management and administrative services in 2013, 2012 and 2011, respectively. The amounts charged by HEI for services performed by HEI employees to its subsidiaries are allocated primarily on the basis of time expended in providing such services.

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

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

ASB enters into forward commitments to hedge the interest rate risk for rate locked mortgage applications in process and closed mortgage loans held for sale. These commitments are primarily forward sales of to-be-announced mortgage backed securities. Generally, when mortgage loans are closed, the forward commitment is liquidated and replaced with a mandatory delivery forward sale of the mortgage to a secondary market investor. In some cases, a best-efforts

forward sale agreement is utilized as the forward commitment. These commitments are free-standing derivatives which are carried at fair value with changes recorded in mortgage banking income.

Changes in the fair value of IRLCs and forward commitments subsequent to inception are based on changes in the fair value of the underlying loan resulting from the fulfillment of the commitment and changes in the probability that the loan will fund within the terms of the commitment, which is affected primarily by changes in interest rates and the passage of time.
The notional amount and fair value of ASB's derivative financial instruments as of December 31, 2013 and 2012 were as follows:

	2013		2012	
(dollars in thousands)	Notional amount	Fair value	Notional amount	Fair value
Interest rate lock commitments	$25,070	$464	$60,428	$—
Forward commitments	26,018	139	86,563	—

The following table presents ASB's derivative financial instruments, their fair values, and balance sheet location as of December 31, 2013 and 2012:

Derivative Financial Instruments Not Designated as Hedging Instruments [1]	2013		2012	
(dollars in thousands)	Asset derivative	Liability derivative	Asset derivative	Liability derivative
Interest rate lock commitments	$488	$24	$—	$—
Forward commitments	141	2	—	—
	$629	$26	$—	$—

[1] Asset derivatives are included in other assets and liability derivatives are included in other liabilities in the balance sheets.
The following table presents ASB's derivative financial instruments and the amount and location of the net gains or losses recognized in the statements of income for the years ended December 31, 2013, 2012 and 2011.

Derivative Financial Instruments Not Designated as Hedging Instruments (dollars in thousands)	Location of net gains (losses) recognized in the Statement of Income	2013	2012	2011
Interest rate lock commitments	Mortgage banking income	$464	$—	$—
Forward commitments	Mortgage banking income	139	—	—
		$603	$—	$—

There were no significant gains or losses on derivatives in 2012 or 2011.
Guarantees. In October 2007, ASB, as a member financial institution of Visa U.S.A. Inc., received restricted shares of Visa, Inc. (Visa) as a result of a restructuring of Visa U.S.A. Inc. in preparation for an initial public offering by Visa. As a part of the restructuring, ASB entered into a judgment and loss sharing agreement with Visa in order to apportion financial responsibilities arising from any potential adverse judgment or negotiated settlements related to indemnified litigation involving Visa. In November 2012, a federal judge granted preliminary approval to a proposed settlement between merchants and Visa over credit card fees and in December 2013, a federal judge granted final approval to the settlement. Some merchants and trade organizations have filed a notice of appeal shortly after the approval was issued. As of December 31, 2013, ASB had accrued $1.1 million related to the agreement. Because the extent of ASB's obligations under this agreement depends entirely upon the occurrence of future events, ASB's maximum potential future liability under this agreement is not determinable.
Federal Deposit Insurance Corporation restoration plan. In November 2009, the Board of Directors of the Federal Deposit Insurance Corporation (FDIC) approved a restoration plan that required banks to prepay, by December 30, 2009, their estimated quarterly, risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. For the fourth quarter of 2009 and all of 2010, the prepaid assessment rate was assessed according to a risk-based premium schedule adopted earlier in 2009. The prepaid assessment rate for 2011 and 2012 was the current assessment rate plus 3 basis points. The prepaid assessment was recorded as a prepaid asset as of December 30, 2009, and each quarter thereafter ASB recorded a charge to earnings for its regular quarterly assessment and offset the prepaid expense until the asset was exhausted. ASB's prepaid assessment was approximately $24 million. For the year

ended December 31, 2010, ASB's assessment rate was 14 basis points of deposits, or $5.7 million.
In February 2011, the FDIC finalized rules to change its assessment base from total domestic deposits to average total assets minus average tangible equity, as required in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-

Frank Act). Assessment rates were reduced to a range of 2.5 to 9 basis points on the new assessment base for financial institutions in the lowest risk category. Financial institutions in the highest risk category have assessment rates of 30 to 45 basis points. The new rate schedule was effective April 1, 2011. For the years ended December 31, 2013 and 2012, ASB's FDIC insurance assessments were $2.9 million and $3.0 million, respectively. In June 2013, the FDIC returned the remaining amount of the prepaid assessment. The cash received was included in the change in other assets and liabilities on HEI's consolidated statements of cash flows.

The FDIC may impose additional special assessments in the future if it is deemed necessary to ensure the Deposit Insurance Fund ratio does not decline to a level that is close to zero or that could otherwise undermine public confidence in federal deposit insurance.

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

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

5 · Unconsolidated variable interest entities

HECO Capital Trust III. Trust III was created and exists for the exclusive purposes of (i) issuing in March 2004 2,000,000 6.50% Cumulative Quarterly Income Preferred Securities, Series 2004 (2004 Trust Preferred Securities) ($50 million aggregate liquidation preference) to the public and trust common securities ($1.5 million aggregate liquidation preference) to Hawaiian Electric, (ii) investing the proceeds of these trust securities in 2004 Debentures issued by Hawaiian Electric in the principal amount of $31.5 million and issued by Hawaii Electric Light and Maui Electric each in the principal amount of $10 million, (iii) making distributions on these trust securities and (iv) engaging in only those other activities necessary or incidental thereto. The 2004 Trust Preferred Securities are mandatorily redeemable at the maturity of the underlying debt on March 18, 2034, which maturity may be extended to no later than March 18, 2053; and are currently redeemable at the issuer's option without premium. The 2004 Debentures, together with the obligations of the Utilities under an expense agreement and Hawaiian Electric's obligations under its trust guarantee and its guarantee of the obligations of Hawaii Electric Light and Maui Electric under their respective debentures, are the sole assets of Trust III. Taken together, Hawaiian Electric's obligations under the Hawaiian Electric debentures, the Hawaiian Electric indenture, the subsidiary guarantees, the trust agreement, the expense agreement and trust guarantee provide, in the aggregate, a full, irrevocable and unconditional guarantee of payments of amounts due on the Trust Preferred Securities. Trust III has at all times been an unconsolidated subsidiary of Hawaiian Electric. Since Hawaiian Electric, as the holder of 100% of the trust common securities, does not absorb the majority of the variability of Trust III, Hawaiian Electric is not the primary beneficiary and does not consolidate Trust III in accordance with accounting rules on the consolidation of VIEs. Trust III's balance sheet as of December 31, 2013 consisted of $51.5 million of 2004 Debentures; $50.0 million of 2004 Trust Preferred Securities; and $1.5 million of trust common securities. Trust III's income statement for 2013 consisted of $3.4 million of interest income received from the 2004 Debentures; $3.3 million of distributions to holders of the Trust Preferred Securities; and $0.1 million of common dividends on the trust common securities to Hawaiian Electric. So long as the 2004 Trust Preferred Securities are outstanding, Hawaiian Electric is not entitled to receive any funds from Trust III other than pro-rata distributions, subject to certain subordination provisions, on the trust common securities. In the event of a default by Hawaiian Electric in the performance of its obligations under the 2004 Debentures or under its Guarantees, or in the event any of the Utilities elect to defer payment of interest on any of their respective 2004 Debentures, then Hawaiian Electric will be subject to a number of restrictions, including a prohibition on the payment of dividends on its common stock.

Power purchase agreements. As of December 31, 2013, the Utilities had six PPAs for firm capacity and other PPAs with smaller IPPs and Schedule Q providers (i.e., customers with cogeneration and/or small power production facilities with a capacity of 100 kilowatts (kWs) or less who buy power from or sell power to the Utilities), none of which are currently required to be consolidated as VIEs. Approximately 90% of the firm capacity is purchased from AES Hawaii, Inc. (AES Hawaii), Kalaeloa Partners, L.P. (Kalaeloa), Hamakua Energy Partners, L.P. (HEP) and HPOWER. Purchases from all IPPs were as follows:

Years ended December 31	2013	2012	2011
(in millions)			
AES Hawaii	$134	$146	$133
Kalaeloa	301	310	310
HEP	51	65	59
HPOWER	61	65	62
Other IPPs	164	138	126
Total IPPs	$711	$724	$690

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

Since 2004, Hawaiian Electric has continued its efforts to obtain from the IPPs the information necessary to make the determinations required under accounting standards for VIEs. In each year from 2005 to 2013, the Utilities sent letters to the identified IPPs requesting the required information. All of these IPPs declined to provide the necessary information, except that Kalaeloa later agreed to provide the information pursuant to the amendments to its PPA (see below) and an entity owning a wind farm provided information as required under its PPA. Management has concluded that the consolidation of two entities owning wind farms was not required as Hawaii Electric Light and Maui Electric do not have variable interests in the entities because the PPAs do not require them to absorb any variability of the entities.

If the requested information is ultimately received from the remaining IPPs, a possible outcome of future analyses of such information is the consolidation of one or more of such IPPs in the Consolidated Financial Statements. The consolidation of any significant IPP could have a material effect on the Consolidated Financial Statements, including the recognition of a significant amount of assets and liabilities and, if such a consolidated IPP were operating at a loss and had insufficient equity, the potential recognition of such losses. If the Utilities determine they are required to consolidate the financial statements of such an IPP and the consolidation has a material effect, the Utilities would retrospectively apply accounting standards for VIEs.

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

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

Electric to losses as the fuel and fuel related energy payments under the PPA have been approved by the PUC for recovery from customers through base electric rates and through Hawaiian Electric's ECAC to the extent the fuel and fuel related energy payments are not included in base energy rates. As of December 31, 2013, Hawaiian Electric's accounts payable to Kalaeloa amounted to $23 million.

6 · Interest rate swap agreements

In June 2010, HEI entered into multiple Forward Starting Swaps (FSS) with notional amounts totaling $125 million to hedge against interest rate fluctuations on medium-term notes expected to be issued by HEI in 2011, thereby enabling HEI to better forecast its future interest expense. The FSS entitled HEI to receive/(pay) the present value of the positive/(negative) difference between three-month LIBOR and a fixed rate at termination applied to the notional amount over a five-year period. The outstanding FSS were designated and accounted for as cash flow hedges. Changes in fair value were recognized (1) in other comprehensive income to the extent that they were considered effective, and (2) in “Interest expense—other than on deposit liabilities and other bank borrowings” for any portion considered ineffective.

In 2011, HEI settled the FSS for payments totaling $5.2 million, of which $3.3 million was the ineffective portion ($2.5 million recognized in 2011) and $1.9 million being amortized to interest expense over 5 years beginning March 24, 2011 (the date that HEI issued $125 million of Senior Notes via a private placement).

7 · Short-term borrowings

As of December 31, 2013 and 2012, HEI had $105 million and $84 million of outstanding commercial paper, respectively, with a weighted-average interest rate of 0.7% and 0.9%, respectively, and Hawaiian Electric had no commercial paper outstanding.

As of December 31, 2013, HEI and Hawaiian Electric each maintained a syndicated credit facility of $125 million and $175 million, respectively. HEI borrowed under its facility in August 2012 and repaid such borrowings in the same month. HEI had no borrowings under its facility during 2013 and Hawaiian Electric had no borrowings under its facility during 2013 and 2012. None of the facilities are collateralized.

Credit agreements.

HEI. Effective December 5, 2011, HEI and a syndicate of eight financial institutions entered into an amendment to their revolving unsecured credit agreement. The amendment revised the pricing of HEI’s $125 million line of credit facility (with a letter of credit sub-facility) and extended the term of the facility to December 5, 2016. Any draws on the facility bear interest at the “Adjusted LIBO Rate”, as defined in the agreement, plus 150 basis points; or the greatest of (a) the “Prime Rate,” (b) the sum of the “Federal Funds Rate” plus 50 basis points and (c) the “Adjusted LIBO Rate” for a one month “Interest Period” plus 50 basis points per annum, as defined in the agreement. Annual fees on undrawn commitments are 25 basis points. The amended agreement contains provisions for revised pricing in the event of a long-term ratings change. The agreement does not contain clauses that would affect access to the lines by reason of a ratings downgrade, nor does it have broad “material adverse change” clauses. However, the agreement contains customary conditions which must be met in order to draw on it, including compliance with its covenants (such as covenants preventing its subsidiaries from entering into agreements that restrict the ability of the subsidiaries to pay dividends to, or to repay borrowings from, HEI). In addition to customary defaults, HEI’s failure to maintain its financial ratios, as defined in its agreement, or meet other requirements may result in an event of default. For example, under its agreement, it is an event of default if HEI fails to maintain a nonconsolidated “Capitalization Ratio” (funded debt) of 50% or less (ratio of 18% as of December 31, 2013, as calculated under the agreement) and “Consolidated Net Worth” of at least $975 million (Net Worth of $1.8 billion as of December 31, 2013, as calculated under the agreement), or if HEI no longer owns Hawaiian Electric.

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

Hawaiian Electric. Effective December 5, 2011, Hawaiian Electric and a syndicate of eight financial institutions entered into an amendment to their revolving unsecured credit agreement. The amendment revised the pricing of Hawaiian Electric’s $175 million line of credit facility (with a letter of credit sub-facility). The credit agreement, as amended, has a term which expires on December 5, 2016. Any draws on the facility bear interest at the “Adjusted LIBO Rate”, as defined in the agreement, plus 150 basis points; or the greatest of (a) the “Prime Rate,” (b) the sum of the “Federal Funds Rate” plus 50 basis points and (c) the “Adjusted LIBO Rate” for a one month “Interest Period” plus 50 basis points per annum, as defined in the agreement. Annual fees on undrawn commitments are 25 basis points. The amended agreement contains provisions for revised pricing in the event of a long-term ratings change. The agreement

does not contain clauses that would affect access to the lines by reason of a ratings downgrade, nor does it have broad “material adverse change” clauses. However, the agreement contains customary conditions that must be met in order to draw on the credit facility, including compliance with several covenants (such as covenants preventing its subsidiaries from entering into agreements that restrict the ability of the subsidiaries to pay dividends to, or to repay borrowings from, Hawaiian Electric, and restricting its ability as well as the ability of any of its subsidiaries to

guarantee additional indebtedness of the subsidiaries if such additional debt would cause the subsidiary's "Consolidated Subsidiary Funded Debt to Capitalization Ratio" to exceed 65% (ratio of 42% for Hawaii Electric Light and 43% for Maui Electric as of December 31, 2013, as calculated under the agreement)). In addition to customary defaults, Hawaiian Electric's failure to maintain its financial ratios, as defined in its credit agreement, or meet other requirements may result in an event of default. For example, under the credit agreement, it is an event of default if Hawaiian Electric fails to maintain a "Consolidated Capitalization Ratio" (equity) of at least 35% (ratio of 56% as of December 31, 2013, as calculated under the credit agreement), or if Hawaiian Electric is no longer owned by HEI. The credit facility will be maintained to support the issuance of commercial paper, but also may be drawn to repay Hawaiian Electric's short-term indebtedness, to make loans to subsidiaries and for Hawaiian Electric's capital expenditures, working capital and general corporate purposes.

8 · Long-term debt

December 31 (dollars in thousands)	2013	2012
Long-term debt of Utilities [1]	$1,217,945	$1,147,872
HEI medium-term note 5.25%, due 2013	—	50,000
HEI medium-term note 6.51%, due 2014	100,000	100,000
HEI senior note 4.41%, due 2016	75,000	75,000
HEI senior note 5.67%, due 2021	50,000	50,000
HEI senior note 3.99%, due 2023	50,000	—
	$1,492,945	$1,422,872

[1] See components of "Total long-term debt" and unamortized discount in Hawaiian Electric and subsidiaries' Consolidated Statements of Capitalization.

As of December 31, 2013, the aggregate principal payments required on the Company's long-term debt for 2014 through 2018 are $111 million in 2014, nil in 2015, $75 million in 2016, nil in 2017 and $50 million in 2018. As of December 31, 2013, the aggregate payments of principal required on the Utilities' long-term debt for 2014 through 2018 are $11 million in 2014, nil in 2015, 2016 and 2017, and $50 million in 2018.

The HEI medium-term notes and senior notes contain customary representation and warranties, affirmative and negative covenants, and events of default (the occurrence of which may result in some or all of the notes then outstanding becoming immediately due and payable). The HEI senior notes also contain provisions requiring the maintenance by HEI of certain financial ratios generally consistent with those in HEI's revolving noncollateralized credit agreement, expiring on December 5, 2016. Upon a change of control or certain dispositions of assets (as defined in the Master Note Purchase Agreement dated March 24, 2011), HEI is required to offer to prepay the senior notes.

The Utilities' senior notes contain customary representations and warranties, affirmative and negative covenants, and events of default (the occurrence of which may result in some or all of the notes of each and all of the utilities then outstanding becoming immediately due and payable) and provisions requiring the maintenance by Hawaiian Electric, and each of Hawaii Electric Light and Maui Electric, of certain financial ratios generally consistent with those in Hawaiian Electric's existing amended revolving noncollateralized credit agreement, expiring on December 5, 2016.

March 6, 2013 senior notes. On March 6, 2013, HEI entered into a First Supplement (the First Supplement) to the Master Note Purchase Agreement dated March 24, 2011. Under the First Supplement, HEI issued $50 million of its unsecured, 3.99% Series 2013A Senior Notes, due March 6, 2023, via a private placement. The net proceeds from the issuance of the Notes were used by HEI to refinance $50 million of its unsecured, 5.25% Medium-Term Notes, Series D, which matured on March 7, 2013.

October 3, 2013 senior notes. On October 3, 2013, Hawaiian Electric, Hawaii Electric Light and Maui Electric each entered into its separate note purchase agreement with various purchasers of their taxable unsecured senior notes (Notes) with an aggregate principal amount of $236 million. The Utilities issued through a private placement the following notes:

(in millions)	Maturity	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Hawaiian Electric Consolidated
3.83% Senior Notes [1]	July 1, 2020	$—	$14	$—	$14
4.45% Senior Notes [1]	December 1, 2022	40	12	—	52
4.84% Senior Notes [1]	October 1, 2027	50	30	20	100
5.65% Senior Notes [2]	October 1, 2043	50	—	20	70
Total		$140	$56	$40	$236

[1] Proceeds were used in October 2013 to redeem the following special purpose revenue bonds (SPRBs) and refunding SPRBs of the same maturities issued by the Department of Budget and Finance of the State of Hawaii for the benefit of the Utilities in an aggregate principal amount of $166 million:

Series	Year of maturity
4.75% Refunding Series 2003A Bonds	2020
5.00% Refunding Series 2003B Bonds	2022
5.65% Series 1997A Bonds	2027

[2] Proceeds were used by the respective utility to finance their capital expenditures and/or for the reimbursement of funds used for the payment of capital expenditures.

Hawaiian Electric has guaranteed the obligations of Hawaii Electric Light and Maui Electric under their respective Notes.

9 · Shareholders' equity

Reserved shares. As of December 31, 2013, HEI had reserved (a) a total of 16,231,674 shares of common stock for future issuance under the HEI Dividend Reinvestment and Stock Purchase Plan (DRIP), the Hawaiian Electric Industries Retirement Savings Plan (HEIRSP), the 1987 Stock Option and Incentive Plan, the HEI 2011 Nonemployee Director Stock Plan, the ASB 401(k) Plan and the 2010 Executive Incentive Plan and (b) a total of 5.7 million shares of common stock for future issuance in connection with the equity forward transaction described below.

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

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

The equity forward transactions had no initial fair value since they were entered into at the then market price of the common stock. HEI receives proceeds from the sale of common stock when the equity forward transactions are settled and records the proceeds at that time in equity. HEI concluded that the equity forward transactions were equity instruments based on the accounting guidance in ASC 480, "Distinguishing Liabilities from Equity," and ASC 815, "Derivatives and Hedging," and that they qualified for an exception from derivative accounting under ASC 815

because the forward sale transactions were indexed to its own stock. On December 19, 2013, HEI settled 1.3 million shares under the equity forward for proceeds of $32.1 million (net of the underwriting discount of $1.3 million), which funds were ultimately used to purchase Hawaiian Electric shares. HEI anticipates settling the remaining 5.7 million shares remaining under the equity forward transactions through physical settlement.

At December 31, 2013, the 5.7 million shares remaining under the equity forward transactions could have been settled with physical delivery of the shares to the forward counterparty in exchange for cash of $141 million. At December 31, 2013, the shares remaining under the equity forward transactions could also have been cash settled, with delivery of cash of approximately $5 million (which amount includes $6 million of underwriting discount) to the forward counterparty, or net share settled with delivery of approximately 188,000 shares of common stock to the forward counterparty.
Prior to their settlement, the shares remaining under the equity forward transactions will be reflected in HEI's diluted EPS calculations using the treasury stock method. Under this method, the number of shares of HEI's common stock used in calculating diluted EPS for a reporting period would be increased by the number of shares, if any, that would be issued upon physical settlement of the equity forward transactions less the number of shares that could be purchased by HEI in the market (based on the average market price during that reporting period) using the proceeds receivable upon settlement of the equity forward transactions (based on the adjusted forward sale price at the end of that reporting period). The excess number of shares is weighted for the portion of the reporting period in which the equity forward transactions are outstanding.
Accordingly, before physical or net share settlement of the equity forward transactions, and subject to the occurrence of certain events, HEI anticipates that the forward sale agreement and additional forward sale agreement will have a dilutive effect on HEI's EPS only during periods when the applicable average market price per share of HEI's common stock is above the per share adjusted forward sale price, as described above. However, if HEI decides to physically or net share settle the forward sale agreement and additional forward sale agreement, any delivery by HEI of shares upon settlement could result in dilution to HEI's EPS.
For 2013, the equity forward transactions did not have a material dilutive effect on HEI's EPS.
Accumulated other comprehensive income/(loss). Reclassifications out of AOCI were as follows:

	Amount reclassified from AOCI			
Years ended December 31	2013	2012	2011	Affected line item in the Statement of Income
(in thousands)				
HEI consolidated				
Net realized gains on securities	$(738)	$(81)	$(224)	Revenues-bank (net gains on sales of securities)
Derivatives qualified as cash flow hedges				
Interest rate contracts (settled in 2011)	235	236	181	Interest expense
Retirement benefit plan items				
Amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost	23,280	15,291	9,364	See Note 10 for additional details
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets	(222,595)	75,471	100,692	See Note 10 for additional details
Total reclassifications	$(199,818)	$90,917	$110,013	
Hawaiian Electric consolidated				
Retirement benefit plan items				
Amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost	$20,694	$13,673	$8,372	See Note 10 for additional details
Less: reclassification adjustment for impact of D&Os of the PUC included	(222,595)	75,471	100,692	See Note 10 for additional details

in regulatory assets			
Total reclassifications	$(201,901)	$89,144	$109,064

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10 · Retirement benefits

Defined benefit plans. Substantially all of the employees of HEI and the Utilities participate in the Retirement Plan for Employees of Hawaiian Electric Industries, Inc. and Participating Subsidiaries (HEI Pension Plan). Substantially all of the employees of ASB and its subsidiaries participated in the American Savings Bank Retirement Plan (ASB Pension Plan) until it was frozen on December 31, 2007. The HEI Pension Plan and the ASB Pension Plan (collectively, the Plans) are qualified, noncontributory defined benefit pension plans and include, in the case of the HEI Pension Plan, benefits for utility union employees determined in accordance with the terms of the collective bargaining agreements between the Utilities and the union. The Plans are subject to the provisions of ERISA. In addition, some current and former executives and directors of HEI and its subsidiaries participate in noncontributory, nonqualified plans (collectively, Supplemental Plans). In general, benefits are based on the employees' or directors' years of service and compensation.

The continuation of the Plans and the Supplemental Plans and the payment of any contribution thereunder are not assumed as contractual obligations by the participating employers. The Supplemental Plan for directors has been frozen since 1996. The ASB Pension Plan was frozen as of December 31, 2007. The HEI Supplemental Executive Retirement Plan and ASB Supplemental Executive Retirement, Disability, and Death Benefit Plan (noncontributory, nonqualified, defined benefit plans) were frozen as of December 31, 2008. No participants have accrued any benefits under these plans after the respective plan's freeze and the plans will be terminated at the time all remaining benefits have been paid.

Each participating employer reserves the right to terminate its participation in the applicable plans at any time, and HEI and ASB reserve the right to terminate their respective plans at any time. If a participating employer terminates its participation in the Plans, the interest of each affected participant would become 100% vested to the extent funded. Upon the termination of the Plans, assets would be distributed to affected participants in accordance with the applicable allocation provisions of ERISA and any excess assets that exist would be paid to the participating employers. Participants' benefits in the Plans are covered up to certain limits under insurance provided by the Pension Benefit Guaranty Corporation.

To determine pension costs for HEI and its subsidiaries under the Plans and the Supplemental Plans, it is necessary to make complex calculations and estimates based on numerous assumptions, including the assumptions identified under "Defined benefit pension and other postretirement benefit plans information" below.

Postretirement benefits other than pensions. HEI and the Utilities provide eligible employees health and life insurance benefits upon retirement under the Postretirement Welfare Benefits Plan for Employees of Hawaiian Electric Company, Inc. and participating employers (Hawaiian Electric Benefits Plan). Eligibility of employees and dependents are based on eligibility to retire at termination, the retirement date and the date of hire. The plan was amended in 2011, changing eligibility for certain bargaining unit employees hired prior to May 1, 2011, based on new minimum age and service requirements effective January 1, 2012, per the collective bargaining agreement, and certain management employees hired prior to May 1, 2011 based on new eligibility minimum age and service requirements effective January 1, 2012. The minimum age and service requirements for management and bargaining unit employees hired May 1, 2011 and thereafter have increased and their dependents are not eligible to receive postretirement benefits. Employees may be eligible to receive benefits from the HEI Pension Plan but may not be eligible for postretirement welfare benefits if the different eligibility requirements are not met.

The executive death benefit plan was frozen on September 10, 2009 to participants and benefit levels as of that date. The electric discount was eliminated for management employees and retirees of Hawaiian Electric in August 2009, Hawaii Electric Light in November 2010, and Maui Electric in August 2010, and for bargaining unit employees and retirees on January 31, 2011 per the collective bargaining agreement.

The Company's and Utilities' cost for OPEB has been adjusted to reflect the plan amendments, which reduced benefits. The elimination of the electric discount benefit will generate credits through other benefit costs over the next few years as the total amendment credit is amortized. Each participating employer reserves the right to terminate its participation in the Hawaiian Electric Benefits Plan at any time.

Balance sheet recognition of the funded status of retirement plans. Employers must recognize on their balance sheets the funded status of defined benefit pension and other postretirement benefit plans with an offset to AOCI in

shareholders' equity (using the projected benefit obligation (PBO), to calculate the funded status).

The PUC allowed the Utilities to adopt pension and OPEB tracking mechanisms in previous rate cases. The amount of the net periodic pension cost (NPPC) and net periodic benefits costs (NPBC) to be recovered in rates is established by the PUC in each rate case. Under the Utilities' tracking mechanisms, any actual costs determined in accordance with GAAP that are over/under amounts allowed in rates are charged/credited to a regulatory asset/liability. The regulatory asset/liability for each utility will then be amortized over 5 years beginning with the respective utility's next rate case. Accordingly, all retirement benefit

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expenses (except for executive life and nonqualified pension plan expenses, which amounted to $1.2 million in 2013 and $1.6 million in 2012) determined in accordance with GAAP will be recovered.

Under the tracking mechanisms, amounts that would otherwise be recorded in AOCI (excluding amounts for executive life and nonqualified pension plans), which amounts include the prepaid pension asset, net of taxes, as well as other pension and OPEB charges, are allowed to be reclassified as a regulatory asset, as those costs will be recovered in rates through the NPPC and NPBC in the future. The Utilities have reclassified to a regulatory asset/(liability) charges for retirement benefits that would otherwise be recorded in AOCI (amounting to the elimination of a potential charge to AOCI of $(364) million pretax and $124 million pretax for 2013 and 2012, respectively).

In 2007, the PUC allowed Hawaii Electric Light to record a regulatory asset in the amount of $12.8 million (representing Hawaii Electric Light's prepaid pension asset and reflecting the accumulated pension contributions to its pension fund in excess of accumulated NPPC), which is included in rate base, and allowed recovery of that asset over a period of five years. Hawaii Electric Light is required to make contributions to the pension trust in the amount of the actuarially calculated NPPC that would be allowed without penalty by the tax laws.

In 2007, the PUC declined to allow Hawaiian Electric and Maui Electric to include their pension assets (representing the accumulated contributions to their pension fund in excess of accumulated NPPC), in their rate bases. However, under the tracking mechanisms, Hawaiian Electric and Maui Electric are required to fund only the minimum level required under the law until their pension assets are reduced to zero, at which time Hawaiian Electric and Maui Electric will make contributions to the pension trust in the amount of the actuarially calculated NPPC, except when limited by the ERISA minimum contribution requirements or the maximum contribution limitations on deductible contributions imposed by the Internal Revenue Code.

The PUC's exclusion of Hawaiian Electric's and Maui Electric's pension assets from rate base does not allow Hawaiian Electric and Maui Electric to earn a return on the pension asset, but this exclusion does not result in the exclusion of any pension benefit costs from their rates. The pension asset is to be (and has been, in the case of Maui Electric) recovered in rates (as NPPC is recorded in excess of contributions). As of December 31, 2013, Hawaiian Electric's pension asset had been reduced to nil.

The OPEB tracking mechanisms generally require the Utilities to make contributions to the OPEB trust in the amount of the actuarially calculated NPBC, except when limited by material, adverse consequences imposed by federal regulations.

Retirement benefits expense for the Utilities for 2013, 2012 and 2011 was $30 million, $32 million and $34 million, respectively.

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

Defined benefit pension and other postretirement benefit plans information. The changes in the obligations and assets of the Company’s and Utilities' retirement benefit plans and the changes in AOCI (gross) for 2013 and 2012 and the funded status of these plans and amounts related to these plans reflected in the Company’s and Utilities' consolidated balance sheet as of December 31, 2013 and 2012 were as follows:

	2013		2012	
(in thousands)	Pension benefits	Other benefits	Pension benefits	Other benefits
HEI consolidated				
Benefit obligation, January 1	$1,590,304	$194,135	$1,322,430	$190,549
Service cost	56,405	4,306	43,221	4,211
Interest cost	64,788	7,569	67,480	9,009
Actuarial losses (gains)	(203,302)	(21,743)	217,205	(1,991)
Benefits paid and expenses	(61,904)	(8,168)	(60,032)	(7,643)
Benefit obligation, December 31	1,446,291	176,099	1,590,304	194,135
Fair value of plan assets, January 1	971,314	156,731	839,580	142,992
Actual return on plan assets	194,130	29,164	115,794	18,477
Employer contributions	82,083	954	74,923	2,780
Benefits paid and expenses	(60,858)	(7,519)	(58,983)	(7,518)
Fair value of plan assets, December 31	1,186,669	179,330	971,314	156,731
Accrued benefit asset (liability), December 31	$(259,622)	$3,231	$(618,990)	$(37,404)
Other assets	$24,948	$7,200	$—	$—
Defined benefit pension and other postretirement benefit plans liability	(284,570)	(3,969)	(618,990)	(37,404)
Accrued benefit asset (liability), December 31	$(259,622)	$3,231	$(618,990)	$(37,404)
AOCI debit/(credit), January 1 (excluding impact of PUC D&Os)	$680,781	$18,846	$533,537	$28,684
Recognized during year – net recognized transition obligation	—	—	(1)	—
Recognized during year – prior service credit	97	1,793	325	1,793
Recognized during year – net actuarial losses	(38,438)	(1,602)	(25,675)	(1,498)
Occurring during year – net actuarial losses (gains)	(324,896)	(40,759)	172,595	(10,133)
AOCI debit/(credit) before cumulative impact of PUC D&Os, December 31	317,544	(21,722)	680,781	18,846
Cumulative impact of PUC D&Os	(294,266)	19,206	(621,310)	(18,123)
AOCI debit/(credit), December 31	$23,278	$(2,516)	$59,471	$723
Net actuarial loss (gain)	$317,639	$(5,840)	$680,973	$36,521
Prior service gain	(95)	(15,882)	(192)	(17,675)
AOCI debit/(credit) before cumulative impact of PUC D&Os, December 31	317,544	(21,722)	680,781	18,846
Cumulative impact of PUC D&Os	(294,266)	19,206	(621,310)	(18,123)
AOCI debit/(credit), December 31	23,278	(2,516)	59,471	723
Income taxes (benefits)	(9,180)	980	(23,489)	(281)
AOCI debit/(credit), net of taxes (benefits), December 31	$14,098	$(1,536)	$35,982	$442

(in thousands)	2013 Pension benefits	Other benefits	2012 Pension benefits	Other benefits
Hawaiian Electric consolidated				
Benefit obligation, January 1	$1,449,445	$187,110	$1,203,943	$184,240
Service cost	54,482	4,163	41,603	4,014
Interest cost	59,119	7,288	61,453	8,703
Actuarial losses (gains)	(185,185)	(20,900)	197,718	(2,301)
Benefits paid and expenses	(57,051)	(8,082)	(55,272)	(7,546)
Benefit obligation, December 31	1,320,810	169,579	1,449,445	187,110
Fair value of plan assets, January 1	861,778	154,186	752,285	140,764
Actual return on plan assets	172,822	28,700	103,941	18,206
Employer contributions	80,325	839	60,442	2,634
Benefits paid and expenses	(56,665)	(7,434)	(54,890)	(7,418)
Fair value of plan assets, December 31	1,058,260	176,291	861,778	154,186
Accrued benefit asset (liability), December 31	$(262,550)	$6,712	$(587,667)	$(32,924)
Other assets	$—	$7,200	$—	$—
Other liabilities (short-term)	(388)	(488)	(386)	—
Defined benefit pension and other postretirement benefit plans liability	(262,162)	—	(587,281)	(32,924)
Accrued benefit asset (liability), December 31	$(262,550)	$6,712	$(587,667)	$(32,924)
AOCI debit/(credit), January 1 (excluding impact of PUC D&Os)	$623,588	$17,432	$488,556	$27,390
Recognized during year – net recognized transition asset	—	—	—	9
Recognized during year – prior service credit	464	1,803	689	1,803
Recognized during year – net actuarial losses	(34,597)	(1,544)	(23,428)	(1,455)
Occurring during year – net actuarial losses (gains)	(293,482)	(39,598)	157,771	(10,315)
AOCI debit/(credit) before cumulative impact of PUC D&Os, December 31	295,973	(21,907)	623,588	17,432
Cumulative impact of PUC D&Os	(294,266)	19,206	(621,310)	(18,123)
AOCI debit/(credit), December 31	$1,707	$(2,701)	$2,278	$(691)
Net actuarial loss (gain)	$295,825	$(6,001)	$623,904	$35,141
Prior service cost (gain)	148	(15,906)	(316)	(17,709)
AOCI debit/(credit) before cumulative impact of PUC D&Os, December 31	295,973	(21,907)	623,588	17,432
Cumulative impact of PUC D&Os	(294,266)	19,206	(621,310)	(18,123)
AOCI debit/(credit), December 31	1,707	(2,701)	2,278	(691)
Income taxes (benefits)	(664)	1,050	(886)	269
AOCI debit/(credit), net of taxes (benefits), December 31	$1,043	$(1,651)	$1,392	$(422)

The dates used to determine retirement benefit measurements for the defined benefit plans were December 31 of 2013, 2012 and 2011.

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

than the net periodic cost for 2013 and is expected to have the same effect in 2014; therefore, to satisfy the requirements of the Utilities pension and OPEB tracking mechanisms, the Utilities expect to contribute the net periodic cost in 2014.

The Pension Protection Act provides that if a pension plan's funded status falls below certain levels, more conservative assumptions must be used to value obligations under the pension plan. The HEI Retirement Plan fell below these thresholds in 2011 and the minimum required contribution for 2012 incorporated the more conservative assumptions required. However, the

HEI Retirement Plan met the threshold requirements in each of 2012 and 2013 so that the more conservative assumptions do not apply for either the 2013 or 2014 valuation of plan liabilities for purposes of calculating the minimum required contribution. Other factors could cause changes to the required contribution levels.

The Company and the Utilities have determined the market-related value of retirement benefit plan assets by calculating the difference between the expected return and the actual return on the fair value of the plan assets, then amortizing the difference over future years – 0% in the first year and 25% in each of years two through five – and finally adding or subtracting the unamortized differences for the past four years from fair value. The method includes a 15% range around the fair value of such assets (i.e., 85% to 115% of fair value). If the market-related value is outside the 15% range, then the amount outside the range will be recognized immediately in the calculation of annual NPBC.

A primary goal of the plans is to achieve long-term asset growth sufficient to pay future benefit obligations at a reasonable level of risk. The investment policy target for defined benefit pension and OPEB plans reflects the philosophy that long-term growth can best be achieved by prudent investments in equity securities while balancing overall fund volatility by an appropriate allocation to fixed income securities. In order to reduce the level of portfolio risk and volatility in returns, efforts have been made to diversify the plans' investments by asset class, geographic region, market capitalization and investment style.

The weighted-average asset allocation of defined benefit retirement plans was as follows:

	Pension benefits				Other benefits			
			Investment policy				Investment policy	
December 31	2013	2012	Target	Range	2013	2012	Target	Range
Asset category								
Equity securities	73 %	69 %	70 %	65-75	74 %	70 %	70 %	65-75
Fixed income	27	31	30	25-35	26	30	30	25-35
	100 %	100 %	100 %		100 %	100 %	100 %	

See Note 16 for additional disclosures about the fair value of the retirement benefit plans' assets.

The following weighted-average assumptions were used in the accounting for the plans:

	Pension benefits			Other benefits		
December 31	2013	2012	2011	2013	2012	2011
Benefit obligation						
Discount rate	5.09 %	4.13 %	5.19 %	5.03 %	4.07 %	4.90 %
Rate of compensation increase	3.5	3.5	3.5	NA	NA	NA
Net periodic benefit cost (years ended)						
Discount rate	4.13	5.19	5.68	4.07	4.90	5.60
Expected return on plan assets	7.75	7.75	8.00	7.75	7.75	8.00
Rate of compensation increase	3.5	3.5	3.5	NA	NA	NA

NA Not applicable

The Company and the Utilities based their selection of an assumed discount rate for 2014 NPBC and December 31, 2013 disclosure on a cash flow matching analysis that utilized bond information provided by Bloomberg for all non-callable, high quality bonds (i.e., rated AA- or better) as of December 31, 2013. In selecting the expected rate of return on plan assets of 7.75% for 2014 NPBC, the Company and the Utilities considered economic forecasts for the types of investments held by the plans (primarily equity and fixed income investments), the Plans' asset allocations, industry and corporate surveys and the past performance of the plans' assets.

As of December 31, 2013, the assumed health care trend rates for 2014 and future years were as follows: medical, 7.5%, grading down to 5% for 2024 and thereafter; dental, 5%; and vision, 4%. As of December 31, 2012, the assumed health care trend rates for 2013 and future years were as follows: medical, 8.0%, grading down to 5% for 2019 and thereafter; dental, 5%; and vision, 4%. Medicare Advantage reimbursements are expected to phase out by 2016; therefore, post age 65 medical trends are adjusted to reflect anticipated increases above the ordinary medical trend rates. For post age 65, the medical trend is 4% higher than pre-65 for 2013 through 2014 and 3% higher in 2015.

The components of NPBC were as follows:

(in thousands)	Pension benefits 2013	2012	2011	Other benefits 2013	2012	2011
HEI consolidated						
Service cost	$56,405	$43,221	$35,016	$4,306	$4,211	$4,409
Interest cost	64,788	67,480	64,966	7,569	9,009	9,534
Expected return on plan assets	(72,537)	(71,183)	(68,901)	(10,147)	(10,336)	(10,650)
Amortization of net transition obligation	—	1	2	—	—	—
Amortization of net prior service gain	(97)	(325)	(389)	(1,793)	(1,793)	(1,494)
Amortization of net actuarial loss	38,438	25,675	16,987	1,602	1,498	234
Net periodic benefit cost	86,997	64,869	47,681	1,537	2,589	2,033
Impact of PUC D&Os	(38,104)	(15,754)	(3,516)	(1,458)	(2,227)	2,674
Net periodic benefit cost (adjusted for impact of PUC D&Os)	48,893	49,115	44,165	79	362	4,707
Hawaiian Electric consolidated						
Service cost	$54,482	$41,603	$33,627	$4,163	$4,014	$4,238
Interest cost	59,119	61,453	59,077	7,288	8,703	9,228
Expected return on plan assets	(64,551)	(64,004)	(61,615)	(10,002)	(10,195)	(10,508)
Amortization of net transition obligation	—	—	—	—	(9)	(8)
Amortization of net prior service gain	(464)	(689)	(747)	(1,803)	(1,803)	(1,505)
Amortization of net actuarial loss	34,597	23,428	15,752	1,544	1,455	212
Net periodic benefit cost	83,183	61,791	46,094	1,190	2,165	1,657
Impact of PUC D&Os	(38,104)	(15,754)	(3,516)	(1,458)	(2,227)	2,674
Net periodic benefit cost (adjusted for impact of PUC D&Os)	$45,079	$46,037	$42,578	$(268)	$(62)	$4,331

The estimated prior service credit, net actuarial loss and net transition obligation for defined benefit plans that will be amortized from AOCI or regulatory assets into net periodic benefit cost during 2014 is as follows:

(in millions)	HEI consolidated Pension benefits	Other benefits	Hawaiian Electric consolidated Pension benefits	Other benefits
Estimated prior service cost (credit)	$0.1	$(1.8)	$0.1	$(1.8)
Net actuarial loss	20.2	—	18.2	—
Net transition obligation	—	—	—	—

The Company recorded pension expense of $34 million, $35 million and $32 million and OPEB expense of $0.4 million, $1 million and $4 million in 2013, 2012 and 2011, respectively, and charged the remaining amounts primarily to electric utility plant. The Utilities recorded pension expense of $30 million, $32 million and $31 million and OPEB expense of nil, $0.4 million and $3 million in 2013, 2012 and 2011, respectively, and charged the remaining amounts primarily to electric utility plant.

The health care cost trend rate assumptions can have a significant effect on the amounts reported for other benefits. As of December 31, 2013, for the Company, a one-percentage-point increase in the assumed health care cost trend rates would have increased the total service and interest cost by $0.3 million and the accumulated postretirement benefit obligation (APBO) by $4.5 million, and a one-percentage-point decrease would have reduced the total service and interest cost by $0.3 million and the APBO by $4.9 million. As of December 31, 2013, for the Utilities, a one-percentage-point increase in the assumed health care cost trend rates would have increased the total service and interest cost by $0.3 million and the APBO by $4.5 million, and a one-percentage-point decrease would have reduced the total service and interest cost by $0.3 million and the APBO by $4.8 million.

HEI consolidated. The defined benefit pension plans with accumulated benefit obligations (ABOs), which do not consider projected pay increases (unlike the PBOs shown in the table above), in excess of plan assets as of December 31, 2013 and 2012, had aggregate ABOs of $1.2 billion and $1.4 billion, respectively, and plan assets of $1.1 billion and $1.0 billion, respectively. The defined benefit pension plans with PBOs in excess of plan assets as of December 31, 2013, had aggregate PBOs of $1.4 billion and plan assets of $1.1 billion. As of December 31, 2012, all

the defined benefit pension plans shown in the table above had PBOs in excess of plan assets. The other postretirement benefit plans with ABOs in excess of plan assets as of December 31, 2013 had aggregate ABOs of $0.4 million and plan assets of nil. As of December 31, 2012, all the other postretirement benefit plans shown in the table above had ABOs in excess of plan assets.

The Company estimates that the cash funding for the qualified defined benefit pension plans in 2014 will be $59 million, which should fully satisfy the minimum required contributions to those plans, including requirements of the Utilities' pension tracking mechanisms and the Plan's funding policy. The Company's current estimate of contributions to its other postretirement benefit plans in 2014 is de minimis.

As of December 31, 2013, the benefits expected to be paid under all retirement benefit plans in 2014, 2015, 2016, 2017, 2018 and 2019 through 2023 amounted to $72 million, $75 million, $78 million, $81 million, $85 million and $483 million, respectively.

Hawaiian Electric consolidated. The defined benefit pension plans with ABOs in excess of plan assets as of December 31, 2013 and 2012, had aggregate ABOs of $1.2 billion and $1.2 billion, respectively, and plan assets of $1.1 billion and $0.9 billion, respectively. All the defined benefit pension plans shown in the table above had PBOs in excess of plan assets as of December 31, 2013 and 2012. As of December 31, 2013, the other postretirement benefit plan shown in the table above had plan assets in excess of ABO. As of December 31, 2012, the other postretirement benefit plan shown in the table above had an ABO in excess of plan assets.

The Utilities estimate that the cash funding for the qualified defined benefit pension plan in 2014 will be $58 million, which should fully satisfy the minimum required contributions to that Plan, including requirements of the pension tracking mechanisms and the Plan's funding policy. The Utilities' current estimate of contributions to its other postretirement benefit plans in 2014 is nil.

As of December 31, 2013, the benefits expected to be paid under all retirement benefit plans in 2014, 2015, 2016, 2017, 2018 and 2019 through 2023 amounted to $67 million, $69 million, $72 million, $75 million, $77 million and $441 million, respectively.

Defined contribution plans information. The ASB 401(k) Plan is a defined contribution plan, which includes a discretionary employer profit sharing contribution by ASB (AmeriShare) and a matching contribution by ASB on the first 4% of employee deferrals (AmeriMatch).

Changes to retirement benefits for HEI and utility employees commencing employment after April 30, 2011 include a reduction of benefits provided through the defined benefit plan and the addition of a 50% match by the applicable employer on the first 6% of employee deferrals through the defined contribution plan (under the Hawaiian Electric Industries Retirement Savings Plan).

For 2013, 2012 and 2011, the Company's expense for its defined contribution pension plans under the HEIRSP and the ASB 401(k) Plan was $5 million, $4 million and $3 million, respectively, and cash contributions were $4 million for each year. The Utilities' expense for its defined contribution pension plan under the HEIRSP Plan for 2013 was $0.6 million and for 2012 and 2011 was de minimis.

11 · Share-based compensation

Under the 2010 Equity and Incentive Plan (EIP) HEI can issue shares of common stock as incentive compensation to selected employees in the form of stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares and other share-based and cash-based awards.

As of December 31, 2013, there were 3.6 million shares remaining available for future issuance under the EIP of which an estimated 2.2 million shares could be issued upon the vesting of outstanding restricted stock units and the achievement of performance goals under long-term incentive plans (based on the assumption that long-term incentive plan (LTIP) awards are achieved at maximum levels).

Under the 1987 Stock Option and Incentive Plan, as amended (SOIP), there are possible future issuances of an estimated 2,000 shares upon exercise of outstanding stock appreciation rights (SARs) and dividend equivalents based on the market price of shares on December 31, 2013. As of May 11, 2010 (when the EIP became effective), no new awards may be granted under the SOIP. After the shares of common stock for the outstanding SOIP grants and awards are issued or such grants and awards expire, the remaining shares registered under the SOIP will be deregistered and delisted.

For the SARs outstanding under the SOIP, the exercise price of each SAR generally equaled the fair market value of HEI's stock on or near the date of grant. SARs and related dividend equivalents issued in the form of stock awards generally became exercisable in installments of 25% each year for four years, and expire if not exercised ten years from the date of the grant. SARs compensation expense has been recognized in accordance with the fair value-based

measurement method of accounting. The estimated fair value of each SAR grant was calculated on the date of grant using a Binomial Option Pricing Model.

The restricted shares that have been issued under the EIP become unrestricted in four equal annual increments on the anniversaries of the grant date and are forfeited to the extent they have not become unrestricted for terminations of employment during the vesting period, except accelerated vesting is provided for terminations by reason of death, disability and termination without cause. Restricted shares compensation expense has been recognized in accordance with the fair-value-based measurement method of accounting. Dividends on restricted shares are paid quarterly in cash.

Restricted stock units awarded under the EIP in 2013, 2012 and 2011 will vest and be issued in unrestricted stock in four equal annual increments on the anniversaries of the grant date and are forfeited to the extent they have not become vested for terminations of employment during the vesting period, except that pro-rata vesting is provided for terminations due to death, disability and retirement. Restricted stock units awarded under the SOIP and EIP in 2010 and prior years generally vest and will be issued as unrestricted stock four years after the date of the grant and are forfeited for terminations of employment during the vesting period, except that pro-rata vesting is provided for terminations due to death, disability and retirement. Restricted stock units expense has been recognized in accordance with the fair-value-based measurement method of accounting. Dividend equivalent rights are accrued quarterly and are paid at the end of the restriction period when the associated restricted stock units vest.

Stock performance awards granted under the 2011-2013, 2012-2014 and 2013-2015 LTIPs entitle the grantee to shares of common stock with dividend equivalent rights once service conditions and performance conditions are satisfied at the end of the three-year performance period. LTIP awards are forfeited for terminations of employment during the performance period, except that pro-rata participation is provided for terminations due to death, disability and retirement based upon completed months of service after a minimum of 12 months of service in the performance period. Compensation expense for the stock performance awards portion of the LTIP has been recognized in accordance with the fair-value-based measurement method of accounting for performance shares.

Under the 2011 Nonemployee Director Stock Plan (2011 Director Plan), HEI can issue shares of common stock as compensation to nonemployee directors of HEI, Hawaiian Electric and ASB. As of December 31, 2013, there were 202,460 shares remaining available for future issuance under the 2011 Director Plan.

The Company’s share-based compensation expense and related income tax benefit were as follows:

(in millions)	2013	2012	2011
Share-based compensation expense [1]	$7.8	$6.7	$4.3
Income tax benefit	2.8	2.4	1.5

[1] The Company has not capitalized any share-based compensation cost.

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