

HAWAIIAN ELECTRIC CO INC  
Form 10-Q  
November 03, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2011

OR

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

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

State of Hawaii

(State or other jurisdiction of incorporation or organization)

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**900 Richards Street, Honolulu, Hawaii 96813**

(Address of principal executive offices and zip code)

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

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

(Registrant's telephone number, including area code)

**Not applicable**

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

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

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

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

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

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

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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Hawaiian Electric Industries, Inc. and Subsidiaries

Hawaiian Electric Company, Inc. and Subsidiaries

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**GLOSSARY OF TERMS**

| <b>Terms</b>             | <b>Definitions</b>   |
|--------------------------|--|
| <b>AFUDC</b>             | Allowance for funds used during construction   |
| <b>AOI</b>               | Accumulated other comprehensive income   |
| <b>ARO</b>               | Asset retirement obligation  |
| <b>ASB</b>               | American Savings Bank, F.S.B., a wholly-owned subsidiary of American Savings Holdings, Inc. American Savings Investment Services Corp. and its subsidiary, Bishop Insurance Agency of Hawaii, Inc. (dissolved in 2010) are former subsidiaries.  |
| <b>ASHI</b>              | American Savings Holdings, Inc., a wholly owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.   |
| <b>CIP CT-1</b>          | Campbell Industrial Park 110 MW combustion turbine No. 1   |
| <b>Company</b>           | Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation: Hawaiian Electric Company, Inc. and its subsidiaries (listed under HECO); American Savings Holdings, Inc. and its subsidiary, American Savings Bank, F.S.B. and its former subsidiaries (listed under ASB); HEI Properties, Inc.; Hawaiian Electric Industries Capital Trust II and Hawaiian Electric Industries Capital Trust III (inactive financing entities); The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.) and Pacific Energy Conservation Services, Inc. (dissolved on April 1, 2011) |
| <b>Consumer Advocate</b> | Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii  |
| <b>DBEDT</b>             | State of Hawaii Department of Business, Economic Development and Tourism   |
| <b>D&amp;O</b>           | Decision and order   |
| <b>DG</b>                | Distributed generation   |
| <b>Dodd-Frank Act</b>    | Dodd-Frank Wall Street Reform and Consumer Protection Act  |
| <b>DRIP</b>              | HEI Dividend Reinvestment and Stock Purchase Plan  |
| <b>DSM</b>               | Demand-side management   |
| <b>ECAC</b>              | Energy cost adjustment clauses   |
| <b>EIP</b>               | 2010 Equity and Incentive Plan   |
| <b>Energy Agreement</b>  | Agreement dated October 20, 2008 and signed by the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and HECO, for itself and on behalf of its electric utility subsidiaries committing to actions to develop renewable energy and reduce dependence on fossil fuels in support of the HCEI   |
| <b>EPA</b>               | Environmental Protection Agency federal  |
| <b>EPS</b>               | Earnings per share   |
| <b>Exchange Act</b>      | Securities Exchange Act of 1934  |
| <b>FDIC</b>              | Federal Deposit Insurance Corporation  |
| <b>federal</b>           | U.S. Government  |
| <b>FHLB</b>              | Federal Home Loan Bank   |
| <b>FHLMC</b>             | Federal Home Loan Mortgage Corporation   |
| <b>FNMA</b>              | Federal National Mortgage Association  |
| <b>FRB</b>               | Federal Reserve Board  |
| <b>FSS</b>               | Forward Starting Swaps   |



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



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**FORWARD-LOOKING STATEMENTS**

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

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

- international, national and local economic conditions, including the state of the Hawaii tourism, defense and construction industries, the strength or weakness of the Hawaii and continental U.S. real estate markets (including the fair value and/or the actual performance of collateral underlying loans held by American Savings Bank, F.S.B. (ASB), which could result in higher loan loss provisions and write-offs), decisions concerning the extent of the presence of the federal government and military in Hawaii, the implications and potential impacts of U.S. and foreign capital and credit market conditions and federal and state responses to those conditions, and the potential impacts of global developments (including unrest, conflict and the overthrow of governmental regimes in North Africa and the Middle East, terrorist acts, the war on terrorism, continuing U.S. presence in Afghanistan and potential conflict or crisis with North Korea);
- weather and natural disasters (e.g., hurricanes, earthquakes, tsunamis, lightning strikes and the potential effects of global warming, such as more severe storms and rising sea levels), including their impact on Company operations and the economy (e.g., the effect of the March 2011 natural disasters in Japan on its economy and tourism in Hawaii);
- the timing and extent of changes in interest rates and the shape of the yield curve;
- the ability of the Company to access credit markets to obtain commercial paper and other short-term and long-term debt financing (including lines of credit) and to access capital markets to issue HEI common stock under volatile and challenging market conditions, and the cost of such financings, if available;
- the risks inherent in changes in the value of pension and other retirement plan assets and securities available for sale;
- changes in laws, regulations, market conditions and other factors that result in changes in assumptions used to calculate retirement benefits costs and funding requirements;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and of the rules and regulations that the Dodd-Frank Act requires to be promulgated;
- increasing competition in the banking industry (e.g., increased price competition for deposits, or an outflow of deposits to alternative investments, which may have an adverse impact on ASB's cost of funds);

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- the implementation of the Energy Agreement with the State of Hawaii and Consumer Advocate (Energy Agreement) setting forth the goals and objectives of a Hawaii Clean Energy Initiative (HCEI), revenue decoupling and the fulfillment by the electric utilities of their commitments under the Energy Agreement (given the Public Utilities Commission of the State of Hawaii (PUC) approvals needed; the PUC's potential delay in considering (and potential disapproval of actual or proposed) HCEI-related costs; reliance by the Company on outside parties like the state, independent power producers (IPPs) and developers; potential changes in political support for the HCEI; and uncertainties surrounding wind power, the proposed undersea cable (to bring power to Oahu from Lanai and/or Molokai), biofuels, environmental assessments and the impacts of implementation of the HCEI on future costs of electricity);
- capacity and supply constraints or difficulties, especially if generating units (utility-owned or IPP-owned) fail or measures such as demand-side management (DSM), distributed generation (DG), combined heat and power or other firm capacity supply-side resources fall short of achieving their forecasted benefits or are otherwise insufficient to reduce or meet peak demand;
- the risk to generation reliability when generation peak reserve margins on Oahu are strained;
- fuel oil price changes, performance by suppliers of their fuel oil delivery obligations and the continued availability to the electric utilities of their energy cost adjustment clauses (ECACs);
- the impact of fuel price volatility on customer satisfaction and political and regulatory support for the utilities;

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- the risks associated with increasing reliance on renewable energy, as contemplated under the Energy Agreement, including the availability and cost of non-fossil fuel supplies for renewable energy generation and the operational impacts of adding intermittent sources of renewable energy to the electric grid;
- the ability of IPPs to deliver the firm capacity anticipated in their power purchase agreements (PPAs);
- the ability of the electric utilities to negotiate, periodically, favorable fuel supply and collective bargaining agreements;
- new technological developments that could affect the operations and prospects of HEI and its subsidiaries (including HECO and its subsidiaries and ASB) or their competitors;
- cyber security risks and the potential for cyber incidents, including potential incidents at HEI, ASB and HECO and their subsidiaries (including at ASB branches and at the electric utility plants) and incidents at data processing centers they use, to the extent not prevented by intrusion detection and prevention systems, anti-virus software, firewalls and other general information technology controls;
- federal, state, county and international governmental and regulatory actions, such as changes in laws, rules and regulations applicable to HEI, HECO, ASB and their subsidiaries (including changes in taxation, increases in capital requirements, regulatory changes resulting from the HCEI, environmental laws and regulations, the regulation of greenhouse gas (GHG) emissions, governmental fees and assessments (such as Federal Deposit Insurance Corporation assessments), and potential carbon cap and trade legislation that may fundamentally alter costs to produce electricity and accelerate the move to renewable generation);
- decisions by the PUC in rate cases and other proceedings (including the risks of delays in the timing of decisions, adverse changes in final decisions from interim decisions and the disallowance of project costs as a result of adverse regulatory audit reports or otherwise);
- decisions by the PUC and by other agencies and courts on land use, environmental and other permitting issues (such as required corrective actions and restrictions and penalties that may arise, such as with respect to environmental conditions or renewable portfolio standards (RPS));
- potential enforcement actions by the Office of the Comptroller of the Currency, the Federal Reserve Board (FRB) and/or other governmental authorities (such as consent orders, required corrective actions, restrictions and penalties that may arise, for example, with respect to compliance deficiencies under existing or new banking and consumer protection laws and regulations or with respect to capital adequacy);
- ability to recover increasing costs and earn a reasonable return on capital investments not covered by revenue adjustment mechanisms;
- the risks associated with the geographic concentration of HEI's businesses and ASB's loans, ASB's concentration in a single product type (i.e., first mortgages) and ASB's significant credit relationship (i.e., concentrations of large loans and/or credit lines with certain customers);
- changes in accounting principles applicable to HEI, HECO, ASB and their subsidiaries, including the adoption of International Financial Reporting Standards or new U.S. accounting standards, the potential discontinuance of regulatory accounting and the effects of potentially required consolidation of variable interest entities (VIEs) or required capital lease accounting for PPAs with IPPs;
- changes by securities rating agencies in their ratings of the securities of HEI and HECO and the results of financing efforts;
- faster than expected loan prepayments that can cause an acceleration of the amortization of premiums on loans and investments and the impairment of mortgage-servicing assets of ASB;
- changes in ASB's loan portfolio credit profile and asset quality which may increase or decrease the required level of allowance for loan losses and charge-offs;

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- changes in ASB's deposit cost or mix which may have an adverse impact on ASB's cost of funds;
- the final outcome of tax positions taken by HEI, HECO, ASB and their subsidiaries;
- the risks of suffering losses and incurring liabilities that are uninsured (e.g., damages to the utilities' transmission and distribution system and losses from business interruption) or underinsured (e.g., losses not covered as a result of insurance deductibles or other exclusions or exceeding policy limits); and
- other risks or uncertainties described elsewhere in this report and in other reports (e.g., Item 1A. Risk Factors in the Company's Annual Report on Form 10-K) previously and subsequently filed by HEI and/or HECO with the Securities and Exchange Commission (SEC).

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

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Hawaiian Electric Industries, Inc. and Subsidiaries

**Consolidated Statements of Income (unaudited)**

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

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



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Hawaiian Electric Industries, Inc. and Subsidiaries

**Consolidated Balance Sheets (unaudited)**

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

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





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Hawaiian Electric Industries, Inc. and Subsidiaries

**Consolidated Statements of Changes in Shareholders Equity (unaudited)**

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

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

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

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Hawaiian Electric Industries, Inc. and Subsidiaries

**Consolidated Statements of Cash Flows (unaudited)**

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

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

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Hawaiian Electric Industries, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1 • Basis of presentation**

The accompanying unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information, the instructions to SEC Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited consolidated financial statements and the following notes should be read in conjunction with the audited consolidated financial statements and the notes thereto included in HEI's Form 10-K for the year ended December 31, 2010 and the unaudited consolidated financial statements and the notes thereto in HEI's Quarterly Reports on SEC Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011.

In the opinion of HEI's management, the accompanying unaudited consolidated financial statements contain all material adjustments required by GAAP to fairly state the Company's financial position as of September 30, 2011 and December 31, 2010, the results of its operations for the three and nine months ended September 30, 2011 and 2010 and cash flows for the nine months ended September 30, 2011 and 2010. All such adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q or other referenced material. Results of operations for interim periods are not necessarily indicative of results for the full year. When required, certain reclassifications are made to the prior periods consolidated financial statements to conform to the current presentation.

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

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**2 • Segment financial information**

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

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

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



Table of Contents**3 • Electric utility subsidiary**

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

**4 • Bank subsidiary****Selected financial information**

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

**Consolidated Statements of Income Data (unaudited)**

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





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

**Consolidated Balance Sheets Data (unaudited)**

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

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

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

to ASB upon an insured's death.

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

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**Investment and mortgage-related securities portfolio.**

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

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

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

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

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

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

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

The unrealized losses as of December 31, 2010 on ASB's investments in obligations issued by federal agencies were caused by interest rate movements. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because ASB does not intend to sell the securities and has determined it is more likely than not that it will not be required to sell the investments before recovery of their amortized costs bases, which may be at maturity, ASB did not consider these investments to be other-than-temporarily impaired at December 31, 2010.

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

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

The allowance for loan losses was comprised of the following:

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

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Ending balance:  
individually evaluated  
for impairment

|   |    |       |    |       |    |       |    |       |    |       |    |   |    |        |    |       |    |     |    |        |
|---|----|-------|----|-------|----|-------|----|-------|----|-------|----|---|----|--------|----|-------|----|-----|----|--------|
| Ending balance:<br>collectively evaluated<br>for impairment | \$ | 6,267 | \$ | 1,474 | \$ | 4,269 | \$ | 4,769 | \$ | 1,714 | \$ | 7 | \$ | 14,427 | \$ | 3,325 | \$ | 934 | \$ | 37,186 |
|---|----|-------|----|-------|----|-------|----|-------|----|-------|----|---|----|--------|----|-------|----|-----|----|--------|

**Financing**

**Receivables:**

|                |    |           |    |         |    |         |    |        |    |        |    |       |    |         |    |        |    |  |    |           |
|----------------|----|-----------|----|---------|----|---------|----|--------|----|--------|----|-------|----|---------|----|--------|----|--|----|-----------|
| Ending balance | \$ | 2,087,813 | \$ | 300,689 | \$ | 416,453 | \$ | 65,599 | \$ | 38,079 | \$ | 5,602 | \$ | 551,683 | \$ | 80,138 | \$ |  | \$ | 3,546,056 |
|----------------|----|-----------|----|---------|----|---------|----|--------|----|--------|----|-------|----|---------|----|--------|----|--|----|-----------|

Ending balance:  
individually evaluated  
for impairment

|  |    |        |    |        |    |     |    |        |    |  |    |  |    |        |    |    |    |  |    |         |
|--|----|--------|----|--------|----|-----|----|--------|----|--|----|--|----|--------|----|----|----|--|----|---------|
|  | \$ | 34,615 | \$ | 12,156 | \$ | 827 | \$ | 39,631 | \$ |  | \$ |  | \$ | 28,886 | \$ | 76 | \$ |  | \$ | 116,191 |
|--|----|--------|----|--------|----|-----|----|--------|----|--|----|--|----|--------|----|----|----|--|----|---------|

Ending balance:

|  |    |           |    |         |    |         |    |        |    |        |    |       |    |         |    |        |    |  |    |           |
|--|----|-----------|----|---------|----|---------|----|--------|----|--------|----|-------|----|---------|----|--------|----|--|----|-----------|
| collectively evaluated<br>for impairment | \$ | 2,053,198 | \$ | 288,533 | \$ | 415,626 | \$ | 25,968 | \$ | 38,079 | \$ | 5,602 | \$ | 522,797 | \$ | 80,062 | \$ |  | \$ | 3,429,865 |
|--|----|-----------|----|---------|----|---------|----|--------|----|--------|----|-------|----|---------|----|--------|----|--|----|-----------|

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

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

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

The loan grade categories are:

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

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

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

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

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

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



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|                |           |          |           |           |              |              |        |
|----------------|-----------|----------|-----------|-----------|--------------|--------------|--------|
| Consumer loans | 498       | 338      | 495       | 1,331     | 82,249       | 83,580       | 336    |
| Total loans    | \$ 10,605 | \$ 4,023 | \$ 50,702 | \$ 65,330 | \$ 3,609,410 | \$ 3,674,740 | \$ 445 |

**December 31, 2010**

Real estate loans:

|                            |           |          |           |           |              |              |        |
|----------------------------|-----------|----------|-----------|-----------|--------------|--------------|--------|
| Residential 1-4 family     | \$ 8,245  | \$ 3,719 | \$ 36,419 | \$ 48,383 | \$ 2,039,430 | \$ 2,087,813 | \$     |
| Commercial real estate     |           | 4        |           | 4         | 300,685      | 300,689      |        |
| Home equity line of credit | 1,103     | 227      | 1,659     | 2,989     | 413,464      | 416,453      |        |
| Residential land           | 1,543     | 1,218    | 16,060    | 18,821    | 46,778       | 65,599       | 581    |
| Commercial construction    |           |          |           |           | 38,079       | 38,079       |        |
| Residential construction   |           |          |           |           | 5,602        | 5,602        |        |
| Commercial loans           | 892       | 1,317    | 3,191     | 5,400     | 546,283      | 551,683      | 64     |
| Consumer loans             | 629       | 410      | 617       | 1,656     | 78,482       | 80,138       | 320    |
| Total loans                | \$ 12,412 | \$ 6,895 | \$ 57,946 | \$ 77,253 | \$ 3,468,803 | \$ 3,546,056 | \$ 965 |

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

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

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

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

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

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

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

ASB may consider various types of concessions in granting a TDR including maturity date extensions, temporary deferral of principal payments, temporary interest rate reductions, and covenant amendments or waivers. ASB does not grant principal forgiveness in its TDR modifications. Residential loan modifications generally involve the deferral of principal payments for a period of time not exceeding one year or a temporary reduction of principal and/or interest rate for a period of time generally not exceeding two years. Land loans are typically structured as a three-year term, interest-only monthly payment with a balloon payment due at maturity. Land loan TDR modifications typically involve extending the maturity date another one to three years and converting the payments from interest-only to principal and interest monthly, at the

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same or higher interest rate. Commercial loan modifications generally involve extensions of maturity dates, amendment or waiver of financial covenants, and to a lesser extent temporary deferral of principal payments. ASB does not reduce the interest rate on commercial loan TDR modifications. Occasionally, additional collateral and/or guaranties are obtained.

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

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

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

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

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

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

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

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

#### 5 • Retirement benefits

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

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

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

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

| (in thousands)  | Three months ended September 30 |           |                |          | Nine months ended September 30 |           |                |          |
|---|---------------------------------|-----------|----------------|----------|--------------------------------|-----------|----------------|----------|
|   | Pension benefits                |           | Other benefits |          | Pension benefits               |           | Other benefits |          |
|   | 2011                            | 2010      | 2011           | 2010     | 2011                           | 2010      | 2011           | 2010     |
| Service cost  | \$ 8,525                        | \$ 7,376  | \$ 868         | \$ 1,248 | \$ 26,266                      | \$ 21,424 | \$ 3,308       | \$ 3,539 |
| Interest cost   | 16,137                          | 16,197    | 2,273          | 2,565    | 48,717                         | 48,330    | 7,151          | 7,901    |
| Expected return on plan assets                              | (17,400)                        | (17,272)  | (2,687)        | (2,792)  | (51,673)                       | (51,687)  | (7,992)        | (8,310)  |
| Amortization of unrecognized transition obligation          | 1                               | 1         |                |          | 2                              | 2         |                |          |
| Amortization of prior service gain                          | (98)                            | (97)      | (587)          | (83)     | (292)                          | (291)     | (1,120)        | (187)    |
| Recognized actuarial loss (gain)                            | 4,005                           | 1,942     | 115            | (5)      | 12,724                         | 5,449     | 170            | (8)      |
| Net periodic benefit cost                                   | 11,170                          | 8,147     | (18)           | 933      | 35,744                         | 23,227    | 1,517          | 2,935    |
| Impact of PUC D&Os  | (713)                           | 2,574     | 327            | 1,512    | (2,813)                        | 7,602     | 3,079          | 4,133    |
| Net periodic benefit cost (adjusted for impact of PUC D&Os) | \$ 10,457                       | \$ 10,721 | \$ 309         | \$ 2,445 | \$ 32,931                      | \$ 30,829 | \$ 4,596       | \$ 7,068 |

Consolidated HEI recorded retirement benefits expense of \$28 million and \$29 million in the first nine months of 2011 and 2010, respectively, and charged the remaining amounts primarily to electric utility plant.

**Defined contribution plans information.** For the first nine months of 2011 and 2010, the Company's expense for the defined contribution pension plan under the HEIRSP and the ASB 401(k) Plan was \$2.6 million and \$2.9 million, respectively, and cash contributions were \$3.2 million.

## 6 • Share-based compensation

Under the 2010 Equity and Incentive Plan (EIP), HEI can issue an aggregate of 4 million 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.



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Through September 30, 2011, grants under the EIP consisted of 18,009 restricted shares (counted against the shares authorized for issuance under EIP as four shares for every share issued, or 72,036 shares), 172,517 restricted stock units (which will be counted against the shares authorized for issuance under EIP as four shares for every share issued when issued or 690,068 shares) and 368,323 shares that may be issued under the 2011-2013 long-term incentive plan (LTIP) at maximum levels.

Under the 1987 Stock Option and Incentive Plan, as amended (SOIP), grants and awards of an estimated 0.8 million shares of common stock (based on various assumptions, including LTIP awards at maximum levels and the use of the September 30, 2011 market price of shares as the price on the exercise/payment dates) were outstanding as of September 30, 2011 to selected employees in the form of nonqualified stock options (NQSOs), stock appreciation rights (SARs), restricted stock units, LTIP performance and other shares and dividend equivalents. As of May 11, 2010, 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.

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

| (dollars in millions)                | Three months ended<br>September 30 |      | Nine months ended<br>September 30 |      |
|--------------------------------------|------------------------------------|------|-----------------------------------|------|
|                                      | 2011                               | 2010 | 2011                              | 2010 |
| Share-based compensation expense (1) | 1.0                                | 0.6  | 2.7                               | 2.0  |
| Income tax benefit                   | 0.4                                | 0.2  | 0.9                               | 0.6  |

(1) The Company has not capitalized any share-based compensation cost.

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**Nonqualified stock options.** Information about HEI's NQSOs was as follows:

| Year of grant | September 30, 2011       |               | Outstanding & Exercisable (Vested) |   |                                 |
|---------------|--------------------------|---------------|------------------------------------|---|---------------------------------|
|               | Range of exercise prices |               | Number of options                  | Weighted-average remaining contractual life | Weighted-average exercise price |
| 2002          | \$                       | 21.68         | 20,000                             | 0.6   | \$ 21.68                        |
| 2003          |                          | 20.49         | 91,500                             | 1.4   | 20.49                           |
|               | \$                       | 20.49 - 21.68 | 111,500                            | 1.3   | \$ 20.70                        |

As of December 31, 2010, NQSOs outstanding totaled 215,500 (representing the same number of underlying shares), with a weighted-average exercise price of \$20.76. As of September 30, 2011, all NQSOs outstanding were exercisable and had an aggregate intrinsic value (including dividend equivalents) of \$0.7 million.

NQSO activity and statistics were as follows:

| (dollars in thousands, except prices)               | Three months ended<br>September 30 |          | Nine months ended<br>September 30 |          |
|---|------------------------------------|----------|-----------------------------------|----------|
|   | 2011                               | 2010     | 2011                              | 2010     |
| Shares expired                                      |                                    |          |                                   | 2,000    |
| Weighted-average price of shares expired            |                                    |          |                                   | \$ 20.49 |
| Shares exercised                                    | 2,000                              | 46,000   | 104,000                           | 109,000  |
| Weighted-average exercise price                     | \$ 20.49                           | \$ 21.52 | \$ 20.81                          | \$ 18.48 |
| Cash received from exercise                         | \$ 41                              | \$ 990   | \$ 2,164                          | \$ 2,014 |
| Intrinsic value of shares exercised (1)             | \$ 6                               | \$ 287   | \$ 846                            | \$ 912   |
| Tax benefit realized for the deduction of exercises | \$ (85)                            | \$ 81    | \$ 186                            | \$ 324   |

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

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

| Year of grant | September 30, 2011       |                                  | Outstanding & Exercisable (Vested)          |                                 |
|---------------|--------------------------|----------------------------------|---|---------------------------------|
|               | Range of exercise prices | Number of shares underlying SARs | Weighted-average remaining contractual life | Weighted-average exercise price |

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|      |    |             |         |     |    |       |
|------|----|-------------|---------|-----|----|-------|
| 2004 | \$ | 26.02       | 132,000 | 1.6 | \$ | 26.02 |
| 2005 |    | 26.18       | 260,000 | 2.4 |    | 26.18 |
|      | \$ | 26.02 26.18 | 392,000 | 2.1 | \$ | 26.13 |

As of December 31, 2010, the shares underlying SARs outstanding totaled 450,000, with a weighted-average exercise price of \$26.13. As of September 30, 2011, all SARs outstanding were exercisable and had no intrinsic value.

SARs activity and statistics were as follows:

| (dollars in thousands, except prices)      | Three months ended<br>September 30 |      | Nine months ended<br>September 30 |          |
|--|------------------------------------|------|-----------------------------------|----------|
|  | 2011                               | 2010 | 2011                              | 2010     |
| Shares forfeited                           |                                    |      |                                   |          |
| Weighted-average price of shares forfeited |                                    |      |                                   |          |
| Shares expired                             | 18,000                             |      | 58,000                            | 18,000   |
| Weighted-average price of shares expired   | \$ 26.18                           |      | \$ 26.13                          | \$ 26.18 |
| Shares exercised                           |                                    |      |                                   |          |

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**Restricted shares and restricted stock awards.** Information about HEI's grants of restricted shares and restricted stock awards was as follows:

|                                  | Three months ended September 30 |          |         |          | Nine months ended September 30 |          |          |          |
|----------------------------------|---------------------------------|----------|---------|----------|--------------------------------|----------|----------|----------|
|                                  | 2011                            |          | 2010    |          | 2011                           |          | 2010     |          |
|                                  | Shares                          | (1)      | Shares  | (1)      | Shares                         | (1)      | Shares   | (1)      |
| Outstanding, beginning of period | 57,909                          | \$ 23.91 | 78,700  | \$ 25.04 | 89,709                         | \$ 24.64 | 129,000  | \$ 25.50 |
| Granted                          |                                 |          |         |          |                                |          |          |          |
| Vested                           |                                 |          |         |          | (29,800)                       | 26.03    | (43,565) | 26.29    |
| Forfeited                        | (300)                           | 24.71    | (7,000) | 23.00    | (2,300)                        | 24.98    | (13,735) | 24.35    |
| Outstanding, end of period       | 57,609                          | \$ 23.90 | 71,700  | \$ 25.24 | 57,609                         | \$ 23.90 | 71,700   | \$ 25.24 |

(1) Weighted-average grant-date fair value per share. The grant date fair value of a restricted stock award share was the closing or average price of HEI common stock on the date of grant.

For the nine months ended September 30, 2011 and 2010, total restricted stock vested had a fair value of \$0.8 million and \$1.1 million, respectively. The tax benefits realized for the tax deductions related to restricted stock awards were \$0.1 million for each of the first nine months of 2011 and 2010.

As of September 30, 2011, there was \$0.3 million of total unrecognized compensation cost related to nonvested restricted shares and restricted stock awards. The cost is expected to be recognized over a weighted-average period of 2.5 years.

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

|                                  | Three months ended September 30 |          |         |          | Nine months ended September 30 |          |           |          |
|----------------------------------|---------------------------------|----------|---------|----------|--------------------------------|----------|-----------|----------|
|                                  | 2011                            |          | 2010    |          | 2011                           |          | 2010      |          |
|                                  | Shares                          | (1)      | Shares  | (1)      | Shares                         | (1)      | Shares    | (1)      |
| Outstanding, beginning of period | 231,517                         | \$ 21.70 | 146,500 | \$ 19.80 | 146,500                        | \$ 19.80 | 70,500    | \$ 16.99 |
| Granted                          | 10,000(2)                       | 22.31    |         |          | 96,017(2)                      | 24.69    | 77,500(3) | 22.30    |
| Vested                           |                                 |          |         |          |                                |          | (250)     | 16.99    |
| Forfeited                        |                                 |          |         |          | (1,000)                        | 22.60    | (1,250)   | 16.99    |
| Outstanding, end of period       | 241,517                         | \$ 21.73 | 146,500 | \$ 19.80 | 241,517                        | \$ 21.73 | 146,500   | \$ 19.80 |

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

(2) Total weighted-average grant-date fair value of \$0.2 million and \$2.4 million for the three and nine months ended September 30, 2011, respectively.

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- (3) Total weighted-average grant-date fair value of \$1.7 million.

As of September 30, 2011, there was \$3.1 million of total unrecognized compensation cost related to the nonvested restricted stock units. The cost is expected to be recognized over a weighted-average period of 2.9 years.

**LTIP payable in stock.** The 2011-2013 LTIP provides for performance awards under the EIP and the 2009-2011 LTIP and the 2010-2012 LTIP provide for performance awards under the SOIP of shares of HEI common stock based on the satisfaction of performance goals and service conditions over a three-year performance period. The number of shares of HEI common stock that may be awarded is fixed on the date the grants are made subject to the achievement of specified performance levels. The payout varies from 0% to 200% of the number of target shares depending on achievement of the goals. The LTIP performance goals for both LTIP periods include awards with a market goal based on total return to shareholders (TRS) of HEI stock as a percentile to the Edison Electric Institute Index over the applicable three-year period. In addition, the 2009-2011 LTIP has performance goals based on HEI return on average common equity (ROACE), the 2010-2012 LTIP has performance goals related to levels of HEI consolidated net income, HECO consolidated ROACE, ASB net income and ASB return on assets all based on two-year averages (2011-2012), and the 2011-2013 LTIP has performance goals related to levels of HEI consolidated net income, HECO consolidated ROACE, HECO 3-year average consolidated net income, ASB return on assets and ASB 3-year average net income.

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

|                                  | Three months ended September 30 |          |         |          | Nine months ended September 30 |          |           |          |
|----------------------------------|---------------------------------|----------|---------|----------|--------------------------------|----------|-----------|----------|
|                                  | 2011                            |          | 2010    |          | 2011                           |          | 2010      |          |
|                                  | Shares                          | (1)      | Shares  | (1)      | Shares                         | (1)      | Shares    | (1)      |
| Outstanding, beginning of period | 199,563                         | \$ 25.99 | 132,588 | \$ 20.42 | 126,782                        | \$ 20.33 | 36,198    | \$ 14.85 |
| Granted                          |                                 |          |         |          | 75,015(2)                      | 35.46    | 97,191(3) | 22.45    |
| Vested                           |                                 |          |         |          |                                |          |           |          |
| Forfeited                        | (1,063)                         | 30.67    | (5,806) | 22.45    | (3,297)                        | 25.10    | (6,607)   | 21.53    |
| Outstanding, end of period       | 198,500                         | \$ 25.97 | 126,782 | \$ 20.33 | 198,500                        | \$ 25.97 | 126,782   | \$ 20.33 |

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

(2) Total weighted-average grant-date fair value of \$2.7 million.

(3) Total weighted-average grant-date fair value of \$2.2 million.

The assumptions used to determine the fair value of the LTIP linked to TRS and the resulting fair value of LTIP granted were as follows:

|   | 2011           | 2010           |
|---|----------------|----------------|
| Risk-free interest rate                     | 1.25%          | 1.30%          |
| Expected life in years                      | 3              | 3              |
| Expected volatility                         | 27.8%          | 27.9%          |
| Range of expected volatility for Peer Group | 21.2% to 82.6% | 22.3% to 52.3% |
| Grant date fair value (per share)           | \$ 35.46       | \$ 22.45       |

As of September 30, 2011, there was \$2.7 million of total unrecognized compensation cost related to the nonvested performance awards payable in shares linked to TRS. The cost is expected to be recognized over a weighted-average period of 1.5 years.

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

|                                  | Three months ended September 30 |          |         |          | Nine months ended September 30 |          |            |          |
|----------------------------------|---------------------------------|----------|---------|----------|--------------------------------|----------|------------|----------|
|                                  | 2011                            |          | 2010    |          | 2011                           |          | 2010       |          |
|                                  | Shares                          | (1)      | Shares  | (1)      | Shares                         | (1)      | Shares     | (1)      |
| Outstanding, beginning of period | 185,767                         | \$ 22.63 | 184,535 | \$ 18.69 | 161,310                        | \$ 18.66 | 24,131     | \$ 16.99 |
| Granted                          |                                 |          |         |          | 113,831(2)                     | 24.96    | 160,939(3) | 18.95    |
| Vested                           |                                 |          |         |          |                                |          |            |          |

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|                            |         |          |          |          |  |          |          |         |          |       |  |
|----------------------------|---------|----------|----------|----------|--|----------|----------|---------|----------|-------|--|
| Cancelled                  |         |          |          |          |  | (81,908) |          | 18.38   |          |       |  |
| Forfeited                  | (1,596) | 22.74    | (23,225) | 18.95    |  | (9,062)  |          | 19.61   | (23,760) | 18.90 |  |
| Outstanding, end of period | 184,171 | \$ 22.63 | 161,310  | \$ 18.66 |  | 184,171  | \$ 22.63 | 161,310 | \$ 18.66 |       |  |

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

(2) Total weighted-average grant-date fair value of \$2.8 million.

(3) Total weighted-average grant-date fair value of \$3.0 million.

As of September 30, 2011, there was \$2.8 million of total unrecognized compensation cost related to the nonvested shares linked to performance conditions other than TRS. The cost is expected to be recognized over a weighted-average period of 1.9 years.

**7 • 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 and had a negative fair value of \$2.8 million as of December 31, 2010 (recorded in Other liabilities). Changes in fair value were recognized (1) in other comprehensive income to the extent that they are

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considered effective, and (2) in Interest expense other than on deposit liabilities and other bank borrowings for any portion considered ineffective.

In the first six months of 2011, HEI settled the FSS for payments totaling \$5.2 million, of which \$3.3 million was the ineffective portion (\$0.8 million and \$2.5 million recognized in 2010 and 2011, respectively) and \$1.9 million is being amortized to interest expense over five years beginning March 24, 2011 (the date that HEI issued \$125 million of Senior Notes via a private placement \$75 million of 4.41% notes due March 24, 2016 and \$50 million of 5.67% notes due March 24, 2021).

**8 • Earnings per share**

Under the two-class method of computing earnings per share (EPS), EPS was comprised as follows for both unvested restricted stock awards and unrestricted common stock:

|                        | Three months ended September 30 |                   | Nine months ended September 30 |                   |
|------------------------|---------------------------------|-------------------|--------------------------------|-------------------|
|                        | 2011                            | 2010              | 2011                           | 2010              |
|                        | Basic and diluted               | Basic and diluted | Basic and diluted              | Basic and diluted |
| Distributed earnings   | \$ 0.31                         | \$ 0.31           | \$ 0.93                        | \$ 0.93           |
| Undistributed earnings | 0.19                            | 0.04              | 0.16                           | 0.02              |
|                        | \$ 0.50                         | \$ 0.35           | \$ 1.09                        | \$ 0.95           |

As of September 30, 2011 and 2010, the antidilutive effects of SARs of 392,000 shares and 462,000 shares of HEI common stock, respectively, for which the exercise prices were greater than the closing market price of HEI's common stock were not included in the computation of diluted EPS.

**9 • Commitments and contingencies**

See Note 4, Bank subsidiary, above and Note 5, Commitments and contingencies, of HECO's Notes to Consolidated Financial Statements, below.

**10 • Fair value measurements**

Fair value estimates are based on the price that would be received to sell an asset, or paid upon the transfer of a liability, in an orderly transaction between market participants at the measurement date. The fair value estimates are generally determined based on assumptions that market



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participants would use in pricing the asset or liability and are based on market data obtained from independent sources. However, in certain cases, the Company uses its own assumptions about market participant assumptions based on the best information available in the circumstances. These valuations are estimates at a specific point in time, based on relevant market information, information about the financial instrument and judgments regarding future expected loss experience, economic conditions, risk characteristics of various financial instruments and other factors. These estimates do not reflect any premium or discount that could result if the Company were to sell its entire holdings of a particular financial instrument at one time. Because no active trading market exists for a portion of the Company's financial instruments, fair value estimates cannot be determined with precision. Changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the estimates. Fair value estimates are provided for certain financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses could have a significant effect on fair value estimates, but have not been considered in making such estimates.

The Company used the following methods and assumptions to estimate the fair value of each applicable class of financial instruments for which it is practicable to estimate that value:

**Cash and cash equivalents and short term borrowings other than bank.** The carrying amount approximated fair value because of the short maturity of these instruments.

**Investment and mortgage-related securities.** Fair value was based on observable inputs using market-based valuation techniques.

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**Loans receivable.** For residential real estate loans, fair value was calculated by discounting estimated cash flows using discount rates based on current industry pricing for loans with similar contractual characteristics.

For other types of loans, fair value was estimated by discounting contractual cash flows using discount rates that reflect current industry pricing for loans with similar characteristics and remaining maturity. Where industry pricing is not available, discount rates are based on ASB's current pricing for loans with similar characteristics and remaining maturity.

The fair value of all loans was adjusted to reflect current assessments of loan collectability.

**Deposit liabilities.** The fair value of savings, negotiable orders of withdrawal, demand and money market deposits was the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit was estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

**Other bank borrowings.** Fair value was estimated by discounting the future cash flows using the current rates available for borrowings with similar credit terms and remaining maturities.

**Long-term debt.** Fair value was obtained from a third-party financial services provider or the BLOOMBERG PROFESSIONAL service based on the current rates offered for debt of the same or similar remaining maturities.

**Forward Starting Swaps.** Fair value was estimated by discounting the expected future cash flows of the swaps, using the contractual terms of the swaps, including the period to maturity, and observable market-based inputs, including forward interest rate curves. Fair value incorporates credit valuation adjustments to appropriately reflect nonperformance risk.

**Off-balance sheet financial instruments.** The fair value of loans serviced for others was calculated by discounting expected net income streams using discount rates that reflect industry pricing for similar assets. Expected net income streams were estimated based on industry assumptions regarding prepayment speeds and income and expenses associated with servicing residential mortgage loans for others. The fair value of commitments to originate loans was estimated based on the change in current primary market prices of new commitments. Since lines of credit can expire without being drawn and customers are under no obligation to utilize the lines, no fair value was assigned to unused lines of credit. The fair value of letters of credit was estimated based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. The fair value of HECO-obligated preferred securities of trust subsidiaries was based on quoted market prices.

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

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| (in thousands)  | September 30, 2011             |                         | December 31, 2010              |                         |
|---|--------------------------------|-------------------------|--------------------------------|-------------------------|
|   | Carrying or<br>notional amount | Estimated<br>fair value | Carrying or<br>notional amount | Estimated<br>fair value |
| <b>Financial assets</b>                                       |                                |                         |                                |                         |
| Cash and cash equivalents, excluding money market funds       | \$ 283,473                     | \$ 283,473              | \$ 329,553                     | \$ 329,553              |
| Money market funds  | 10                             | 10                      | 1,098                          | 1,098                   |
| Available-for-sale investment and mortgage-related securities | 571,045                        | 571,045                 | 678,152                        | 678,152                 |
| Investment in stock of Federal Home Loan Bank of Seattle      | 97,764                         | 97,764                  | 97,764                         | 97,764                  |
| Loans receivable, net   | 3,647,197                      | 3,850,247               | 3,497,729                      | 3,639,983               |
| <b>Financial liabilities</b>                                  |                                |                         |                                |                         |
| Deposit liabilities   | 4,062,801                      | 4,069,420               | 3,975,372                      | 3,979,027               |
| Short-term borrowings other than bank                         | 51,195                         | 51,195                  | 24,923                         | 24,923                  |
| Other bank borrowings   | 237,934                        | 255,751                 | 237,319                        | 251,822                 |
| Long-term debt, net other than bank                           | 1,340,038                      | 1,342,518               | 1,364,942                      | 1,345,770               |
| Forward starting swaps  |                                |                         | 2,762                          | 2,762                   |
| <b>Off-balance sheet items</b>                                |                                |                         |                                |                         |
| HECO-obligated preferred securities of trust subsidiary       | 50,000                         | 51,960                  | 50,000                         | 52,500                  |

As of September 30, 2011 and December 31, 2010, loan commitments and unused lines and letters of credit issued by ASB had notional amounts of \$1.4 billion and \$1.2 billion, respectively, and their estimated fair value on such dates were \$1.1 million and \$0.4 million, respectively. As of September 30, 2011 and December 31,

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2010, loans serviced by ASB for others had notional amounts of \$886 million and \$818 million and the estimated fair value of the servicing rights for such loans was \$7.7 million and \$8.8 million, respectively.

**Fair value measurements on a recurring basis.** While securities held in ASB's investment portfolio trade in active markets, they do not trade on listed exchanges nor do the specific holdings trade in quoted markets by dealers or brokers. All holdings are valued using market-based approaches that are based on exit prices that are taken from identical or similar market transactions, even in situations where trading volume may be low when compared with prior periods as has been the case during the recent market disruption. Inputs to these valuation techniques reflect the assumptions that consider credit and nonperformance risk that market participants would use in pricing the asset based on market data obtained from independent sources. Available-for-sale securities were comprised of federal agency obligations and mortgage-backed securities and municipal bonds.

Assets and liabilities measured at fair value on a recurring basis were as follows:

| (in thousands)                                   | Quoted prices in active<br>markets for identical<br>assets (Level 1) | Fair value measurements using<br>Significant other<br>observable<br>inputs (Level 2) | Significant<br>unobservable<br>inputs (Level 3) |
|--|--|--|---|
| <u>September 30, 2011</u>                        |  |  |   |
| Money market funds ( other segment)              | \$   | \$ 10  | \$  |
| Available-for-sale securities (bank segment)     |  |  |   |
| Mortgage-related securities-FNMA, FHLMC and GNMA | \$   | \$ 320,852   | \$  |
| Federal agency obligations                       |  | 197,849  |   |
| Municipal bonds                                  |  | 52,344   |   |
|  | \$   | \$ 571,045   | \$  |
| <u>December 31, 2010</u>                         |  |  |   |
| Money market funds ( other segment)              | \$   | \$ 1,098   | \$  |
| Available-for-sale securities (bank segment)     |  |  |   |
| Mortgage-related securities-FNMA, FHLMC and GNMA | \$   | \$ 319,970   | \$  |
| Federal agency obligations                       |  | 315,896  |   |
| Municipal bonds                                  |  | 42,286   |   |
|  | \$   | \$ 678,152   | \$  |
| Forward starting swaps ( other segment)          | \$   | \$ (2,762)   | \$  |

**Fair value measurements on a nonrecurring basis.** From time to time, the Company may be required to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the write-downs of individual assets. ASB does not record loans at fair value on a recurring basis. However, from time to time, ASB records nonrecurring fair value adjustments to loans to reflect specific reserves on loans based on the current appraised value of the collateral or unobservable market assumptions. Unobservable assumptions reflect ASB's own estimate of the fair value of collateral used in valuing the loan. ASB may also be required to measure goodwill at fair value on a nonrecurring basis. During the first nine months of 2011 and 2010, goodwill was not measured at fair value. For the first nine months of 2011 and 2010, there were no adjustments to fair value for assets measured at fair value on a nonrecurring basis in accordance with GAAP other than the specific reserves on loans receivable held for investment.

From time to time, the Company may be required to measure certain liabilities at fair value on a nonrecurring basis in accordance with GAAP. The fair value of HECO's asset retirement obligations (Level 3) was determined by discounting the expected future cash flows using market-observable risk-free rates as adjusted by HECO's credit spread (also see Note 3).



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| Nine months ended September 30<br>(in millions)                                | 2011  | 2010  |
|--|-------|-------|
| <b>Supplemental disclosures of cash flow information</b>                       |       |       |
| Interest paid to non-affiliates  | \$ 74 | \$ 69 |
| Income tax paid/(received)   | (19)  | 44    |
| <b>Supplemental disclosures of noncash activities</b>                          |       |       |
| Common stock dividends reinvested in HEI common stock (1)                      | 12    | 17    |
| Increases in common stock issued under director and officer compensatory plans | 6     | 3     |
| Real estate acquired in settlement of loans                                    | 8     | 4     |

(1) For 2011, the amount shown represents dividends reinvested in HEI common stock under the HEI Dividend Reinvestment and Stock Purchase Plan (DRIP) in noncash transactions from January 1 through August 17, 2011. HEI satisfied the requirements of the HEI DRIP, the HEIRSP and the ASB 401(k) Plan (from August 18, 2011 through September 30, 2011), and is satisfying those requirements currently by acquiring for cash its common shares through open market purchases rather than by issuing additional shares.

**12 • Recent accounting pronouncements and interpretations**

**Troubled debt restructuring.** In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-02, *Receivables (Topic 310) A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, which clarifies which loan modifications constitute TDRs and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a TDR, both for purposes of recording an impairment loss and for disclosure of TDRs. In evaluating whether a restructuring constitutes a TDR, a creditor must separately conclude that both (a) the restructuring constitutes a concession by the creditor; and (b) the debtor is experiencing financial difficulties. Clarifying guidance is provided on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties.

The Company adopted the provisions of ASU No. 2011-02 retrospectively to all modifications and restructuring activities that have occurred from January 1, 2011 through September 30, 2011. As of September 30, 2011, the Company did not identify any loans that were newly considered TDRs under the provisions of ASU No. 2011-02.

**Repurchase agreements.** In April 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*, which is intended to improve the financial reporting of repurchase agreements and other agreements that entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This ASU removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets. ASB will apply this guidance prospectively to transactions or modifications of existing transactions that occur on or after January 1, 2012 and does not expect it to have a material impact on the Company's results of operations, financial condition or liquidity.

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**Fair value measurements.** In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which represents the converged guidance of the FASB and the International Accounting Standards Board (the Boards) on fair value measurement. This ASU includes the Boards' common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards.

The Company will prospectively adopt this standard in the first quarter of 2012 and does not expect it to have a material impact on the Company's results of operations, financial condition or liquidity.

**Comprehensive income.** In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. All items of net income and other comprehensive income are required to be presented in either a single continuous statement of

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comprehensive income or in two separate, but consecutive, statements a net income statement and a total comprehensive income statement.

The Company expects to retrospectively adopt this standard by the first quarter of 2012 using a two-statement approach.

**Goodwill.** In September 2011, the FASB issued ASU No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment, which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test.

The Company will early adopt this standard in the fourth quarter of 2011 and does not expect it to have a material impact on the Company's results of operations, financial condition or liquidity.

**13 • Credit agreement**

HEI maintains a revolving noncollateralized credit agreement establishing a line of credit facility of \$125 million, with a letter of credit sub-facility, expiring on May 7, 2013, with a syndicate of eight financial institutions. 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.



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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidated Statements of Income (unaudited)**

| (in thousands)  | Three months ended |                  | Nine months ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | September 30       |                  | September 30      |                  |
|   | 2011               | 2010             | 2011              | 2010             |
| <b>Operating revenues</b>                             | \$ 818,907         | \$ 622,223       | \$ 2,190,860      | \$ 1,751,029     |
| <b>Operating expenses</b>                             |                    |                  |                   |                  |
| Fuel oil  | 352,475            | 235,534          | 925,476           | 662,608          |
| Purchased power                                       | 188,484            | 147,880          | 508,179           | 404,175          |
| Other operation                                       | 61,415             | 62,665           | 194,334           | 182,163          |
| Maintenance   | 32,336             | 30,618           | 92,808            | 89,894           |
| Depreciation  | 34,983             | 36,277           | 107,673           | 113,568          |
| Taxes, other than income taxes                        | 75,355             | 58,317           | 202,502           | 164,278          |
| Income taxes  | 23,860             | 14,818           | 46,630            | 36,972           |
|   | 768,908            | 586,109          | 2,077,602         | 1,653,658        |
| <b>Operating income</b>                               | <b>49,999</b>      | <b>36,114</b>    | <b>113,258</b>    | <b>97,371</b>    |
| <b>Other income</b>                                   |                    |                  |                   |                  |
| Allowance for equity funds used during construction   | 1,570              | 1,197            | 4,131             | 4,817            |
| Other, net  | 1,170              | 510              | 2,978             | 2,123            |
|   | 2,740              | 1,707            | 7,109             | 6,940            |
| <b>Interest and other charges</b>                     |                    |                  |                   |                  |
| Interest on long-term debt                            | 14,383             | 14,383           | 43,149            | 43,149           |
| Amortization of net bond premium and expense          | 767                | 799              | 2,316             | 2,192            |
| Other interest charges                                | (210)              | 653              | 965               | 1,861            |
| Allowance for borrowed funds used during construction | (658)              | (492)            | (1,731)           | (2,061)          |
|   | 14,282             | 15,343           | 44,699            | 45,141           |
| <b>Net income</b>                                     | <b>38,457</b>      | <b>22,478</b>    | <b>75,668</b>     | <b>59,170</b>    |
| Preferred stock dividends of subsidiaries             | 228                | 228              | 686               | 686              |
| <b>Net income attributable to HECO</b>                | <b>38,229</b>      | <b>22,250</b>    | <b>74,982</b>     | <b>58,484</b>    |
| Preferred stock dividends of HECO                     | 270                | 270              | 810               | 810              |
| <b>Net income for common stock</b>                    | <b>\$ 37,959</b>   | <b>\$ 21,980</b> | <b>\$ 74,172</b>  | <b>\$ 57,674</b> |

HEI owns all of the common stock of HECO. Therefore, per share data with respect to shares of common stock of HECO are not meaningful.

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

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidated Balance Sheets (unaudited)**

| (dollars in thousands, except par value)  | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
| <b>Assets</b>   |                       |                      |
| <b>Utility plant, at cost</b>   |                       |                      |
| Land  | \$ 51,468             | \$ 51,364            |
| Plant and equipment   | 4,951,799             | 4,896,974            |
| Less accumulated depreciation   | (1,948,464)           | (1,941,059)          |
| Construction in progress  | 136,640               | 101,562              |
| <b>Net utility plant</b>  | <b>3,191,443</b>      | <b>3,108,841</b>     |
| <b>Current assets</b>   |                       |                      |
| Cash and cash equivalents   | 13,869                | 122,936              |
| Customer accounts receivable, net   | 182,932               | 138,171              |
| Accrued unbilled revenues, net  | 137,887               | 104,384              |
| Other accounts receivable, net  | 7,581                 | 9,376                |
| Fuel oil stock, at average cost   | 157,297               | 152,705              |
| Materials and supplies, at average cost   | 41,997                | 36,717               |
| Prepayments and other   | 33,156                | 55,216               |
| Regulatory assets   | 9,847                 | 7,349                |
| <b>Total current assets</b>   | <b>584,566</b>        | <b>626,854</b>       |
| <b>Other long-term assets</b>   |                       |                      |
| Regulatory assets   | 484,640               | 470,981              |
| Unamortized debt expense  | 12,744                | 14,030               |
| Other   | 77,366                | 64,974               |
| <b>Total other long-term assets</b>   | <b>574,750</b>        | <b>549,985</b>       |
| <b>Total assets</b>   | <b>\$ 4,350,759</b>   | <b>\$ 4,285,680</b>  |
| <b>Capitalization and liabilities</b>   |                       |                      |
| <b>Capitalization</b>   |                       |                      |
| Common stock (\$6 2/3 par value, authorized 50,000,000 shares; outstanding 13,830,823 shares) | \$ 92,224             | \$ 92,224            |
| Premium on capital stock  | 389,609               | 389,609              |
| Retained earnings   | 876,109               | 854,856              |
| Accumulated other comprehensive income, net of income taxes                                   | 905                   | 709                  |
| <b>Common stock equity</b>  | <b>1,358,847</b>      | <b>1,337,398</b>     |
| Cumulative preferred stock not subject to mandatory redemption                                | 34,293                | 34,293               |
| <b>Commitments and contingencies (Note 5)</b>   |                       |                      |
| Long-term debt, net   | 1,000,538             | 1,057,942            |
| <b>Total capitalization</b>   | <b>2,393,678</b>      | <b>2,429,633</b>     |
| <b>Current liabilities</b>  |                       |                      |
| Current portion of long-term debt   | 57,500                |                      |
| Short-term borrowings from nonaffiliates  | 12,498                |                      |
| Accounts payable  | 140,838               | 178,959              |
| Interest and preferred dividends payable  | 21,349                | 20,603               |
| Taxes accrued   | 199,543               | 175,960              |
| Other   | 54,413                | 56,354               |
| <b>Total current liabilities</b>  | <b>486,141</b>        | <b>431,876</b>       |
| <b>Deferred credits and other liabilities</b>   |                       |                      |
| Deferred income taxes   | 320,582               | 269,286              |
| Regulatory liabilities  | 313,299               | 296,797              |
| Unamortized tax credits   | 59,947                | 58,810               |

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|   |                     |                     |
|---|---------------------|---------------------|
| Retirement benefits liability                       | 325,060             | 355,844             |
| Other   | 107,942             | 108,070             |
| <b>Total deferred credits and other liabilities</b> | <b>1,126,830</b>    | <b>1,088,807</b>    |
| Contributions in aid of construction                | 344,110             | 335,364             |
| <b>Total capitalization and liabilities</b>         | <b>\$ 4,350,759</b> | <b>\$ 4,285,680</b> |

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

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidated Statements of Changes in Common Stock Equity (unaudited)**

| (in thousands)   | Common stock  |                  | Premium<br>on<br>capital<br>stock | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Total               |
|--|---------------|------------------|-----------------------------------|----------------------|--|---------------------|
|  | Shares        | Amount           |                                   |                      |  |                     |
| <b>Balance, December 31, 2010</b>  | <b>13,831</b> | <b>\$ 92,224</b> | <b>\$ 389,609</b>                 | <b>\$ 854,856</b>    | <b>\$ 709</b>  | <b>\$ 1,337,398</b> |
| Comprehensive income (loss):   |               |                  |                                   |                      |  |                     |
| Net income for common stock  |               |                  |                                   | 74,172               |  | 74,172              |
| Retirement benefit plans:  |               |                  |                                   |                      |  |                     |
| Less: amortization of net loss,<br>prior service gain and transition<br>obligation included in net<br>periodic benefit cost, net of tax<br>benefits of \$3,999 |               |                  |                                   |                      | 6,280  | 6,280               |
| Less: reclassification<br>adjustment for impact of D&Os<br>of the PUC included in<br>regulatory assets, net of taxes of<br>\$3,875                             |               |                  |                                   |                      | (6,084)  | (6,084)             |
| Other comprehensive income   |               |                  |                                   |                      | 196  | 74,368              |
| Comprehensive income   |               |                  |                                   |                      |  | 74,368              |
| Common stock dividends   |               |                  |                                   | (52,919)             |  | (52,919)            |
| <b>Balance, September 30, 2011</b>   | <b>13,831</b> | <b>\$ 92,224</b> | <b>\$ 389,609</b>                 | <b>\$ 876,109</b>    | <b>\$ 905</b>  | <b>\$ 1,358,847</b> |
| <b>Balance, December 31, 2009</b>  | <b>13,787</b> | <b>\$ 91,931</b> | <b>\$ 385,659</b>                 | <b>\$ 827,036</b>    | <b>\$ 1,782</b>  | <b>\$ 1,306,408</b> |
| Comprehensive income (loss):   |               |                  |                                   |                      |  |                     |
| Net income for common stock  |               |                  |                                   | 57,674               |  | 57,674              |
| Retirement benefit plans:  |               |                  |                                   |                      |  |                     |
| Less: amortization of net loss,<br>prior service gain and transition<br>obligation included in net<br>periodic benefit cost, net of tax<br>benefits of \$1,796 |               |                  |                                   |                      | 2,819  | 2,819               |
| Less: reclassification<br>adjustment for impact of D&Os<br>of the PUC included in<br>regulatory assets, net of taxes of<br>\$1,681                             |               |                  |                                   |                      | (2,640)  | (2,640)             |
| Other comprehensive income   |               |                  |                                   |                      | 179  | 57,853              |
| Comprehensive income   |               |                  |                                   |                      |  | 57,853              |
| Common stock dividends   |               |                  |                                   | (38,360)             |  | (38,360)            |
| Common stock issue expenses  |               |                  |                                   | (9)                  |  | (9)                 |
| <b>Balance, September 30, 2010</b>   | <b>13,787</b> | <b>\$ 91,931</b> | <b>\$ 385,650</b>                 | <b>\$ 846,350</b>    | <b>\$ 1,961</b>  | <b>\$ 1,325,892</b> |

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



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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidated Statements of Cash Flows (unaudited)**

| Nine months ended September 30<br>(in thousands)  | 2011             | 2010             |
|---|------------------|------------------|
| <b>Cash flows from operating activities</b>   |                  |                  |
| Net income  | \$ 75,668        | \$ 59,170        |
| Adjustments to reconcile net income to net cash provided by operating activities  |                  |                  |
| Depreciation of property, plant and equipment   | 107,673          | 113,568          |
| Other amortization  | 12,694           | 5,360            |
| Changes in deferred income taxes  | 51,120           | 74,720           |
| Changes in tax credits, net   | 1,416            | 1,939            |
| Allowance for equity funds used during construction   | (4,131)          | (4,817)          |
| Change in cash overdraft  | (2,688)          | 884              |
| Changes in assets and liabilities   |                  |                  |
| Increase in accounts receivable   | (42,966)         | (6,784)          |
| Increase in accrued unbilled revenues   | (33,503)         | (11,590)         |
| Increase in fuel oil stock  | (4,592)          | (42,569)         |
| Increase in materials and supplies  | (5,280)          | (385)            |
| Increase in regulatory assets   | (34,231)         | (3,269)          |
| Decrease in accounts payable  | (59,526)         | (28,729)         |
| Changes in prepaid and accrued income taxes and utility revenue taxes   | 44,498           | (55,202)         |
| Changes in other assets and liabilities   | (45,684)         | 1,415            |
| <b>Net cash provided by operating activities</b>  | <b>60,468</b>    | <b>103,711</b>   |
| <b>Cash flows from investing activities</b>   |                  |                  |
| Capital expenditures  | (142,734)        | (118,412)        |
| Contributions in aid of construction  | 15,106           | 16,775           |
| Other   | 77               | 657              |
| <b>Net cash used in investing activities</b>  | <b>(127,551)</b> | <b>(100,980)</b> |
| <b>Cash flows from financing activities</b>   |                  |                  |
| Common stock dividends  | (52,919)         | (38,360)         |
| Preferred stock dividends of HECO and subsidiaries  | (1,496)          | (1,496)          |
| Net increase in short-term borrowings from nonaffiliates and affiliate with original maturities of three months or less | 12,498           |                  |
| Other   | (67)             | (1,409)          |
| <b>Net cash used in financing activities</b>  | <b>(41,984)</b>  | <b>(41,265)</b>  |
| Net decrease in cash and cash equivalents   | (109,067)        | (38,534)         |
| Cash and cash equivalents, beginning of period  | 122,936          | 73,578           |
| <b>Cash and cash equivalents, end of period</b>   | <b>\$ 13,869</b> | <b>\$ 35,044</b> |

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

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Hawaiian Electric Company, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1 • Basis of presentation**

The accompanying unaudited consolidated financial statements have been prepared in conformity with GAAP for interim financial information, the instructions to SEC Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited consolidated financial statements and the following notes should be read in conjunction with the audited consolidated financial statements and the notes thereto incorporated by reference in HECO's Form 10-K for the year ended December 31, 2010 and the unaudited consolidated financial statements and the notes thereto in HECO's Quarterly Reports on SEC Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011.

In the opinion of HECO's management, the accompanying unaudited consolidated financial statements contain all material adjustments required by GAAP to fairly state the financial position of HECO and its subsidiaries as of September 30, 2011 and December 31, 2010 and the results of their operations for the three and nine months ended September 30, 2011 and 2010 and their cash flows for the nine months ended September 30, 2011 and 2010. All such adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q or other referenced material. Results of operations for interim periods are not necessarily indicative of results for the full year. When required, certain reclassifications are made to the prior period's consolidated financial statements to conform to the current presentation.

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

**2 • Unconsolidated variable interest entities**

**HECO Capital Trust III.** HECO Capital Trust III (Trust III) was created and exists for the exclusive purposes of (i) issuing in March 2004 2,000,000 6.50% Cumulative Quarterly Income Preferred Securities, Series 2004 (2004 Trust Preferred Securities) (\$50 million aggregate liquidation preference) to the public and trust common securities (\$1.5 million aggregate liquidation preference) to HECO, (ii) investing the proceeds of these trust securities in 2004 Debentures issued by HECO in the principal amount of \$31.5 million and issued by Hawaii Electric Light Company, Inc. (HELCO) and Maui Electric Company, Limited (MECO) 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 HECO, HELCO and MECO under an expense agreement and HECO's obligations under its trust guarantee and its guarantee of the obligations of

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HELCO and MECO under their respective debentures, are the sole assets of Trust III. Trust III has at all times been an unconsolidated subsidiary of HECO. Since HECO, as the common security holder, does not absorb the majority of the variability of Trust III, HECO is not the primary beneficiary and does not consolidate Trust III in accordance with accounting rules on the consolidation of VIEs. Trust III's balance sheets as of September 30, 2011 and December 31, 2010 each consisted of \$51.5 million of 2004 Debentures; \$50.0 million of 2004 Trust Preferred Securities; and \$1.5 million of trust common securities. Trust III's income statements for the nine months ended September 30, 2011 and 2010 each consisted of \$2.5 million of interest income received from the 2004 Debentures, \$2.4 million of distributions to holders of the Trust Preferred Securities, and \$0.1 million of common dividends on the trust common securities to HECO. So long as the 2004 Trust Preferred Securities are outstanding, HECO 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 HECO in the performance of its obligations under the 2004 Debentures or under its Guarantees, or in the event HECO, HELCO or MECO elect



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to defer payment of interest on any of their respective 2004 Debentures, then HECO 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 September 30, 2011, HECO and its subsidiaries had six PPAs totaling 540 megawatts (MW) of firm capacity and other PPAs with smaller independent power producers (IPPs) and Schedule Q providers (i.e., customers with cogeneration and/or small power production facilities with a capacity of 100 kW or less who buy power from or sell power to the utilities), none of which are currently required to be consolidated as VIEs. Approximately 91% of the 540 MW of firm capacity is pursuant to PPAs, entered into before December 31, 2003, with AES Hawaii, Inc. (AES Hawaii), Kalaeloa Partners, L.P. (Kalaeloa), Hamakua Energy Partners, L.P. (HEP) and HPOWER. Purchases from all IPPs for the nine months ended September 30, 2011 totaled \$508 million, with purchases from AES Hawaii, Kalaeloa, HEP and HPOWER totaling \$106 million, \$226 million, \$44 million and \$45 million, respectively.

Some of the IPPs have provided sufficient information for HECO to determine that the IPP was not a VIE, or was either a business or governmental organization (e.g., HPOWER), and thus excluded from the scope of accounting standards for VIEs. A windfarm and Kalaeloa provided sufficient information, as required under their PPAs or amendments, such that HECO could determine that consolidation was not required. Management has concluded that the consolidation of some IPPs is not required as HECO and its subsidiaries do not have variable interests in the IPPs because the PPAs do not require them to absorb any variability of the IPPs.

An enterprise with an interest in a VIE or potential VIE created before December 31, 2003 and not thereafter materially modified is not required to apply accounting standards for VIEs to that entity if the enterprise is unable to obtain the necessary information after making an exhaustive effort. HECO and its subsidiaries have made and continue to make exhaustive efforts to get the necessary information, but have been unsuccessful to date as it was not a contractual requirement prior to 2004. If the requested information is ultimately received from these IPPs, a possible outcome of future analyses of such information is the consolidation of one or more of such IPPs. The consolidation of any significant IPP could have a material effect on the Company's and HECO's consolidated financial statements, including the recognition of a significant amount of assets and liabilities and the potential recognition of losses. If HECO and its subsidiaries determine they are required to consolidate the financial statements of such an IPP and the consolidation has a material effect, HECO and its subsidiaries would retrospectively apply accounting standards for VIEs.

### 3 • Revenue taxes

HECO and its subsidiaries' operating revenues include amounts for various Hawaii state revenue taxes. Revenue taxes are generally recorded as an expense in the period the related revenues are recognized. However, HECO and its subsidiaries' revenue tax payments to the taxing authorities are based on the prior year's revenues. For the nine months ended September 30, 2011 and 2010, HECO and its subsidiaries included approximately \$193 million and \$156 million, respectively, of revenue taxes in operating revenues and in taxes, other than income taxes expense.

### 4 • Retirement benefits

**Retirement benefit plan changes.** See Retirement benefit plan changes in Note 5 of HEI's Notes to Consolidated Financial Statements.

**Defined benefit pension and other postretirement plans information.** For the first nine months of 2011, HECO and its subsidiaries contributed \$55 million to their retirement benefit plans, compared to \$24 million in the first nine months of 2010. HECO and its subsidiaries current estimate of contributions to their retirement benefit plans in 2011 is \$73 million, compared to contributions of \$31 million in 2010. The increase in expected 2011 contributions over 2010 contributions is driven by the minimum funding requirements under the Pension Protection Act of 2006, which were impacted by the following three factors: (1) the credit balance available to apply toward satisfaction of the minimum funding requirements was depleted in 2010 leaving less credit balance to be applied to 2011, (2) under the Pension Protection Act of 2006, the requirement was to fund 96% of the target liability in 2010, which

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increased to 100% for 2011 and future years, and (3) lower interest rates. HECO and its subsidiaries expect to pay directly \$1 million of benefits in 2011, comparable to 2010.

The components of net periodic benefit cost were as follows:

| (in thousands)  | Three months ended September 30 |           |                |          | Nine months ended September 30 |           |                |          |
|---|---------------------------------|-----------|----------------|----------|--------------------------------|-----------|----------------|----------|
|   | Pension benefits                |           | Other benefits |          | Pension benefits               |           | Other benefits |          |
|   | 2011                            | 2010      | 2011           | 2010     | 2011                           | 2010      | 2011           | 2010     |
| Service cost  | \$ 8,182                        | \$ 7,097  | \$ 827         | \$ 1,206 | \$ 25,221                      | \$ 20,479 | \$ 3,179       | \$ 3,425 |
| Interest cost   | 14,656                          | 14,816    | 2,197          | 2,500    | 44,308                         | 44,053    | 6,921          | 7,667    |
| Expected return on plan assets                              | (15,574)                        | (15,408)  | (2,655)        | (2,759)  | (46,210)                       | (46,085)  | (7,881)        | (8,202)  |
| Amortization of unrecognized transition obligation          |                                 |           | (2)            | (2)      |                                |           | (6)            | (6)      |
| Amortization of prior service gain                          | (187)                           | (186)     | (590)          | (86)     | (561)                          | (560)     | (1,129)        | (197)    |
| Recognized actuarial loss (gain)                            | 3,679                           | 1,925     | 104            | (2)      | 11,815                         | 5,377     | 159            | 2        |
| Net periodic benefit cost                                   | 10,756                          | 8,244     | (119)          | 857      | 34,573                         | 23,264    | 1,243          | 2,689    |
| Impact of PUC D&Os  | (713)                           | 2,574     | 327            | 1,512    | (2,813)                        | 7,602     | 3,079          | 4,133    |
| Net periodic benefit cost (adjusted for impact of PUC D&Os) | \$ 10,043                       | \$ 10,818 | \$ 208         | \$ 2,369 | \$ 31,760                      | \$ 30,866 | \$ 4,322       | \$ 6,822 |

HECO and its subsidiaries recorded retirement benefits expense of \$27 million and \$29 million for the first nine months of 2011 and 2010, respectively. The electric utilities charged a portion of the net periodic benefit cost to electric utility plant.

**Defined contribution plan information.** For the first nine months of 2011, the utilities expense for its defined contribution pension plan was de minimis.

### 5 • Commitments and contingencies

**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, the Division of Consumer Advocacy of the State Department of Commerce and Consumer Affairs, and HECO, on behalf of itself and its subsidiaries, HELCO and MECO (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.

**Renewable energy projects.** HECO and its subsidiaries continue to negotiate 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 and others. This includes HECO's commitment to integrate wind power into the Oahu electrical grid that would be imported via a yet-to-be-built undersea transmission cable system from a windfarm proposed to be built on the island of Lanai. The State and HECO are working together to ensure the supporting infrastructure needed is in place to reliably accommodate this large increment of wind power, including any required utility system connections or interfaces with the cable and the windfarm facility. In December 2009, the PUC allowed HECO to defer the costs of studies for this large wind project for later review of prudence and reasonableness, and HECO is now seeking PUC approval to recover the deferred costs totaling \$3.9 million through the REIP surcharge. Additionally, in July 2011, the PUC directed HECO to file a draft Request For Proposal (RFP) for 200 MW or more of renewable energy to be delivered to Oahu. In September 2011, the PUC opened a docket for the 200 MW renewable energy RFP, which will now include the undersea cable in the scope for bidders to consider. In October 2011, HECO filed a draft RFP with the PUC.

**Interim increases.** As of September 30, 2011, HECO and its subsidiaries had recognized \$24 million of revenues with respect to interim orders related to general rate increase requests. Revenue amounts recorded pursuant to interim orders are subject to refund, with interest, if they exceed amounts allowed in a final order.

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**Major 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 HECO's consolidated net income. Significant projects whose costs (or costs in excess of estimates) have not yet been allowed in rate base by a final PUC order include those described below.

In May 2011, based upon recommendations from the Consumer Advocate arising out of HECO's 2009 test-year rate case, the PUC ordered that independently conducted regulatory audits on the reasonableness of costs incurred for HECO's East Oahu Transmission Project, Campbell Industrial Park combustion turbine project, and Customer Information System Project be undertaken. The PUC confirmed that any revenue requirements arising from specific project costs being audited shall either remain interim and subject to refund until audit completion, or remain within regulatory deferral accounts. In the Interim D&O in the 2011 test year rate case, the PUC approved the portion of the settlement agreement in that proceeding allowing HECO to defer the portion of costs that are in excess of prior PUC approved amounts and related depreciation for HECO's East Oahu Transmission Project Phase 1 (\$43 million) and Campbell Industrial Park combustion turbine project (\$32 million) until completion of an independently conducted regulatory audit of the prudence and reasonableness of the total project costs. The PUC approved the accrual of a carrying charge on the cost of such projects not yet included in rates and the related depreciation expense, from July 1, 2011 until the regulatory audits are completed and the PUC has issued an order allowing the remaining project costs in electric rates. For accounting purposes, HECO will recognize the equity portion of the carrying charge when it is allowed in electric rates. The PUC did not approve the agreement to defer expenses (subject to a limit to which the parties had agreed) associated with the yet-to-be completed Customer Information System.

Campbell Industrial Park 110 MW combustion turbine No. 1 (CIP CT-1) and transmission line. HECO's incurred costs for this project, which was placed in service in 2009, were \$195 million, including \$9 million of allowance for funds used during construction (AFUDC). HECO's current rates reflect recovery of project costs of \$163 million. See Major projects above regarding the regulatory audit process that must be completed in connection with determining recovery of the remaining costs for this project. Management believes no adjustment to project costs is required as of September 30, 2011.

East Oahu Transmission Project (EOTP). HECO had planned a project to construct a partially underground transmission line to a major substation. However, in 2002, an application for a permit, which would have allowed construction in a route through conservation district lands, was denied. In 2007, the PUC approved HECO's request to expend funds for a revised EOTP using different routes requiring the construction of subtransmission lines in two phases (then estimated at \$56 million - \$42 million for Phase 1 and \$14 million for Phase 2), but did not address the issue as to whether the pre-2003 planning and permitting costs, and related AFUDC, should be included in the project costs.

Phase 1 was placed in service on June 29, 2010. As of September 30, 2011, HECO's incurred costs for Phase 1 of this project was \$59 million (as a result of higher costs and the project delays), including (i) \$12 million of pre-2003 planning and permitting costs, (ii) \$24 million of planning, permitting and construction costs incurred after the denial of the permit and (iii) \$23 million for AFUDC. The interim decision and orders (D&O) issued in HECO's 2011 test year rate case reflects approximately \$16 million of EOTP Phase 1 costs and related depreciation expense in determining revenue requirements. See Major projects above regarding the regulatory audit that is to be conducted before the PUC determines the recoverability of the remaining costs for EOTP Phase 1.

In April 2010, HECO proposed a modification of Phase 2 that uses smart grid technology and is estimated to cost \$10 million (total cost of \$15 million less \$5 million of funding through the Smart Grid Investment Grant Program of the American Recovery and Reinvestment Act of 2009). In October 2010, the PUC approved HECO's modification request for Phase 2, which is projected for completion in 2012. As of September 30, 2011, HECO's incurred costs for the Modified Phase 2 project amounted to \$9 million.



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Management believes no adjustment to project costs of EOTP Phase 1 or Modified Phase 2 is required as of September 30, 2011.

*Customer Information System Project.* In 2005, the PUC approved the utilities' request to (i) expend the then-estimated \$20 million (including \$18 million for capital and deferred costs) for a new Customer Information System (CIS), provided that no part of the project costs may be included in rate base until the project is in service and is used and useful for public utility purposes, and (ii) defer certain computer software development costs, accumulate AFUDC during the deferral period, amortize the deferred costs over a specified period and include the unamortized deferred costs in rate base, subject to specified conditions.

The CIS project is proceeding with the implementation of a new software system. As of September 30, 2011, HECO's total deferred and capital cost estimate for the CIS was \$57 million (of which \$36 million was recorded). The PUC has ordered that this project undergo a regulatory audit, which likely will not be planned until the CIS project is complete and the CIS is operational. Management believes no adjustment to CIS project costs is required as of September 30, 2011.

**Environmental regulation.** HECO and its subsidiaries 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 and regulatory activity related to the environment, including proposals and rulemaking under the Clean Air Act (CAA) and Clean Water Act (CWA), has 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 the utilities' Honolulu, Kahe and Waiau power plants on the island of Oahu. Although the proposed regulations provide some flexibility, management believes they do not adequately focus on site-specific conditions and cost-benefit factors and, if adopted as proposed, would require significant capital and annual O&M expenditures. As proposed, the regulations would require facilities to come into compliance within 8 years of the effective date of the final rule, which the EPA expects to issue in 2012.

Subsequently, on May 3, 2011, the Federal Register published the EPA's proposed National Emission Standards for Hazardous Air Pollutants for fossil-fuel fired steam electrical generating units (EGUs) that would establish Maximum Achievable Control Technology (MACT) standards for the control of hazardous air pollutants (HAP) in emissions from new and existing EGUs. The proposed rules, also known as EGU MACT, would apply to the 14 EGUs at the utilities' Honolulu, Kahe and Waiau power plants. As proposed, the regulations would require significant capital and annual expenditures for the installation and operation of emission control equipment on the utilities' EGUs. The CAA requires that facilities come into compliance with final MACT standards within 3 years of the final rule, although facilities may be granted a 1 year extension to install emission control technology. In view of the isolated nature of HECO's electrical system and the proposed requirement to install control equipment on all HECO steam generating units while maintaining system reliability, the EGU MACT compliance schedule poses a significant challenge to HECO. Under the terms of a settlement agreement, the EPA is required to issue the final rule by November 16, 2011.

Depending upon the final outcome of the CWA 316(b) regulations, possible changes in CWA effluent standards, the EGU MACT regulations, the tightening of the National Ambient Air Quality Standards, and the Regional Haze rule under the CAA, HECO and its subsidiaries 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 certain generating units earlier than anticipated.

HECO, HELCO and MECO, 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. Except as otherwise disclosed herein, HECO and its subsidiaries believe the costs of responding to their releases identified to date will not have a material adverse effect, individually or in the aggregate, on HECO's consolidated results of operations, financial condition or liquidity.



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Global climate change and greenhouse gas emissions reduction. National and international concern about climate change and the contribution of GHG emissions (including carbon dioxide emissions from the combustion of fossil fuels) to global warming 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 electric utilities are participating in a Task Force established under Act 234, which is 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. Because the regulations implementing Act 234 have not yet been promulgated, management cannot predict the impact of Act 234 on the electric utilities, but compliance costs could be significant.

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' reports for 2010 were submitted to the EPA by the September 30, 2011 deadline. In December 2009, the EPA made the finding that motor vehicle GHG emissions endanger public health or welfare. Management believes the EPA will make the same or similar endangerment finding regarding GHG emissions from stationary sources like the utilities' generating units.

In June 2010, the EPA issued its Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule (GHG Tailoring Rule) that created new thresholds for GHG emissions from new and existing facilities. States may need to increase fees to cover the increased level of activity caused by this rule. Effective January 2, 2011, under the Prevention of Significant Deterioration program, permitting of new or modified stationary sources (such as utility electrical generating units) 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. In January 2011, the EPA announced that it plans to defer, for three years, GHG permitting requirements for carbon dioxide (CO<sub>2</sub>) emissions from biomass-fired and other biogenic sources. The utilities are evaluating the impact of this deferral on their generation units that are or will be fired on biofuels.

HECO and its subsidiaries 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 HECO's CIP CT-1, using biodiesel for startup and shutdown of selected MECO generation units, and testing biofuel blends in other HECO and MECO generating units. 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 electric utilities' carbon footprint and meeting GHG reduction goals that will ultimately emerge.

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

The utilities are undertaking an adaptation survey of their facilities as a step in developing a longer-term strategy for responding to the consequences of global climate change.

**Fuel contracts and power purchase agreements.** HECO and Chevron Products Company, a division of Chevron USA, Inc. (Chevron), are parties to an amended contract for the purchase/sale of low sulfur fuel oil (LSFO), which terminates on April 30, 2013.

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HECO and Tesoro Hawaii Corporation (Tesoro) are parties to an amended LSFO supply contract (LSFO contract). The term of the amended agreement runs through April 30, 2013 and may automatically renew for annual terms thereafter unless earlier terminated by either party.

The energy charge for energy purchased from Kalaeloa under HECO's PPA with Kalaeloa is based, in part, on the price Kalaeloa pays Tesoro for fuel oil under a Facility Fuel Supply Contract (fuel contract) between them. Kalaeloa and Tesoro have negotiated a proposed amendment to the pricing formula in their fuel contract. The amendment could result in higher fuel prices for Kalaeloa, which would in turn increase the energy charge paid by HECO to Kalaeloa. HECO consented to the amendment on September 7, 2010.

On May 13, 2011, the PUC approved the latest Chevron and Tesoro amendments and HECO's consent to the Kalaeloa-Tesoro amendment and allowed HECO to include the costs incurred under the amendments in its ECAC, to the extent such costs are not recovered through HECO's base rates.

**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. HECO and its subsidiaries' recognition of AROs have no impact on its earnings. The cost of the AROs is recovered over the life of the asset through depreciation. AROs recognized by HECO and its subsidiaries relate to obligations to retire plant and equipment, including removal of asbestos and other hazardous materials. In September 2009, HECO recorded an estimated ARO of \$23 million related to removing retired generating units at its Honolulu power plant, including abating asbestos and lead-based paint. The obligation was subsequently increased by an additional \$11 million in June 2010, due to an increase in the estimated costs of the removal project. In August 2010, HECO recorded a similar estimated ARO of \$12 million related to removing retired generating units at HECO's Waiau power plant.

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

| (in thousands)                    | 2011 |        | 2010 |        |
|-----------------------------------|------|--------|------|--------|
| Balance, January 1                | \$   | 48,630 | \$   | 23,746 |
| Accretion expense                 |      | 1,641  |      | 1,714  |
| Liabilities incurred              |      |        |      | 11,949 |
| Liabilities settled               |      | (681)  |      | (499)  |
| Revisions in estimated cash flows |      | 390    |      | 11,141 |
| Balance, September 30             | \$   | 49,980 | \$   | 48,051 |

**Collective bargaining agreements.** As of September 30, 2011, approximately 53% of the electric utilities' employees were members of the International Brotherhood of Electrical Workers, AFL-CIO, Local 1260, which is the only union representing employees of the electric utilities. On March 11, 2011, the utilities' bargaining unit employees ratified a new collective bargaining agreement and a new benefit agreement. The new collective bargaining agreement covers a term from January 1, 2011 to October 31, 2013 and provides for non-compounded wage increases (1.75%, 2.5%, and 3.0% for 2011, 2012 and 2013, respectively). The new benefit agreement covers a term from January 1, 2011 to October 31, 2014 and includes changes to medical, dental and vision plans with increased employee contributions and changes to retirement benefits for employees. See Note 4.

**6 • Cash flows**

| Nine months ended September 30<br>(in millions)                            | 2011  | 2010  |
|--|-------|-------|
| <b>Supplemental disclosures of cash flow information</b>                   |       |       |
| Interest paid  | \$ 43 | \$ 42 |
| Income tax paid/(received)   | (27)  | 37    |
| <b>Supplemental disclosures of noncash activities</b>                      |       |       |
| Electric utility property, plant and equipment - Unpaid invoices and other | 21    | 13    |

**7 • Recent accounting pronouncements and interpretations**

For a discussion of recent accounting pronouncements and interpretations, see Note 12 of HEI's Notes to Consolidated Financial Statements.

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Fair value estimates are based on the price that would be received to sell an asset, or paid upon the transfer of a liability, in an orderly transaction between market participants at the measurement date. The fair value estimates are generally determined based on assumptions that market participants would use in pricing the asset or liability and are based on market data obtained from independent sources. However, in certain cases, the electric utilities use their own assumptions about market participant assumptions based on the best information available in the circumstances. These valuations are estimates at a specific point in time, based on relevant market information, information about the financial instrument and judgments regarding future expected loss experience, economic conditions, risk characteristics of various financial instruments and other factors. These estimates do not reflect any premium or discount that could result if the electric utilities were to sell their entire holdings of a particular financial instrument at one time. Because no market exists for a portion of the electric utilities' financial instruments, fair value estimates cannot be determined with precision. Changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the estimates. Fair value estimates are provided for certain financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses could have a significant effect on fair value estimates, but have not been considered in determining such fair values.

The electric utilities used the following methods and assumptions to estimate the fair value of each applicable class of financial instruments for which it is practicable to estimate that value:

**Cash and cash equivalents and short-term borrowings.** The carrying amount approximated fair value because of the short maturity of these instruments.

**Long-term debt.** Fair value was obtained from a third-party financial services provider or the BLOOMBERG PROFESSIONAL service based on the current rates offered for debt of the same or similar remaining maturities.

**Off-balance sheet financial instruments.** Fair value of HECO-obligated preferred securities of trust subsidiaries was based on quoted market prices.

The estimated fair values of the financial instruments held or issued by the electric utilities were as follows:

| (in thousands)   | September 30, 2011 |                         | December 31, 2010  |                         |
|--|--------------------|-------------------------|--------------------|-------------------------|
|  | Carrying<br>amount | Estimated<br>fair value | Carrying<br>amount | Estimated<br>fair value |
| <b>Financial assets</b>                                    |                    |                         |                    |                         |
| Cash and cash equivalents                                  | \$ 13,869          | \$ 13,869               | \$ 122,936         | \$ 122,936              |
| <b>Financial liabilities</b>                               |                    |                         |                    |                         |
| Long-term debt, net, including amounts due within one year | 1,058,038          | 1,033,222               | 1,057,942          | 1,020,550               |

**Off-balance sheet item**

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| HECO-obligated preferred securities of trust subsidiary | 50,000 | 51,960 | 50,000 | 52,500 |
|---|--------|--------|--------|--------|

**Fair value measurements on a nonrecurring basis.** From time to time, the utilities may be required to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. As of September 30, 2011, there were no adjustments to fair value for assets measured at fair value on a nonrecurring basis in accordance with GAAP.

From time to time, the utilities may be required to measure certain liabilities at fair value on a nonrecurring basis in accordance with GAAP. The fair value of the utilities ARO (Level 3) was determined by discounting the expected future cash flows using market-observable risk-free rates as adjusted by HECO's credit spread. See Note 5.

Table of Contents**9 • Credit agreement**

HECO maintains a revolving noncollateralized credit agreement establishing a line of credit facility of \$175 million, with a letter of credit sub-facility, with a syndicate of eight financial institutions, expiring on May 7, 2013. The credit facility will be maintained to support the issuance of commercial paper, but also may be drawn to repay HECO's short-term indebtedness, to make loans to subsidiaries and for HECO's capital expenditures, working capital and general corporate purposes.

**10 • Reconciliation of electric utility operating income per HEI and HECO consolidated statements of income**

| (in thousands)  | Three months ended<br>September 30 |           | Nine months ended<br>September 30 |            |
|---|------------------------------------|-----------|-----------------------------------|------------|
|   | 2011                               | 2010      | 2011                              | 2010       |
| Operating income from regulated and nonregulated activities before income taxes (per HEI consolidated statements of income) | \$ 74,956                          | \$ 51,343 | \$ 162,682                        | \$ 135,387 |
| Deduct:   |                                    |           |                                   |            |
| Income taxes on regulated activities  | (23,860)                           | (14,818)  | (46,630)                          | (36,972)   |
| Revenues from nonregulated activities   | (1,347)                            | (903)     | (3,467)                           | (4,303)    |
| Add: Expenses from nonregulated activities  | 250                                | 492       | 673                               | 3,259      |
| Operating income from regulated activities after income taxes (per HECO consolidated statements of income)                  | \$ 49,999                          | \$ 36,114 | \$ 113,258                        | \$ 97,371  |

**11 • Consolidating financial information**

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

HECO also unconditionally guarantees HELCO's and MECO'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 HELCO and MECO and (b) relating to the trust preferred securities of Trust III (see Note 2 above). HECO is also obligated, after the satisfaction of its obligations on its own preferred stock, to make dividend, redemption and liquidation payments on HELCO's and MECO's preferred stock if the respective subsidiary is unable to make such payments.

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Income (Loss) (unaudited)**

Three months ended September 30, 2011

| (in thousands)  | HECO       | HELCO   | MECO    | RHI | UBC | Reclassifications<br>and<br>eliminations | HECO<br>Consolidated |
|---|------------|---------|---------|-----|-----|--|----------------------|
| Operating revenues  | \$ 590,014 | 118,420 | 110,473 |     |     |  | \$ 818,907           |
| <b>Operating expenses</b>                                   |            |         |         |     |     |  |                      |
| Fuel oil  | 259,027    | 31,433  | 62,015  |     |     |  | 352,475              |
| Purchased power   | 141,742    | 38,252  | 8,490   |     |     |  | 188,484              |
| Other operation   | 43,604     | 8,530   | 9,281   |     |     |  | 61,415               |
| Maintenance   | 20,776     | 5,115   | 6,445   |     |     |  | 32,336               |
| Depreciation  | 21,613     | 8,148   | 5,222   |     |     |  | 34,983               |
| Taxes, other than<br>income taxes                           | 54,052     | 10,929  | 10,374  |     |     |  | 75,355               |
| Income taxes  | 16,341     | 4,988   | 2,531   |     |     |  | 23,860               |
|   | 557,155    | 107,395 | 104,358 |     |     |  | 768,908              |
| <b>Operating income</b>                                     | 32,859     | 11,025  | 6,115   |     |     |  | 49,999               |
| <b>Other income</b>   |            |         |         |     |     |  |                      |
| Allowance for equity<br>funds used during<br>construction   | 1,220      | 131     | 219     |     |     |  | 1,570                |
| Equity in earnings of<br>subsidiaries                       | 11,929     |         |         |     |     | (11,929)                                 |                      |
| Other, net  | 930        | 130     | 116     | (2) |     | (4)                                      | 1,170                |
|   | 14,079     | 261     | 335     | (2) |     | (11,933)                                 | 2,740                |
| <b>Interest and other<br/>charges</b>                       |            |         |         |     |     |  |                      |
| Interest on long-term<br>debt                               | 9,130      | 2,985   | 2,268   |     |     |  | 14,383               |
| Amortization of net<br>bond premium and<br>expense          | 503        | 137     | 127     |     |     |  | 767                  |
| Other interest charges                                      | (406)      | 97      | 103     |     |     | (4)                                      | (210)                |
| Allowance for<br>borrowed funds used<br>during construction | (518)      | (54)    | (86)    |     |     |  | (658)                |
|   | 8,709      | 3,165   | 2,412   |     |     | (4)                                      | 14,282               |
| <b>Net income (loss)</b>                                    | 38,229     | 8,121   | 4,038   | (2) |     | (11,929)                                 | 38,457               |
| Preferred stock<br>dividend of<br>subsidiaries              |            | 133     | 95      |     |     |  | 228                  |
| <b>Net income (loss)<br/>attributable to<br/>HECO</b>       | 38,229     | 7,988   | 3,943   | (2) |     | (11,929)                                 | 38,229               |
| Preferred stock<br>dividends of HECO                        | 270        |         |         |     |     |  | 270                  |
|   | \$ 37,959  | 7,988   | 3,943   | (2) |     | (11,929)                                 | \$ 37,959            |



**Net income (loss) for  
common stock**

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Income (Loss) (unaudited)**

Three months ended September 30, 2010

| (in thousands)  | HECO       | HELCO  | MECO   | RHI | UBC | Reclassifications<br>and<br>eliminations | HECO<br>Consolidated |
|---|------------|--------|--------|-----|-----|--|----------------------|
| Operating revenues  | \$ 436,919 | 95,645 | 89,659 |     |     |  | \$ 622,223           |
| <b>Operating expenses</b>                                   |            |        |        |     |     |  |                      |
| Fuel oil  | 168,019    | 22,968 | 44,547 |     |     |  | 235,534              |
| Purchased power   | 111,552    | 30,206 | 6,122  |     |     |  | 147,880              |
| Other operation   | 44,949     | 7,848  | 9,868  |     |     |  | 62,665               |
| Maintenance   | 20,258     | 4,995  | 5,365  |     |     |  | 30,618               |
| Depreciation  | 21,197     | 9,127  | 5,953  |     |     |  | 36,277               |
| Taxes, other than<br>income taxes                           | 40,924     | 8,904  | 8,489  |     |     |  | 58,317               |
| Income taxes  | 8,665      | 3,327  | 2,826  |     |     |  | 14,818               |
|   | 415,564    | 87,375 | 83,170 |     |     |  | 586,109              |
| <b>Operating income</b>                                     | 21,355     | 8,270  | 6,489  |     |     |  | 36,114               |
| <b>Other income</b>   |            |        |        |     |     |  |                      |
| Allowance for equity<br>funds used during<br>construction   | 923        | 129    | 145    |     |     |  | 1,197                |
| Equity in earnings of<br>subsidiaries                       | 9,454      |        |        |     |     | (9,454)                                  |                      |
| Other, net  | 267        | 147    | 120    | (2) | (2) | (20)                                     | 510                  |
|   | 10,644     | 276    | 265    | (2) | (2) | (9,474)                                  | 1,707                |
| <b>Interest and other<br/>charges</b>                       |            |        |        |     |     |  |                      |
| Interest on long-term<br>debt                               | 9,130      | 2,985  | 2,268  |     |     |  | 14,383               |
| Amortization of net<br>bond premium and<br>expense          | 512        | 160    | 127    |     |     |  | 799                  |
| Other interest charges                                      | 476        | 92     | 105    |     |     | (20)                                     | 653                  |
| Allowance for<br>borrowed funds used<br>during construction | (369)      | (66)   | (57)   |     |     |  | (492)                |
|   | 9,749      | 3,171  | 2,443  |     |     | (20)                                     | 15,343               |
| <b>Net income (loss)</b>                                    | 22,250     | 5,375  | 4,311  | (2) | (2) | (9,454)                                  | 22,478               |
| Preferred stock<br>dividend of<br>subsidiaries              |            | 133    | 95     |     |     |  | 228                  |
| <b>Net income (loss)<br/>attributable to<br/>HECO</b>       | 22,250     | 5,242  | 4,216  | (2) | (2) | (9,454)                                  | 22,250               |
| Preferred stock<br>dividends of HECO                        | 270        |        |        |     |     |  | 270                  |
|   | \$ 21,980  | 5,242  | 4,216  | (2) | (2) | (9,454)                                  | \$ 21,980            |

**Net income (loss) for  
common stock**

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Income (Loss) (unaudited)**

Nine months ended September 30, 2011

| (in thousands)  | HECO         | HELCO   | MECO    | RHI | UBC | Reclassifications<br>and<br>eliminations | HECO<br>Consolidated |
|---|--------------|---------|---------|-----|-----|--|----------------------|
| Operating revenues  | \$ 1,550,491 | 328,650 | 311,719 |     |     |  | \$ 2,190,860         |
| <b>Operating expenses</b>                                   |              |         |         |     |     |  |                      |
| Fuel oil  | 662,524      | 90,047  | 172,905 |     |     |  | 925,476              |
| Purchased power   | 386,414      | 100,516 | 21,249  |     |     |  | 508,179              |
| Other operation   | 139,255      | 26,322  | 28,757  |     |     |  | 194,334              |
| Maintenance   | 64,045       | 13,263  | 15,500  |     |     |  | 92,808               |
| Depreciation  | 67,381       | 24,619  | 15,673  |     |     |  | 107,673              |
| Taxes, other than<br>income taxes                           | 143,049      | 30,265  | 29,188  |     |     |  | 202,502              |
| Income taxes  | 24,679       | 13,482  | 8,469   |     |     |  | 46,630               |
|   | 1,487,347    | 298,514 | 291,741 |     |     |  | 2,077,602            |
| <b>Operating income</b>                                     | 63,144       | 30,136  | 19,978  |     |     |  | 113,258              |
| <b>Other income</b>   |              |         |         |     |     |  |                      |
| Allowance for equity<br>funds used during<br>construction   | 3,154        | 447     | 530     |     |     |  | 4,131                |
| Equity in earnings of<br>subsidiaries                       | 34,382       |         |         |     |     | (34,382)                                 |                      |
| Other, net  | 2,288        | 450     | 270     | (4) | (4) | (22)                                     | 2,978                |
|   | 39,824       | 897     | 800     | (4) | (4) | (34,404)                                 | 7,109                |
| <b>Interest and other<br/>charges</b>                       |              |         |         |     |     |  |                      |
| Interest on long-term<br>debt                               | 27,391       | 8,954   | 6,804   |     |     |  | 43,149               |
| Amortization of net<br>bond premium and<br>expense          | 1,519        | 417     | 380     |     |     |  | 2,316                |
| Other interest charges                                      | 414          | 271     | 302     |     |     | (22)                                     | 965                  |
| Allowance for<br>borrowed funds used<br>during construction | (1,338)      | (189)   | (204)   |     |     |  | (1,731)              |
|   | 27,986       | 9,453   | 7,282   |     |     | (22)                                     | 44,699               |
| <b>Net income (loss)</b>                                    | 74,982       | 21,580  | 13,496  | (4) | (4) | (34,382)                                 | 75,668               |
| Preferred stock<br>dividend of<br>subsidiaries              |              | 400     | 286     |     |     |  | 686                  |
| <b>Net income (loss)<br/>attributable to<br/>HECO</b>       | 74,982       | 21,180  | 13,210  | (4) | (4) | (34,382)                                 | 74,982               |
| Preferred stock<br>dividends of HECO                        | 810          |         |         |     |     |  | 810                  |
|   | \$ 74,172    | 21,180  | 13,210  | (4) | (4) | (34,382)                                 | \$ 74,172            |

**Net income (loss) for  
common stock**

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Income (Loss) (unaudited)**

Nine months ended September 30, 2010

| (in thousands)  | HECO         | HELCO   | MECO    | RHI | UBC  | Reclassifications<br>and<br>eliminations | HECO<br>Consolidated |
|---|--------------|---------|---------|-----|------|--|----------------------|
| Operating revenues  | \$ 1,220,589 | 276,120 | 254,320 |     |      |  | \$ 1,751,029         |
| <b>Operating expenses</b>                                   |              |         |         |     |      |  |                      |
| Fuel oil  | 464,482      | 69,600  | 128,526 |     |      |  | 662,608              |
| Purchased power   | 302,106      | 83,671  | 18,398  |     |      |  | 404,175              |
| Other operation   | 130,795      | 25,097  | 26,271  |     |      |  | 182,163              |
| Maintenance   | 55,898       | 16,305  | 17,691  |     |      |  | 89,894               |
| Depreciation  | 65,022       | 27,380  | 21,166  |     |      |  | 113,568              |
| Taxes, other than<br>income taxes                           | 114,481      | 25,741  | 24,056  |     |      |  | 164,278              |
| Income taxes  | 25,417       | 7,369   | 4,186   |     |      |  | 36,972               |
|   | 1,158,201    | 255,163 | 240,294 |     |      |  | 1,653,658            |
| <b>Operating income</b>                                     | 62,388       | 20,957  | 14,026  |     |      |  | 97,371               |
| <b>Other income</b>   |              |         |         |     |      |  |                      |
| Allowance for equity<br>funds used during<br>construction   | 4,081        | 330     | 406     |     |      |  | 4,817                |
| Equity in earnings of<br>subsidiaries                       | 18,173       |         |         |     |      | (18,173)                                 |                      |
| Other, net  | 2,271        | 402     | (464)   | (6) | (12) | (68)                                     | 2,123                |
|   | 24,525       | 732     | (58)    | (6) | (12) | (18,241)                                 | 6,940                |
| <b>Interest and other<br/>charges</b>                       |              |         |         |     |      |  |                      |
| Interest on long-term<br>debt                               | 27,391       | 8,954   | 6,804   |     |      |  | 43,149               |
| Amortization of net<br>bond premium and<br>expense          | 1,429        | 395     | 368     |     |      |  | 2,192                |
| Other interest charges                                      | 1,342        | 288     | 299     |     |      | (68)                                     | 1,861                |
| Allowance for<br>borrowed funds used<br>during construction | (1,733)      | (168)   | (160)   |     |      |  | (2,061)              |
|   | 28,429       | 9,469   | 7,311   |     |      | (68)                                     | 45,141               |
| <b>Net income (loss)</b>                                    | 58,484       | 12,220  | 6,657   | (6) | (12) | (18,173)                                 | 59,170               |
| Preferred stock<br>dividend of<br>subsidiaries              |              | 400     | 286     |     |      |  | 686                  |
| <b>Net income (loss)<br/>attributable to<br/>HECO</b>       | 58,484       | 11,820  | 6,371   | (6) | (12) | (18,173)                                 | 58,484               |
| Preferred stock<br>dividends of HECO                        | 810          |         |         |     |      |  | 810                  |
|   | \$ 57,674    | 11,820  | 6,371   | (6) | (12) | (18,173)                                 | \$ 57,674            |

**Net income (loss) for  
common stock**

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Balance Sheet (unaudited)**

September 30, 2011

| (in thousands)   | HECO         | HELCO     | MECO      | RHI | UBC | Reclassifications<br>and<br>Eliminations | HECO<br>Consolidated |
|--|--------------|-----------|-----------|-----|-----|--|----------------------|
| <b>Assets</b>  |              |           |           |     |     |  |                      |
| Utility plant, at cost   |              |           |           |     |     |  |                      |
| Land   | \$ 43,271    | 5,182     | 3,015     |     |     |  | \$ 51,468            |
| Plant and equipment  | 3,029,505    | 1,026,081 | 896,213   |     |     |  | 4,951,799            |
| Less accumulated depreciation                                  | (1,131,520)  | (410,842) | (406,102) |     |     |  | (1,948,464)          |
| Construction in progress                                       | 101,762      | 19,546    | 15,332    |     |     |  | 136,640              |
| Net utility plant  | 2,043,018    | 639,967   | 508,458   |     |     |  | 3,191,443            |
| Investment in wholly owned subsidiaries, at equity             | 514,143      |           |           |     |     | (514,143)                                |                      |
| <b>Current assets</b>  |              |           |           |     |     |  |                      |
| Cash and cash equivalents                                      | 8,847        | 3,292     | 1,621     | 83  | 26  |  | 13,869               |
| Advances to affiliates   |              | 44,700    | 19,000    |     |     | (63,700)                                 |                      |
| Customer accounts receivable, net                              | 127,968      | 29,198    | 25,766    |     |     |  | 182,932              |
| Accrued unbilled revenues, net                                 | 104,194      | 17,737    | 15,956    |     |     |  | 137,887              |
| Other accounts receivable, net                                 | 10,747       | 1,205     | 2,041     |     |     | (6,412)                                  | 7,581                |
| Fuel oil stock, at average cost                                | 113,649      | 20,442    | 23,206    |     |     |  | 157,297              |
| Materials and supplies, at average cost                        | 23,530       | 4,584     | 13,883    |     |     |  | 41,997               |
| Prepayments and other  | 27,438       | 3,818     | 3,449     |     |     | (1,549)                                  | 33,156               |
| Regulatory assets  | 7,327        | 1,286     | 1,234     |     |     |  | 9,847                |
| Total current assets   | 423,700      | 126,262   | 106,156   | 83  | 26  | (71,661)                                 | 584,566              |
| <b>Other long-term assets</b>                                  |              |           |           |     |     |  |                      |
| Regulatory assets  | 364,309      | 59,516    | 60,815    |     |     |  | 484,640              |
| Unamortized debt expense                                       | 8,389        | 2,432     | 1,923     |     |     |  | 12,744               |
| Other  | 51,642       | 10,590    | 15,134    |     |     |  | 77,366               |
| Total other long-term assets                                   | 424,340      | 72,538    | 77,872    |     |     |  | 574,750              |
| Total assets   | \$ 3,405,201 | 838,767   | 692,486   | 83  | 26  | (585,804)                                | \$ 4,350,759         |
| <b>Capitalization and liabilities</b>                          |              |           |           |     |     |  |                      |
| <b>Capitalization</b>  |              |           |           |     |     |  |                      |
| Common stock equity  | \$ 1,358,847 | 279,672   | 234,363   | 82  | 26  | (514,143)                                | \$ 1,358,847         |
| Cumulative preferred stock not subject to mandatory redemption | 22,293       | 7,000     | 5,000     |     |     |  | 34,293               |
| Long-term debt, net  | 629,740      | 204,102   | 166,696   |     |     |  | 1,000,538            |



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|  |              |         |         |    |    |           |              |
|--|--------------|---------|---------|----|----|-----------|--------------|
| Total capitalization                         | 2,010,880    | 490,774 | 406,059 | 82 | 26 | (514,143) | 2,393,678    |
| Current liabilities                          |              |         |         |    |    |           |              |
| Current portion of long-term debt            | 42,580       | 7,200   | 7,720   |    |    |           | 57,500       |
| Short-term borrowings-nonaffiliates          | 12,498       |         |         |    |    |           | 12,498       |
| Short-term borrowings-affiliate              | 63,700       |         |         |    |    | (63,700)  |              |
| Accounts payable                             | 101,479      | 23,695  | 15,664  |    |    |           | 140,838      |
| Interest and preferred dividends payable     | 13,300       | 4,247   | 3,803   |    |    | (1)       | 21,349       |
| Taxes accrued                                | 133,631      | 35,022  | 32,439  |    |    | (1,549)   | 199,543      |
| Other  | 34,490       | 11,250  | 15,083  | 1  |    | (6,411)   | 54,413       |
| Total current liabilities                    | 401,678      | 81,414  | 74,709  | 1  |    | (71,661)  | 486,141      |
| Deferred credits and other liabilities       |              |         |         |    |    |           |              |
| Deferred income taxes                        | 232,657      | 54,699  | 33,226  |    |    |           | 320,582      |
| Regulatory liabilities                       | 214,267      | 60,748  | 38,284  |    |    |           | 313,299      |
| Unamortized tax credits                      | 34,198       | 13,350  | 12,399  |    |    |           | 59,947       |
| Retirement benefits liability                | 248,585      | 35,798  | 40,677  |    |    |           | 325,060      |
| Other  | 67,829       | 27,832  | 12,281  |    |    |           | 107,942      |
| Total deferred credits and other liabilities | 797,536      | 192,427 | 136,867 |    |    |           | 1,126,830    |
| Contributions in aid of construction         | 195,107      | 74,152  | 74,851  |    |    |           | 344,110      |
| Total capitalization and liabilities         | \$ 3,405,201 | 838,767 | 692,486 | 83 | 26 | (585,804) | \$ 4,350,759 |

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Balance Sheet (unaudited)**

December 31, 2010

| (in thousands)   | HECO         | HELCO     | MECO      | RHI | UBC | Reclassifications<br>and<br>Eliminations | HECO<br>Consolidated |
|--|--------------|-----------|-----------|-----|-----|--|----------------------|
| <b>Assets</b>  |              |           |           |     |     |  |                      |
| Utility plant, at cost   |              |           |           |     |     |  |                      |
| Land   | \$ 43,240    | 5,108     | 3,016     |     |     |  | \$ 51,364            |
| Plant and equipment  | 2,984,887    | 1,030,520 | 881,567   |     |     |  | 4,896,974            |
| Less accumulated depreciation                                  | (1,134,423)  | (408,704) | (397,932) |     |     |  | (1,941,059)          |
| Construction in progress                                       | 78,934       | 9,828     | 12,800    |     |     |  | 101,562              |
| Net utility plant  | 1,972,638    | 636,752   | 499,451   |     |     |  | 3,108,841            |
| Investment in wholly owned subsidiaries, at equity             | 500,801      |           |           |     |     | (500,801)                                |                      |
| <b>Current assets</b>  |              |           |           |     |     |  |                      |
| Cash and cash equivalents                                      | 121,019      | 1,229     | 594       | 89  | 5   |  | 122,936              |
| Advances to affiliates   |              | 30,950    | 29,500    |     |     | (60,450)                                 |                      |
| Customer accounts receivable, net                              | 93,474       | 23,484    | 21,213    |     |     |  | 138,171              |
| Accrued unbilled revenues, net                                 | 71,712       | 16,018    | 16,654    |     |     |  | 104,384              |
| Other accounts receivable, net                                 | 11,536       | 3,319     | 668       |     |     | (6,147)                                  | 9,376                |
| Fuel oil stock, at average cost                                | 121,280      | 15,751    | 15,674    |     |     |  | 152,705              |
| Materials and supplies, at average cost                        | 18,890       | 4,498     | 13,329    |     |     |  | 36,717               |
| Prepayments and other  | 36,974       | 9,825     | 8,417     |     |     |  | 55,216               |
| Regulatory assets  | 5,294        | 1,064     | 991       |     |     |  | 7,349                |
| Total current assets   | 480,179      | 106,138   | 107,040   | 89  | 5   | (66,597)                                 | 626,854              |
| <b>Other long-term assets</b>                                  |              |           |           |     |     |  |                      |
| Regulatory assets  | 352,038      | 61,051    | 57,892    |     |     |  | 470,981              |
| Unamortized debt expense                                       | 9,240        | 2,681     | 2,109     |     |     |  | 14,030               |
| Other  | 41,236       | 8,257     | 15,481    |     |     |  | 64,974               |
| Total other long-term assets                                   | 402,514      | 71,989    | 75,482    |     |     |  | 549,985              |
| Total assets   | \$ 3,356,132 | 814,879   | 681,973   | 89  | 5   | (567,398)                                | \$ 4,285,680         |
| <b>Capitalization and liabilities</b>                          |              |           |           |     |     |  |                      |
| <b>Capitalization</b>  |              |           |           |     |     |  |                      |
| Common stock equity  | \$ 1,337,398 | 270,573   | 230,137   | 86  | 5   | (500,801)                                | \$ 1,337,398         |
| Cumulative preferred stock not subject to mandatory redemption | 22,293       | 7,000     | 5,000     |     |     |  | 34,293               |

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|                           |              |         |         |    |   |           |              |
|---------------------------|--------------|---------|---------|----|---|-----------|--------------|
| Long-term debt, net       | 672,268      | 211,279 | 174,395 |    |   |           | 1,057,942    |
| Total capitalization      | 2,031,959    | 488,852 | 409,532 | 86 | 5 | (500,801) | 2,429,633    |
| Current liabilities       |              |         |         |    |   |           |              |
| Short-term                |              |         |         |    |   |           |              |
| borrowings-affiliate      | 60,450       |         |         |    |   | (60,450)  |              |
| Accounts payable          | 135,739      | 22,888  | 20,332  |    |   |           | 178,959      |
| Interest and preferred    |              |         |         |    |   |           |              |
| dividends payable         | 13,648       | 4,196   | 2,762   |    |   | (3)       | 20,603       |
| Taxes accrued             | 116,840      | 31,229  | 27,891  |    |   |           | 175,960      |
| Other                     | 35,784       | 13,065  | 13,646  | 3  |   | (6,144)   | 56,354       |
| Total current liabilities | 362,461      | 71,378  | 64,631  | 3  |   | (66,597)  | 431,876      |
| Deferred credits and      |              |         |         |    |   |           |              |
| other liabilities         |              |         |         |    |   |           |              |
| Deferred income taxes     | 198,753      | 44,971  | 25,562  |    |   |           | 269,286      |
| Regulatory liabilities    | 201,587      | 56,190  | 39,020  |    |   |           | 296,797      |
| Unamortized tax credits   | 33,661       | 12,857  | 12,292  |    |   |           | 58,810       |
| Retirement benefits       |              |         |         |    |   |           |              |
| liability                 | 271,499      | 39,811  | 44,534  |    |   |           | 355,844      |
| Other                     | 66,898       | 28,739  | 12,433  |    |   |           | 108,070      |
| Total deferred credits    | 772,398      | 182,568 | 133,841 |    |   |           | 1,088,807    |
| and other liabilities     |              |         |         |    |   |           |              |
| Contributions in aid of   |              |         |         |    |   |           |              |
| construction              | 189,314      | 72,081  | 73,969  |    |   |           | 335,364      |
| Total capitalization and  |              |         |         |    |   |           |              |
| liabilities               | \$ 3,356,132 | 814,879 | 681,973 | 89 | 5 | (567,398) | \$ 4,285,680 |

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Changes in Common Stock Equity (unaudited)**

Nine months ended September 30, 2011

| (in thousands)  | HECO         | HELCO    | MECO    | RHI | UBC | Reclassifications<br>and<br>eliminations | HECO<br>Consolidated |
|---|--------------|----------|---------|-----|-----|--|----------------------|
| <b>Balance, December 31, 2010</b>   | \$ 1,337,398 | 270,573  | 230,137 | 86  | 5   | (500,801)                                | \$ 1,337,398         |
| Comprehensive income (loss):  |              |          |         |     |     |  |                      |
| Net income (loss) for common stock  | 74,172       | 21,180   | 13,210  | (4) | (4) | (34,382)                                 | 74,172               |
| Retirement benefit plans:   |              |          |         |     |     |  |                      |
| Less: amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of tax benefits | 6,280        | 992      | 868     |     |     | (1,860)                                  | 6,280                |
| Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes                             | (6,084)      | (980)    | (849)   |     |     | 1,829                                    | (6,084)              |
| Other comprehensive income  | 196          | 12       | 19      |     |     | (31)                                     | 196                  |
| Comprehensive income  | 74,368       | 21,192   | 13,229  | (4) | (4) | (34,413)                                 | 74,368               |
| Common stock dividends  | (52,919)     | (12,093) | (9,003) |     |     | 21,096                                   | (52,919)             |
| Common stock issuance   |              |          |         |     | 25  | (25)                                     |                      |
| <b>Balance, September 30, 2011</b>  | \$ 1,358,847 | 279,672  | 234,363 | 82  | 26  | (514,143)                                | \$ 1,358,847         |

Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Changes in Common Stock Equity (unaudited)**

Nine months ended September 30, 2010

| (in thousands)  | HECO         | HELCO   | MECO    | RHI | UBC  | Reclassifications<br>and<br>eliminations | HECO<br>Consolidated |
|---|--------------|---------|---------|-----|------|--|----------------------|
| <b>Balance, December 31, 2009</b>   | \$ 1,306,408 | 240,576 | 221,319 | 94  | 17   | (462,006)                                | \$ 1,306,408         |
| Comprehensive income (loss):  |              |         |         |     |      |  |                      |
| Net income (loss) for common stock  | 57,674       | 11,820  | 6,371   | (6) | (12) | (18,173)                                 | 57,674               |
| Retirement benefit plans:   |              |         |         |     |      |  |                      |
| Less: amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of tax benefits | 2,819        | 593     | 461     |     |      | (1,054)                                  | 2,819                |
| Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes                             | (2,640)      | (579)   | (443)   |     |      | 1,022                                    | (2,640)              |
| Other comprehensive income  | 179          | 14      | 18      |     |      | (32)                                     | 179                  |

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|                                    |                     |                |                |           |          |                  |                     |
|------------------------------------|---------------------|----------------|----------------|-----------|----------|------------------|---------------------|
| Comprehensive income (loss)        | 57,853              | 11,834         | 6,389          | (6)       | (12)     | (18,205)         | 57,853              |
| Common stock dividends             | (38,360)            | (7,710)        | (3,001)        |           |          | 10,711           | (38,360)            |
| Common stock issue expenses        | (9)                 | (5)            |                |           |          | 5                | (9)                 |
| <b>Balance, September 30, 2010</b> | <b>\$ 1,325,892</b> | <b>244,695</b> | <b>224,707</b> | <b>88</b> | <b>5</b> | <b>(469,495)</b> | <b>\$ 1,325,892</b> |

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Cash Flows (unaudited)**

Nine months ended September 30, 2011

| (in thousands)   | HECO      | HELCO    | MECO     | RHI | UBC | Elimination<br>addition to<br>(deduction<br>from) cash<br>flows | HECO<br>Consolidated |
|--|-----------|----------|----------|-----|-----|---|----------------------|
| <b>Cash flows from operating activities:</b>   |           |          |          |     |     |   |                      |
| Net income (loss)  | \$ 74,982 | 21,580   | 13,496   | (4) | (4) | (34,382)  | \$ 75,668            |
| Adjustments to reconcile net income<br>(loss) to net cash provided by (used in)<br>operating activities: |           |          |          |     |     |   |                      |
| Equity in earnings   | (34,457)  |          |          |     |     | 34,382  | (75)                 |
| Common stock dividends received from<br>subsidiaries   | 21,171    |          |          |     |     | (21,096)  | 75                   |
| Depreciation of property, plant and<br>equipment   | 67,381    | 24,619   | 15,673   |     |     |   | 107,673              |
| Other amortization   | 9,390     | 1,928    | 1,376    |     |     |   | 12,694               |
| Changes in deferred income taxes   | 33,606    | 9,801    | 7,713    |     |     |   | 51,120               |
| Changes in tax credits, net  | 771       | 510      | 135      |     |     |   | 1,416                |
| Allowance for equity funds used during<br>construction   | (3,154)   | (447)    | (530)    |     |     |   | (4,131)              |
| Change in cash overdraft   |           | (2,527)  | (161)    |     |     |   | (2,688)              |
| Changes in assets and liabilities:   |           |          |          |     |     |   |                      |
| Increase in accounts receivable  | (33,705)  | (3,600)  | (5,926)  |     |     | 265   | (42,966)             |
| Decrease (increase) in accrued unbilled<br>revenues  | (32,482)  | (1,719)  | 698      |     |     |   | (33,503)             |
| Decrease (increase) in fuel oil stock  | 7,631     | (4,691)  | (7,532)  |     |     |   | (4,592)              |
| Increase in materials and supplies   | (4,640)   | (86)     | (554)    |     |     |   | (5,280)              |
| Increase in regulatory assets  | (27,602)  | (1,551)  | (5,078)  |     |     |   | (34,231)             |
| Increase (decrease) in accounts payable  | (52,693)  | 100      | (6,933)  |     |     |   | (59,526)             |
| Changes in prepaid and accrued income<br>and utility revenue taxes                                       | 25,633    | 8,760    | 10,105   |     |     |   | 44,498               |
| Changes in other assets and liabilities  | (35,362)  | (5,485)  | (4,570)  | (2) |     | (265)   | (45,684)             |
| Net cash provided by (used in) operating<br>activities   | 16,470    | 47,192   | 17,912   | (6) | (4) | (21,096)  | 60,468               |
| <b>Cash flows from investing activities:</b>   |           |          |          |     |     |   |                      |
| Capital expenditures   | (100,033) | (22,770) | (19,931) |     |     |   | (142,734)            |
| Contributions in aid of construction   | 9,381     | 3,884    | 1,841    |     |     |   | 15,106               |
| Other  | 77        |          |          |     |     |   | 77                   |
| Investment in consolidated subsidiary  | (25)      |          |          |     |     | 25  |                      |
| Advances from (to) affiliates  |           | (13,750) | 10,500   |     |     | 3,250   |                      |
| Net cash used in investing activities  | (90,600)  | (32,636) | (7,590)  |     |     | 3,275   | (127,551)            |
| <b>Cash flows from financing activities:</b>   |           |          |          |     |     |   |                      |
| Common stock dividends   | (52,919)  | (12,093) | (9,003)  |     |     | 21,096  | (52,919)             |
| Preferred stock dividends of HECO and<br>subsidiaries  | (810)     | (400)    | (286)    |     |     |   | (1,496)              |
| Net increase in short-term borrowings<br>from nonaffiliates and affiliate with                           | 15,748    |          |          |     |     | (3,250)   | 12,498               |

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original maturities of three months or less

|  |           |          |         |     |    |        |           |
|--|-----------|----------|---------|-----|----|--------|-----------|
| Proceeds from issuance of common stock               |           |          |         |     | 25 | (25)   |           |
| Other  | (61)      |          | (6)     |     |    |        | (67)      |
| Net cash provided by (used in) financing activities  | (38,042)  | (12,493) | (9,295) |     | 25 | 17,821 | (41,984)  |
| Net increase (decrease) in cash and cash equivalents | (112,172) | 2,063    | 1,027   | (6) | 21 |        | (109,067) |
| Cash and cash equivalents, beginning of period       | 121,019   | 1,229    | 594     | 89  | 5  |        | 122,936   |
| Cash and cash equivalents, end of period             | \$ 8,847  | 3,292    | 1,621   | 83  | 26 |        | \$ 13,869 |

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Cash Flows (unaudited)**

Nine months ended September 30, 2010

| (in thousands)   | HECO      | HELCO    | MECO     | RHI | UBC  | Elimination<br>addition to<br>(deduction<br>from) cash<br>flows | HECO<br>Consolidated |
|--|-----------|----------|----------|-----|------|---|----------------------|
| <b>Cash flows from operating activities:</b>   |           |          |          |     |      |   |                      |
| Net income (loss)  | \$ 58,484 | 12,220   | 6,657    | (6) | (12) | (18,173)  | \$ 59,170            |
| Adjustments to reconcile net income<br>(loss) to net cash provided by (used in)<br>operating activities: |           |          |          |     |      |   |                      |
| Equity in earnings   | (18,248)  |          |          |     |      | 18,173  | (75)                 |
| Common stock dividends received from<br>subsidiaries   | 10,786    |          |          |     |      | (10,711)  | 75                   |
| Depreciation of property, plant and<br>equipment   | 65,022    | 27,380   | 21,166   |     |      |   | 113,568              |
| Other amortization   | 3,686     | 2,595    | (921)    |     |      |   | 5,360                |
| Changes in deferred income taxes   | 45,875    | 20,643   | 8,202    |     |      |   | 74,720               |
| Changes in tax credits, net  | 1,992     | 132      | (185)    |     |      |   | 1,939                |
| Allowance for equity funds used during<br>construction   | (4,081)   | (330)    | (406)    |     |      |   | (4,817)              |
| Change in cash overdraft   |           |          | 884      |     |      |   | 884                  |
| Changes in assets and liabilities:   |           |          |          |     |      |   |                      |
| Decrease (increase) in accounts<br>receivable  | (11,894)  | 1,469    | 861      |     |      | 2,780   | (6,784)              |
| Increase in accrued unbilled revenues  | (8,453)   | (1,116)  | (2,021)  |     |      |   | (11,590)             |
| Increase in fuel oil stock   | (41,259)  | (673)    | (637)    |     |      |   | (42,569)             |
| Decrease (increase) in materials and<br>supplies   | (1,071)   | (282)    | 968      |     |      |   | (385)                |
| Increase in regulatory assets  | (1,801)   | (1,144)  | (324)    |     |      |   | (3,269)              |
| Increase (decrease) in accounts payable  | (26,400)  | (118)    | (2,211)  |     |      |   | (28,729)             |
| Changes in prepaid and accrued income<br>and utility revenue taxes                                       | (45,651)  | (2,567)  | (6,984)  |     |      |   | (55,202)             |
| Changes in other assets and liabilities  | 21,933    | (20,580) | 2,845    | (2) | (1)  | (2,780)   | 1,415                |
| Net cash provided by (used in) operating<br>activities   | 48,920    | 37,629   | 27,894   | (8) | (13) | (10,711)  | 103,711              |
| <b>Cash flows from investing activities:</b>   |           |          |          |     |      |   |                      |
| Capital expenditures   | (79,752)  | (21,216) | (17,444) |     |      |   | (118,412)            |
| Contributions in aid of construction   | 10,079    | 5,073    | 1,623    |     |      |   | 16,775               |
| Other  | 657       |          |          |     |      |   | 657                  |
| Advances from (to) affiliates  | 13,050    |          | (8,500)  |     |      | (4,550)   |                      |
| Net cash used in investing activities  | (55,966)  | (16,143) | (24,321) |     |      | (4,550)   | (100,980)            |
| <b>Cash flows from financing activities:</b>   |           |          |          |     |      |   |                      |
| Common stock dividends   | (38,360)  | (7,710)  | (3,001)  |     |      | 10,711  | (38,360)             |
| Preferred stock dividends of HECO and<br>subsidiaries  | (810)     | (400)    | (286)    |     |      |   | (1,496)              |
| Net increase (decrease) in short-term<br>borrowings from nonaffiliates and                               | 8,500     | (13,050) |          |     |      | 4,550   |                      |



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|  |           |          |         |     |      |        |           |
|--|-----------|----------|---------|-----|------|--------|-----------|
| affiliate with original maturities of three months or less |           |          |         |     |      |        |           |
| Other  | (1,005)   | (279)    | (125)   |     |      |        | (1,409)   |
| Net cash used in financing activities                      | (31,675)  | (21,439) | (3,412) |     |      | 15,261 | (41,265)  |
| Net increase (decrease) in cash and cash equivalents       | (38,721)  | 47       | 161     | (8) | (13) |        | (38,534)  |
| Cash and cash equivalents, beginning of period             | 70,981    | 2,006    | 474     | 98  | 19   |        | 73,578    |
| Cash and cash equivalents, end of period                   | \$ 32,260 | 2,053    | 635     | 90  | 6    |        | \$ 35,044 |

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

The following discussion updates Management's Discussion and Analysis of Financial Condition and Results of Operations included in HEI's and HECO's Form 10-K for 2010 and should be read in conjunction with the 2010 annual consolidated financial statements of HEI and HECO and notes thereto included and incorporated by reference, respectively, in HEI's and HECO's Form 10-K for 2010, as well as the quarterly (as of and for the three months ended March 31, 2011, as of and for the three and six months ended June 30, 2011, and as of and for the three and nine months ended September 30, 2011) financial statements and notes thereto included in this Form 10-Q and the Form 10-Q for the first and second quarters of 2011.

**HEI Consolidated****RESULTS OF OPERATIONS**

| (in thousands, except per share amounts)             | Three months ended |                      | % change | Primary reason(s) for significant change*  |
|--|--------------------|----------------------|----------|--|
|  | 2011               | September 30<br>2010 |          |  |
| Revenues   | \$ 886,355         | \$ 694,541           | 28       | Increase for the electric utility segment, partly offset by a decrease for the bank segment  |
| Operating income                                     | 94,490             | 72,631               | 30       | Increase for the electric utility segment, partly offset by a decrease for the bank segment and higher losses for the other segment                    |
| Net income for common stock                          | 48,404             | 32,449               | 49       | Higher operating income and lower interest expense other than on deposit liabilities and other bank borrowings, partly offset by higher income taxes** |
| Basic earnings per common share                      | 0.50               | 0.35                 | 43       | Higher net income, partly offset by higher weighted average shares outstanding   |
| Weighted-average number of common shares outstanding | 95,873             | 93,699               | 2        | Issuances of shares under the HEI Dividend Reinvestment and Stock Purchase Plan and other Company plans prior to August 18, 2011                       |

| (in thousands, except per share amounts) | Nine months ended |                      | % change | Primary reason(s) for significant change*   |
|--|-------------------|----------------------|----------|---|
|  | 2011              | September 30<br>2010 |          |   |
| Revenues                                 | \$ 2,391,307      | \$ 1,969,245         | 21       | Increase for the electric utility segment, partly offset by a decrease for the bank segment |

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|  |         |         |    |   |
|--|---------|---------|----|---|
| Operating income                                     | 221,526 | 196,969 | 12 | Increase for the electric utility segment and lower losses for the other segment, partly offset by a decrease for the bank segment                      |
| Net income for common stock                          | 104,005 | 88,837  | 17 | Higher operating income, partly offset by higher interest expense other than on deposit liabilities and other bank borrowings and higher income taxes** |
| Basic earnings per common share                      | \$ 1.09 | \$ 0.95 | 15 | Higher net income, partly offset by higher weighted average shares outstanding  |
| Weighted-average number of common shares outstanding | 95,365  | 93,148  | 2  | Issuances of shares under the HEI Dividend Reinvestment and Stock Purchase Plan and other Company plans prior to August 18, 2011                        |

\* Also, see segment discussions which follow.

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\*\* The Company's effective tax rates (combined federal and state) for the third quarters of 2011 and 2010 were 36% and 38%, respectively. The Company's effective tax rates (combined federal and state) for the first nine months of 2011 and 2010 were 35% and 36%, respectively.

In 2008, the Company initiated aggressive strategies to set both the utilities and ASB on a new course—the utilities entered into an agreement with the State to create a clean energy future for Hawaii and ASB set new performance standards. In 2010 and the first nine months of 2011, the Company continued to make major progress on these strategies. The utilities advanced key HCEI initiatives, and ASB completed its performance improvement project in 2010 and demonstrated reduced risk and profitability metrics in line with or better than the average of its high performing peers in the first nine months of 2011 (see segment discussions below). Together, HEI's unique combination of electric utilities and a bank continues to provide the Company with a strong balance sheet and the financial resources to invest in the strategic growth of its subsidiaries while providing an attractive dividend for investors.

**Dividends.** The payout ratios for 2010 and the first nine months of 2011 were 102% and 85%, respectively. HEI currently expects to maintain the dividend at its present level; however, the HEI Board of Directors evaluates the dividend quarterly and considers many factors in the evaluation, including but not limited to the Company's results of operations, the long-term prospects for the Company, and current and expected future economic conditions.

**Economic conditions.**

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

Hawaii's tourism industry, a significant driver of Hawaii's economy, maintained a positive though weakening growth trend over 2010. State visitor arrivals grew by 2.5% year-to-date August 2011 over the same period in 2010. However, in August 2011 state visitor arrivals fell for the third straight month, dropping by 4.2% below August 2010, mainly due to lower U.S. mainland arrivals. Visitor expenditures continued to grow, increasing by 14.1% year-to-date August 2011 over the same period in 2010. Visitor expenditures in August 2011 were 2.3% higher than in August 2010. Hotel occupancies and room rates remain higher year-over-year.

Hawaii's unemployment rate was 6.2% in August 2011, lower than in August 2010 and lower than the national unemployment rate of 9.1% in August 2011. Jobs continued to slowly grow through August 2011, but not enough to cause any rapid improvement in the unemployment rate.

Single family residential home sales on Oahu increased 4.0% in September 2011 over September 2010, however, year-to-date sales remained lower than 2010 by 2.3%. Median prices remained lower than 2010.

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Crude oil prices reached their highest level since 2008 in April 2011. The price of a barrel of West Texas Intermediate (WTI) crude oil peaked at \$113.93 on April 29, 2011 before declining to an average of \$86 per barrel in September 2011. The U.S. Energy Information Administration's October 2011 Short-Term Energy Outlook projects WTI to average \$92 per barrel in 2011.

The Federal Open Market Committee held the federal funds rate target at 0 to ¼ percent on September 21, 2011, citing significant risks to economic growth, as unemployment is expected to remain high and European credit concerns threaten the global recovery. The maturity of the System Open Market Account portfolio was also extended in efforts to support a stronger economic recovery.

Overall, Hawaii's economy is expected to see only modest growth in 2011 and 2012 as local economic growth is slowing, impeded by deteriorating conditions in the U.S. and global economies.

**Major tax legislation.** Two bills enacted in 2010 (the Small Business Jobs Act and the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act) contained major tax provisions directly affecting the Company, including the extension of 50% bonus depreciation and 100% bonus depreciation for certain property. For the Company, the bonus depreciation provisions result in an estimated increase in federal tax depreciation of \$88 million for 2010 and \$165 million for 2011, primarily attributable to the utilities. A number of energy-related tax

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breaks were also extended, including the biodiesel credit through 2012. The Company will continue to analyze these Acts for their impacts and the opportunities they present.

**Retirement benefits.** For the first nine months of 2011, the Company's and HECO and its subsidiaries' defined benefit retirement plans' assets generated a loss, including investment management fees, of 8.8%. The market value of the defined benefit retirement plans' assets of the Company as of September 30, 2011 was \$907 million (including \$824 million for HECO and its subsidiaries) compared to \$983 million at December 31, 2010 (including \$891 million for HECO and its subsidiaries).

HEI and HECO and its subsidiaries estimate that the cash funding for their qualified defined benefit pension plans in 2011 will be about \$2 million and \$71 million, respectively, which should fully satisfy the minimum required contribution, including requirements of the utilities pension tracking mechanisms and the plans' funding policy. Other factors could cause changes to the required contribution levels. 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, and restrictions on participant benefit accruals may be placed on the plans. If the plans fall below these thresholds, to avoid adverse consequences, funds in excess of the minimum required contribution may be contributed to the plan trust.

The following table reflects the sensitivity to the qualified defined benefit pension projected benefit obligation (PBO) as of December 31, 2011, associated with a change in the pension benefits discount rate actuarial assumption by the indicated basis points and constitutes forward-looking statements.

| Actuarial Assumption           | Change in 5.68%<br>assumption in basis points | Impact on HEI<br>consolidated PBO | Impact on HECO<br>consolidated PBO |
|--------------------------------|---|-----------------------------------|------------------------------------|
| Pension benefits discount rate | - 100/+100                                    | \$175 million/\$(142) million     | \$161 million/\$(130) million      |

**Commitments and contingencies.** See Note 9 of HEI's Notes to Consolidated Financial Statements.

**Recent accounting pronouncements and interpretations.** See Note 12 of HEI's Notes to Consolidated Financial Statements.

**Other segment.**

| (in thousands) | Three months<br>ended<br>September 30 |         | Nine months<br>ended<br>September 30 |          | Primary reason(s) for year-to-date (YTD)<br>significant change                    |
|----------------|---------------------------------------|---------|--------------------------------------|----------|---|
|                | 2011                                  | 2010    | 2011                                 | 2010     |   |
| Revenues       | \$ 1                                  | \$ (14) | \$ (751)                             | \$ (62)  | YTD - Higher losses on venture capital investments                                |
| Operating loss | (3,635)                               | (3,101) | (9,899)                              | (10,353) | YTD - Lower administrative and general expenses, primarily executive compensation |

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|          |         |         |          |          | expense  |
|----------|---------|---------|----------|----------|--|
| Net loss | (5,012) | (4,824) | (14,670) | (13,997) | YTD - See explanation for operating loss and higher tax benefits due to a favorable settlement with the IRS, more than offset by higher interest expense primarily due to the losses on Forward Starting Swaps and the issuance of private placement notes in advance of the repayment of maturing medium-term notes |

The other business segment includes results of the stand-alone corporate operations of HEI and American Savings Holdings, Inc. (ASHI), both holding companies; HEI Properties, Inc., a company holding passive, venture capital investments; The Old Oahu Tug Service, Inc., a maritime freight transportation company that ceased operations in 1999; and Pacific Energy Conservation Services, Inc., a contract services company which provided windfarm operational and maintenance services to an affiliated electric utility until the windfarm was dismantled (dissolved in April 2011); as well as eliminations of intercompany transactions.

Table of Contents**FINANCIAL CONDITION**

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

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

| (dollars in millions)                 | September 30, 2011 |      | December 31, 2010 |      |
|---------------------------------------|--------------------|------|-------------------|------|
| Short-term borrowings other than bank | \$ 51              | 2%   | \$ 25             | 1%   |
| Long-term debt, net other than bank   | 1,340              | 45   | 1,365             | 47   |
| Preferred stock of subsidiaries       | 34                 | 1    | 34                | 1    |
| Common stock equity                   | 1,538              | 52   | 1,484             | 51   |
|                                       | \$ 2,963           | 100% | \$ 2,908          | 100% |

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

| (in millions)  | Nine months ended<br>September 30, 2011 |                    | Balance            |                   |
|--|---|--------------------|--------------------|-------------------|
|  | Average balance                         | September 30, 2011 | September 30, 2011 | December 31, 2010 |
| Short-term borrowings(1)   |   |                    |                    |                   |
| Commercial paper   | \$ 10                                   | \$ 39              | \$ 39              | \$ 25             |
| Line of credit draws   |   |                    |                    |                   |
| Undrawn capacity under HEI's line of credit facility<br>(expiring May 7, 2013) | 125                                     | 125                | 125                | 125               |

(1) This table does not include HECO's separate commercial paper issuances and line of credit facilities and draws, which are disclosed below under Electric utility Financial Condition Liquidity and capital resources. At October 21, 2011, HEI had \$38 million of outstanding commercial paper and its line of credit facility was undrawn.

HEI has a line of credit facility of \$125 million (see Note 13 of HEI's Notes to Consolidated Financial Statements). There are customary conditions which must be met in order to draw on it, including compliance with its covenants (such as covenants preventing HEI's subsidiaries from entering into agreements that restrict the ability of the subsidiaries to pay dividends to, or to repay borrowings from, HEI). In addition to customary defaults, HEI's failure to maintain its financial ratios, as defined in the agreement, or meet other requirements may result in an event of default. For example, 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 September 30, 2011, as calculated under the agreement) and Consolidated Net Worth of at least \$975 million (Net Worth of \$1.6 billion as of September 30, 2011, as calculated under the agreement). The commitment fee and interest charges on drawn amounts under the agreement are subject to adjustment in the event of a change in HEI's long-term credit ratings.



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HEI raised \$24 million through the issuance of approximately 1.0 million shares of common stock under the DRIP, the HEIRSP and the ASB 401(k) Plan during the nine months ended September 30, 2011. On August 18, 2011, HEI began satisfying the requirements of the DRIP, HEIRSP and ASB 401(k) Plan through open market purchases of its common stock.

On March 24, 2011, HEI issued \$125 million of Senior Notes via a private placement (\$75 million of 4.41% notes due March 24, 2016 and \$50 million of 5.67% notes due March 24, 2021). HEI used part of the net proceeds from the issuance of the Senior Notes to pay down commercial paper (originally issued to refinance \$50 million of 4.23% medium-term notes that matured on March 15, 2011) and ultimately used the remaining proceeds to refinance part of the \$100 million of 6.141% medium-term notes that matured on August 15, 2011. The Senior Notes contain customary representation and warranties, affirmative and negative covenants, and events of default (the occurrence of which may result in some or all of the notes then outstanding becoming immediately due and payable) and provisions requiring the maintenance by HEI of certain financial ratios generally consistent with those in HEI's revolving noncollateralized credit agreement, expiring on May 7, 2013. For example, it is an event of default

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if HEI fails to maintain an unconsolidated Capitalization Ratio (funded debt) of 50% or less (ratio of 18% as of September 30, 2011, as calculated under the agreement) or Consolidated Net Worth of at least \$975 million (Net Worth of \$1.6 billion as of September 30, 2011, as calculated under the agreement).

For the first nine months of 2011, net cash provided by operating activities of consolidated HEI was \$101 million. Net cash used by investing activities for the same period was \$170 million, primarily due to net increases in ASB's loans held for investment and HECO's consolidated capital expenditures, partly offset by net decreases in ASB's investment securities and mortgage-related securities. Net cash provided by financing activities during this period was \$21 million as a result of several factors, including net increases in deposit liabilities and short-term borrowings and proceeds from the issuance of common stock under HEI plans, partly offset by a net decrease in long-term debt and the payment of common stock dividends. Other than capital contributions from their parent company, intercompany services (and related intercompany payables and receivables), HECO's periodic short-term borrowings from HEI (and related interest) and the payment of dividends to HEI, the electric utility and bank segments are largely autonomous in their operating, investing and financing activities. (See the electric utility and bank segments' discussions of their cash flows in their respective Financial condition Liquidity and capital resources sections below.) During the first nine months of 2011, HECO and ASB paid dividends to HEI of \$53 million and \$43 million, respectively.

**CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION**

The Company's results of operations and financial condition can be affected by numerous factors, many of which are beyond the Company's control and could cause future results of operations to differ materially from historical results. For information about certain of these factors, see pages 52 to 53, 72 to 76, and 86 to 89 of HEI's MD&A included in Part II, Item 7 of HEI's 2010 Form 10-K.

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

**MATERIAL ESTIMATES AND CRITICAL ACCOUNTING POLICIES**

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

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

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For information about these material estimates and critical accounting policies, see pages 53 to 54, 76 to 77, and 89 of HEI's MD&A included in Part II, Item 7 of HEI's 2010 Form 10-K.

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

**Electric utility****RESULTS OF OPERATIONS**

| (dollars in thousands,<br>except per barrel amounts)    | Three months ended |                      | %<br>change | Primary reason(s) for significant change  |
|---|--------------------|----------------------|-------------|---|
|   | 2011               | September 30<br>2010 |             |   |
| Revenues  | \$ 820,254         | \$ 623,126           | 32          | Higher fuel oil and purchased power costs, the effects of which are generally passed on to customers (\$178 million), net decoupling revenue adjustment (RBA) at HECO (\$8 million), rate base revenue adjustment mechanism (RAM) and O&M RAM at HECO (\$1 million), HECO test year 2011 (\$10 million) and HELCO test year 2010 (\$1 million) interim rate increases and fuel efficiency savings at HELCO and MECO (\$4 million), partly offset by lower KWH sales at HELCO and MECO (\$3 million) |
| Expenses  |                    |                      |             |   |
| Fuel oil  | 352,475            | 235,534              | 50          | Higher fuel oil costs, partially offset by less KWHs generated  |
| Purchased power   | 188,484            | 147,880              | 27          | Higher fuel costs, partially offset by less KWHs purchased  |
| Other operation   | 61,415             | 62,665               | (2)         | See Results three months ended September 30, 2011 below   |
| Maintenance   | 32,336             | 30,618               | 6           | See Results three months ended September 30, 2011 below   |
| Depreciation  | 34,983             | 36,277               | (4)         | Reflects lower depreciation rates implemented in conjunction with the HECO test year 2011 and HELCO and MECO test year 2010 interim D&Os  |
| Taxes, other than income taxes                          | 75,355             | 58,317               | 29          | Increase in revenues  |
| Other   | 250                | 492                  | (49)        |   |
| Operating income  | 74,956             | 51,343               | 46          | See Results three months ended September 30, 2011 below   |
| Net income for common stock                             | 37,959             | 21,980               | 73          | Higher operating income, partially offset by higher income taxes  |
| Kilowatthour sales (millions)                           | 2,448              | 2,497                | (2)         |   |
| Wet-bulb temperature (Oahu average; degrees Fahrenheit) | 71.5               | 69.8                 | 2           |   |
| Cooling degree days (Oahu)                              | 1,504              | 1,428                | 5           |   |
| Average fuel oil cost per barrel                        | \$ 135.66          | \$ 89.97             | 51          |   |
| Customer accounts (end of period)                       | 446,144            | 444,190              |             |   |



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| (dollars in thousands,<br>except per barrel amounts)    | Nine months ended |              | %<br>change | Primary reason(s) for significant change   |
|---|-------------------|--------------|-------------|--|
|   | September 30      |              |             |  |
|   | 2011              | 2010         |             |  |
| Revenues  | \$ 2,194,327      | \$ 1,755,332 | 25          | Higher fuel oil and purchased power costs, the effects of which are generally passed on to customers (\$399 million), net decoupling revenue adjustment (RBA) at HECO (\$12 million), rate base RAM and O&M RAM at HECO (\$2 million), HECO test year 2011 (\$10 million), HELCO test year 2010 (\$4 million) and MECO test year 2010 (\$5 million) interim rate increases and fuel efficiency savings at HELCO and MECO (\$8 million) |
| Expenses  |                   |              |             |  |
| Fuel oil  | 925,476           | 662,608      | 40          | Higher fuel oil costs, partially offset by less KWHs generated   |
| Purchased power   | 508,179           | 404,175      | 26          | Higher fuel costs, partially offset by less KWHs purchased   |
| Other operation   | 194,334           | 182,163      | 7           | See Results nine months ended September 30, 2011 below   |
| Maintenance   | 92,808            | 89,894       | 3           | See Results nine months ended September 30, 2011 below   |
| Depreciation  | 107,673           | 113,568      | (5)         | Reflects lower depreciation rates implemented in conjunction with the HECO test year 2011 and HELCO and MECO test year 2010 interim D&Os   |
| Taxes, other than income taxes                          | 202,502           | 164,278      | 23          | Increase in revenues   |
| Other   | 673               | 3,259        | (79)        | Includes write-down of investment in combined heat and power system in 2010 (\$1 million)  |
| Operating income  | 162,682           | 135,387      | 20          | See Results nine months ended September 30, 2011 below   |
| Net income for common stock                             | 74,172            | 57,674       | 29          | Higher operating income, partly offset by higher income taxes  |
| Kilowatthour sales (millions)                           | 7,159             | 7,144        |             |  |
| Wet-bulb temperature (Oahu average; degrees Fahrenheit) | 69.7              | 67.8         | 3           |  |
| Cooling degree days (Oahu)                              | 3,681             | 3,495        | 5           |  |
| Average fuel oil cost per barrel                        | \$ 120.13         | \$ 86.12     | 39          |  |

The electric utilities had effective tax rates for the third quarters of 2011 and 2010 of 38% and 40%, respectively, and for the first nine months of 2011 and 2010 of 38%.

See Economic conditions in the HEI Consolidated section above.

**Results three months ended September 30, 2011.** Operating income for the third quarter of 2011 increased by 46% when compared to the same quarter in 2010 due primarily to interim rate relief (\$11 million), decoupling revenue adjustments net of lower sales and fuel efficiency savings at HECO (\$8 million), rate base RAM and O&M RAM at HECO (\$1 million) and fuel efficiency savings at HELCO and MECO (\$4 million), partly offset by lower KWH sales at HELCO and MECO (\$3 million) and higher maintenance expenses. Maintenance expenses increased \$2 million due to the timing of overhaul costs and increased maintenance on boiler plant and related equipment, partly offset by costs

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related to a spare engine purchased in 2010. Other operation expenses decreased by \$1 million in the third quarter of 2011 compared to the same period in 2010 primarily due to a regulatory change in the capitalization of administrative costs, which lowered administrative and general expenses by \$3 million, and lower claim reserves (\$2 million), partly offset by higher bad debt expense (\$4 million).

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**Results nine months ended September 30, 2011.** Operating income for the first nine months of 2011 increased by 20% when compared to the same period in 2010 due primarily to interim rate relief (\$18 million), decoupling revenue adjustments net of lower sales and fuel efficiency savings at HECO (\$12 million), rate base RAM and O&M RAM at HECO (\$2 million) and fuel efficiency savings at HELCO and MECO (\$8 million), partly offset by higher Other operation and Maintenance (O&M) expenses. Other operation expenses increased by \$12 million in the first nine months of 2011 compared to the same period in 2010 primarily due to higher transmission and distribution operation expenses (\$3 million), bad debt (\$5 million) and DSM expense (\$2 million) that are generally passed on to customers through surcharges. Maintenance expenses increased \$3 million due to higher transmission and distribution maintenance, including higher vegetation and substation maintenance.

**Utility strategic progress.** In 2010 and the first nine months of 2011, the utilities continued to make significant progress in implementing their clean energy strategies and the PUC issued several important regulatory decisions, all of which are key steps to support Hawaii's efforts to reduce its dependence on oil. Included in the PUC decisions were a number of interim and final rate case decisions (see table in Most recent rate proceedings below). Additional PUC decisions are needed that will allow the utilities to recover their increasing expenditures for clean energy and reliability on a more timely basis.

**Regulatory.** With PUC approval, HECO implemented on March 1, 2011 a new regulatory model that is intended to facilitate meeting the State's goals to transition to a clean energy economy and achieve an aggressive renewable portfolio standard. The model, referred to as decoupling, delinks revenues from sales and includes annual revenue adjustments for O&M expenses and rate base additions. Decoupling provides for more timely cost recovery and earning on investments and should result in an improvement in the utilities' under-earning situation over the last several years. Prior to and during the transition to decoupling, however, the utilities' returns have been, and may continue to be, well below PUC-allowed returns, as illustrated in the following table:

| %<br>12 months ended September 30, 2011 | Return on average common equity |        |        | Return on ratebase (RORB) |        |        |
|---|---------------------------------|--------|--------|---------------------------|--------|--------|
|   | HECO                            | HELCO  | MECO   | HECO                      | HELCO  | MECO   |
| Utility returns (rate-making method)    | 6.36                            | 10.02  | 6.82   | 6.07                      | 8.48   | 6.50   |
| PUC-allowed returns                     | 10.00                           | 10.50  | 10.50  | 8.11                      | 8.59   | 8.43   |
| Difference                              | (3.64)                          | (0.48) | (3.68) | (2.04)                    | (0.11) | (1.93) |

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

1. spending within PUC approved amounts for major projects and completing projects on schedule;
2. managing O&M expenses relative to authorized O&M adjustments, especially during periods of increasing demand; and
3. rate case outcomes that cover O&M requirements and rate base items not included in the revenue adjustment mechanisms (RAMs).

Effective March 1, 2011, as part of the decoupling implementation, HECO established the revenue balancing account and started recording the difference between target revenues from its HECO 2009 rate case and actual revenues. Beginning June 1, 2011, HECO began accruing and collecting 2011 RAM revenues of \$15 million annually, or \$1.3 million per month, which was superseded on July 26, 2011 by the implementation of interim rates in HECO's 2011 general rate case (see Most recent rate proceedings below). Under the decoupling tariff order, in future non-general rate case years, HECO will accrue and collect 7/12ths of the annual RAM adjusted revenues in one year and the remaining 5/12ths in the following year. HECO had expected to be able to accrue RAM-adjusted revenues from January 1 of each RAM period.



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Also critical to narrowing the ROACE gap are HECO's 2011 rate case, decoupling implementation for HELCO and MECO and the outcome of the regulatory audits to be conducted on certain major projects. See "Major projects" in Note 5 to HECO's Notes to Consolidated Financial Statements for a discussion of the regulatory audits ordered by the PUC. The HECO 2011 rate case interim D&O reset target revenues, O&M expenses and rate base for the decoupling mechanisms until a final D&O is issued. Management expects total 2011 HECO consolidated O&M expenses to be 3% higher than 2010 expenses primarily due to higher bad debts and the timing of PUC decisions. Management's ROACE goal for HECO (unconsolidated) for the full year 2012 is to earn within approximately 150 basis points of the PUC-allowed return under the current regulatory mechanisms.

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Future earnings growth is also dependent on rate base growth. For 2011, the utilities' capital expenditures are now estimated to be approximately 10% below the forecast of \$300 million. The utilities' five-year 2011-2015 capital expenditures forecast of \$2.2 billion reflects a compounded annual rate base growth rate of approximately 5%. Many of the major initiatives within this forecast are expected to be completed beyond the 5-year period. Four major initiatives comprise approximately 40% of the 5-year plan: (1) replacing aging infrastructure; (2) environmental compliance; (3) fuel infrastructure investments; and (4) infrastructure investments to integrate renewables into the system. Estimates for these initiatives could change with time, based on external factors such as the timing and technical requirements for environmental compliance. The utilities are currently evaluating the 2012-2016 capital expenditure forecast.

*Most recent rate proceedings.* The electric utilities initiate PUC proceedings from time to time to request electric rate increases to cover rising operating costs and the cost of plant and equipment, including the cost of new capital projects to maintain and improve service reliability. The PUC may grant an interim increase within 10 to 11 months following the filing of an application, but there is no guarantee of such an interim increase and interim amounts collected are refundable, with interest, to the extent they exceed the amount approved in the PUC's final D&O. The timing and amount of any final increase is determined at the discretion of the PUC. The adoption of revenue, expense, rate base and cost of capital amounts (including the ROACE and RORB) for purposes of an interim rate increase does not commit the PUC to accept any such amounts in its final D&O.

On July 22, 2011, the PUC issued an interim D&O in HECO's 2011 test year rate case, effective July 26, 2011, granting a total annual interim increase of \$53.2 million, or 3.1%, or an increase of \$38.2 million in annual revenues, or 2.2%, net of the \$15 million of revenues currently being recovered through the decoupling Revenue Adjustment Mechanism (RAM). The interim increase is based on, and is substantially the same as, the increase proposed in the settlement agreement executed and filed on July 5, 2011 by HECO, the Consumer Advocate and the Department of Defense (the parties in the proceeding). The interim increase reflects the new depreciation rates and methods approved by the PUC in a separate proceeding, which will result in a \$2 million decrease in depreciation expense effective with interim rates to the end of 2011. The PUC did not approve the portion of the settlement agreement to allow deferral of certain costs amounting to approximately \$3.2 million for 2011 (most of which have not yet been expended, including costs related to project management for the interisland wind project and undersea cable system sourcing). HECO filed a motion for clarification and/or partial reconsideration of the interim D&O's findings and conclusions on the deferral of these costs. A hearing on HECO's motion was held in October 2011. In a September 2011 order, the PUC determined that an evidentiary hearing for the HECO 2011 rate case is no longer necessary, but ordered the parties in the proceeding to file written briefs by December 1, 2011 on certain issues. See "Major projects" in Note 5 to HECO's Notes to Consolidated Financial Statements for a discussion of the deferral of project costs in the interim D&O.

The following table summarizes certain details of each utility's most recent rate cases, including the details of the increases requested, whether the utility and the Consumer Advocate reached a settlement that they proposed to the PUC, and the details of increases granted in interim and final PUC D&Os or whether an interim or final PUC D&O remains pending.

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| Test year<br>(dollars in millions)  | Date (applied/<br>implemented) | Amount   | % over<br>rates in<br>effect | ROACE  | RORB  | Ratebase | %<br>Common<br>equity | Stipulated<br>agreement<br>reached with<br>Consumer<br>Advocate | Reflects<br>decoupling |
|-------------------------------------|--------------------------------|----------|------------------------------|--------|-------|----------|-----------------------|---|------------------------|
| <b>HECO</b>                         |                                |          |                              |        |       |          |                       |   |                        |
| <b>2007</b>                         |                                |          |                              |        |       |          |                       |   |                        |
| Request                             | 12/22/06                       | \$ 99.6  | 7.1%                         | 11.25% | 8.92% | \$ 1,214 | 55.10%                | Yes   | No                     |
| Interim increase                    | 10/22/07                       | 70.0     | 5.0                          | 10.70  | 8.62  | 1,158    | 55.10                 |   | No                     |
| Interim increase (adjusted)         | 6/20/08                        | 77.9     | 5.6                          | 10.70  | 8.62  | 1,158    | 55.10                 |   | No                     |
| Final increase                      | 3/1/11                         | 77.5     | 5.5                          | 10.70  | 8.62  | 1,158    | 55.10                 |   | No                     |
| <b>2009</b>                         |                                |          |                              |        |       |          |                       |   |                        |
| Request (1)                         | 7/3/08                         | \$ 97.0  | 5.2%                         | 11.25% | 8.81% | \$ 1,408 | 54.30%                | Yes   | No                     |
| Interim increase (1st)              | 8/3/09                         | 61.1     | 4.7                          | 10.50  | 8.45  | 1,169    | 55.81                 |   | No                     |
| Interim increase (2nd, plus<br>1st) | 2/20/10                        | 73.8     | 5.7                          | 10.50  | 8.45  | 1,251    | 55.81                 |   | No                     |
| Final increase (2)                  | 3/1/11                         | 66.4     | 5.1                          | 10.00  | 8.16  | 1,250    | 55.81                 |   | Yes                    |
| <b>2011 (3)</b>                     |                                |          |                              |        |       |          |                       |   |                        |
| Request                             | 7/30/10                        | \$ 113.5 | 6.6%                         | 10.75% | 8.54% | \$ 1,569 | 56.29%                | Yes   | Yes                    |
| Interim increase                    | 7/22/11                        | 53.2     | 3.1                          | 10.00  | 8.11  | 1,354    | 56.29                 |   | Yes                    |
| Final increase                      | Pending                        |          |                              |        |       |          |                       |   |                        |
| <b>HELCO</b>                        |                                |          |                              |        |       |          |                       |   |                        |
| <b>2006</b>                         |                                |          |                              |        |       |          |                       |   |                        |
| Request                             | 5/5/06                         | \$ 29.9  | 9.2%                         | 11.25% | 8.65% | \$ 369   | 50.83%                | Yes   | No                     |
| Interim increase                    | 4/5/07                         | 24.6     | 7.6                          | 10.70  | 8.33  | 357      | 51.19                 |   | No                     |
| Final increase (4)                  | 1/14/11                        | 24.6     | 7.6                          | 10.70  | 8.33  | 357      | 51.19                 |   | No                     |
| <b>2010</b>                         |                                |          |                              |        |       |          |                       |   |                        |
| Request (5)                         | 12/9/09                        | \$ 20.9  | 6.0%                         | 10.75% | 8.73% | \$ 487   | 55.91%                | Yes   | Yes                    |
| Interim increase                    | 1/14/11                        | 6.0      | 1.7                          | 10.50  | 8.59  | 465      | 55.91                 |   | No                     |
| Final increase                      | Pending                        |          |                              |        |       |          |                       |   |                        |
| <b>MECO</b>                         |                                |          |                              |        |       |          |                       |   |                        |
| <b>2007</b>                         |                                |          |                              |        |       |          |                       |   |                        |
| Request                             | 2/23/07                        | \$ 19.0  | 5.3%                         | 11.25% | 8.98% | \$ 386   | 54.89%                | Yes   | No                     |
| Interim increase                    | 12/21/07                       | 13.2     | 3.7                          | 10.70  | 8.67  | 383      | 54.89                 |   | No                     |
| Final increase                      | 1/12/11                        | 13.2     | 3.7                          | 10.70  | 8.67  | 383      | 54.89                 |   | No                     |
| <b>2010</b>                         |                                |          |                              |        |       |          |                       |   |                        |
| Request                             | 9/30/09                        | \$ 28.2  | 9.7%                         | 10.75% | 8.57% | \$ 390   | 56.86%                | Yes   | Yes                    |
| Interim increase                    | 8/1/10                         | 10.3     | 3.3                          | 10.50  | 8.43  | 387      | 56.86                 |   | No                     |
| Interim increase (adjusted)         | 1/12/11                        | 8.5      | 2.7                          | 10.50  | 8.43  | 387      | 56.86                 |   | No                     |
| Final increase                      | Pending                        |          |                              |        |       |          |                       |   |                        |
| <b>2012</b>                         |                                |          |                              |        |       |          |                       |   |                        |
| Request (6)                         | 7/22/11                        | \$ 27.5  | 6.7%                         | 11.00% | 8.72% | \$ 393   | 56.85%                |   | Yes                    |

Note: The Request Date reflects the application filing date for the rate proceeding. All other line items reflect the effective dates of the revised schedules and tariffs as a result of PUC-approved increases.

- (1) In April 2009, HECO reduced this rate increase request by \$6.2 million because a new Customer Information System would not be placed in service as originally planned (see Note 5 of HECO's Notes to Consolidated Financial Statements).
- (2) Because the final increase was \$7.4 million less in annual revenues, HECO refunded \$2.1 million to customers (including interest) in February 2011.
- (3) HECO filed a request with the PUC for a general rate increase of \$113.5 million, based on a 2011 test year and without the then estimated impacts of the implementation of decoupling as proposed in the PUC's separate decoupling proceeding and depreciation rates and methodology as proposed by HECO in a separate depreciation proceeding. Including the estimated effects of the implementation of decoupling at the time, the effective revenue request was \$94.0 million, or 5.4%. HECO's request was primarily to pay for major capital projects and higher O&M costs to maintain and improve service reliability and to recover the costs for several proposed programs to help reduce Hawaii's dependence on imported oil, and to further increase reliability and fuel security.

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The \$53.2 million interim increase includes \$15 million in annual revenues already being recovered through the decoupling RAM.

- (4) Final D&O appealed by a participant in the rate case proceeding. The appeal is pending, but has not affected implementation of the rate increase.
- (5) HELCO's request was primarily to cover investments for system upgrade projects, two major transmission line upgrades and increasing O&M expenses.
- (6) MECO's request is required to pay for O&M expenses and additional investments in plant and equipment required to maintain and improve system reliability and to cover the increased costs to support the integration of more renewable energy generation. The request is for an increase over rates

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currently in effect. MECO's electric rates currently in effect include the \$8.5 million annual interim rate increase granted in the 2010 test year rate case, which is subject to a final D&O and subject to refund with interest if the final D&O provides for a lesser increase.

*Clean energy strategy.* The utilities' policy is to support efforts to increase renewable energy in Hawaii. The utilities believe their actions will help stabilize customer bills over time as they become less dependent on costly and price-volatile fossil fuel. The utilities' clean energy strategy will also allow them to meet Hawaii's renewable portfolio standard (RPS) law, which requires electric utilities to meet an RPS of 10%, 15%, 25% and 40% by December 31, 2010, 2015, 2020 and 2030, respectively. HECO met the 10% RPS for 2010 with a consolidated RPS of 20.7%, including saving from energy efficiency programs and solar water heating (or 9.5% without DSM energy savings). Energy savings resulting from energy efficiency programs and solar water heating will not count toward the RPS after 2014. The utilities believe they are on track to meet the 2015 RPS.

Recent developments in the utilities' clean energy strategy include:

- In January 2011, HELCO signed a 20-year contract, subject to PUC approval, with Aina Koa Pono-Ka'u LLC to supply 16 million gallons of biodiesel per year with initial consumption to begin by 2015. In September 2011, however, the PUC denied the utilities' requested approval of the contract citing the higher cost of the biofuel over the cost of petroleum diesel.
- In February 2011, HECO successfully demonstrated that Unit 3 at its Kahe Power Plant could be powered using up to 100% biofuel.
- In February 2011, HELCO executed a PPA with Puna Geothermal Venture for the purchase of energy and capacity from an 8 MW expansion of PGV's geothermal energy plant on the island of Hawaii.
- In February 2011, the PUC opened dockets related to MECO's and HECO's plans to proceed with competitive bidding processes to acquire up to approximately 50 MW and 300 MW, respectively, of new, renewable firm dispatchable capacity generation resources, with the initial increments expected to come on line in the 2015 and 2016 timeframes, respectively.
- In 2008, HECO issued an Oahu Renewable Energy Request for Proposals (2008 RFP) for combined renewable energy projects up to 100 MW. In February 2011, HECO executed a PPA with Kalaeloa Solar Two for a 5 MW PV project, which the PUC has approved. In September 2011, HECO executed a PPA with Kawailoa Wind, LLC for a 69 MW wind project.
- Included in the bids received in response to the 2008 RFP were proposals for two large scale neighbor island wind projects that would produce energy to be imported from Lanai and Molokai to Oahu via a yet-to-be-built undersea transmission cable system. HECO is negotiating with one of the project developers for a 200 MW wind farm to be built on Lanai. The other proposal did not advance after missing a key PUC deadline. Further, in July 2011, the PUC directed HECO to prepare a draft RFP for 200 MW or more of renewable energy for the island of Oahu from generation on any of the Hawaiian islands. In October 2011, HECO filed a draft RFP with the PUC.
- In July 2011, HECO signed a 3-year contract, subject to PUC approval, with Pacific Biodiesel to supply at least 250,000 gallons of locally produced biodiesel for a new 8 MW standby generation facility at the Honolulu Airport that will be owned by the State and operated by HECO, targeted for operation in 2012.
- In August 2011, HECO signed a 20-year contract, subject to PUC approval, with Hawaii BioEnergy to supply 10 million gallons per year of biocrude at Kahe Power Plant with initial consumption to begin as early as 2015.
- In August 2011, HECO signed a Pilot Contract, subject to PUC approval, with Phycal Hawaii R&D, LLC for a single delivery of 100,000 to 150,000 gallons of biocrude at Kahe Power Plant to conduct testing in 2014.

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- In August 2011, MECO successfully demonstrated that its reciprocal diesel engines at Maalaea Power Plant can be powered using 100% biofuel.

**Legislation.** In mid-2011, a Hawaii law was enacted that gives the PUC the authority to allow those electric utilities that aggregate their renewable portfolios to achieve the RPS (including HECO, HELCO and MECO) to distribute

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the costs and expenses of renewable energy projects among those utilities. The bill also allows the PUC to establish a surcharge for such costs and expenses without a rate case filing.

**Commitments and contingencies.** See Note 5 of HECO's Notes to Consolidated Financial Statements.

**Recent accounting pronouncements and interpretations.** See Note 7 of HECO's Notes to Consolidated Financial Statements.

### FINANCIAL CONDITION

**Liquidity and capital resources.** Management believes that HECO's ability, and that of its subsidiaries, to generate cash, both internally from operations and externally from issuances of equity and debt securities, commercial paper and lines of credit, is adequate to maintain sufficient liquidity to fund their respective capital expenditures and investments and to cover debt, retirement benefits and other cash requirements for the foreseeable future.

HECO's consolidated capital structure was as follows:

| (dollars in millions) | September 30, 2011 |      | December 31, 2010 |      |
|-----------------------|--------------------|------|-------------------|------|
| Short-term borrowings | \$ 13              | 1%   | \$ 1,058          | 44%  |
| Long-term debt, net   | 1,058              | 43   | 1,058             | 44   |
| Preferred stock       | 34                 | 1    | 34                | 1    |
| Common stock equity   | 1,359              | 55   | 1,338             | 55   |
|                       | \$ 2,464           | 100% | \$ 2,430          | 100% |

HECO's short-term borrowings (other than from HELCO and MECO) and line of credit facility were as follows:

| (in millions)   | Average balance<br>Nine months ended<br>September 30, 2011 | September 30,<br>2011 | Balance<br>December 31,<br>2010 |
|---|--|-----------------------|---------------------------------|
| Short-term borrowings(1)  |  |                       |                                 |
| Commercial paper  | \$ 0.1   | \$ 13                 | \$                              |
| Line of credit draws  |  |                       |                                 |
| Borrowings from HEI   |  |                       |                                 |
| Undrawn capacity under line of credit facility (expiring May 7, 2013) | 175  | 175                   | 175                             |

(1) At September 30, 2011, HECO had \$45 million and \$19 million of short-term borrowings from HELCO and MECO, respectively, which borrowings are eliminated in consolidation. At October 21, 2011, HECO had no outstanding commercial paper, its line of credit facility was

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undrawn, it had no borrowings from HEI and it had borrowings of \$46 million and \$21 million from HELCO and MECO, respectively.

HECO has a line of credit facility of \$175 million (see Note 9 of HECO's Notes to Consolidated Financial Statements). There are customary conditions that must be met in order to draw on it, including compliance with its covenants (such as covenants preventing HECO's subsidiaries from entering into agreements that restrict their ability to pay dividends to, or to repay borrowings from, HECO, and restricting HECO's and its subsidiaries' ability 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% (ratios of 42% for HELCO and 42% for MECO as of September 30, 2011, as calculated under the agreement)). In addition to customary defaults, HECO's failure to maintain its financial ratios, as defined in the agreement, or meet other requirements may result in an event of default. For example, it is an event of default if HECO fails to maintain a Consolidated Capitalization Ratio (equity) of at least 35% (ratio of 55% as of September 30, 2011, as calculated under the agreement). The commitment fee and interest charges on drawn amounts under the agreement are subject to adjustment in the event of a change in HECO's long-term credit ratings.

On November 1, 2011, the PUC authorized HECO, HELCO and MECO to issue up to \$150 million, \$10 million and \$10 million, respectively, in one or more registered public offerings or private placements of unsecured obligations bearing taxable interest on or before December 31, 2012. The proceeds are expected to be used to fund capital expenditures (including repaying short-term indebtedness incurred to fund capital expenditures) and to repay \$57.5 million of outstanding Special Purpose Revenue Bonds at their maturity in 2012. The PUC also approved the use of the expedited approval procedure for the approval of additional taxable debt to be issued by HECO, HELCO and MECO during 2013 through 2015, subject to certain conditions.



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On May 31, 2011, HECO, HELCO and MECO filed with the PUC an application for the authorization to issue unsecured obligations bearing taxable interest and/or refunding Special Purpose Revenue Bonds prior to January 1, 2016 to refinance select series of outstanding revenue bonds up to \$347 million, \$95 million and \$82 million, respectively.

Operating activities provided \$60 million in net cash during the first nine months of 2011. Investing activities for the same period used net cash of \$128 million for capital expenditures, net of contributions in aid of construction. Financing activities for the same period used net cash of \$42 million, primarily due the payment of \$54 million of common and preferred dividends.

**Bank****RESULTS OF OPERATIONS**

| (in thousands)       | Three months ended |                      | % change | Primary reason(s) for significant change  |
|----------------------|--------------------|----------------------|----------|---|
|                      | 2011               | September 30<br>2010 |          |   |
| Revenues             | \$ 66,100          | \$ 71,429            | (7)      | Lower interest income primarily due to lower yields on earning assets due to the lower interest rate environment and lower fee income on deposit liabilities as result of overdraft rules that took effect in August 2010 |
| Operating income     | 23,169             | 24,389               | (5)      | Lower net interest and noninterest income, partly offset by lower provision for loan losses and noninterest expenses  |
| Net income           | 15,457             | 15,293               | 1        | Lower operating income more than offset by lower income tax expense   |
| Return on assets (%) | 1.26               | 1.26                 |          |   |
| Efficiency ratio (%) | 56                 | 54                   |          | Lower revenues, partly offset by the impact of lower noninterest expenses   |

| (in thousands)   | Nine months ended |                      | % change | Primary reason(s) for significant change  |
|------------------|-------------------|----------------------|----------|---|
|                  | 2011              | September 30<br>2010 |          |   |
| Revenues         | \$ 197,731        | \$ 213,975           | (8)      | Lower interest income primarily due to lower earning asset balances as a result of the sale of substantial 1-4 family residential loan production in 2010 and lower residential loan production in 2011, lower yields on earning assets due to the lower interest rate environment and lower fee income on deposit liabilities as a result of overdraft rules that took effect in August 2010 |
| Operating income | 68,743            | 71,935               | (4)      | Lower net interest and noninterest income, partly offset by lower provision for loan losses and noninterest   |

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|                      |        |        | expenses                   |
|----------------------|--------|--------|----------------------------|
| Net income           | 44,503 | 45,160 | (1) Lower operating income |
| Return on assets (%) | 1.22   | 1.23   | Lower net income           |
| Efficiency ratio (%) | 57     | 57     |                            |

See Note 4 of HEI's Notes to Consolidated Financial Statements and Economic conditions in the HEI Consolidated section above.

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In 2010, ASB successfully completed its multi-year Performance Improvement Project that began in 2008. The many initiatives of this project resulted in substantially improved profitability and reduced risk in 2010, which continued into the first nine months of 2011.

For the nine months ended September 30, 2011, ASB reported a strong 1.22% return on assets and 57% efficiency ratio, and ASB's profitability metrics were in line with or better than the average of its high performing peers. Key drivers of this improved performance include:

1. ASB's significant reduction of non-interest expense;
2. ASB's reduction of its exposure to riskier non-core assets;
3. ASB's lowering of its funding costs through its free checking product and lower CD balances; and
4. ASB's optimization of its balance sheet and capital efficiency and improvement of its capital ratios by exercising discipline through the downturn on what it selected to put on its balance sheet and holding additional capital to hedge against the downside of the credit cycle.

ASB's credit quality metrics through the down cycle has been better than the average of its peers due to its historic disciplined and conservative underwriting standards.

Going into the fourth quarter of 2011, management continues working to grow its bank franchise in Hawaii and remains focused on maintaining ASB as a high performing community bank with a targeted return on assets of 1.20%, net interest margin at 4% and an efficiency ratio in the mid-50s. Despite the revenue pressures across the banking industry, management expects ASB's low-cost funding base, reduced cost structure and lower-risk profile to continue to deliver strong performance compared to industry peers.

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**Results.**

| (dollars in thousands)                             | Three months ended<br>September 30, 2011 vs. 2010  | Nine months ended<br>September 30, 2011 vs. 2010  |
|--|--|---|
| <b>Net interest income</b>                         | \$46,353 vs \$48,269   | \$137,931 vs \$143,186  |
|  | Decrease due to lower yields on loans and investment and mortgage-related securities as a result of the lower interest rate environment, partly offset by lower funding costs.   |   |
| <b>Net interest margin</b>                         | 4.11% vs 4.31%   | 4.11% vs 4.23%  |
|  | Decrease due to lower yields on loans and investment and mortgage-related securities portfolio as a result of the lower interest rate environment, partly offset by lower cost of funds. See Average balance sheet and net interest margin below.  |   |
| <b>Average loans receivable</b>                    | \$3,647,753 vs \$3,555,997   | \$3,596,892 vs \$3,625,186  |
|  | Increase was primarily due to higher average home equity line of credit and commercial loan portfolios, partly offset by lower average 1-4 family residential and residential land loan portfolios.  | Decrease was due to lower average 1-4 family residential and residential land loan portfolios, partly offset by higher average home equity line of credit and commercial loan portfolios. |
| • Average 1-4 family residential loans             | \$2,011,554 vs \$2,168,455   | \$2,034,540 vs \$2,236,612  |
|  | Decrease due to the sale of substantial loan production in 2010 and lower residential loan production in 2011.   |   |
| • Average residential land loans                   | \$49,973 vs \$80,613   | \$56,390 vs \$86,773  |
|  | Decrease due to paydowns in the portfolio and minimal new loan production.   |   |
| • Average home equity lines of credit              | \$487,083 vs \$398,166   | \$458,588 vs \$364,904  |
|  | Increase due to higher production as a result of promotional campaigns during 2010 and 2011.   |   |
| • Average commercial loans                         | \$657,545 vs \$509,513   | \$617,210 vs \$533,005  |
|  | Increase due to strong commercial loan production in 2010 and 2011.  |   |
| Average investment and mortgage-related securities | \$643,617 vs \$586,706   | \$664,078 vs \$539,348  |
|  | Increase primarily due to the purchase of federal agency securities and obligations and municipal bonds with excess liquidity.   |   |
| <b>Average deposit liabilities</b>                 | \$4,055,726 vs \$3,996,755   | \$4,031,324 vs \$4,011,094  |
|  | Increase due to core deposit inflows, partly offset by an outflow of term certificates. The shift in deposit mix from higher cost term certificates to lower cost savings and checking accounts has contributed to decreased funding costs.  |   |
| • Average term certificates                        | \$581,835 vs \$744,040   | \$613,481 vs \$794,222  |
|  | Decrease due to the outflow of term certificates throughout 2010 and year-to-date 2011 as ASB determined not to aggressively price its term certificate products.  |   |
| • Core deposits                                    | \$3,473,891 vs \$3,252,715   | \$3,417,843 vs \$3,216,872  |
|  | Increased as ASB introduced new deposit products and attracted core deposits to partially offset the outflow of term certificates.   |   |
| Average other borrowings                           | \$244,931 vs \$257,156   | \$245,917 vs \$275,045  |
|  | Decrease due to an outflow of retail repurchase agreements   |   |
| <b>Provision for loan losses</b>                   | \$3,822 vs \$5,961   | \$10,927 vs \$12,310  |
|  | Lower as a result of continued modest improvement in loan credit quality. The third quarter 2010 provision for loan losses was also impacted by the reclassification of certain commercial loans that were current as to principal and interest payments, but had identified weaknesses. |   |
| <b>Noninterest income</b>                          | \$16,206 vs \$18,356   | \$48,530 vs \$54,866  |
|  | Decrease was primarily due to lower deposit liability fees as a result of new overdraft fee regulations, which took effect in August 2010 and lower gain on sale of loans. See Noninterest income and expenses below.  |   |
| <b>Noninterest expenses</b>                        | \$35,571 vs \$36,305   | \$106,835 vs \$113,900  |

Year-to-date decrease was primarily due to lower data processing expense as a result of ASB's conversion to Fiserv Inc.'s bank platform system in May 2010 and lower Federal Deposit Insurance Corporation (FDIC) insurance premium charges. See Noninterest income and expenses below.

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**Average balance sheet and net interest margin.** ASB's average balances, together with interest and dividend income earned and accrued, and resulting yields and costs were as follows:

| Three months ended September 30<br>(dollars in thousands) | 2011               |           |                     | 2010               |           |                     |
|---|--------------------|-----------|---------------------|--------------------|-----------|---------------------|
|   | Average<br>balance | Interest  | Average<br>rate (%) | Average<br>balance | Interest  | Average<br>rate (%) |
| <b>Assets:</b>  |                    |           |                     |                    |           |                     |
| Other investments (1)                                     | \$ 220,861         | \$ 77     | 0.14                | \$ 335,002         | \$ 151    | 0.18                |
| Investment and mortgage-related securities                | 643,617            | 3,706     | 2.30                | 586,706            | 3,701     | 2.52                |
| Loans receivable (2)                                      | 3,647,753          | 46,240    | 5.06                | 3,555,997          | 49,221    | 5.52                |
| Total interest-earning assets (3)                         | 4,512,231          | 50,023    | 4.42                | 4,477,705          | 53,073    | 4.73                |
| Allowance for loan losses                                 | (39,168)           |           |                     | (36,218)           |           |                     |
| Non-interest-earning assets                               | 427,063            |           |                     | 418,266            |           |                     |
| Total assets  | \$ 4,900,126       |           |                     | \$ 4,859,753       |           |                     |
| <b>Liabilities and shareholder's equity:</b>              |                    |           |                     |                    |           |                     |
| Interest-bearing demand and savings deposits              | \$ 2,551,851       | 688       | 0.11                | \$ 2,419,983       | 776       | 0.13                |
| Time certificates   | 581,835            | 1,478     | 1.01                | 744,040            | 2,614     | 1.39                |
| Total interest-bearing deposits                           | 3,133,686          | 2,166     | 0.27                | 3,164,023          | 3,390     | 0.43                |
| Other borrowings  | 244,931            | 1,375     | 2.20                | 257,156            | 1,414     | 2.16                |
| Total interest-bearing liabilities                        | 3,378,617          | 3,541     | 0.41                | 3,421,179          | 4,804     | 0.56                |
| <b>Non-interest bearing liabilities:</b>                  |                    |           |                     |                    |           |                     |
| Deposits  | 922,040            |           |                     | 832,732            |           |                     |
| Other   | 97,664             |           |                     | 97,914             |           |                     |
| Shareholder's equity                                      | 501,805            |           |                     | 507,928            |           |                     |
| Total liabilities and shareholder's equity                | \$ 4,900,126       |           |                     | \$ 4,859,753       |           |                     |
| Net interest income                                       |                    | \$ 46,482 |                     |                    | \$ 48,269 |                     |
| Net interest margin (%) (4)                               |                    |           | 4.11                |                    |           | 4.31                |

| Nine months ended September 30<br>(dollars in thousands) | 2011               |          |                     | 2010               |          |                     |
|--|--------------------|----------|---------------------|--------------------|----------|---------------------|
|  | Average<br>balance | Interest | Average<br>rate (%) | Average<br>balance | Interest | Average<br>rate (%) |
| <b>Assets:</b>   |                    |          |                     |                    |          |                     |
| Other investments (1)                                    | \$ 226,805         | \$ 242   | 0.14                | \$ 347,418         | \$ 471   | 0.18                |
| Investment and mortgage-related securities               | 664,078            | 11,351   | 2.28                | 539,348            | 10,344   | 2.56                |
| Loans receivable (2)                                     | 3,596,892          | 137,985  | 5.12                | 3,625,186          | 148,294  | 5.46                |
| Total interest-earning assets (3)                        | 4,487,775          | 149,578  | 4.45                | 4,511,952          | 159,109  | 4.70                |
| Allowance for loan losses                                | (39,689)           |          |                     | (39,506)           |          |                     |
| Non-interest-earning assets                              | 420,463            |          |                     | 413,051            |          |                     |
| Total assets   | \$ 4,868,549       |          |                     | \$ 4,885,497       |          |                     |
| <b>Liabilities and shareholder's equity:</b>             |                    |          |                     |                    |          |                     |
| Interest-bearing demand and savings deposits             | \$ 2,513,280       | 2,110    | 0.11                | \$ 2,400,738       | 2,732    | 0.15                |
| Time certificates  | 613,481            | 5,036    | 1.10                | 794,222            | 8,933    | 1.50                |
| Total interest-bearing deposits                          | 3,126,761          | 7,146    | 0.31                | 3,194,960          | 11,665   | 0.49                |
| Other borrowings   | 245,917            | 4,124    | 2.21                | 275,045            | 4,258    | 2.05                |
| Total interest-bearing liabilities                       | 3,372,678          | 11,270   | 0.44                | 3,470,005          | 15,923   | 0.61                |
| <b>Non-interest bearing liabilities:</b>                 |                    |          |                     |                    |          |                     |
| Deposits   | 904,563            |          |                     | 816,134            |          |                     |
| Other  | 92,938             |          |                     | 95,779             |          |                     |

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|   |           |            |              |            |
|---|-----------|------------|--------------|------------|
| Shareholder's equity                          | 498,370   |            | 503,579      |            |
| Total liabilities and shareholder's equity \$ | 4,868,549 |            | \$ 4,885,497 |            |
| Net interest income                           |           | \$ 138,308 |              | \$ 143,186 |
| Net interest margin (%) (4)                   |           |            | 4.11         | 4.23       |

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(1) Includes federal funds sold, interest bearing deposits and stock in the FHLB of Seattle (\$98 million as of September 30, 2011).

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- (2) Includes loan fees of \$0.8 million and \$2.1 million for the three months ended September 30, 2011 and 2010, respectively, and \$2.7 million and \$4.7 million for the nine months ended September 30, 2011 and 2010, respectively; includes interest accrued prior to suspension of interest accrual on nonaccrual loans; and includes nonaccrual loans.
- (3) Interest income includes taxable equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of \$0.1 million and nil for the three months ended September 30, 2011 and 2010, respectively, and \$0.4 million and nil for the nine months ended September 30, 2011 and 2010, respectively.
- (4) 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 current interest rate environment is impacted by disruptions in the financial markets and these conditions may have a negative impact on ASB's net interest margin.

Loan originations and mortgage-related securities are ASB's primary sources of earning assets.

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. The composition of ASB's loan portfolio was as follows:

| (dollars in thousands)            | September 30, 2011 |            | December 31, 2010 |            |
|-----------------------------------|--------------------|------------|-------------------|------------|
|                                   | Balance            | % of total | Balance           | % of total |
| <b>Real estate loans:</b>         |                    |            |                   |            |
| Residential 1-4 family            | \$ 1,997,485       | 54.4       | \$ 2,087,813      | 58.9       |
| Commercial real estate            | 320,874            | 8.7        | 300,689           | 8.5        |
| Home equity line of credit        | 503,205            | 13.7       | 416,453           | 11.7       |
| Residential land                  | 47,571             | 1.3        | 65,599            | 1.8        |
| Commercial construction           | 42,194             | 1.1        | 38,079            | 1.1        |
| Residential construction          | 3,191              | 0.1        | 5,602             | 0.2        |
| Total real estate loans, net      | 2,914,520          | 79.3       | 2,914,235         | 82.2       |
| Commercial loans                  | 676,640            | 18.4       | 551,683           | 15.5       |
| Consumer loans                    | 83,580             | 2.3        | 80,138            | 2.3        |
|                                   | 3,674,740          | 100.0      | 3,546,056         | 100.0      |
| Less: Deferred fees and discounts | (14,346)           |            | (15,530)          |            |
| Allowance for loan losses         | (38,213)           |            | (40,646)          |            |
| Total loans, net                  | \$ 3,622,181       |            | \$ 3,489,880      |            |

The increase in the total loan portfolio during the first nine months of 2011 was primarily due to an increase in ASB's commercial, commercial real estate and home equity lines of credit loan portfolios, partly offset by a decrease in residential 1-4 family and land loans.

Loan portfolio risk elements. See Note 4 of HEI's Notes to Consolidated Financial Statements.



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

|  | September 30, 2011 | December 31, 2010 |
|--|--------------------|-------------------|
| Federal agency obligations                       | 35%                | 47%               |
| Mortgage-related securities FNMA, FHLMC and GNMA | 56                 | 47                |
| Municipal bonds                                  | 9                  | 6                 |
|  | 100%               | 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 the securities carry implied AAA ratings.

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. Core deposits continue to be strong, as depositors remain risk adverse. Advances from the FHLB of Seattle and securities sold under agreements to repurchase continue to be additional sources of funds. As of September 30, 2011 and December 31, 2010, ASB's costing liabilities consisted of 94% deposits and 6% other borrowings. The weighted

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average cost of deposits for the nine months ended September 30, 2011 was 0.24%, compared to 0.39% for the nine months ended September 30, 2010.

Noninterest income and expenses. ASB's noninterest income and expenses, including detail of other income and expenses, were as follows:

| (in thousands)                             | Three months ended<br>September 30 |           | Nine months ended<br>September 30 |           |
|--|------------------------------------|-----------|-----------------------------------|-----------|
|  | 2011                               | 2010      | 2011                              | 2010      |
| Fees from other financial services         | \$ 7,219                           | \$ 6,781  | \$ 21,405                         | \$ 19,844 |
| Fee income on deposit liabilities          | 4,492                              | 6,109     | 13,540                            | 21,520    |
| Fee income on other financial products     | 1,806                              | 1,697     | 5,340                             | 4,957     |
| Other income                               |                                    |           |                                   |           |
| Gain on sale of loans                      | 1,092                              | 2,490     | 2,268                             | 4,610     |
| Bank-owned life insurance                  | 996                                | 1,019     | 4,107                             | 3,013     |
| Net gains on available-for-sale securities | 366                                |           | 371                               |           |
| Other                                      | 235                                | 260       | 1,499                             | 922       |
| Total noninterest income                   | \$ 16,206                          | \$ 18,356 | \$ 48,530                         | \$ 54,866 |

| (in thousands)                        | Three months ended<br>September 30 |           | Nine months ended<br>September 30 |            |
|---------------------------------------|------------------------------------|-----------|-----------------------------------|------------|
|                                       | 2011                               | 2010      | 2011                              | 2010       |
| Compensation and benefits             | \$ 17,646                          | \$ 18,168 | \$ 53,317                         | \$ 54,477  |
| Occupancy                             | 4,313                              | 4,176     | 12,841                            | 12,617     |
| Data processing                       | 2,451                              | 2,019     | 6,479                             | 10,921     |
| Services                              | 1,686                              | 1,544     | 5,406                             | 5,117      |
| Equipment                             | 1,712                              | 1,600     | 5,141                             | 4,949      |
| Other                                 |                                    |           |                                   |            |
| FDIC insurance premium                | 828                                | 1,500     | 3,131                             | 4,758      |
| Marketing                             | 712                                | 385       | 2,063                             | 1,709      |
| Office supplies, printing and postage | 1,158                              | 990       | 3,002                             | 2,984      |
| Communication                         | 539                                | 599       | 1,370                             | 1,608      |
| Other                                 | 4,526                              | 5,324     | 14,085                            | 14,760     |
| Total noninterest expense             | \$ 35,571                          | \$ 36,305 | \$ 106,835                        | \$ 113,900 |

Allowance for loan losses. See Note 4 of HEI's Notes to Consolidated Financial Statement for breakout of allowance for loan losses by loan type.

| (dollars in thousands)                   | Nine months ended<br>September 30 |           | Year ended<br>December 31 |
|--|-----------------------------------|-----------|---------------------------|
|  | 2011                              | 2010      | 2010                      |
| Allowance for loan losses, January 1     | \$ 40,646                         | \$ 41,679 | \$ 41,679                 |
| Net charge-offs                          | (13,360)                          | (15,674)  | (21,927)                  |
| Provision for loan losses                | 10,927                            | 12,310    | 20,894                    |
| Allowance for loan losses, end of period | \$ 38,213                         | \$ 38,315 | \$ 40,646                 |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| Ratio of allowance for loan losses, end of period, to end of period loans outstanding | 1.04%     | 1.09%     | 1.15%     |
| Ratio of net charge-offs during the period to average loans outstanding (annualized)  | 0.50%     | 0.58%     | 0.61%     |
| Nonaccrual loans  | \$ 66,637 | \$ 55,561 | \$ 58,855 |

*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. In addition, changes in credit spreads also impact the fair values of those instruments.

As of September 30, 2011 and December 31, 2010, the unrealized gains, net of taxes, on available-for-sale investments and mortgage-related securities (including securities pledged for repurchase agreements) in accumulated other comprehensive income (AOCI) was \$10 million and \$4 million, respectively. See Item 3. Quantitative and qualitative disclosures about market risk.

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**Legislation and regulation.** ASB is subject to extensive regulation, principally by the Office of the Comptroller of the Currency (OCC) and the 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.

*Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).* Regulation of the financial services industry, including regulation of HEI 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 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 and the Consumer Financial Protection Bureau. Supervision and regulation of HEI, as a thrift holding company, moved to the Federal Reserve, 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 Home Owners Loan Act and regulations issued thereunder still apply. The applicable laws and regulations are being interpreted, and new and amended regulations may be adopted, by the Federal Reserve and the OCC. HEI will for the first time be subject to minimum consolidated capital requirements, and ASB may be required to be supervised through ASHI, its intermediate holding company. 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. Based on the changes to the assessment base and rates, ASB anticipates a reduction in its annual FDIC assessment of approximately \$2 million. ASB may be affected by the provision of the Dodd-Frank Act that repeals, effective in July 2011, the prohibition on payments of interest by banks or savings associations on demand deposit accounts for businesses.

The Dodd-Frank Act establishes a Consumer Financial Protection Bureau (Bureau) that will have 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. ASB may also be subject to new state regulation because of a provision in the Dodd-Frank Act.

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. Regulations are required to be adopted within 18 months after the date that is to be specified by the Secretary of the Treasury for the transfer of consumer protection power to the Bureau.

The Durbin Amendment to the Dodd-Frank Act requires the Federal Reserve to issue rules to ensure that debit card interchange fees are reasonable and proportional to the processing costs incurred. Previously, the Federal Reserve had proposed a cap on debit card interchange fees that card issuers can receive up to 12 cents per transaction. In June 2011, however, the Federal Reserve 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. For the nine months ended September 30, 2011, ASB had earned an average of 54 cents per transaction. As specified in the Dodd-Frank Act, these regulations will exempt banks like ASB with less than \$10 billion in assets. However, market pressures could very well push the impact down to all banks.

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Many of the provisions of the Dodd-Frank Act, as amended, will not become effective until implementing regulations are issued and effective. Thus, management cannot predict the ultimate impact of the Dodd-Frank Act, as amended, on the Company or ASB at this time. Nor can management predict the impact or substance of other future federal or state legislation or regulation, or the application thereof.

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**Overdraft rules.** On November 12, 2009, the Board of Governors of the Federal Reserve System announced that it amended Regulation E (which implements the Electronic Fund Transfer Act) to limit the ability of a financial institution to assess an overdraft fee for paying automated teller machine or one-time debit card transactions that overdraw a consumer's account, unless the consumer affirmatively consents, or opts in, to the institution's payment of overdrafts for those transactions. These new rules applied on July 1, 2010 for new accounts and August 15, 2010 for existing accounts. In 2009, these types of overdraft fees totaled approximately \$15 million pretax for ASB. The amendment had a negative impact on ASB's noninterest income of approximately \$7.5 million pretax for the first nine months of 2011 compared to the first nine months of 2010.

**Commitments and contingencies.** See Note 4 of HEI's Notes to Consolidated Financial Statements.

**Recent accounting pronouncements and interpretations.** See Note 12 of HEI's Notes to Consolidated Financial Statements.

**FINANCIAL CONDITION****Liquidity and capital resources.**

| (dollars in millions)   | September 30, |       | December 31, |       |          |
|---|---------------|-------|--------------|-------|----------|
|   | 2011          |       | 2010         |       | % change |
| Total assets  | \$            | 4,901 | \$           | 4,797 | 2        |
| Available-for-sale investment and mortgage-related securities |               | 571   |              | 678   | (16)     |
| Loans receivable, net   |               | 3,647 |              | 3,498 | 4        |
| Deposit liabilities   |               | 4,063 |              | 3,975 | 2        |
| Other bank borrowings   |               | 238   |              | 237   |          |

As of September 30, 2011, ASB was one of Hawaii's largest financial institutions based on assets of \$4.9 billion and deposits of \$4.1 billion.

As of September 30, 2011, ASB's unused FHLB borrowing capacity was approximately \$1.1 billion. As of September 30, 2011, ASB had commitments to borrowers for loan commitments and unused lines and letters of credit of \$1.4 billion. Management believes ASB's current sources of funds will enable it to meet these obligations while maintaining liquidity at satisfactory levels.

For the first nine months of 2011, net cash provided by ASB's operating activities was \$59 million. Net cash used during the same period by ASB's investing activities was \$38 million, primarily due to purchases of investment and mortgage-related securities of \$202 million and a net increase in loans receivable of \$154 million, offset by repayments of investment and mortgage-related securities of \$284 million and proceeds from the sale of investment and mortgage-related securities of \$33 million. Net cash provided in financing activities during this period was \$41 million, primarily due to net increases in deposit liabilities and retail repurchase agreements of \$87 million and \$1 million, respectively, offset by the payment of \$43 million in common stock dividends and a net decrease in mortgage escrow deposits of \$4 million.

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 September 30, 2011, ASB was well-capitalized (minimum ratio requirements noted in parentheses) with a leverage ratio of 9.1% (5.0%), a Tier-1 risk-based capital ratio of 12.1% (6.0%) and a total risk-based capital ratio of 13.0% (10.0%). FRB approval is required before ASB can pay a dividend or otherwise make a capital distribution to HEI (through ASHI).

Table of Contents**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company considers interest-rate risk (a non-trading market risk) to be a very significant market risk for ASB as it could potentially have a significant effect on the Company's results of operations, financial condition and liquidity. For additional quantitative and qualitative information about the Company's market risks, see pages 90 to 92, HEI's Quantitative and Qualitative Disclosures About Market Risk, in Part II, Item 7A of HEI's 2010 Form 10-K and HECO's Quantitative and Qualitative Disclosures About Market Risk, which is incorporated into Part II, Item 7A of HECO's 2010 Form 10-K by reference to Exhibit 99.2.

ASB's interest-rate risk sensitivity measures as of September 30, 2011 and December 31, 2010 constitute forward-looking statements and were as follows:

| Change in interest rates<br>(basis points) | September 30, 2011 |                      |                           | December 31, 2010 |                      |                           |
|--|--------------------|----------------------|---------------------------|-------------------|----------------------|---------------------------|
|  | Change<br>in NII   | NPV<br>ratio         | NPV ratio<br>sensitivity* | Change<br>in NII  | NPV<br>ratio         | NPV ratio<br>sensitivity* |
|  | Gradual change     | Instantaneous change |                           | Gradual change    | Instantaneous change |                           |
| +300                                       | (0.7)%             | 12.69%               | (122)                     | (1.3)%            | 12.04%               | (196)                     |
| +200                                       | (1.0)              | 13.27                | (64)                      | (1.3)             | 12.84                | (116)                     |
| +100                                       | (0.7)              | 13.68                | (23)                      | (0.8)             | 13.52                | (48)                      |
| Base                                       |                    | 13.91                |                           |                   | 14.00                |                           |
| -100                                       | (0.5)              | 13.75                | 16                        | (0.6)             | 14.04                | 4                         |

\* Change from base case in basis points (bp).

ASB's net interest income (NII) sensitivity decreased as of September 30, 2011 compared to December 31, 2010 as assets shifted to sectors with more cash flows maturing or repricing within the 1 year horizon - interest bearing deposits, commercial and consumer loans. Base NPV decreased slightly while NPV sensitivity decreased as of September 30, 2011 compared to December 31, 2010 as lower interest rates and the shift in asset mix led to shorter overall duration.

The computation of the prospective effects of hypothetical interest rate changes on the NII sensitivity, NPV ratio, and NPV ratio sensitivity analyses 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, pre-tax 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.





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**Item 4. Controls and Procedures**

**HEI:**

**Changes in Internal Control over Financial Reporting**

During the third quarter of 2011, there were no changes in internal control over financial reporting identified in connection with management's evaluation of the effectiveness of the Company's internal control over financial reporting as of September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Constance H. Lau, HEI Chief Executive Officer, and James A. Ajello, HEI Chief Financial Officer, have evaluated the disclosure controls and procedures of HEI as of September 30, 2011. Based on their evaluations, as of September 30, 2011, they have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective in ensuring that information required to be disclosed by HEI in reports HEI files or submits under the Securities Exchange Act of 1934:

- (1) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and
- (2) is accumulated and communicated to HEI management, including HEI's principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**HECO:**

**Changes in Internal Control over Financial Reporting**

During the third quarter of 2011, there were no changes in internal control over financial reporting identified in connection with management's evaluation of the effectiveness of HECO and its subsidiaries' internal control over financial reporting as of September 30, 2011 that has materially affected, or is reasonably likely to materially affect, HECO and its subsidiaries' internal control over financial reporting.

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Richard M. Rosenblum, HECO Chief Executive Officer, and Tayne S. Y. Sekimura, HECO Chief Financial Officer, have evaluated the disclosure controls and procedures of HECO as of September 30, 2011. Based on their evaluations, as of September 30, 2011, they have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective in ensuring that information required to be disclosed by HECO in reports HECO files or submits under the Securities Exchange Act of 1934:

- (1) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and
- (2) is accumulated and communicated to HECO management, including HECO's principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Table of Contents**PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

The descriptions of legal proceedings (including judicial proceedings and proceedings before the PUC and environmental and other administrative agencies) in HEI's Form 10-K (see Part I. Item 3. Legal Proceedings and proceedings referred to therein) and this 10-Q (see Management's Discussion and Analysis of Financial Condition and Results of Operations, Note 4 of HEI's Notes to Consolidated Financial Statements and HECO's Notes to Consolidated Financial Statements) are incorporated by reference in this Item 1. With regard to any pending legal proceeding, alternative dispute resolution, such as mediation or settlement, may be pursued where appropriate, with such efforts typically maintained in confidence unless and until a resolution is achieved. Certain HEI subsidiaries (including HECO and its subsidiaries and ASB) may also be involved in ordinary routine PUC proceedings, environmental proceedings and litigation incidental to their respective businesses.

**Item 1A. Risk Factors**

For information about Risk Factors, see pages 28 to 37 of HEI's 2010 Form 10-K, and Management's Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures about Market Risk, HEI's Consolidated Financial Statements and HECO's Consolidated Financial Statements herein. Also, see Forward-Looking Statements on pages v and vi of HEI's 2010 Form 10-K, as updated on pages iv and v herein.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(c) Purchases of HEI common shares were made during the third quarter to satisfy the requirements of certain plans as follows:

**ISSUER PURCHASES OF EQUITY SECURITIES**

| Period*                 | (a)<br>Total Number<br>of Shares<br>Purchased ** | (b)<br>Average<br>Price Paid<br>per Share ** | (c)<br>Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans<br>or Programs | (d)<br>Maximum Number (or<br>Approximate Dollar<br>Value) of Shares that<br>May Yet Be Purchased<br>Under the Plans or<br>Programs |
|-------------------------|--|--|---|--|
| August 18 to 31, 2011   | 35,089   | \$ 24.07                                     |   | NA   |
| September 1 to 30, 2011 | 336,586  | 23.60  |   | NA   |
|                         | 371,675  | \$ 23.65                                     |   | NA   |

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NA Not applicable.

\* Trades (total number of shares purchased) are reflected in the month in which the order is placed.

\*\* The purchases were made to satisfy the requirements of the DRIP, the HEIRSP and the ASB 401(k) Plan for shares purchased for cash or by the reinvestment of dividends by participants under those plans and none of the purchases were made under publicly announced repurchase plans or programs. Average prices per share are calculated exclusive of any commissions payable to the brokers making the purchases for the DRIP, the HEIRSP and the ASB 401(k) Plan. Of the shares listed in column (a), 31,989 of the 35,089 shares and 295,666 of the 336,586 shares were purchased for the DRIP, nil of the 35,089 shares and 35,400 of the 336,586 shares were purchased for the HEIRSP and the remainder were purchased for the ASB 401(k) Plan. The repurchased shares were issued for the accounts of the participants under registration statements registering the shares issued under these plans.

Table of Contents**Item 5. Other Information**A. Ratio of earnings to fixed charges.

|                                    | Nine months ended |      |      | Years ended December 31 |      |      |      |
|------------------------------------|-------------------|------|------|-------------------------|------|------|------|
|                                    | September 30      |      |      | 2009                    | 2008 | 2007 | 2006 |
|                                    | 2011              | 2010 | 2010 |                         |      |      |      |
| HEI and Subsidiaries               |                   |      |      |                         |      |      |      |
| Excluding interest on ASB deposits | 3.16              | 2.93 | 2.89 | 2.29                    | 2.06 | 1.78 | 2.08 |
| Including interest on ASB deposits | 2.97              | 2.66 | 2.64 | 1.95                    | 1.71 | 1.52 | 1.73 |
| HECO and Subsidiaries              | 3.44              | 2.86 | 2.88 | 2.99                    | 3.48 | 2.43 | 3.14 |

See HEI Exhibit 12.1 and HECO Exhibit 12.2.

B. Description of HEI common stock and preferred stock. The following is a description of HEI's capital stock that has been updated primarily to reflect changes in the regulation of HEI as a bank holding company and changes in HEI's Amended and Restated Bylaws (Bylaws) since this description was last updated.

#### DESCRIPTION OF COMMON STOCK AND PREFERRED STOCK

Under its Amended and Restated Articles of Incorporation (Articles), HEI is authorized to issue 200,000,000 shares of common stock without par value (Common Stock) and 10,000,000 shares of preferred stock without par value (Preferred Stock). The first and only series of Preferred Stock previously designated by the HEI Board of Directors as of the date of this prospectus was the Series A Junior Participating Preferred Stock that was created in connection with the establishment of HEI's Stockholder Rights Plan. However, the Stockholder Rights Plan has expired and the designation of the Series A Junior Participating Preferred Stock has been eliminated. As of October 31, 2011, 95,975,024 shares of Common Stock were issued and outstanding and no shares of Preferred Stock were designated, issued or outstanding.

The following description of the terms of HEI's capital stock sets forth the general terms and provisions of HEI's capital stock and does not purport to be complete and is subject to and qualified in its entirety by reference to the Articles and the Bylaws.

#### Common Stock

General. The outstanding shares of Common Stock, other than shares of restricted stock previously issued under HEI's Stock Option and Incentive Plan of 1987 (as amended and restated) or issued from time to time under HEI's 2010 Equity and Incentive Plan (as amended and restated) until such restrictions are satisfied, are fully paid and nonassessable. Additional shares of Common Stock, when issued pursuant to

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proper authorization, will be fully paid and nonassessable when the consideration for which HEI's Board of Directors authorizes their issuance has been received by HEI. The holders of Common Stock have no preemptive rights and there are no applicable conversion, redemption or sinking fund provisions.

Common Stock is transferable at the Shareholder Services Office of the Company, American Savings Bank Tower, 8th Floor, 1001 Bishop Street, Honolulu, Hawaii 96813, and at the office of Continental Stock Transfer & Trust Company, Co-Transfer Agent and Registrar, 17 Battery Place, New York, New York 10004. Shares of Common Stock may either be certificated or uncertificated.

**Dividend Rights and Limitations.** Stock and cash dividends may be issued and paid to the holders of Common Stock as and when declared by the Board of Directors, provided that, after giving effect to the payment of cash dividends, HEI is able to pay its debts as they become due in the usual course of its business and HEI's total assets are not less than the sum of its total liabilities plus the maximum amount that then would be payable in any liquidation in respect of all outstanding shares having preferential rights in liquidation. All shares of Common Stock are entitled to participate equally with respect to dividends.

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HEI is a legal entity separate and distinct from its various subsidiaries. As a holding company with no significant operations of its own, the principal sources of its funds are dividends or other distributions from its operating subsidiaries, borrowings and sales of equity. The ability of certain of HEI's direct and indirect subsidiaries to pay dividends or make other distributions to HEI, or to make loans or extend credit to or purchase assets from HEI, is subject to contractual, statutory and regulatory restrictions, including without limitation the provisions of an agreement with the PUC (pertaining to HEI's electric utility subsidiaries) and the minimum capital requirements imposed by law on ASB, as well as restrictions and limitations set forth in debt instruments, preferred stock resolutions and guarantees. HEI does not expect that the regulatory and contractual restrictions applicable to HEI or its direct or indirect subsidiaries will significantly affect HEI's ability to pay dividends on its Common Stock. See Business HEI Consolidated Regulation Restrictions on dividends and other distributions in HEI's Annual Report on Form 10-K for the year ended December 31, 2010 for a more complete description of the ability of certain of HEI's subsidiaries to pay dividends or make other distributions to HEI.

**Liquidation Rights.** In the event of any liquidation, dissolution, receivership, bankruptcy, disincorporation or winding-up of the affairs of HEI, voluntarily or involuntarily, holders of Common Stock are entitled to any assets of HEI available for distribution to HEI's stockholders after the payment in full of any amounts owing to its creditors and any preferential amounts to which holders of any Preferred Stock may be entitled. All shares of Common Stock will rank equally in the event of liquidation.

**Voting Rights.** Holders of Common Stock are entitled to one vote per share, subject to such limitation or loss of right as may be provided in resolutions which may be adopted by the Board of Directors of HEI from time to time creating series of Preferred Stock or otherwise. The annual meeting of shareholders is held on the date and at the time designated by the Board of Directors, or, if it does not act, by the Chairman of the Board of Directors, or, in the Chairman's absence or disability, by the President. A shareholder may bring business before the annual meeting only if the shareholder complies with the advance notice and other requirements specified in the Bylaws. A special meeting of shareholders can be called by the Board of Directors, the Chairman of the Board of Directors, the President or upon written demand of shareholders entitled under Hawaii law to make such a demand in the manner prescribed by Hawaii law and in accordance with the advance notice provisions in the Bylaws. At annual and special meetings of stockholders, the presence in person or by proxy of holders of a majority of the outstanding shares of Common Stock constitutes a quorum, the election of directors requires a plurality of votes cast at a meeting at which a quorum is present and any other action may be approved at a meeting where a quorum is present and due notification of the proposed action has been given if the votes cast in favor of the action exceed the votes cast opposing the action, except (a) as otherwise required by law, (b) as provided in the Articles, (c) as provided in the Bylaws (including with respect to the amendment of certain provisions of the Bylaws) and/or (d) as may be provided in resolutions that may be adopted from time to time creating series of Preferred Stock or otherwise.

Under the current Bylaws, the Board of Directors is to consist of not less than five nor more than eighteen members, with the Board of Directors having the authority to fix the exact number of directors so long as the number is not less than five nor more than eighteen. Nominations for election to the Board of Directors may be made only by or at the direction of the Board of Directors (or a duly authorized committee of the Board of Directors) or by a shareholder who meets the requirements specified in the Bylaws and complies with the advance notice provisions set forth in the Bylaws. So long as there are at least nine directors, one-third (as nearly as possible) of the total number of directors is elected at each annual meeting of stockholders and, under Hawaii law, no holder of Common Stock is entitled to cumulate votes in an election of directors so long as HEI shall have a class of equity securities registered pursuant to the Exchange Act that is listed on a national securities exchange or traded over-the-counter on the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation System. Under the Bylaws, directors may be removed from office at a special meeting of shareholders properly called for that purpose.



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Subject to compliance with any applicable advance notice provisions, the Bylaws may be amended by the affirmative vote of a majority of the entire Board of Directors, or at the annual meeting of shareholders or a special meeting of shareholders called for that purpose by the affirmative vote of a majority of shares represented and entitled to vote at such meeting, except that any provision of the Bylaws for which a greater vote is required by the Articles, the Bylaws or by law may itself be amended only by such greater vote. In addition, an amendment to the provisions in the Bylaws relating to (1) matters which may be properly brought before an annual meeting, (2) who may call a special meeting and matters which may be brought before a special meeting, (3) cumulative voting, (4) the number, the manner of fixing the number and the staggered terms of members of the Board of Directors, (5) removal of directors and (6) restricting the amendment of certain provisions of the Bylaws must in each case be approved either (a) by the affirmative vote of 80% of the shares entitled to vote generally with respect to the election of directors voting together as a single class or (b) by the affirmative vote of a majority of the entire Board of Directors plus a concurring vote of a majority of the continuing directors (as that term is defined in the Bylaws) voting separately and as a subclass of directors.

The provisions of HEI's Bylaws referred to in the foregoing two paragraphs, and the statutory provisions referred to below, may have the effect of delaying, deferring or preventing a change in control of HEI.

Preferred Stock

Preferred Stock may be authorized by the Board of Directors for issuance in one or more series, without action by stockholders and with such preferences, voting powers, restrictions and qualifications as may be fixed by resolution of the Board of Directors authorizing the issuance of those shares. Under current Hawaii law, all shares of a series of preferred stock must have preferences, limitations and relative rights identical with those of other shares of the same series and, except to the extent otherwise provided in the description of the series, with those of other series in the same class. Under the current Articles, there is no restriction on the repurchase or redemption of shares of Preferred Stock at a time when there is an arrearage in the payment of dividends or sinking fund installments.

If and when authorized by the Board of Directors, Preferred Stock may be preferred as to dividends or in liquidation, or both, over the Common Stock. For example, the terms of the Preferred Stock, if and when authorized, could prohibit dividends on shares of Common Stock until all dividends and any mandatory redemptions have been paid with respect to shares of Preferred Stock. In addition, the Board of Directors may, without stockholder approval, issue Preferred Stock with voting and conversion rights which could adversely affect the voting power or economic rights of the holders of Common Stock. Issuance of Preferred Stock by HEI could thus have the effect of delaying, deferring or preventing a change of control of HEI.

Restriction on Purchases of Shares and Consequences of Substantial Holdings under Certain Hawaii and Federal Laws

Provisions of Hawaii and federal law, some of which are described below, place restrictions on the acquisition of beneficial ownership of 5% or more of the voting power of HEI. The following does not purport to be a complete enumeration of all of these provisions, nor does it purport to be a complete description of the statutory provisions that are enumerated. Persons contemplating the acquisition of 5% or more of the issued and outstanding shares of HEI's Common Stock should consult with their legal and financial advisors concerning statutory and other restrictions on such acquisitions.

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The Hawaii Control Share Acquisition Act places restrictions on the acquisition of ranges of voting power (starting at 10% and at 10% intervals up to a majority) for the election of directors of HEI unless the acquiring person obtains approval of the acquisition, in the manner specified in the Hawaii Control Share Acquisition Act, by

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the affirmative vote of the holders of a majority of the voting power of all shares entitled to vote, exclusive of the shares beneficially owned by the acquiring person, and consummates the proposed control share acquisition within 180 days after shareholder approval. If such approval is not obtained, the statute provides that the shares acquired may not be voted for a period of one year from the date of acquisition, the shares will be nontransferable on HEI's books for one year after acquisition and HEI, during the one-year period, has the right to call the shares for redemption either at the prices at which the shares were acquired or at book value per share as of the last day of the fiscal quarter ended prior to the date of the call for redemption.

Under provisions of the Hawaii Business Corporation Act, subject to certain exceptions, HEI may not be a party to a merger or consolidation unless the merger or consolidation is approved by the holders of at least 75% of all of the issued and outstanding voting stock of HEI.

Under provisions of Hawaii law regulating public utilities, not more than 25% of the issued and outstanding voting stock of certain public utility corporations, including HECO and its wholly owned electric utility subsidiaries, may be held, directly or indirectly, by any single foreign corporation or any single nonresident alien, or held by any person, without the prior approval of the PUC. The acquisition of more than 25% of the issued and outstanding voting stock of HEI in one or more transactions might be deemed to result in the holding of more than 25% of the voting stock of its electric utility subsidiaries. In addition, HEI is subject to an agreement entered into with the PUC when HECO became a wholly-owned subsidiary of HEI. This agreement provides that the acquisition of HEI by a third party, whether by purchase, merger, consolidation or otherwise, requires the prior written approval of the PUC.

Federal law restricts acquisitions of a federal savings bank and any entity considered to be its holding company by establishing thresholds of control the acquisition of which requires prior regulatory approval and by limiting the types of persons and entities eligible to acquire such control. The primary federal banking regulator of ASB historically was the Office of Thrift Supervision (OTS), but the OTS was abolished on July 21, 2011 and its supervisory and regulatory functions have been transferred to the OCC. As a result of HEI's indirect ownership of ASB, both HEI and American Savings Holdings, Inc. (ASHI), the direct parent corporation of ASB, are also subject to a certain degree of regulation as unitary savings and loan holding companies (i.e., companies which control one savings association). The supervision and regulation of HEI and ASHI have been moved to the FRB effective July 21, 2011. Since 1999, companies that engage in activities not permitted to financial services companies under federal law are not permitted to acquire control of a savings institution. Nonfinancial companies that owned savings institutions prior to May 4, 1999, such as HEI and ASHI, however, are considered grandfathered so that HEI and its subsidiaries are able to continue to engage in their current activities and retain ownership of ASB. The effect of this prohibition therefore is that any acquisition of HEI by a third party is likely to require HEI to divest ASB or its assets and liabilities. The divestiture would be required to occur within a two year period following the FRB's approval of the acquisition of HEI. Federal law also limits the entities eligible to acquire ASB or its assets and liabilities generally to those that engage in activities permissible to bank and financial holding companies under the Bank Holding Company Act.

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The thresholds of control which will trigger the need for notice to the FRB and, in certain instances, prior FRB approval are set forth in federal statutes and FRB regulations. Generally, no existing savings and loan holding company, may acquire direct or indirect ownership or control of more than 5% of the outstanding voting stock of a federal savings bank or its holding company without the prior written approval of the FRB. In addition, no other company or person may acquire control of more than 25% of the voting shares of a federal savings bank or savings and loan holding company, unless the FRB provides prior written approval. Control in this context means the acquisition of, control of, or holding proxies representing, more than 25% of the voting shares of HEI or the power to control in any manner the election of a majority of the directors of HEI. Moreover, under FRB regulations, one would be preliminarily determined to have acquired control if one acquires 5% or more of the voting shares of HEI and is subject to one of certain specified presumptions of control. Anyone subject to a preliminary determination of control by the FRB may contest the determination and request a hearing, may file an application to retain the control relationship or may propose a plan to the FRB for prompt termination of the control relationship. The FRB may also deem acquisitions of more than 5% but less than 25% of the voting shares of HEI to be passive and noncontrolling, on the condition that the investor enter into certain passivity commitments with the FRB.

Dividend Reinvestment and Stock Purchase Plan

Any individual of legal age or entity is eligible to participate in the HEI Dividend Reinvestment and Stock Purchase Plan by making an initial cash investment in Common Stock, subject to applicable laws and regulations and the requirements of the plan. Holders of Common Stock, and holders of Preferred Stock of HEI's electric utility subsidiaries, may automatically reinvest some or all of their dividends to purchase additional shares of Common Stock at market prices (as defined in the plan). Participants in the plan may also purchase additional shares of Common Stock at market prices (as defined in the plan) by making cash contributions to the plan. HEI reserves the right to suspend, modify or terminate the plan at any time. Shares of Common Stock issued under the plan may either be newly issued shares or shares purchased by the plan on the open market. Participants do not pay brokerage commissions or service charges in connection with purchases of newly issued shares, but do pay their pro rata share of brokerage commissions if the plan purchases shares for participants on the open market.

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**Item 6. Exhibits**

|                   |  |
|-------------------|--|
| HEI Exhibit 12.1  | Hawaiian Electric Industries, Inc. and Subsidiaries<br><br>Computation of ratio of earnings to fixed charges, nine months ended September 30, 2011 and 2010 and years ended December 31, 2010, 2009, 2008, 2007 and 2006 |
| HEI Exhibit 31.1  | Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Constance H. Lau (HEI Chief Executive Officer)  |
| HEI Exhibit 31.2  | Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of James A. Ajello (HEI Chief Financial Officer)   |
| HEI Exhibit 32.1  | Written Statement of Constance H. Lau (HEI Chief Executive Officer) Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted by Section 906 of the Sarbanes-Oxley Act of 2002  |
| HEI Exhibit 32.2  | Written Statement of James A. Ajello (HEI Chief Financial Officer) Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted by Section 906 of the Sarbanes-Oxley Act of 2002   |
| HECO Exhibit 12.2 | Hawaiian Electric Company, Inc. and Subsidiaries<br><br>Computation of ratio of earnings to fixed charges, nine months ended September 30, 2011 and 2010 and years ended December 31, 2010, 2009, 2008, 2007 and 2006    |
| HECO Exhibit 31.3 | Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Richard M. Rosenblum (HECO Chief Executive Officer)   |
| HECO Exhibit 31.4 | Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Tayne S. Y. Sekimura (HECO Chief Financial Officer)   |
| HECO Exhibit 32.3 | Written Statement of Richard M. Rosenblum (HECO Chief Executive Officer) Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted by Section 906 of the Sarbanes-Oxley Act of 2002                                       |
| HECO Exhibit 32.4 | Written Statement of Tayne S. Y. Sekimura (HECO Chief Financial Officer) Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted by Section 906 of the Sarbanes-Oxley Act of 2002                                       |
| Exhibit 101.INS   | XBRL Instance Document   |
| Exhibit 101.SCH   | XBRL Taxonomy Extension Schema Document  |
| Exhibit 101.CAL   | XBRL Taxonomy Extension Calculation Linkbase Document  |
| Exhibit 101.DEF   | XBRL Taxonomy Extension Definition Linkbase Document   |
| Exhibit 101.LAB   | XBRL Taxonomy Extension Label Linkbase Document  |
| Exhibit 101.PRE   | XBRL Taxonomy Extension Presentation Linkbase Document   |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized. The signature of the undersigned companies shall be deemed to relate only to matters having reference to such companies and any subsidiaries thereof.

**HAWAIIAN ELECTRIC INDUSTRIES, INC.**

(Registrant)

**HAWAIIAN ELECTRIC COMPANY, INC.**

(Registrant)

By /s/ Constance H. Lau  
Constance H. Lau  
President and Chief Executive Officer  
(Principal Executive Officer of HEI)

By /s/ Richard M. Rosenblum  
Richard M. Rosenblum  
President and Chief Executive Officer  
(Principal Executive Officer of HECO)

By /s/ James A. Ajello  
James A. Ajello  
Executive Vice President,  
Chief Financial Officer and Treasurer  
(Principal Financial Officer of HEI)

By /s/ Tayne S. Y. Sekimura  
Tayne S. Y. Sekimura  
Senior Vice President  
and Chief Financial Officer  
(Principal Financial Officer of HECO)

By /s/ David M. Kostecki  
David M. Kostecki  
Vice President-Finance, Controller  
and Chief Accounting Officer  
(Principal Accounting Officer of HEI)

By /s/ Patsy H. Nanbu  
Patsy H. Nanbu  
Controller  
(Principal Accounting Officer of HECO)

Date: November 3, 2011

Date: November 3, 2011