HAWAIIAN ELECTRIC INDUSTRIES INC
Form 10-K
February 23, 2016

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

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Hawaiian Electric Industries Inc. Yes X No Hawaiian Electric Company, Inc. Yes No X

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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

	Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrants as of June 30, 2015	Number of shares of common stock outstanding of the registrants as of June 30, 2015	Number of shares of common stock outstanding of the registrants as of February 12, 2016
Hawaiian Electric Industries, Inc. (HEI)	$3,194,385,337	107,446,530 (Without par value)	107,624,726 (Without par value)
Hawaiian Electric Company, Inc. (Hawaiian Electric)	None	15,805,327 ($6 2/3 par value)	15,805,327 ($6 2/3 par value)

DOCUMENTS INCORPORATED BY REFERENCE

Hawaiian Electric's Exhibit 99.1, consisting of:
Hawaiian Electric's Directors, Executive Officers and Corporate Governance—Part III
Hawaiian Electric's Executive Compensation—Part III
Hawaiian Electric's Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters—

Part III

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

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

Selected sections of Proxy Statement of HEI for the 2016 Annual Meeting of Shareholders to be filed-Part III

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

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GLOSSARY OF TERMS

Defined below are certain terms used in this report:

Terms	Definitions
ABO	Accumulated benefit obligation
AES Hawaii	AES Hawaii, Inc.
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income (loss)
AOS	Adequacy of supply
APBO	Accumulated postretirement benefit obligation
ARO	Asset retirement obligations
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of American Savings Holdings, Inc.
ASB Hawaii	ASB Hawaii, Inc. (formerly American Savings Holdings, Inc.), a wholly-owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Btu	British thermal unit
CAA	Clean Air Act
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
Chevron	Chevron Products Company, a fuel oil supplier
CIP	Campbell Industrial Park
CIS	Customer Information System
Company	When used in Hawaiian Electric Industries, Inc. sections and in the Notes to Consolidated Financial Statements, “Company” refers to Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation, Hawaiian Electric Company, Inc. and its subsidiaries (listed under Hawaiian Electric); ASB Hawaii, Inc. and its subsidiary, American Savings Bank, F.S.B.; HEI Properties, Inc. (dissolved in 2015); Hawaiian Electric Industries Capital Trust II and Hawaiian Electric Industries Capital Trust III (inactive financing entities - dissolved and terminated in 2015); and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.). When used in Hawaiian Electric Company, Inc. sections, “Company” refers to Hawaiian Electric Company, Inc. and its direct subsidiaries.
Consolidated Financial Statements	HEI’s and Hawaiian Electric's combined Consolidated Financial Statements, including notes, in Item 8 of this Form 10-K
Consumer Advocate	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii
CT-1	Combustion turbine No. 1
D&O	Decision and order
DBEDT	State of Hawaii Department of Business Economic Development and Tourism
DBF	State of Hawaii Department of Budget and Finance
DG	Distributed generation
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOH	Department of Health of the State of Hawaii
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
ECAC	Energy cost adjustment clause
EEPS	Energy Efficiency Portfolio Standards

EGU	Electrical generating unit
EIP	2010 Executive Incentive Plan, as amended
EPA	Environmental Protection Agency - federal
EPS	Earnings per share
ERISA	Employee Retirement Income Security Act of 1974, as amended
ERL	Environmental Response Law of the State of Hawaii
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
federal	U.S. Government

GLOSSARY OF TERMS (continued)

Terms	Definitions
FERC	Federal Energy Regulatory Commission
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FICO	Financing Corporation
Fitch	Fitch Ratings, Inc.
FNMA	Federal National Mortgage Association
FRB	Federal Reserve Board
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse gas
GNMA	Government National Mortgage Association
Gramm Act	Gramm-Leach-Bliley Act of 1999
HC&S	Hawaiian Commercial & Sugar Company, a division of A&B-Hawaii, Inc.
Hawaii Electric Light	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
Hawaiian Electric	Hawaiian Electric Company, Inc., an electric utility subsidiary of Hawaiian Electric Industries, Inc. and parent company of Hawaii Electric Light Company, Inc., Maui Electric Company, Limited, HECO Capital Trust III (unconsolidated financing subsidiary), Renewable Hawaii, Inc. and Uluwehiokama Biofuels Corp.
Hawaiian Electric's MD&A	Hawaiian Electric Company, Inc.'s Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., ASB Hawaii, Inc., HEI Properties, Inc. (dissolved in 2015), Hawaiian Electric Industries Capital Trust II (dissolved and terminated in 2015), Hawaiian Electric Industries Capital Trust III (dissolved and terminated in 2015) and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.).
HEI's 2016 Proxy Statement	Selected sections of Proxy Statement for the 2016 Annual Meeting of Shareholders of Hawaiian Electric Industries, Inc. to be filed after the date of this Form 10-K, which are incorporated in this Form 10-K by reference
HEI's MD&A	Hawaiian Electric Industries, Inc.'s Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K
HEIPI	HEI Properties, Inc. (dissolved in 2015), a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HEP	Hamakua Energy Partners, L.P., formerly known as Encogen Hawaii, L.P.
HTB	Hawaiian Tug & Barge Corp. On November 10, 1999, HTB sold substantially all of its operating assets and the stock of its subsidiary, Young Brothers, Limited, and changed its name to The Old Oahu Tug Services, Inc.
HPower	City and County of Honolulu with respect to a power purchase agreement for a refuse-fired plant
IPP	Independent power producer
IRP	Integrated resource plan
IRR	Interest rate risk
Kalaeloa	Kalaeloa Partners, L.P.
kV	Kilovolt
kW	Kilowatt/s (as applicable)

KWH	Kilowatthour/s (as applicable)
LNG	Liquefied natural gas
LSFO	Low sulfur fuel oil
LTIP	Long-term incentive plan
MATS	Mercury and Air Toxics Standards
Maui Electric	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
MBtu	Million British thermal unit
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Merger	As provided in the Merger Agreement, merger of Merger Sub I with and into HEI, with HEI surviving, and then merger of HEI with and into Merger Sub II, with Merger Sub II surviving as a wholly owned subsidiary of NEE
Merger Agreement	Agreement and Plan of Merger by and among HEI, NEE, Merger Sub II and Merger Sub I, dated December 3, 2014
Merger Sub I	NEE Acquisition Sub II, Inc., a Delaware corporation and a wholly owned subsidiary of NEE

GLOSSARY OF TERMS (continued)

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

	Means the referenced material is incorporated by reference (or means refer to the referenced section in this document or the referenced exhibit or other document)
SLHCs	Savings & Loan Holding Companies
SOIP	1987 Stock Option and Incentive Plan, as amended. Shares of HEI common stock reserved for issuance under the SOIP were deregistered and delisted in 2015.
Spin-Off	The distribution to HEI shareholders of all of the common stock of ASB Hawaii immediately prior to the Merger
SPRBs	Special Purpose Revenue Bonds
ST	Steam turbine
state	State of Hawaii
TDR	Troubled debt restructuring

GLOSSARY OF TERMS (continued)

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

Forward-Looking Statements

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

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

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

on future costs of electricity;

- the ability of the Utilities to develop, implement and recover the costs of implementing the Utilities' action plans and business model changes proposed and being developed in response to the four orders that the PUC issued in April 2014, in which the PUC: directed the Utilities to develop, among other things, Power Supply Improvement Plans, a Demand Response Portfolio Plan and a Distributed Generation Interconnection Plan; described the PUC's inclinations on the future of Hawaii's electric utilities and the vision, business strategies and regulatory policy changes required to align the Utilities' business model with customer interests and the state's public policy goals; and emphasized the need to "leap ahead" of other states in creating a 21st century generation system and modern transmission and distribution grids;
- capacity and supply constraints or difficulties, especially if generating units (utility-owned or IPP-owned) fail or measures such as demand-side management (DSM), distributed generation (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;
- fuel oil price changes, delivery of adequate fuel by suppliers and the continued availability to the electric utilities of their energy cost adjustment clauses (ECACs);
- the continued availability to the electric utilities or modifications of other cost recovery mechanisms, including the purchased power adjustment clauses (PPACs), rate adjustment mechanisms (RAMs) and pension and postretirement benefits other than pensions (OPEB) tracking mechanisms, and the continued decoupling of revenues from sales to mitigate the effects of declining kilowatthour sales;

- the impact of fuel price volatility on customer satisfaction and political and regulatory support for the Utilities;
- the risks associated with increasing reliance on renewable energy, including the availability and cost of non-fossil fuel supplies for renewable energy generation and the operational impacts of adding intermittent sources of renewable energy to the electric grid;
- the growing risk that energy production from renewable generating resources may be curtailed and the interconnection of additional resources will be constrained as more generating resources are added to the Utilities' electric systems and as customers reduce their energy usage;
- the ability of IPPs to deliver the firm capacity anticipated in their power purchase agreements (PPAs);
- the potential that, as IPP contracts near the end of their terms, there may be less economic incentive for the IPPs to make investments in their units to ensure the availability of their units;
- the ability of the Utilities to negotiate, periodically, favorable agreements for significant resources such as fuel supply contracts and collective bargaining agreements;
- new technological developments that could affect the operations and prospects of the Utilities and ASB or their competitors;
- new technological developments, such as the commercial development of energy storage and microgrids, that could affect the operations of the Utilities;
- cyber security risks and the potential for cyber incidents, including potential incidents at HEI, ASB and the Utilities (including at ASB branches and electric utility plants) and incidents at data processing centers they use, to the extent not prevented by intrusion detection and prevention systems, anti-virus software, firewalls and other general information technology controls;
- federal, state, county and international governmental and regulatory actions, such as existing, new and changes in laws, rules and regulations applicable to HEI, the Utilities and ASB (including changes in taxation, increases in capital requirements, regulatory policy changes, environmental laws and regulations (including resulting compliance costs and risks of fines and penalties and/or liabilities), the regulation of greenhouse gas (GHG) emissions, governmental fees and assessments (such as Federal Deposit Insurance Corporation assessments), and potential carbon “cap and trade” legislation that may fundamentally alter costs to produce electricity and accelerate the move to renewable generation);
- developments in laws, regulations, and policies governing protections for historic, archaeological, and cultural sites, and plant and animal species and habitats, as well as developments in the implementation and enforcement of such laws, regulations, and policies;
- discovery of conditions that may be attributable to historical chemical releases, including any necessary investigation and remediation, and any associated enforcement, litigation, or regulatory oversight;
- decisions by the PUC in rate cases and other proceedings (including the risks of delays in the timing of decisions, adverse changes in final decisions from interim decisions and the disallowance of project costs as a result of adverse regulatory audit reports or otherwise);
- decisions by the PUC and by other agencies and courts on land use, environmental and other permitting issues (such as required corrective actions, restrictions and penalties that may arise, such as with respect to environmental conditions or RPS);
- potential enforcement actions by the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board (FRB), the Federal Deposit Insurance Corporation (FDIC) and/or other governmental authorities (such as consent orders, required corrective actions, restrictions and penalties that may arise, for example, with respect to compliance deficiencies under existing or new banking and consumer protection laws and regulations or with respect to capital adequacy);
- the ability of the Utilities to recover increasing costs and earn a reasonable return on capital investments not covered by RAMs;
- the risks associated with the geographic concentration of HEI’s businesses and ASB’s loans, ASB’s concentration in a single product type (i.e., first mortgages) and ASB’s significant credit relationships (i.e., concentrations of large loans and/or credit lines with certain customers);
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changes in accounting principles applicable to HEI, the Utilities and ASB, including the adoption of new U.S. accounting standards, the potential discontinuance of regulatory accounting and the effects of potentially required consolidation of variable interest entities (VIEs) or required capital lease accounting for PPAs with IPPs;

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

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

PART I

ITEM 1. BUSINESS

HEI Consolidated

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

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

Besides Hawaiian Electric and its subsidiaries, HEI also currently owns directly or indirectly the following subsidiaries: ASB Hawaii, Inc. (ASB Hawaii) (a holding company, formerly known as American Savings Holdings, Inc.) and its subsidiary, American Savings Bank, F.S.B. (ASB); HEI Properties, Inc. (HEIPI), which was dissolved on December 11, 2015; Hawaiian Electric Industries Capital Trusts II and III (both formed in 1997 to be available for trust securities financings, but both were dissolved and terminated on December 14, 2015); and The Old Oahu Tug Service, Inc. (TOOTS).

ASB, acquired by HEI in 1988, is one of the largest financial institutions in the State of Hawaii with assets of $6.0 billion as of December 31, 2015.

HEIPI, whose predecessor company was formed in February 1998, held venture capital investments. HEIPI was dissolved on December 11, 2015.

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

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

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

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

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

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

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

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

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

Bank regulations generally prohibit savings and loan holding companies and their nonthrift subsidiaries from engaging in activities other than those which are specifically enumerated in the regulations. However, the unitary savings and loan holding company relationship among HEI, ASB Hawaii and ASB is "grandfathered" under the Gramm-Leach-Bliley Act of 1999 (Gramm Act) so that HEI and its subsidiaries are able to continue to engage in their current activities so long as ASB satisfies the qualified thrift lender (QTL) test discussed under "Bank—Regulation—Qualified thrift lender test." ASB met the QTL test at all times during 2015; however, the failure of ASB to satisfy the QTL test in the future could result in a need for HEI to divest ASB. If the Spin-Off and Merger are completed, these regulatory limitations will be eliminated since ASB Hawaii and ASB will no longer be affiliated with HEI and will not become affiliates of NextEra.

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

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

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

the current maturities of long-term debt, but excluding short-term borrowings), the electric utility subsidiaries would, absent PUC approval, be restricted in their payment of cash dividends to 80% of the earnings available for the payment of dividends in the current fiscal year and preceding five years, less the amount of dividends paid during that period. The PUC Agreement also provides that the foregoing dividend restriction shall not be construed as relinquishing any right the PUC may have to review the dividend policies of the electric utility subsidiaries. As of December 31, 2015, the consolidated common stock equity of HEI's electric utility subsidiaries was 57% of their total capitalization (as calculated for purposes of the PUC Agreement). As of December 31, 2015, Hawaiian Electric and its subsidiaries had common stock equity of $1.7 billion of which approximately $711 million was not available for transfer to HEI without regulatory approval.

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

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

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

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

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

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

December 31	2015	2014	2013	2012	2011
HEI	39	44	43	42	40
Hawaiian Electric and its subsidiaries	2,727	2,759	2,764	2,658	2,518
ASB and its subsidiaries	1,152	1,162	1,159	1,170	1,096
	3,918	3,965	3,966	3,870	3,654

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

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

Electric utility

Hawaiian Electric and subsidiaries and service areas. Hawaiian Electric, Hawaii Electric Light and Maui Electric (Utilities) are regulated operating electric public utilities engaged in the production, purchase, transmission, distribution and sale of electricity on the islands of Oahu; Hawaii; and Maui, Lanai and Molokai, respectively. Hawaiian Electric acquired Maui Electric in 1968 and Hawaii Electric Light in 1970. In 2015, the electric utilities'

revenues and net income amounted to approximately 90% and 85%, respectively, of HEI's consolidated revenues and net income, compared to approximately 92% and 82% in 2014 and approximately 92% and 76% in 2013, respectively.

The islands of Oahu, Hawaii, Maui, Lanai and Molokai have a combined population estimated at 1.3 million, or approximately 95% of the total population of the State of Hawaii, and comprise a service area of 5,815 square miles. The principal communities served include Honolulu (on Oahu), Hilo and Kona (on Hawaii) and Wailuku and Kahului (on Maui). The service areas also include numerous suburban communities, resorts, U.S. Armed Forces installations and agricultural operations. The state has granted Hawaiian Electric, Hawaii Electric Light and Maui Electric nonexclusive franchises, which authorize the Utilities to construct, operate and maintain facilities over and under public streets and sidewalks. Each of these franchises will continue in effect for an indefinite period of time until forfeited, altered, amended or repealed.

Sales of electricity.

Years ended December 31	2015		2014		2013	
(dollars in thousands)	Customer accounts*	Electric sales revenues	Customer accounts*	Electric sales revenues	Customer accounts*	Electric sales revenues
Hawaiian Electric	302,958	$1,636,245	301,953	$2,134,094	299,528	$2,116,214
Hawaii Electric Light	84,309	343,843	83,421	420,647	82,637	430,272
Maui Electric	70,533	343,722	70,042	420,734	69,577	422,205
	457,800	$2,323,810	455,416	$2,975,475	451,742	$2,968,691

* As of December 31.

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

Significant customers. The Utilities derived approximately 11%, 12% and 11% of their operating revenues in 2015, 2014 and 2013 respectively, from the sale of electricity to various federal government agencies.

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

State of Hawaii and U.S. Department of Energy MOU. On September 15, 2014, the State of Hawaii and the U.S. Department of Energy executed a Memorandum of Understanding (MOU) recognizing that Hawaii is embarking on the next phase of its clean energy future. The MOU provides the framework for a comprehensive, sustained effort to better realize its vast renewable energy potential and allow Hawaii to push forward in three main areas: the power sector, transportation and energy efficiency. This next phase will focus on stimulating deployment of clean energy infrastructure as a catalyst for economic growth, energy system innovation and test bed investments.

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

The statewide Energy Efficiency Potential Study issued in December 2013 indicated that Hawaii was on track to meet the 2015 interim EEPS target, and that available untapped energy efficiency resources in Hawaii exceed the EEPS goal of 4,300 GWH. The PUC convened a meeting of the EEPS Technical Working Group in January 2014 to review the results of the statewide Energy Efficiency Potential Study. Although the results of the potential study indicate that

available untapped energy efficiency resources in Hawaii exceed the overall goal, no changes were made to the goals or Framework that govern the achievement of EEPS. Neither HEI nor Hawaiian Electric management can predict with certainty the impact of these or other governmental mandates or the September 2014 MOU on HEI's or Hawaiian Electric's future results of operations, financial condition or liquidity.

Selected consolidated electric utility operating statistics.

Years ended December 31	2015	2014	2013	2012	2011
KWH sales (millions)					
Residential	2,396.5	2,379.7	2,450.9	2,582.0	2,769.7
Commercial	2,977.8	3,022.0	3,105.9	3,074.4	3,203.8
Large light and power	3,532.9	3,524.5	3,462.7	3,499.8	3,503.4
Other	49.3	50.0	50.0	49.8	50.0
	8,956.5	8,976.2	9,069.5	9,206.0	9,526.9
KWH net generated and purchased (millions)					
Net generated	5,124.5	5,131.3	5,352.0	5,601.7	6,022.2
Purchased	4,308.3	4,306.7	4,195.2	4,093.2	4,009.7
	9,432.8	9,438.0	9,547.2	9,694.9	10,031.9
Losses and system uses (%)	4.8	4.7	4.8	4.8	4.8
Energy supply (December 31)					
Net generating capability—MW	1,669	1,787	1,787	1,787	1,787
Firm purchased capability—MW	551	575	567	545	540
Other purchased capability—MW	4	—	—	—	—
	2,224	2,362	2,354	2,332	2,327
Net peak demand—MW[1]	1,610	1,554	1,535	1,535	1,530
Btu per net KWH generated	10,632	10,613	10,570	10,533	10,609
Average fuel oil cost per Mbtu (cents)	1,206.5	2,087.6	2,103.2	2,210.4	1,986.7
Customer accounts (December 31)					
Residential	400,655	398,256	394,910	392,025	390,133
Commercial	54,878	54,924	54,616	54,005	53,904
Large light and power	659	596	556	577	567
Other	1,608	1,640	1,660	1,636	1,625
	457,800	455,416	451,742	448,243	446,229
Electric revenues (thousands)					
Residential	$709,886	$879,605	$892,438	$952,159	$946,653
Commercial	798,202	1,027,588	1,044,166	1,060,983	1,024,725
Large light and power	802,366	1,051,119	1,015,079	1,062,226	976,949
Other	13,356	17,163	17,008	17,392	16,172
	$2,323,810	$2,975,475	$2,968,691	$3,092,760	$2,964,499
Average revenue per KWH sold (cents)	25.90	33.15	32.73	33.60	31.12
Residential	29.62	36.93	36.41	36.88	34.18
Commercial	26.81	34.00	33.62	34.51	31.99
Large light and power	22.71	29.82	29.31	30.35	27.89
Other	27.05	34.36	34.02	34.93	32.37
Residential statistics					
Average annual use per customer account (KWH)	5,996	6,000	6,220	6,596	7,117
Average annual revenue per customer account	$1,776	$2,218	$2,265	$2,432	$2,433
Average number of customer accounts	399,674	396,640	394,024	391,437	389,160

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

Generation statistics. The following table contains certain generation statistics as of and for the year ended December 31, 2015. The net generating and firm purchased capability available for operation at any given time may be more or less than shown because of capability restrictions or temporary outages for inspection, maintenance, repairs or unforeseen circumstances.

	Island of Oahu-Hawaiian Electric	Island of Hawaii-Hawaii Electric Light	Island of Maui-Maui Electric	Island of Lanai-Maui Electric	Island of Molokai-Maui Electric	Total
Net generating and firm purchased capability (MW) as of December 31, 2015[1]						
Conventional oil-fired steam units	999.5	49.4	35.9	—	—	1,084.8
Diesel	8.0 [2]	27.0	96.8	10.1	9.6	151.5
Combustion turbines (peaking units)	214.8	—	—	—	—	214.8
Other combustion turbines	—	46.3	—	—	2.2	48.5
Combined-cycle unit	—	56.3	113.6	—	—	169.9
Firm contract power[3]	456.5	94.6	—	—	—	551.1
Other purchased capability[5]	—	—	4.0	—	—	4.0
	1,678.8	273.6	250.3	10.1	11.8	2,224.6
Net peak demand (MW)	1,206.0	191.5	202.2	5.1	5.6	1,610.4 [4]
Reserve margin	39.2 %	42.9 %	24.3 %	98.0 %	110.7 %	40.4 %
Annual load factor	67.1 %	68.2 %	64.6 %	60.5 %	64.1 %	66.9 %
KWH net generated and purchased (millions)	7,086.1	1,143.3	1,144.9	27.0	31.5	9,432.8

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

[2] Airport Dispatchable Standby Generation 8 MW.

[3] Nonutility generators— Hawaiian Electric: 208 MW (Kalaeloa Partners, L.P., oil-fired), 180 MW (AES Hawaii, Inc., coal-fired), and 68.5 MW (HPower, refuse-fired); Hawaii Electric Light: 34.6 MW (Puna Geothermal Venture, geothermal) and 60 MW (Hamakua Energy Partners, L.P., oil-fired).

[4] Noncoincident and nonintegrated.

[5] In October 2015, the PPA between Maui Electric and HC&S was amended, changing the pricing structure and rates for energy and eliminated the capacity payment to Hawaiian Commercial & Sugar Company (HC&S) and Maui Electric's minimum purchase obligation. Maui Electric may still request up to 4 MW of scheduled energy during certain months and may be provided up to 16 MW of emergency power.

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

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

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

waste and other biofuels.

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

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

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

Hawaiian Electric firm capacity PPAs. Hawaiian Electric currently has three major PPAs that provide a total of 456.5 MW of firm capacity, representing 27% of Hawaiian Electric's total net generating and firm purchased capacity on Oahu as of December 31, 2015. In March 1988, Hawaiian Electric entered into a PPA with AES Barbers Point, Inc. (now known as AES Hawaii, Inc. (AES Hawaii)), a Hawaii-based, indirect subsidiary of The AES Corporation. The agreement with AES Hawaii, as amended (through Amendment No. 2), provides that, for a period of 30 years beginning September 1992, Hawaiian Electric will purchase 180 megawatts (MW) of firm capacity. The AES Hawaii 180 MW coal-fired cogeneration plant utilizes a "clean coal" technology and is designed to sell sufficient steam to be a "Qualifying Facility" (QF) under the Public Utility Regulatory Policies Act of 1978 (PURPA). In August 2012, Hawaiian Electric filed an application with the PUC seeking an exemption from the PUC's Competitive Bidding Framework to negotiate an amendment to the PPA to purchase 186 MW of firm capacity, extend the PPA term until September 2032, and amend the energy pricing formula in the PPA. The PUC approved the exemption in April 2013. In November 2015, Hawaiian Electric entered into Amendment No. 3 to the PPA, subject to PUC approval. See "Commitments and contingencies, Power purchase agreements, AES Hawaii, Inc." in Note 4 to the Consolidated Financial Statements.

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

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

Hawaii Electric Light and Maui Electric firm capacity PPAs. As of December 31, 2015, Hawaii Electric Light has PPAs for 119.5 MW (of which 94.6 MW are currently available, 3.4 MW are pending and 21.5 MW are expected to be added in 2016) and Maui Electric has a PPA for up to 4 MW of scheduled energy and up to 16 MW of emergency power.

Hawaii Electric Light has a 35-year PPA with Puna Geothermal Venture (PGV) for 30 MW of firm capacity from its geothermal steam facility, which will expire on December 31, 2027. In February 2011, Hawaii Electric Light and PGV amended the PPA for the pricing on a portion of the energy payments and entered into a new PPA for Hawaii Electric Light to acquire an additional 8 MW of firm, dispatchable capacity. The PUC approved the amendment and the new PPA in December 2011. PGV's expansion became commercially operational in March 2012 for a total facility capacity of 34.6 MW.

In October 1997, Hawaii Electric Light entered into an agreement with Encogen, which has been succeeded by Hamakua Energy Partners, L. P. (HEP). The agreement requires Hawaii Electric Light to purchase up to 60 MW (net) of firm capacity for a period of 30 years, expiring on December 31, 2030. The dual-train combined-cycle DTCC facility, which primarily burns naphtha, consists of two oil-fired combustion turbines and a steam turbine that utilizes waste heat from the combustion turbines. In December 2015, Hawaii Electric Light signed an agreement to purchase the 60 MW HEP generating plant, subject to PUC approval. In February 2016, Hawaii Electric Light and Hawaiian Electric filed an application with the PUC requesting approval of Hawaii Electric Light's purchase of the HEP Facility, the parties' proposed financing plan, the recovery of revenue requirements for the plant additions associated

with the purchase through Hawaii Electric Light's Decoupling Rate Adjustment Mechanism above the RAM Cap, the inclusion of the costs under certain fuel contracts through Hawaii Electric Light's ECAC and termination of the existing PPA.

In May 2012, Hawaii Electric Light signed a PPA, which the PUC approved in December 2013, with Hu Honua Bioenergy, LLC (Hu Honua) for 21.5 MW of renewable, dispatchable firm capacity fueled by locally grown biomass from a facility on the island of Hawaii. Per the terms of the PPA, the Hu Honua plant was scheduled to be in service in 2016. However, Hu Honua encountered construction delays, has failed to meet its current obligations under the PPA and failed to provide adequate assurances that it can perform or has the financial means to perform. Absent compelling changes in circumstances, Hawaii Electric Light currently intends to terminate the PPA effective March 1, 2016.

Maui Electric had a PPA with HC&S for 16 MW of firm capacity. Subsequently, HC&S decreased firm capacity to 8 MW effective January 1, 2015. In October 2015, following PUC approval, an amended PPA between Maui Electric and HC&S became effective, which changed the pricing structure and rates for energy sold to Maui Electric, eliminated the capacity payment to HC&S and Maui Electric's minimum purchase obligation, provided that Maui Electric may request up to 4 MW of scheduled energy during certain months and be provided up to 16 MW of emergency power and extended the term of the PPA from 2014 to 2017. The HC&S generating units primarily burn bagasse (sugar cane waste) along with secondary fuels of diesel oil or coal. In January 2016, HC&S announced it will discontinue the growing and harvesting of sugar cane, and provided Maui Electric with a notice of termination of the amended PPA effective January 6, 2017 since it will discontinue the growing and harvesting of sugar cane.

Fuel oil usage and supply. The rate schedules of the Company's electric utility subsidiaries include ECACs under which electric rates (and consequently the revenues of the electric utility subsidiaries generally) are adjusted for changes in the weighted-average price paid for fuel oil and certain components of purchased power, and the relative amounts of company-generated power and purchased power. See discussion of rates and issues relating to the ECAC below under "Rates," and "Electric utility—Certain factors that may affect future results and financial condition—Regulation of electric utility rates" and "Electric utility—Material estimates and critical accounting policies–Revenues" in HEI's MD&A.

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

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

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

The following table sets forth the average cost of fuel oil used by Hawaiian Electric, Hawaii Electric Light and Maui Electric to generate electricity in 2015, 2014 and 2013:

	Hawaiian Electric		Hawaii Electric Light		Maui Electric		Consolidated	
	$/Barrel	¢/MBtu	$/Barrel	¢/MBtu	$/Barrel	¢/MBtu	$/Barrel	¢/MBtu
2015	71.86	1,144.8	79.03	1,307.3	84.38	1,425.7	74.71	1,206.5
2014	130.71	2,075.4	121.49	2,002.5	130.51	2,198.9	129.65	2,087.6
2013	130.85	2,068.2	125.81	2,064.7	135.57	2,286.3	131.10	2,103.2

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

	Hawaiian Electric		Hawaii Electric Light		Maui Electric	
	LSFO	Diesel/Biodiesel	MSFO	Diesel	MSFO	Diesel/Biodiesel
2015	96 %	4 %	43 %	57 %	16 %	84 %
2014	97	3	47	53	20	80
2013	98	2	53	47	18	82

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

Kirby never takes title to the fuel oil or diesel fuel, but does have custody and control while the fuel is in transit from Oahu. If there were an oil spill in transit, Kirby is generally contractually obligated to indemnify Hawaii Electric Light and/or Maui Electric for resulting clean-up costs, fines and damages. Kirby maintains liability insurance coverage for an amount in excess of $1 billion for oil spill related damage. State law provides a cap of $700 million on liability for

releases of heavy fuel oil transported interisland by tank barge. In the event of a release, Hawaii Electric Light and/or Maui Electric may be responsible for any clean-up, damages, and/or fines that Kirby and its insurance carrier do not cover.

The prices that Hawaiian Electric, Hawaii Electric Light and Maui Electric pay for purchased energy from certain older nonutility generators are generally linked to the price of oil. The AES Hawaii energy prices vary primarily with an inflation index. The energy prices for Kalaeloa, which purchases LSFO from Hawaii Independent Energy (formerly Tesoro Hawaii Corporation), vary primarily with the price of Asian crude oil. A portion of PGV energy prices are based on the electric utilities' respective short-run avoided energy cost rates (which vary with their composite fuel costs), subject to minimum floor rates specified in their approved PPA. HEP energy prices vary primarily with Hawaii Electric Light's diesel costs.

The Utilities estimate that 67% of the net energy they generate or purchase will come from fossil fuel oil in 2016 compared to 70% in 2015. Hawaiian Electric generally maintains an average system fuel inventory level equivalent to 47 days of forward consumption. Hawaii Electric Light and Maui Electric generally maintain an average system fuel inventory level equivalent to approximately one month's supply of both MSFO and diesel. The PPAs with AES Hawaii and HEP require that they maintain certain minimum fuel inventory levels.

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

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

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

Public Utilities Commission and Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs of the State of Hawaii. Randall Y. Iwase is the Chair of the PUC (for a term that will expire in June 2020) and was formerly a state legislator, Honolulu city council member, supervising deputy attorney general, and Chair of the Hawaii State Tax Review Commission. The other commissioners are Michael E. Champley (for a term that will expire in June 2016), who previously was a senior energy consultant and a senior executive with DTE Energy, and Lorraine H. Akiba (for a term that will expire in June 2018), who previously was an attorney in private practice who earlier served as the Director of the State Department of Labor and Industrial Relations.

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

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

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

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

reduction" under "Commitments and contingencies" in Note 4 of the Consolidated Financial Statements.

Legislation. See "Electric utility–Legislation and regulation" in HEI's MD&A.

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

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

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

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

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

On September 15, 2014, the State of Hawaii and the U.S. Department of Energy executed a MOU recognizing that Hawaii is embarking on the next phase of its clean energy future. The MOU provides the framework for a comprehensive, sustained effort to better realize Hawaii's vast renewable energy potential and allow it to push forward in three main areas: the power sector, transportation and energy efficiency. This next phase will focus on stimulating deployment of clean energy infrastructure as a catalyst for economic growth, energy system innovation and test bed investments.

In 2015, Hawaii's RPS law was amended to require electric utilities to meet an RPS of 15%, 30%, 40%, 70% and 100% by December 31, 2015, 2020, 2030, 2040 and 2045 respectively. Energy savings resulting from energy efficiency programs do not count toward the RPS since 2014 (only electrical generation using renewable energy as a source counts).

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

In December 1996, the PUC issued an order in a docket that had been opened to review the relationship between HEI and Hawaiian Electric and the effects of that relationship on the operations of Hawaiian Electric. The order adopted the report of the consultant the PUC had retained and ordered Hawaiian Electric to continue to provide the PUC with periodic status reports on its compliance with the PUC Agreement (pursuant to which HEI became the holding company of Hawaiian Electric). Hawaiian Electric files such status reports annually. In the order, the PUC also required the Utilities to present a comprehensive analysis of the impact that the holding company structure and investments in nonutility subsidiaries have on a case-by-case basis on the cost of capital to each utility in future rate cases and remove any such effects from the cost of capital. The Utilities have made presentations in their subsequent rate cases to support their positions that there was no evidence that would modify the PUC's finding that Hawaiian Electric's access to capital did not suffer as a result of HEI's involvement in nonutility activities and that HEI's diversification did not permanently raise or lower the cost of capital incorporated into the rates paid by Hawaiian Electric's utility customers.

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

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

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

See also “HEI–Regulation” above.

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

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

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

Air quality controls. The Clean Air Act (CAA) amendments of 1990, among other things, established the federal Title V Operating Permit Program (in Hawaii known as the Covered Source Permit program) and greatly expanded the regulatory requirements for monitoring and controlling hazardous air pollutants from mission sources. Under Title V, more stringent National Ambient Air Quality Standards (NAAQS) affect new or modified generating units by requiring a permit to construct under the CAA Prevention of Significant Deterioration (PSD) program and the controls necessary to meet the NAAQS.

Title V operating permits have been issued for all of the Utilities' affected generating units.

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

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

The Emergency Planning and Community Right-to-Know Act under SARA Title III requires the Utilities to report potentially hazardous chemicals present in their facilities in order to provide the public with information so that emergency procedures can be established to protect the public in the event of hazardous chemical releases. All of the Utilities' facilities are in compliance with applicable annual reporting requirements to the State Emergency Planning Commission, the Local Emergency Planning Committee and local fire departments. Since January 1, 1998, the steam electric industry category has been subject to Toxics Release Inventory (TRI) reporting requirements. All of the Utilities' facilities are in compliance with TRI reporting requirements.

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

releases of PCBs to the environment. The Utilities have instituted procedures to monitor compliance with these regulations and have implemented a program to identify and replace PCB transformers and capacitors in their systems. Management believes that all of the Utilities' facilities are currently in compliance with PCB regulations. In April 2010, the EPA issued an Advance Notice of Proposed Rule Making announcing its intent to reassess PCB regulations. The EPA projects that it will publish a notice of proposed rule making in March 2016.

Hawaii's Environmental Response Law, as amended (ERL), governs releases of hazardous substances, including oil, to the environment in areas within the state's jurisdiction. Responsible parties under the ERL are jointly, severally, and strictly liable for a release of a hazardous substance. Responsible parties include owners or operators of a facility where a hazardous

substance is located and any person who at the time of disposal of the hazardous substance owned or operated any facility at which such hazardous substance was disposed.

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

Research and development. The Utilities expensed approximately $3.3 million, $2.9 million and $3.4 million in 2015, 2014 and 2013, respectively, for research and development (R&D). In 2015, 2014 and 2013, the electric utilities' contributions to the Electric Power Research Institute accounted for approximately 67%, 76% and 64% of R&D expenses, respectively. Included in the R&D expenses were amounts related to new and emerging technologies, biofuels, energy storage, demand response, environmental compliance, power quality, electric and hybrid plug in vehicles and other renewables (e.g., integration of distributed energy resources onto the utility grid, grid modernization, solar resource evaluation, advanced inverter testing, and modeling of high PV penetration circuits).

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

Properties. Hawaiian Electric owns and operates four generating plants on the island of Oahu at Honolulu, Waiau, Kahe and Campbell Industrial Park (CIP). These plants have an aggregate net generating capability of 1,214 MW as of December 31, 2015. Hawaiian Electric's generating plant in Honolulu was deactivated in 2014, and the City and County of Honolulu is seeking to condemn a portion of the plant site for its rail project. The four plants are situated on Hawaiian Electric-owned land having a combined area of 535 acres and three parcels of land totaling 5.5 acres under leases expiring between June 30, 2016 and December 31, 2018, with options to extend to June 30, 2026. In addition, Hawaiian Electric owns a total of 132 acres of land on which substations, transformer vaults, distribution baseyards and the Kalaeloa cogeneration facility are located.

Hawaiian Electric owns buildings and approximately 11.6 acres of land located in Honolulu which house its operating and engineering departments. It also leases an office building and certain office spaces in Honolulu, and a warehousing center in Kapolei. The lease for the office building expires in November 2021, with an option to extend through November 2024. Leases for certain office and warehouse spaces expire on various dates from March 31, 2016 through July 31, 2025, some with options to extend to various dates through December 31, 2034.

Hawaiian Electric's Barbers Point Tank Farm (BPTF) has three storage tanks with an aggregate of 1 million barrels of storage for LSFO. The BPTF is located in Campbell Industrial Park, on the same property as the CIP Generating Station, and is the central fuel storage facility where LSFO purchased by Hawaiian Electric is received and stored. From the BPTF, LSFO is transported via Hawaiian Electric owned underground pipelines to the Kahe and Waiau Power Plants. Hawaiian Electric also has fuel storage facilities at each of its plant sites with a nominal aggregate capacity of 770,000 barrels for LSFO storage, 44,000 barrels for diesel storage, and 88,000 barrels for biodiesel storage. Hawaiian Electric also owns a fuel storage facility at Iwilei that was used to provide fuel to the Honolulu Power Plant. The Honolulu Power Plant was deactivated on January 31, 2014 and any future fuel supplies will be delivered directly to the plant by truck. The Iwilei fuel storage facility's tanks and pumping infrastructure are being removed, and the facility is being reconfigured for other purposes.

Hawaii Electric Light owns and operates four generating plants on the island of Hawaii in Hilo, Waimea, Keahole and Puna, along with distributed generators at substation sites. These plants have an aggregate net generating capability of 179 MW as of December 31, 2015 (excluding several small run-of-river hydro units). Hawaii Electric Light's Shipman plant in Hilo was deactivated in 2014 and retired in 2015. The plants (including a baseyard on the same parcel as the Hilo plant) are situated on Hawaii Electric Light-owned land having a combined area of approximately 44 acres. The distributed generators are located within Hawaii Electric Light-owned substation sites having a combined area of approximately 4 acres. Hawaii Electric Light also owns fuel storage facilities at these sites with a usable storage capacity of 48,000 barrels of bunker oil and 81,802 barrels of diesel. There are an additional 19,200 barrels of diesel and 22,770 barrels of bunker oil storage capacity for Hawaii Electric Light-owned fuel off-site at Chevron Products Company (Chevron)-owned terminalling facilities. Hawaii Electric Light pays a storage fee to Chevron and has no

other interest in the property, tanks or other infrastructure situated on Chevron’s property. Hawaii Electric Light also owns 6 acres of land in Kona, which is used for a baseyard, and one acre of land in Hilo, which houses its accounting, customer services and administrative offices. Hawaii Electric Light also leases 3.7 acres of land for its baseyard in Hilo under a lease expiring in 2030. In addition, Hawaii Electric Light owns a total of approximately 100 acres of land, and leases a total of approximately 8.5 acres of land, on which hydro facilities, substations and switching stations, microwave facilities, and transmission lines are located. The deeds to the sites located in Hilo contain certain restrictions, but the restrictions do not materially interfere with the use of the sites for public utility purposes.

Maui Electric owns and operates two generating plants on the island of Maui, at Kahului and Maalaea, with an aggregate net generating capability of 244.3 MW as of December 31, 2015. The plants are situated on Maui Electric-owned land having a combined area of 28.6 acres. Maui Electric's administrative offices and engineering and distribution departments are located on 9.1 acres of Maui Electric-owned land in Kahului. Maui Electric also owns fuel oil storage facilities at these sites with a total maximum usable capacity of 81,272 barrels of bunker oil, and 94,586 barrels of diesel. There are an additional 56,358 barrels of diesel oil storage capacity for Maui Electric-owned fuel off-site at Aloha Petroleum, Ltd. (Aloha Petroleum)-owned terminalling facilities and 5,000 barrels of diesel oil storage capacity for Maui Electric-owned fuel off-site at Chevron Products Company (Chevron)-owned terminalling facilities. Maui Electric pays storage fees to Aloha Petroleum and Chevron. Maui Electric owns two 1 MW stand-by diesel generators and a 6,000 gallon fuel storage tank located in Hana. Maui Electric owns 65.7 acres of undeveloped land at Waena. Most of this Waena land is currently used for agricultural purposes by the former landowner.

Maui Electric also owns and operates smaller distribution systems, generation systems (with an aggregate net capability of 21.9 MW as of December 31, 2015) and fuel storage facilities on the islands of Lanai and Molokai, primarily on land owned by Maui Electric.

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

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

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

Bank

General. ASB was granted a federal savings bank charter in January 1987. Prior to that time, ASB had operated since 1925 as the Hawaii division of American Savings & Loan Association of Salt Lake City, Utah. As of December 31, 2015, ASB was one of the largest financial institutions in the State of Hawaii based on total assets of $6.0 billion and deposits of $5.0 billion. In 2015, ASB's revenues and net income amounted to approximately 10% and 34% of HEI's consolidated revenues and net income, respectively, compared to approximately 8% and 31% in 2014 and approximately 8% and 36% in 2013, respectively.

At the time of HEI's acquisition of ASB in 1988, HEI agreed with the OTS' predecessor regulatory agency that ASB's regulatory capital would be maintained at a level of at least 6% of ASB's total liabilities, or at such greater amount as may be required from time to time by regulation. Under the agreement, HEI's obligation to contribute additional capital to ensure that ASB would have the capital level required by the OTS was limited to a maximum aggregate amount of approximately $65.1 million. As of December 31, 2015, as a result of certain HEI contributions of capital to ASB, HEI's maximum obligation under the agreement to contribute additional capital has been reduced to approximately $28.3 million. ASB is subject to OCC regulations on dividends and other distributions and ASB must receive a letter of non-objection from the OCC and FRB before it can declare and pay a dividend to HEI.

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

Years ended December 31	2015	2014	2013
Common equity to assets ratio			
Average common equity divided by average total assets	9.53 %	9.87 %	9.88 %
Return on assets			
Net income for common stock divided by average total assets	0.95	0.95	1.13
Return on common equity			
Net income for common stock divided by average common equity	9.93	9.60	11.43

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

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

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

	2015 vs. 2014			2014 vs. 2013		
(in thousands)	Rate	Volume	Total	Rate	Volume	Total
Interest income						
Other investments	$188	$(27)	$161	$70	$1	$71
Securities purchased under resale agreements	(10)	(10)	(20)	1	(24)	(23)
Available-for-sale investment securities						
Taxable	(158)	3,471	3,313	—	144	144
Non-taxable	(214)	(215)	(429)	60	(2,125)	(2,065)
Total available-for-sale investment securities	(372)	3,256	2,884	60	(1,981)	(1,921)
Loans						
Residential 1-4 family	(2,451)	1,793	(658)	(5,112)	2,410	(2,702)
Commercial real estate	(1,831)	4,485	2,654	(636)	4,993	4,357
Home equity line of credit	(402)	1,197	795	1,791	3,483	5,274
Residential land	(73)	68	(5)	111	(313)	(202)
Commercial	(552)	540	(12)	(2,106)	2,212	106
Consumer	1,933	734	2,667	(113)	(348)	(461)
Total loans	(3,376)	8,817	5,441	(6,065)	12,437	6,372
Total increase (decrease) in interest income	(3,570)	12,036	8,466	(5,934)	10,433	4,499
Interest expense						
Savings	—	(123)	(123)	—	(82)	(82)
Interest-bearing checking	—	(13)	(13)	—	(20)	(20)
Money market	—	9	9	10	8	18
Time certificates	—	(144)	(144)	(48)	147	99
Advances from Federal Home Loan Bank	—	—	—	459	(1,173)	(714)
Securities sold under agreements to repurchase	672	(919)	(247)	107	(139)	(32)
Total (increase) decrease in interest expense	672	(1,190)	(518)	528	(1,259)	(731)
Increase (decrease) in net interest income	$(2,898)	$10,846	$7,948	$(5,406)	$9,174	$3,768

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

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

Lending activities.

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

December 31 (dollars in thousands)	2015 Balance	% of total	2014 Balance	% of total	2013 Balance	% of total	2012 Balance	% of total	2011 Balance	% of total
Real estate: [1]										
Residential 1-4 family	$2,069,665	44.8	$2,044,205	46.0	$2,006,007	48.2	$1,866,450	49.2	$1,926,774	52.2
Commercial real estate	690,561	14.9	531,917	12.0	440,443	10.6	375,677	9.9	331,931	9.0
Home equity line of credit	846,294	18.3	818,815	18.4	739,331	17.8	630,175	16.6	535,481	14.5
Residential land	18,229	0.4	16,240	0.4	16,176	0.4	25,815	0.7	45,392	1.2
Commercial construction	100,796	2.2	96,438	2.2	52,112	1.3	43,988	1.2	41,950	1.1
Residential construction	14,089	0.3	18,961	0.4	12,774	0.3	6,171	0.2	3,327	0.1
Total real estate	3,739,634	80.9	3,526,576	79.4	3,266,843	78.6	2,948,276	77.8	2,884,855	78.1
Commercial	758,659	16.4	791,757	17.8	783,388	18.8	721,349	19.0	716,427	19.4
Consumer	123,775	2.7	122,656	2.8	108,722	2.6	121,231	3.2	93,253	2.5
Total loans	4,622,068	100.0	4,440,989	100.0	4,158,953	100.0	3,790,856	100.0	3,694,535	100.0
Less: Deferred fees and discounts	(6,249)		(6,338)		(8,724)		(11,638)		(13,811)	
Allowance for loan losses	(50,038)		(45,618)		(40,116)		(41,985)		(37,906)	
Total loans, net	$4,565,781		$4,389,033		$4,110,113		$3,737,233		$3,642,818	

[1] Includes renegotiated loans.

The increase in the loans receivable balance in 2015 was primarily due to growth in commercial real estate, home equity lines of credit (HELOC) and residential 1-4 family loan portfolios, partly offset by a decrease in the commercial loan portfolio. The growth in the commercial real estate, HELOC and residential loan portfolios was driven by demand for this loan type and was consistent with ASB's loan growth strategy.

The increase in the loans receivable balance in 2014 was primarily due to growth in commercial real estate, HELOC, commercial construction and residential 1-4 family loan portfolios. The growth in the commercial real estate and commercial construction loan portfolios were driven by demand for these loan types as the Hawaii economy continues to improve. The growth in the HELOC and residential loan portfolios were consistent with ASB’s mix target and loan growth strategy.

The increase in the loans receivable balance in 2013 was primarily due to growth in the residential, HELOC, commercial and commercial real estate loan portfolios. The growth in these portfolios was consistent with ASB’s mix target and loan growth strategy.

The increase in the loans receivable balance in 2012 and 2011 was primarily due to growth in commercial, commercial real estate, consumer and HELOC loans as ASB targeted these portfolios because of their shorter duration and/or variable rates. Offsetting these 2012 and 2011 loan portfolio increases was a decrease in the residential loan portfolio. Although ASB produced nearly $1.0 billion of new, long-term residential loans in 2012, nearly double the level for 2011, it sold more than half those loans to control interest rate risk and repayments were also higher than in 2011.

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

December 31	2015			
Due	In 1 year or less	After 1 year through 5 years	After 5 years	Total
(in millions)				
Commercial – Fixed	$47	$119	$18	$184
Commercial – Adjustable	216	306	53	575
Total commercial	263	425	71	759
Commercial construction – Fixed	6	—	—	6
Commercial construction – Adjustable	30	65	—	95
Total commercial construction	36	65	—	101
Residential construction – Fixed	14	—	—	14
Residential construction – Adjustable	—	—	—	—
Total residential construction	14	—	—	14
Total loans – Fixed	67	119	18	204
Total loans – Adjustable	246	371	53	670
Total loans	$313	$490	$71	$874

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

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

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

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

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

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

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

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

Loan portfolio risk elements. When a borrower fails to make a required payment on a loan and does not cure the delinquency promptly, the loan is classified as delinquent. If delinquencies are not cured promptly, ASB normally commences a collection action, including foreclosure proceedings in the case of real estate secured loans. In a foreclosure action, the property collateralizing the delinquent debt is sold at a public auction in which ASB may participate as a bidder to protect its interest. If ASB is the successful bidder, the property is classified as real estate owned until it is sold. As of December 31, 2015, 2014 and 2013, ASB had $1.0 million, $0.9 million and $1.2 million, respectively, of real estate acquired in settlement of loans.

In addition to delinquent loans, other significant lending risk elements include: (1) loans which accrue interest and are 90 days or more past due as to principal or interest, (2) loans accounted for on a nonaccrual basis (nonaccrual loans), and (3) loans on which various concessions are made with respect to interest rate, maturity, or other terms due to the inability of the borrower to service the obligation under the original terms of the agreement (troubled debt restructured loans). ASB loans that were 90 days or more past due on which interest was being accrued as of December 31, 2015, 2014, 2013, 2012 and 2011 were immaterial or nil. The following table sets forth certain information with respect to nonaccrual and troubled debt restructured loans:

December 31 (dollars in thousands)	2015	2014	2013	2012	2011
Nonaccrual loans—					
Real estate					
Residential 1-4 family	$20,554	$19,253	$19,679	$26,721	$28,298
Commercial real estate	1,188	5,112	4,439	6,750	3,436
Home equity line of credit	2,254	1,087	2,060	2,349	2,258
Residential land	970	720	3,161	8,561	14,535
Residential construction	—	—	—	—	—
Total real estate	24,966	26,172	29,339	44,381	48,527
Commercial	20,174	10,053	18,781	20,222	17,946
Consumer	895	661	401	284	281
Total nonaccrual loans	$46,035	$36,886	$48,521	$64,887	$66,754
Troubled debt restructured loans not included above—					
Real estate					
Residential 1-4 family	$13,962	$13,525	$9,744	$6,759	$5,029
Commercial real estate	—	—	—	—	—
Home equity line of credit	2,467	480	171	—	—
Residential land	4,713	7,130	7,476	11,090	24,828
Total real estate	21,142	21,135	17,391	17,849	29,857
Commercial	1,104	2,972	1,649	43	15,386
Total troubled debt restructured loans	$22,246	$24,107	$19,040	$17,892	$45,243

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

(dollars in millions)	Year ended December 31, 2015
Gross amount of interest income that would have been recorded in accordance with original contractual terms, and had been outstanding throughout the period or since origination, if held for only part of the period [1]	$3
Interest income actually recognized	1

Total interest income foregone	$2

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

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In 2015, nonaccrual loans increased $9.1 million primarily due to higher nonaccrual commercial loans of $10.1 million. ASB evaluates a restructured loan transaction to determine if the borrower is in financial difficulty and if the restructured terms are considered concessions—typically terms that are out of market, beyond normal or reasonable standards, or otherwise not available to a non-troubled borrower in the normal market place. A loan classified as TDR must meet both criteria of financial difficulty and concession. TDR loans decreased $1.9 million in 2015 primarily due to decreases of $2.4 million and $1.9 million of residential land and commercial loans, respectively, classified as TDR. HELOC loans classified as TDR increased by $2.0 million.

In 2014, nonaccrual loans decreased $11.6 million primarily due to the payoff of commercial loans that were on nonaccrual status and repayments in the residential land portfolio. TDR loans increased $5.1 million in 2014 primarily due to increases of $3.8 million and $1.3 million of residential 1-4 and commercial loans, respectively, classified as TDR.

In 2013, nonaccrual loans decreased $16.4 million due to improved credit quality in the residential 1-4 family, commercial real estate and commercial loans, and repayments in the residential land portfolio. The improvement is attributed to the continued stabilization or increase of property values, more financial flexibility of borrowers, and overall general economic improvement in the State of Hawaii. TDR loans increased $1.1 million in 2013 primarily due to increases of $3.0 million and $1.6 million of residential 1-4 and commercial loans, respectively, classified as TDR, partly offset by a $3.6 million decrease in residential land loans classified as TDR.

In 2012, nonaccrual loans decreased by $1.9 million due to improved credit quality in the residential 1-4 family and consumer portfolios (residential 1-4 family lower by $1.6 million and residential land loans lower by $5.9 million), partially offset by higher nonaccrual commercial real estate and commercial loans of $5.6 million. The improvement was attributed to stabilized or increasing property values, more financial flexibility of borrowers and overall general economic improvement in the State of Hawaii. TDR loans decreased by $27.4 million in 2012 due to decreases of $15.3 million and $13.7 million of commercial loans and residential land loans, respectively, classified as TDR.

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

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

(dollars in thousands)	2015	2014	2013	2012	2011
Allowance for loan losses, January 1	$45,618	$40,116	$41,985	$37,906	$40,646
Provision for loan losses	6,275	6,126	1,507	12,883	15,009
Charge-offs					
Residential 1-4 family	356	987	1,162	3,183	5,528
Home equity line of credit	205	196	782	716	1,439
Residential land	—	81	485	2,808	4,071
Total real estate	561	1,264	2,429	6,707	11,038
Commercial	1,074	1,872	3,056	3,606	5,335
Consumer	4,791	2,414	2,717	2,517	3,117
Total charge-offs	6,426	5,550	8,202	12,830	19,490
Recoveries					
Residential 1-4 family	226	1,180	1,881	1,328	110
Home equity line of credit	80	752	358	108	25
Residential land	507	469	868	1,443	170
Total real estate	813	2,401	3,107	2,879	305
Commercial	2,773	1,636	1,089	649	869
Consumer	985	889	630	498	567
Total recoveries	4,571	4,926	4,826	4,026	1,741
Allowance for loan losses, December 31	$50,038	$45,618	$40,116	$41,985	$37,906
Ratio of allowance for loan losses to loans receivable held for investment	1.08 %	1.03 %	0.97 %	1.11 %	1.03 %
Ratio of provision for loan losses during the year to average total loans	0.14 %	0.14 %	0.04 %	0.35 %	0.42 %

Ratio of net charge-offs during the year to average total loans	0.04	%	0.01	%	0.09	%	0.24	%	0.49	%

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

December 31	2015			2014			2013		
(dollars in thousands)	Allow-ance balance	Allowance to loan receivable %	Loan receivable % of total	Allow-ance balance	Allowance to loan receivable %	Loan receivable % of total	Allow-ance balance	Allowance to loan receivable %	Loan receivable % of total
Real estate									
Residential 1-4 family	$4,186	0.20	44.8	$4,662	0.23	46.0	$5,534	0.28	48.2
Commercial real estate	11,342	1.64	14.9	8,954	1.68	12.0	5,059	1.15	10.6
Home equity line of credit	7,260	0.86	18.3	6,982	0.85	18.4	5,229	0.71	17.8
Residential land	1,671	9.17	0.4	1,875	11.55	0.4	1,817	11.23	0.4
Commercial construction	4,461	4.43	2.2	5,471	5.67	2.2	2,397	4.60	1.3
Residential construction	13	0.09	0.3	28	0.15	0.4	19	0.15	0.3
Total real estate	28,933	0.77	80.9	27,972	0.79	79.4	20,055	0.61	78.6
Commercial	17,208	2.27	16.4	14,017	1.77	17.8	15,803	2.02	18.8
Consumer	3,897	3.15	2.7	3,629	2.96	2.8	2,367	2.18	2.6
	50,038	1.08	100.0	45,618	1.03	100.0	38,225	0.92	100.0
Unallocated	—			—			1,891		
Total allowance for loan losses	$50,038			$45,618			$40,116		

December 31	2012			2011		
(dollars in thousands)	Allowance balance	Allowance to loan receivable %	Loan receivable % of total	Allowance balance	Allowance to loan receivable %	Loan receivable % of total
Real estate						
Residential 1-4 family	$6,068	0.33	49.2	$6,500	0.34	52.2
Commercial real estate	2,965	0.79	9.9	1,688	0.51	9.0
Home equity line of credit	4,493	0.71	16.6	4,354	0.81	14.5
Residential land	4,275	16.56	0.7	3,795	8.36	1.2
Commercial construction	2,023	4.60	1.2	1,888	4.50	1.1
Residential construction	9	0.15	0.2	4	0.12	0.1
Total real estate	19,833	0.67	77.8	18,229	0.63	78.1
Commercial	15,931	2.21	19.0	14,867	2.08	19.4
Consumer	4,019	3.32	3.2	3,806	4.08	2.5
	39,783	1.05	100.0	36,902	1.00	100.0
Unallocated	2,202			1,004		
Total allowance for loan losses	$41,985			$37,906		

In 2015, ASB's allowance for loan losses increased by $4.4 million primarily due to growth in the commercial real estate loan portfolio ($159 million or 29.8% growth in outstanding balances) and increases in reserves for commercial loans. Overall loan quality remained strong as total delinquencies of $26.1 million at December 31, 2015 was a slight increase of $0.6 million compared to total delinquencies of $25.5 million at December 31, 2014 primarily due to an

increase in delinquent consumer loans. The ratio of delinquent loans to total loans decreased slightly from 0.58% of total loans outstanding at December 31,2014 to 0.57% of total loans outstanding at December 31, 2015. Net charge-offs for 2015 were $1.9 million, an increase of $1.3 million compared to $0.6 million for 2014 primarily due to an increase in consumer loan charge-offs as result of the strategic expansion of ASB's unsecured consumer loan product offering with risk-based pricing. ASB's provision for loan losses was $6.3 million for 2015, an increase of $0.2 million compared to the provision for loan losses of $6.1 million for 2014.

In 2014, ASB’s allowance for loan losses increased by $5.5 million primarily due to growth in the loan portfolio ($282 million or 6.8% growth in outstanding balances) and increases in the loss rates of loan portfolios with higher risk such as commercial real estate and unsecured personal loans. Overall loan quality continued to improve as total delinquencies of $25.5 million at December 31, 2014 was a decrease of $8.3 million compared to total delinquencies of $33.8 million at December 31, 2013 due to a decrease in delinquent commercial, commercial real estate and residential land loans. The ratio of delinquent

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

In 2013, ASB's allowance for loan losses decreased by $1.9 million, despite the increase in the loan portfolios (9.7% growth or $368.1 million increase in outstanding balances) primarily due to the release of reserves as a result of repayments in the higher risk purchased loan and residential land loans portfolios and the sale of the credit card portfolio. Overall loan quality has improved as delinquencies decreased significantly in 2013, primarily in the residential 1-4 family, residential land and commercial real estate portfolios. Net loan charge-offs for 2013 were $3.4 million compared to $8.8 million in 2012 as the Hawaii economy in general and the housing market in particular continued to improve. ASB's provision for loan losses was $1.5 million in 2013, compared to $12.9 million in 2012.

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

Investment activities. Currently, ASB's investment portfolio consists of mortgage-related securities, stock of the FHLB of Des Moines and U.S. Treasury and federal agency obligations. ASB owns mortgage-related securities issued by the Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) and federal agency obligations. The weighted-average yield on investments during 2015, 2014 and 2013 was 2.06%, 1.91% and 2.01%, respectively. ASB did not maintain a portfolio of securities held for trading during 2015, 2014 and 2013.

As of December 31, 2015, 2014 and 2013, ASB's stock in FHLB amounted to $11 million, $69 million and $93 million, respectively. The amount that ASB is required to invest in FHLB stock is determined by FHLB requirements. Since the third quarter of 2012, the FHLB of Seattle was granted authority to repurchase excess stock from its members. As of December 31, 2014, ASB's FHLB stock balance was $55 million in excess of the requirement. With the merger of the FHLB of Seattle and the FHLB of Des Moines in the second quarter of 2015, all of ASB's excess stock was repurchased. The amount of stock repurchased in 2015, 2014 and 2013 was $59 million, $23 million and $3 million, respectively. See "Stock in FHLB" in HEI's MD&A. Also, see "Regulation–Federal Home Loan Bank System" below.

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

The following table summarizes the current amortized cost of ASB's investment portfolio (excluding stock of the FHLB of Des Moines, which has no contractual maturity) and weighted average yields as of December 31, 2015. Mortgage-related securities are shown separately because they are typically paid in monthly installments over a number of years.

(dollars in millions)	In 1 year or less	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Mortgage-Related Securities	Total
U.S. Treasury and federal agency obligations	$—	$86	$72	$55	$ —	$213
	—	—	—	—	611	611

Mortgage-related securities - FNMA, FHLMC and GNMA						
	$—	$86	$72	$55	$ 611	$824
Weighted average yield [2]	— %	1.96 %	2.18 %	2.34 %	2.19 %	2.17 %

[1] As of December 31, 2015, no investment exceeded 10% of stockholder's equity.

[2] There are no tax exempt obligations.

Deposits and other sources of funds.

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

Deposits. ASB's deposits are obtained primarily from residents of Hawaii. Net deposit inflow or outflow, measured as the year-over-year difference in year-end deposits, was an inflow of $402 million in 2015, compared to an inflow of $251 million in 2014 and $143 million in 2013.

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

Years ended December 31	2015			2014			2013		
(dollars in thousands)	Average balance	% of total deposits	Weighted average rate %	Average balance	% of total deposits	Weighted average rate %	Average balance	% of total deposits	Weighte average rate %
Interest-bearing deposit liabilities									
Savings	$1,980,151	58.6 %	0.06 %	$1,879,373	58.3 %	0.06 %	$1,805,363	58.1 %	0.06
Checking	782,811	23.2	0.02	738,651	22.9	0.02	665,941	21.4	0.02
Money market	164,568	4.9	0.12	171,889	5.3	0.12	182,343	5.9	0.13
Certificate	449,179	13.3	0.83	434,934	13.5	0.83	454,021	14.6	0.82
Total interest-bearing deposit liabilities	$3,376,709	100.0 %	0.16 %	$3,224,847	100.0 %	0.16 %	$3,107,668	100.0 %	0.16
Total noninterest-bearing demand deposit liabilities	1,426,962			1,285,964			1,179,559		
Total deposit liabilities	$4,803,671			$4,510,811			$4,287,227		

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

(in thousands)	Amount
Three months or less	$18,835
Greater than three months through six months	10,061
Greater than six months through twelve months	23,485
Greater than twelve months	110,807
	$163,188

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

Other borrowings. See "Other borrowings" in Note 5 of the Consolidated Financial Statements. ASB may obtain advances from the FHLB of Des Moines provided that certain standards related to creditworthiness have been met. Advances are collateralized by a blanket pledge of certain notes held by ASB and the mortgages securing them. To the extent that advances exceed the amount of mortgage loan collateral pledged to the FHLB of Des Moines, the excess must be covered by qualified marketable securities held under the control of and at the FHLB of Des Moines or at an approved third-party custodian. FHLB advances generally are available to meet seasonal and other withdrawals of

deposit accounts, to expand lending and to assist in the effort to improve asset and liability management. FHLB advances are made pursuant to several different credit programs offered from time to time by the FHLB of Des Moines.

The increase in other borrowings in 2015 compared to 2014 was due to an increase in public repurchase agreements. The increase in other borrowings in 2014 compared to 2013 was due to an increase in repurchase agreements with the State of Hawaii. The increase in other borrowings in 2013 compared to 2012 was due to $50 million of additional FHLB advances taken out in 2013. The decrease in other borrowings in 2012 compared to 2011 was due to a decrease in retail repurchase agreements.

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

The banking industry in Hawaii is highly competitive. At December 31, 2015, there were 8 financial institutions insured by the FDIC headquartered in the State of Hawaii. While ASB is one of the largest financial institutions in Hawaii, based on total assets, ASB faces vigorous competition for deposits and loans from two larger banking institutions based in Hawaii and from smaller institutions that heavily promote their services in niche areas, such as providing financial services to small and medium-sized businesses, as well as national financial services organizations. Competition for loans and deposits comes primarily from other savings institutions, commercial banks, credit unions, securities brokerage firms, money market and mutual funds and other investment alternatives. ASB faces additional competition in seeking deposit funds from various types of corporate and government borrowers, including insurance companies. Competition for origination of mortgage loans comes primarily from mortgage banking and brokerage firms, commercial banks, other savings institutions, insurance companies and real estate investment trusts.

To remain competitive and continue building core franchise value, ASB continues to develop and introduce new products and services to meet the needs of its consumer and commercial customers. Additionally, the banking industry is constantly changing and ASB is making the investment in its people and technology necessary to adapt and remain competitive. ASB competes for deposits primarily on the basis of the variety of types of savings and checking accounts it offers at competitive rates, the quality of the services it provides, the convenience of its branch locations and business hours, and convenient automated teller machines. The primary factors in ASB's competition for mortgage and other loans are the competitive interest rates and loan origination fees it charges, the wide variety of loan programs it offers and the quality and efficiency of the services it provides to borrowers and the business community.

Regulation. ASB, a federally chartered savings bank, and its holding companies are subject to the regulatory supervision of the OCC and FRB, respectively, and in certain respects, the FDIC. See "HEI–Regulation" above and "Bank–Certain factors that may affect future results and financial condition–Regulation" in HEI's MD&A. In addition, ASB must comply with FRB reserve requirements.

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

See "Federal Deposit Insurance Corporation assessment" in Note 5 of the Consolidated Financial Statements for a discussion of FDIC deposit insurance assessment rates. FICO will continue to impose an assessment on average total assets minus average tangible equity to service the interest on FICO bond obligations. As of December 31, 2015, ASB's annual FICO assessment was 0.59 cents per $100 of average total assets minus average tangible equity.

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

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

Capital requirements. The OCC has set four capital requirements for financial institutions. As of December 31, 2015, ASB was in compliance with all of the minimum capital requirements with a Tier 1 leverage ratio of 8.8% (compared to a 4.0% requirement), a common equity Tier 1 ratio of 12.1% (compared to a 4.5% requirement), a Tier 1 capital ratio of 12.1% (compared to a 6.0% requirement) and a total capital ratio of 13.3% (compared to a 8.0% requirement). In order to avoid restrictions on capital distributions and discretionary bonus payments to executive officers, a financial institution must hold a buffer of common equity tier 1 capital above its minimum capital requirements in an amount greater than 2.5% of total risk-weighted assets (capital conservation buffer) which is phased-in through 2019. As of December 31, 2015, ASB met the applicable capital requirements, including the fully phased-in capital conservation buffer.

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

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

of credit to an entity affiliated with ASB unless the affiliate is engaged exclusively in activities which the FRB has determined to be permissible for bank holding companies. There are also various other restrictions which apply to certain transactions between ASB and certain executive officers, directors and insiders of ASB. ASB is also barred from making a purchase of or any investment in securities issued by an affiliate, other than with respect to shares of a subsidiary of ASB.

Financial Derivatives and Interest Rate Risk. ASB is subject to OCC rules relating to derivatives activities, such as interest rate swaps, interest rate lock commitments and forward commitments. See "Derivative financial instruments" in Note 5 of the Consolidated Financial Statements for a description of interest rate lock commitments and forward commitments used by ASB. Currently ASB does not use interest rate swaps to manage interest rate risk (IRR), but may do so in the future. Generally speaking, the OCC rules permit financial institutions to engage in transactions involving financial derivatives to the extent these transactions are otherwise authorized under applicable law and are safe and sound. The rules require ASB to have certain internal procedures for handling financial derivative transactions, including involvement of the ASB Board of Directors.

With the transfer of the regulatory jurisdiction from the OTS to the OCC, ASB has adopted terminology and IRR assessment, measurement and management practices consistent with OCC guidelines. Management believes ASB's IRR processes are aligned with the Interagency Advisory on Interest Rate Risk Management and appropriate with earnings and capital levels, balance sheet complexity, business model and risk tolerance.

Liquidity. OCC regulations require ASB to maintain sufficient liquidity to ensure safe and sound operations. ASB's principal sources of liquidity are customer deposits, borrowings, the maturity and repayment of portfolio loans and securities and the sale of loans into secondary market channels. ASB's principal sources of borrowings are advances from the FHLB of Des Moines and securities sold under agreements to repurchase from broker/dealers. ASB is approved by the FHLB of Des Moines to borrow an amount of up to 35% of assets to the extent it provides qualifying collateral and holds sufficient FHLB of Des Moines stock. As of December 31, 2015, ASB's unused FHLB of Des Moines borrowing capacity was approximately $1.7 billion. ASB utilizes growth in deposits, advances from the FHLB of Des Moines and securities sold under agreements to repurchase to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans and make investments. As of December 31, 2015, ASB had loan commitments, undisbursed loan funds and unused lines and letters of credit of $1.8 billion. Management believes ASB's current sources of funds will enable it to meet these obligations while maintaining liquidity at satisfactory levels.

Supervision. Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (the FDICIA), the federal banking agencies promulgated regulations which apply to the operations of ASB and its holding companies. Such regulations address, for example, standards for safety and soundness, real estate lending, accounting and reporting, transactions with affiliates and loans to insiders.

Prompt corrective action. The FDICIA establishes a statutory framework that is triggered by the capital level of a financial institution and subjects it to progressively more stringent restrictions and supervision as capital levels decline. The OCC rules implement the system of prompt corrective action. In particular, the rules define the relevant capital measures for the categories of "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" and "critically undercapitalized."

A financial institution that is "undercapitalized" or "significantly undercapitalized" is subject to additional mandatory supervisory actions and a number of discretionary actions if the OCC determines that any of the actions is necessary to resolve the problems of the association at the least possible long-term cost to the Deposit Insurance Fund. A financial institution that is "critically undercapitalized" must be placed in conservatorship or receivership within 90 days, unless the OCC and the FDIC concur that other action would be more appropriate. As of December 31, 2015, ASB was "well-capitalized."

Interest rates. FDIC regulations restrict the ability of financial institutions that are undercapitalized to offer interest rates on deposits that are significantly higher than the rates offered by competing institutions. As of December 31, 2015, ASB was "well capitalized" and thus not subject to these interest rate restrictions.

Qualified thrift lender test. In order to satisfy the QTL test, ASB must maintain 65% of its assets in "qualified thrift investments" on a monthly average basis in 9 out of the previous 12 months. Failure to satisfy the QTL test would subject ASB to various penalties, including limitations on its activities, and would also bring into operation restrictions on the activities that may be engaged in by HEI, ASB Hawaii and their other subsidiaries, which could effectively result in the required divestiture of ASB. At all times during 2015, ASB was in compliance with the QTL test. See "HEI Consolidated–Regulation."

Federal Home Loan Bank System. ASB is a member of the FHLB System, which consists of 11 regional FHLBs, and ASB's regional bank is the FHLB of Des Moines. The FHLB System provides a central credit facility for member institutions. Historically, the FHLBs have served as the central liquidity facilities for savings associations and sources of long-term funds for financing housing. At such time as an advance is made to ASB or renewed, it must be collateralized by collateral from one of the following categories: (1) fully disbursed, whole first mortgages on improved residential property, or securities representing a whole interest in such mortgages; (2) securities issued, insured or guaranteed by the U.S. Government or any agency thereof; (3) FHLB deposits; and (4) other real estate-related collateral that has a readily ascertainable value and with respect to which a security interest can be perfected. The aggregate amount of outstanding advances collateralized by such other real estate-related collateral may not exceed 30% of ASB's capital.

As mandated by the Gramm Act, the Federal Housing Finance Board (Board) regulations require each FHLB to maintain three capital ratios: (1) risk-based capital greater than or equal to the sum of its credit, market and operational risk capital requirements; (2) a minimum capital-to-assets ratio of 4%; and (3) a minimum total capital leverage ratio of 5% of total assets. At September 30, 2015, the FHLB of Des Moines was in compliance with all three of the regulatory capital requirements. ASB's required holding in the stock of the FHLB is both membership and and activity-based. Membership is based on a percentage of total assets (0.12%) while the portion related to activity is based on a percentage of outstanding activity, mainly advances (4%). As of December 31, 2015, ASB was required and owned capital stock in the FHLB of Des Moines in the amount of $11 million. See “Stock in FHLB” in HEI’s MD&A section for recent developments regarding the FHLB of Des Moines.

Community Reinvestment. The Community Reinvestment Act (CRA) requires financial institutions to help meet the credit needs of their communities, including low- and moderate-income areas, consistent with safe and sound lending practices. The OCC will consider ASB’s CRA record in evaluating an application for a new deposit facility, including the establishment of a branch, the relocation of a branch or office, or the acquisition of an interest in another bank. ASB currently holds an “outstanding” CRA rating.

Other laws. ASB is subject to federal and state consumer protection laws which affect deposit and lending activities, such as the Truth in Lending Act (TILA), the Truth in Savings Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act (RESPA), the Home Mortgage Disclosure Act and several federal and state financial privacy acts intended to protect consumers’ personal information and prevent identity theft, such as the Gramm Act and the Fair and Accurate Transactions Act. ASB is also subject to federal laws regulating certain of its lending practices, such as the Flood Disaster Protection Act, and laws requiring reports to regulators of certain customer transactions, such as the Currency and Foreign Transactions Reporting Act and the International Money Laundering Abatement and Anti-Terrorist Financing Act. ASB’s relationship with LPL Financial LLP is also governed by regulations adopted by the FRB under the Gramm Act, which regulate “networking” relationships under which a financial institution refers customers to a broker-dealer for securities services and employees of the financial institution are permitted to receive a nominal fee for the referrals. These laws may provide for substantial penalties in the event of noncompliance.

The TILA-RESPA Integrated Disclosure rule became effective on October 3, 2015. The rule requires easier-to-use mortgage disclosure forms that clearly lay out the terms of a mortgage for a homebuyer. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd Frank Act) mandated that the Bureau of Consumer Financial Protection (the Bureau) establish a single disclosure scheme for use by lenders and creditors in complying with the disclosure requirements of both RESPA and TILA. The Dodd-Frank Act amended RESPA to require that the Bureau publish a single, integrated disclosure for mortgage loan transactions. The first new form - the Loan Estimate - is designed to provide disclosures that will be helpful to consumers in understanding the key features, costs, and risks of the mortgage for which they are applying. This form is provided to consumers within three business days after they submit a loan application. The second form - the Closing Disclosure - is designed to provide disclosures that will be helpful to consumers in understanding all of the costs of the transaction. This form is provided to consumers three business days before they close on the loan. The rule applies to most closed-end consumer mortgages.

ASB believes that it currently is in compliance with these laws and regulations in all material respects.

Proposed legislation. See the discussion of proposed legislation in “Bank–Legislation and regulation” in HEI’s MD&A.

Environmental regulation. ASB may be subject to the provisions of Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), Hawaii Environmental Response Law (ERL) and regulations promulgated thereunder, which impose liability for environmental cleanup costs on certain categories of responsible parties. CERCLA and ERL exempt persons whose ownership in a facility is held primarily to protect a security interest, provided that they do not participate in the management of the facility. Although there may be some risk of liability for ASB for environmental cleanup costs in the event ASB forecloses on, and becomes the owner of, property with environmental problems, the Company believes the risk is not as great for ASB as it may be for other depository institutions that have a larger portfolio of commercial loans.

Additional information. For additional information about ASB, see the sections under “Bank” in HEI’s MD&A, HEI’s “Quantitative and Qualitative Disclosures about Market Risk” and Note 5 of the Consolidated Financial Statements.

Properties. ASB owns or leases several office buildings in downtown Honolulu and owns land and an operations center in the Mililani Technology Park on the island of Oahu.

The following table sets forth the number of bank branches owned and leased by ASB by island:

	Number of branches		
December 31, 2015	Owned	Leased	Total
Oahu	7	32	39
Maui	3	4	7
Hawaii	3	2	5
Kauai	2	2	4
Molokai	—	1	1
	15	41	56

As of December 31, 2015, the net book value (NBV) of branches and office facilities was $68 million ($61 million NBV of the land and improvements for the branches and office facilities owned by ASB and $7 million represents the NBV of ASB's leasehold improvements) compared to the NBV of branches and office facilities of $71 million ($64 million NBV of the land and improvements for the branches and office facilities owned by ASB and $7 million represents the NBV of ASB's leasehold improvements) as of December 31, 2014. The decrease in the NBV of branches and office facilities was primarily due to the sale of a real estate property. The leases expire on various dates through February 2033, but many of the leases have extension provisions.

As of December 31, 2015, ASB owned 116 automated teller machines.

ITEM 1A. RISK FACTORS

The businesses of HEI and its subsidiaries involve numerous risks which, if realized, could have a material and adverse effect on the Company's financial statements. In addition, there are numerous risks relating to the Merger and Spin-Off. For additional information for certain risk factors enumerated below and other risks of the Company and its operations, see "Forward-Looking Statements" above and HEI's MD&A, HEI's "Quantitative and Qualitative Disclosures about Market Risk", the Notes to the Consolidated Financial Statements, Hawaiian Electric's MD&A, Hawaiian Electric's "Quantitative and Qualitative Disclosures About Market Risk."

Risk Factors Relating to the Merger.

Failure to complete the Merger could negatively impact the stock price and the future business and financial results of HEI. If the Merger is not completed, the ongoing business of HEI may be adversely affected as a result of several risks, including the following:

- having to pay certain costs relating to the proposed Merger and the Spin-Off, such as legal, accounting, financial advisor, filing, printing and mailing fees;
- having had HEI's management being focused on the Merger, which may have led, or could lead, to the disruption of HEI's ongoing business or inconsistencies in its services, standards, controls, procedures and policies, any of which could adversely affect the ability of HEI to maintain relationships with customers, regulators, vendors and employees, or could otherwise adversely affect the business and financial results of HEI, without realizing any of the benefits of having the Merger completed; and
- having had HEI's management focused on the Merger instead of on pursuing other opportunities that could be beneficial to HEI, without realizing any of the benefits of having the Merger completed.

If the Merger is not completed, HEI cannot assure its shareholders that these risks will not materialize and will not materially affect its business, financial results and stock price.

The pendency of the Merger could adversely affect the business and operations of HEI. In connection with the pending Merger, some customers or vendors of HEI's utilities may delay or defer decisions, which could negatively impact the revenues, earnings, cash flows and expenses of HEI, regardless of whether the Merger is completed. Similarly, current and prospective employees of HEI and its utilities may experience uncertainty about their future roles following the Merger, which may materially adversely affect the ability of HEI and its utilities to attract and retain key personnel during the pendency of the Merger. In addition, due to operating covenants in the Merger Agreement, HEI and its utilities may be unable, during the pendency of the Merger, to pursue strategic transactions, undertake significant capital projects, undertake certain significant financing or other specified transactions or pursue actions that are not in the ordinary course of business, even if such actions would prove beneficial.

If the Merger is completed, NEE may be unable to successfully integrate HEI’s business. NEE and HEI currently operate as independent public companies. After the Merger, NEE will be required to devote significant management attention and

resources to integrating HEI's business. Potential difficulties NEE may encounter in the integration process include the following:

- the complexities associated with integrating HEI and its utility business, while at the same time continuing to provide consistent, high quality services;
- the additional complexities of integrating a company with different core services, markets and customers;
- the inability to retain key employees;
- unknown liabilities and unforeseen expenses, delays or onerous regulatory conditions associated with the Merger; and
- performance shortfalls as a result of the diversion of management's attention caused by completing the Merger and integrating HEI's utility business.

For these reasons, the integration process following the Merger could result in the distraction of NEE's management, the disruption of NEE's ongoing business or inconsistencies in its services, standards, controls, procedures and policies, any of which could adversely affect the ability of NEE to maintain relationships with customers, vendors and employees or could otherwise adversely affect the business and financial results of NEE.

HEI may be materially adversely affected by negative publicity related to the proposed Merger and in connection with other matters. From time to time, political and public sentiment in connection with the proposed Merger and in connection with other matters may result in a significant amount of adverse press coverage and other adverse public statements affecting NEE and HEI. Adverse press coverage and other adverse statements, whether or not driven by political or public sentiment, may also result in investigations by regulators, legislators and law enforcement officials or in legal claims. Responding to these investigations and lawsuits, regardless of the ultimate outcome of the proceeding, can divert the time and effort of senior management from the management of HEI's businesses. Addressing any adverse publicity, governmental scrutiny or enforcement or other legal proceedings is time consuming and expensive and, regardless of the factual basis for the assertions being made, can have a negative impact on HEI's reputation, on the morale and performance of its employees and on its relationships with its regulators. It may also have a negative impact on HEI's ability to take timely advantage of various business and market opportunities. The direct and indirect effects of negative publicity, and the demands of responding to and addressing it, may have a material adverse effect on HEI's business, financial condition, results of operations and prospects.

Pending litigation against HEI and NEE could result in an injunction preventing completion of the merger, the payment of damages in the event the merger is completed and/or may adversely affect the combined company's business, financial condition or results of operations following the Merger.

Holding Company and Company-Wide Risks.

HEI is a holding company that derives its income from its operating subsidiaries and depends on the ability of those subsidiaries to pay dividends or make other distributions to HEI and on its own ability to raise capital. HEI is a legal entity separate and distinct from its various subsidiaries. As a holding company with no significant operations of its own, HEI's cash flows and consequent ability to service its obligations and pay dividends on its common stock is dependent upon its receipt of dividends or other distributions from its operating subsidiaries and its ability to issue common stock or other equity securities and to incur additional debt. The ability of HEI's subsidiaries to pay dividends or make other distributions to HEI, in turn, is subject to the risks associated with their operations and to contractual and regulatory restrictions, including:

- the provisions of an HEI agreement with the PUC, which could limit the ability of HEI's principal electric public utility subsidiary, Hawaiian Electric, to pay dividends to HEI in the event that the consolidated common stock equity of the Utilities falls below 35% of total capitalization of the electric utilities;
- the provisions of an HEI agreement entered into with federal bank regulators in connection with its acquisition of its bank subsidiary, ASB, which require HEI to contribute additional capital to ASB (up to a maximum amount of additional capital of $28.3 million as of December 31, 2015) upon request of the regulators in order to maintain ASB's regulatory capital at the level required by regulation;
- the minimum capital and capital distribution regulations of the OCC that are applicable to ASB and capital regulations that become applicable to HEI and ASB Hawaii;
- the receipt of a letter of non-objection or prior approval from the OCC and FRB to the payment of any dividend ASB proposes to declare and pay to ASB Hawaii and HEI; and

- the provisions of preferred stock resolutions and debt instruments of HEI and its subsidiaries.

The Company is subject to risks associated with the Hawaii economy (in the aggregate and on an individual island basis), volatile U.S. capital markets and changes in the interest rate and credit market environment that have and/or could result in higher retirement benefit plan funding requirements, declines in ASB's interest rate margins and investment values, higher delinquencies and charge-offs in ASB's loan portfolio and restrictions on the ability of HEI or its subsidiaries to borrow money or issue securities. The two largest components of Hawaii's economy are tourism and the federal government (including the

military). Because the core businesses of HEI's subsidiaries are providing local public electric utility services (through Hawaiian Electric and its subsidiaries) and banking services (through ASB) in Hawaii, the Company's operating results are significantly influenced by Hawaii's economy, which in turn is influenced by economic conditions in the mainland U.S. (particularly California) and Asia (particularly Japan) as a result of the impact of those conditions on tourism, by the impact of interest rates on the construction and real estate industries and by the impact of world conditions (e.g., U.S. withdrawal of troops from Afghanistan) on federal government spending in Hawaii. For example, the turmoil in the financial markets and declines in the national and global economies had a negative effect on the Hawaii economy in 2009. In 2009, declines in the Hawaii, U.S. and Asian economies in part led to declines in HEI's share price, an increase in uncollected billings of the Utilities, higher delinquencies in ASB's loan portfolio, declines in the Company's pension plan asset values and other adverse effects on HEI's businesses. Also, the decline in the stock market in 2016 to date has resulted in lower pension plan asset values, which could increase future pension contributions and decrease the funded status of the plans.

If Fitch, Moody's or S&P were to downgrade HEI's or Hawaiian Electric's long-term debt ratings because of past adverse effects, or if future events were to adversely affect the availability of capital to the Company, HEI's and Hawaiian Electric's ability to borrow and raise capital could be constrained and their future borrowing costs would likely increase with resulting reductions in HEI's consolidated net income in future periods. Further, if HEI's or Hawaiian Electric's commercial paper ratings were to be downgraded, HEI and Hawaiian Electric might not be able to sell commercial paper and might be required to draw on more expensive bank lines of credit or to defer capital or other expenditures.

Changes in the U.S. capital markets can also have significant effects on the Company. For example, pension funding requirements are affected by the market performance of the assets in the master pension trust maintained for pension plans, and by the discount rate used to estimate the service and interest cost components of net periodic pension cost and value obligations. The Utilities' pension tracking mechanisms help moderate pension expense; however, the significant decline in 2008 in the value of the Company's defined benefit pension plan assets resulted in a substantial gap between the projected benefit obligations under the plans and the value of plan assets, resulting in increases in funding requirements. The increases have moderated in recent years as investment performance has improved.

Because the earnings of ASB depend primarily on net interest income, interest rate risk is a significant risk of ASB's operations. HEI and the Utilities are also exposed to interest rate risk primarily due to their periodic borrowing requirements, the discount rate used to determine pension funding requirements and the possible effect of interest rates on the electric utilities' rates of return. Interest rates are sensitive to many factors, including general economic conditions and the policies of government and regulatory authorities. HEI cannot predict future changes in interest rates, nor be certain that interest rate risk management strategies it or its subsidiaries have implemented will be successful in managing interest rate risk.

Interest rate risk 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 values of those instruments, respectively. Disruptions in the credit markets, a liquidity crisis in the banking industry or increased levels of residential mortgage delinquencies and defaults may result in decreases in the fair value of ASB's investment securities and an impairment that is other-than-temporary, requiring ASB to write down its investment securities. As of December 31, 2015, all of ASB's investment securities were securities and obligations issued by a federal agency or government sponsored entity that have an implicit guarantee from the U.S. government.

HEI and Hawaiian Electric and their subsidiaries may incur higher retirement benefits expenses and have and will likely continue to recognize substantial liabilities for retirement benefits. Retirement benefits expenses and cash funding requirements could increase in future years depending on numerous factors, including the performance of the U.S. equity markets, trends in interest rates and health care costs, plan amendments, new laws relating to pension funding and changes in accounting principles. For the Utilities, however, retirement benefits expenses, as adjusted by the pension and postretirement benefits other than pensions (OPEB) tracking mechanisms, have been an allowable expense for rate-making purposes.

The Company is subject to the risks associated with the geographic concentration of its businesses and current lack of interconnections that could result in service interruptions at the Utilities or higher default rates on loans held by ASB.

The business of the Utilities is concentrated on the individual islands they serve in the State of Hawaii. Their operations are more vulnerable to service interruptions than are many U.S. mainland utilities because none of the systems of the Utilities are interconnected with the systems on the other islands they serve. Because of this lack of interconnections, it is necessary to maintain higher generation reserve margins than are typical for U.S. mainland utilities to help ensure reliable service. Service interruptions, including in particular extended interruptions that could result from a natural disaster or terrorist activity, could adversely impact the KWH sales of some or all of the Utilities. Substantially all of ASB's consumer loan customers are Hawaii residents. A significant portion of the commercial loan customers are located in Hawaii. While a majority of customers are on Oahu, ASB also has customers on the neighbor islands (whose economies have been weaker than Oahu during the recent economic downturn). Substantially all of the real estate

underlying ASB's residential and commercial real estate loans are located in Hawaii. These assets may be subject to a greater risk of default than other comparable assets held by financial institutions with other geographic concentrations in the event of adverse economic, political or business developments or natural disasters affecting Hawaii and the ability of ASB's customers to make payments of principal and interest on their loans.

Increasing competition and technological advances could cause HEI's businesses to lose customers or render their operations obsolete. The banking industry in Hawaii, and certain aspects of the electric utility industry, are competitive. The success of HEI's subsidiaries in meeting competition and responding to technological advances will continue to have a direct impact on HEI's consolidated financial performance. For example:

- ASB, one of the largest financial institutions in the state, is in direct competition for deposits and loans not only with two larger institutions that have substantial capital, technology and marketing resources, but also with smaller Hawaii institutions and other U.S. institutions, including credit unions, mutual funds, mortgage brokers, finance companies and investment banking firms. Larger financial institutions may have greater access to capital at lower costs, which could impair ASB's ability to compete effectively. Significant advances in technology could render the operations of ASB less competitive or obsolete.

The Utilities face competition from IPPs; customer self-generation, with or without cogeneration; customer energy storage; and the potential formation of community-based, cooperative ownership structures for electrical service on the neighbor islands. With the exception of certain identified projects, the Utilities are required to use competitive bidding to acquire a future generation resource unless the PUC finds competitive bidding to be unsuitable. The PUC

- set policies for distributed generation (DG) interconnection agreements and standby rates, and established conditions under which electric utilities can provide DG services on customer-owned sites as a regulated service. The results of competitive bidding, competition from IPPs, customer self-generation, and potential cooperative ownership structures for electric utility service, and the rate at which technological developments facilitating nonutility generation of electricity and customer energy storage occur may adversely affect the Utilities and the results of their operations.
- New technological developments, such as the commercial development of energy storage and microgrids, may render the operations of the Utilities less competitive or outdated.

The Company may be subject to information technology system failures, network disruptions and breaches in data security that could adversely affect its businesses and reputation. The Company is subject to cyber security risks and the potential for cyber incidents, including potential incidents at ASB branches and at the the Utilities' plants and the related electricity transmission and distribution infrastructure, 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. ASB and the Utilities are highly dependent on their ability to process, on a daily basis, a large number of transactions. ASB and the Utilities rely heavily on numerous data processing systems. If any of these systems fails to operate properly or becomes disabled even for a brief period of time, the Company could suffer financial loss, business disruptions, liability to customers, regulatory intervention or damage to its reputation. The Utilities and ASB have disaster recovery plans in place to protect their businesses against natural disasters, security breaches, military or terrorist actions, power or communication failures or similar events. The disaster recovery plans, however, may not be successful in preventing the loss of customer data, service interruptions, disruptions to operations or damage to important facilities.

HEI's businesses could suffer losses that are uninsured due to a lack of affordable insurance coverage, unavailability of insurance coverage or limitations on the insurance coverage the Company does have. In the ordinary course of business, HEI and its subsidiaries purchase insurance coverages (e.g., property and liability coverages) to protect against loss of, or damage to, their properties and against claims made by third parties and employees for property damage or personal injuries. However, the protection provided by such insurance is limited in significant respects and, in some instances, there is no coverage. Certain of the insurance has substantial deductibles or has limits on the maximum amounts that may be recovered. For example, the Utilities' overhead and underground transmission and distribution systems (with the exception of substation buildings and contents) have a replacement value roughly estimated at $6 billion and are largely not insured against loss or damage because the amount of transmission and distribution system insurance available is limited and the premiums are cost prohibitive. Similarly, the Utilities have no business interruption insurance as the premiums for such insurance would be cost prohibitive, particularly since the

Utilities are not interconnected to other systems. If a hurricane or other uninsured catastrophic natural disaster were to occur, and if the PUC were not to allow the affected Utilities to recover from ratepayers restoration costs and revenues lost from business interruption, the lost revenues and repair expenses could result in a significant decrease in HEI's consolidated net income or in significant net losses for the affected periods.

ASB generally does not obtain credit enhancements, such as mortgagor bankruptcy insurance, but does require standard hazard and hurricane insurance and may require flood insurance for certain properties. ASB is subject to the risks of borrower defaults and bankruptcies, special hazard losses not covered by the required insurance and the insurance company's inability to pay claims on existing policies.

Increased federal and state environmental regulation will require an increasing commitment of resources and funds and could result in construction delays or penalties and fines for non-compliance. HEI and its subsidiaries are subject to federal, state and local environmental laws and regulations relating to air quality, water quality, hazardous substances, waste management, natural resources and health and safety, which regulate, among other matters, the operation of existing facilities, the construction and operation of new facilities and the proper cleanup and disposal of hazardous and toxic wastes and substances. HEI or its subsidiaries are currently involved in investigatory or remedial actions at current, former or third-party sites and there is no assurance that the Company will not incur material costs relating to these sites. In addition, compliance with these legal requirements requires the Utilities to commit significant resources and funds toward, among other things, environmental monitoring, installation of pollution control equipment and payment of emission fees. These laws and regulations, among other things, require that certain environmental permits be obtained in order to construct or operate certain facilities, and obtaining such permits can entail significant expense and cause substantial construction delays. Also, these laws and regulations may be amended from time to time, including amendments that increase the burden and expense of compliance. For example, emission and/or discharge limits may be tightened, more extensive permitting requirements may be imposed and additional substances may become regulated. In addition, significant regulatory uncertainty exists regarding the impact of federal or state greenhouse gas (GHG) emission limits and reductions.

If HEI or its subsidiaries fail to comply with environmental laws and regulations, even if caused by factors beyond their control, that failure may result in civil or criminal penalties and fines or the cessation of operations.

Adverse tax rulings or developments could result in significant increases in tax payments and/or expense. Governmental taxing authorities could challenge a tax return position taken by HEI or its subsidiaries and, if the taxing authorities prevail, HEI's consolidated tax payments and/or expense, including applicable penalties and interest, could increase significantly.

The Company could be subject to the risk of uninsured losses in excess of its accruals for litigation matters. HEI and its subsidiaries are involved in routine litigation in the ordinary course of their businesses, most of which is covered by insurance (subject to policy limits and deductibles). However, other litigation may arise that is not routine (such as the litigation related to the proposed Merger) or involves claims that may not be covered by insurance. Because of the uncertainties associated with litigation, there is a risk that litigation against HEI or its subsidiaries, even if vigorously defended, could result in costs of defense and judgment or settlement amounts not covered by insurance and in excess of reserves established in HEI's consolidated financial statements.

Changes in accounting principles and estimates could affect the reported amounts of the Company's assets and liabilities or revenues and expenses. HEI's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S. Changes in accounting principles (including the possible adoption of International Financial Reporting Standards or new U.S. accounting standards), or changes in the Company's application of existing accounting principles, could materially affect the financial statement presentation of HEI's or the Utilities' consolidated results of operations and/or financial condition. Further, in preparing the consolidated 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. Material estimates that are particularly susceptible to significant change include the amounts reported for pension and other postretirement benefit obligations; contingencies and litigation; income taxes; property, plant and equipment; regulatory assets and liabilities; electric utility revenues; allowance for loan losses; nonperforming loans; troubled debt restructurings; and fair value.

The Utilities' financial statements reflect assets and costs based on cost-based rate-making regulations. Continued accounting in this manner requires that certain criteria relating to the recoverability of such costs through rates be met. If events or circumstances should change so that the criteria are no longer satisfied, the Utilities' expect that their regulatory assets (amounting to $897 million as of December 31, 2015), net of regulatory liabilities (amounting to $372 million as of December 31, 2015), would be charged to the statement of income in the period of discontinuance.

Changes in accounting principles can also impact HEI's consolidated financial statements. For example, if management determines that a PPA requires the consolidation of the IPP in the Consolidated Financial Statements, the

consolidation could have a material effect on Hawaiian Electric's and HEI's consolidated financial statements, including the recognition of a significant amount of assets and liabilities and, if such a consolidated IPP were operating at a loss and had insufficient equity, the potential recognition of such losses. Also, if management determines that a PPA requires the classification of the agreement as a capital lease, a material effect on HEI's consolidated balance sheet may result, including the recognition of significant capital assets and lease obligations.

A proposed standard on accounting for expected credit losses was issued by the FASB which would replace existing impairment models, including replacing an "incurred loss" model for loans with a "current expected credit loss" model. There are a number of questions and issues around the expected credit loss model. ASB cannot predict whether or when a final

standard will be issued, when it will be effective or what it its final provisions will be. It is possible that the final standard could have a material adverse impact on the bank's results of operations once it is issued and becomes effective.

A standard on accounting for revenues from contracts with customers was issued by the FASB in May 2014. The Company plans to adopt this standard in the first quarter of 2017, but has not determined the impact of adoption on its financial statements.

The Company has identified a material weakness in its internal control over financial reporting. If the Company fails to maintain effective internal control over financial reporting at a reasonable assurance level, HEI and Hawaiian Electric may not be able to accurately report their financial results, which could have a material adverse effect on their operations, investor confidence in their businesses and the trading prices of their securities. HEI's and Hawaiian Electric's management is responsible for establishing and maintaining adequate internal control over their financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

In connection with the preparation of HEI's and Hawaiian Electric's consolidated financial statements for the nine months ended September 30, 2015, management along with its independent registered public accounting firm identified a material weakness in the internal control over financial reporting.

The material weakness management identified specifically related to the fact that controls were not designed to ensure that non-cash transactions were properly identified and recorded, and management's review process was not effective. The deficiency resulted in restatements of HEI's and Hawaiian Electric's Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014, the six months ended June 30, 2015 and 2014, and the years ended December 31, 2013 and 2012 and revisions of HEI's and Hawaiian Electric's Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and the year ended December 31, 2014.

The Company and Hawaiian Electric are actively engaged in remediation efforts to address the material weakness in the internal control over financial reporting. The remediation includes, but is not limited to, a roll forward reconciliation and review of the capital expenditures amount included in the Consolidated Statements of Cash Flows, and enhancing templates to facilitate the preparation and review of cash flows. New controls relating to the preparation and review of the Statement of Cash Flows (including improved spreadsheet templates, a reconciliation of cash capital expenditures, enhanced procedures to identify noncash items, and an additional level of management review) have been implemented and will continue to be tested for operational effectiveness

If the Company's remediation efforts are insufficient to address the identified material weakness or if additional material weaknesses in internal controls are discovered in the future, they may adversely affect the Company's ability to record, process, summarize and report financial information timely and accurately and, as a result, the Company's financial statements may contain material misstatements or omissions.

Electric Utility Risks.

Actions of the PUC are outside the control of the Utilities and could result in inadequate or untimely rate increases, in rate reductions or refunds or in unanticipated delays, expenses or writedowns in connection with the construction of new projects. The rates the Utilities are allowed to charge for their services and the timeliness of permitted rate increases are among the most important items influencing the Utilities' results of operations, financial condition and liquidity. The PUC has broad discretion over the rates that the Utilities charge their customers. As part of the decoupling mechanism that the Utilities have implemented, each of the Utilities will file a rate case once every three years. Any adverse decision by the PUC concerning the level or method of determining electric utility rates, the items and amounts that may be included in rate base, the returns on equity or rate base found to be reasonable, the potential consequences of exceeding or not meeting such returns, or any prolonged delay in rendering a decision in a rate or other proceeding could have a material adverse effect on Hawaiian Electric's consolidated results of operations, financial condition and liquidity.

To improve the timing and certainty of the recovery of their costs, the Utilities have proposed and received approval of various cost recovery mechanisms including an ECAC and pension and OPEB tracking mechanisms, as well as a decoupling mechanism, a PPAC, and a renewable energy infrastructure program (REIP) surcharge. A change in, or the elimination of, any of these cost recovery mechanisms, including in the current proceeding in which the PUC is examining the decoupling mechanism, could have a material adverse effect on the Utilities.

The Utilities could be required to refund to their customers, with interest, revenues that have been or may be received under interim rate orders in their rate case proceedings, integrated resource plan cost recovery dockets and other proceedings, if and to the extent they exceed the amounts allowed in final orders.

Many public utility projects require PUC approval and various permits (e.g., environmental and land use permits) from other governmental agencies. Difficulties in obtaining, or the inability to obtain, the necessary approvals or permits, or any

adverse decision or policy made or adopted, or any prolonged delay in rendering a decision, by an agency with respect to such approvals and permits, can result in significantly increased project costs or even cancellation of projects. In the event a project does not proceed, or if the PUC disallows cost recovery for all or part of a project, project costs may need to be written off in amounts that could result in significant reductions in Hawaiian Electric's consolidated net income. For example, in January 2013, the Utilities and the Consumer Advocate signed a settlement agreement to write off $40 million of costs in lieu of conducting PUC-ordered regulatory audits of the CIP CT-1 and the CIS projects.

Energy cost adjustment clauses. The rate schedules of each of the Utilities include ECACs under which electric rates charged to customers are automatically adjusted for changes in the weighted-average price paid for fuel oil and certain components of purchased power, and the relative amounts of company-generated power and purchased power. ECACs are subject to periodic review by the PUC. In the most recent rate cases, the PUC allowed the current ECAC to continue. However, in the decoupling reexamination proceeding, certain parties recommended modifying the ECAC to allow only partial pass-through of fuel costs and eventual phasing out of the ECAC. The Consumer Advocate stated that there should be no significant change to the existing ECAC without first undertaking a new regulatory proceeding that would provide time and resources for the careful study of the potential effects of each ECAC change considered, but that there should be significantly greater ECAC audit and regulatory review of the Utilities' incurred fuel costs should be implemented to encourage cost control and to identify and deny recovery of any imprudently incurred energy costs through the ECAC. The Utilities suggested ways of improving the ECAC but stated that permitting only the partial pass through of fuel costs would not be proper regulatory policy since the Utilities have no control over world oil markets, 42 of the 50 states provide dollar-for-dollar pass through of market-driven changes in fuel or purchase power costs and modifying the ECAC to allow only partial pass-through of fuel costs could severely impact the Utilities' credit rating. A change in, or the elimination of, the ECAC could have a material adverse effect on the Utilities.

In approving Hawaii Electric Light's request to file a rate case by the end of December 30,2016, the PUC required Hawaii Electric Light to propose for PUC consideration potential modifications to its ECAC mechanism in order to provide appropriate economic incentives to accelerate reductions in fuel and purchased power expenses.

Electric utility operations are significantly influenced by weather conditions. The Utilities' results of operations can be affected by the weather. Weather conditions, particularly temperature and humidity, directly influence the demand for electricity. In addition, severe weather and natural disasters, such as hurricanes, earthquakes, tsunamis and lightning storms, which may become more severe or frequent as a result of global climate changes, can cause outages and property damage and require the Utilities to incur significant additional expenses that may not be recoverable.

Electric utility operations depend heavily on third-party suppliers of fuel and purchased power. The Utilities rely on fuel oil suppliers and shippers and IPPs to deliver fuel oil and power, respectively, in accordance with contractual agreements. Approximately 70% of the net energy generated or purchased by the Utilities in 2015 was generated from the burning of fossil fuel oil, and purchases of power by the Utilities provided about 46% of their total net energy generated and purchased for the same period. Failure or delay by oil suppliers and shippers to provide fuel pursuant to existing contracts, or failure by a major IPP to deliver the firm capacity anticipated in its PPA, could disrupt the ability of the Utilities to deliver electricity and require the Utilities to incur additional expenses to meet the needs of their customers that may not be recoverable. In addition, as the IPP contracts near the end of their terms, there may be less economic incentive for the IPPs to make investments in their units to ensure the availability of their units. Also, as these contractual agreements end, the Utilities may not be able to purchase fuel and power on terms equivalent to the current contractual agreements. As the use of biofuels in generating units increases, the same risks will exist with suppliers of biofuels.

Electric utility generating facilities are subject to operational risks that could result in unscheduled plant outages, unanticipated and/or increased operation and maintenance expenses and increased power purchase costs. Operation of electric generating facilities involves certain risks which can adversely affect energy output and efficiency levels. Included among these risks are facility shutdowns or power interruptions due to insufficient generation or a breakdown or failure of equipment or processes. In January 2015, Hawaiian Electric experienced a generation shortfall event due to unexpected concurrent outages of a utility generating unit and several IPPs. In addition,

operations could be negatively impacted by interruptions in fuel supply, inability to negotiate satisfactory collective bargaining agreements when existing agreements expire or other labor disputes, inability to comply with regulatory or permit requirements, disruptions in delivery of electricity, operator error and catastrophic events such as earthquakes, tsunamis, hurricanes, fires, explosions, floods or other similar occurrences affecting the Utilities' generating facilities or transmission and distribution systems.

The Utilities may be adversely affected by new legislation. Congress, the Hawaii legislature and governmental agencies periodically consider legislation and other initiatives that could have uncertain or negative effects on the Utilities and their customers. Congress, the Hawaii legislature and governmental agencies have adopted, or are considering adopting, a number of measures that will significantly affect the Utilities, as described below.

Renewable Portfolio Standards law. In 2015, Hawaii's RPS law was amended to require electric utilities to meet an RPS of 15%, 30%, 40%, 70% and 100% by December 31, 2015, 2020, 2030, 2040 and 2045 respectively. Energy savings resulting from energy efficiency programs do not count toward the RPS after 2014. The Utilities are committed to achieving these goals and met the 2015 RPS; however, due to the exclusion of energy savings in calculating RPS after 2014 and risks such as potential delays in IPPs being able to deliver contracted renewable energy, it is possible the Utilities may not attain the required renewable percentages in the future, and management cannot predict the future consequences of failure to do so (including potential penalties to be assessed by the PUC). On December 19, 2008, the PUC approved a penalty of $20 for every MWh that an electric utility is deficient under Hawaii's RPS law. The PUC noted, however, that this penalty may be reduced, in the PUC's discretion, due to events or circumstances that are outside an electric utility's reasonable control, to the extent the event or circumstance could not be reasonably foreseen and ameliorated, as described in the RPS law and in an RPS framework adopted by the PUC. In addition, the PUC ordered that the Utilities will be prohibited from recovering any RPS penalty costs through rates.

Renewable energy. In 2007, a measure was passed by the Hawaii legislature stating that the PUC may consider the need for increased renewable energy in rendering decisions on utility matters. Due to this measure, it is possible that, if energy from a renewable source is more expensive than energy from fossil fuel, the PUC may still approve the purchase of energy from the renewable source, resulting in higher costs.

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 climate change have led to federal legislative and regulatory proposals and action by the state of Hawaii to reduce GHG emissions.

In July 2007, the State Legislature passed 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. On June 20, 2014, the Governor signed the final rules required to implement Act 234 and these rules went into effect on June 30, 2014. In general, Act 234 and the GHG rule require affected sources that have the potential to emit GHGs in excess of established thresholds to reduce their GHG emissions by 16% below 2010 emission levels by 2020. In accordance with State requirements, the Utilities submitted an Emissions Reduction Plan (EmRP) to the DOH on June 30, 2015. Hawaiian Electric, Maui Electric, and Hawaii Electric Light have a total of 11 facilities affected by the state GHG rule. Hawaiian Electric made use of the partnering provisions in the GHG rule to prepare one EmRP for all 11 of the Utilities' affected facilities. In this plan, the Utilities have committed to a 16% reduction in GHG emissions company-wide. Pursuant to the State's GHG rule, the DOH will incorporate the proposed facility-specific GHG emission limits into each facility's covered source permit based on the 2020 levels specified in Hawaiian Electric's EmRP. The State GHG rule requires affected sources to pay an annual fee that is based on tons per year of GHG emissions. The Utilities' GHG emissions fee is approximately $0.5 million annually. The latest assessment of the proposed federal and final state GHG rules is that the continued growth in renewable power generation will significantly reduce the compliance costs and risk for the Utilities.

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 their GHG emissions. Following these requirements, the Utilities have submitted the required reports for 2010 through 2014 to the EPA; the 2015 report will be submitted in the first quarter of 2016. Since 2009, the EPA has issued rules to address GHG emissions from stationary sources, like the Utilities' EGUs.

On June 3, 2010, the EPA's final GHG Tailoring Rule was published. It created a new threshold for GHG emissions from new and existing facilities and required certain facilities to obtain PSD and Title V operating permits. On June 23, 2014, the U.S. Supreme Court issued a decision that invalidated the GHG Tailoring Rule, to the extent it regulated sources based solely on their GHG emissions. It also invalidated the GHG emissions threshold for regulation. On December 19, 2014, EPA released two memorandums outlining its plan for addressing the U.S. Supreme Court's decision. Hawaiian Electric, Hawaii Electric Light and Maui Electric are evaluating the potential impacts of the EPA's plan on utility operations and permitting. The current status of the GHG Tailoring Rule and any further action the EPA may take in light of this recent decision remain uncertain.

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

As part of President Obama's Climate Action Plan, the EPA issued the final federal rule for GHG emission reductions from existing EGUs on August 3, 2015. This rule is also known as the Clean Power Plan. This rule sets interim state-wide emissions limits for existing EGUs operating in the 48 contiguous states that must be met on average from 2022 through 2029; final limits will apply from 2030. The EPA did not issue final guidelines for Alaska, Hawaii, Puerto Rico, or Guam because the Best System of Emission Reduction established for the contiguous states is not appropriate for these locations. The EPA has said it

will work with the state and territorial governments for Alaska, Hawaii, Puerto Rico, and Guam and other stakeholders to gather additional information regarding the emissions reduction measures available in these jurisdictions, particularly with respect to renewable generation. Hawaiian Electric plans to participate in this process. The Utilities' latest assessment of the Clean Power Plan is that the continued growth of renewable power generation in the future will significantly reduce the compliance costs and risk for the Utilities. To date, no timetable has been established by the EPA to develop GHG emission limits for Alaska, Hawaii, Puerto Rico, or Guam.

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

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

The foregoing legislation or legislation that now is, or may in the future be, proposed present risks and uncertainties for the Utilities.

The Utilities may be subject to increased operational challenges and their results of operations, financial condition and liquidity may be adversely impacted in meeting the commitments and objectives of clean energy initiatives and Renewable Portfolio Standards (RPS). The far-reaching nature of the Utilities' renewable energy commitments and the RPS goals present risks to the Company. Among such risks are: (1) the dependence on third party suppliers of renewable purchased energy, which if the Utilities are unsuccessful in negotiating purchased power agreements with such IPPs or if a major IPP fails to deliver the anticipated capacity in its purchased power agreement, could impact the Utilities' achievement of their commitments to RPS goals and/or the Utilities' ability to deliver reliable service; (2) delays in acquiring or unavailability of non-fossil fuel supplies for renewable generation; (3) the impact of intermittent power to the electrical grid and reliability of service if appropriate supporting infrastructure is not installed or does not operate effectively; (4) the likelihood that the Utilities may need to make substantial investments in related infrastructure, which could result in increased borrowings and, therefore, materially impact the financial condition and liquidity of the Utilities; and (5) the commitment to support a variety of initiatives, which, if approved by the PUC, may have a material impact on the results of operations and financial condition of the Utilities depending on their design and implementation.

Bank Risks.

Fluctuations in interest rates could result in lower net interest income, impair ASB's ability to originate new loans or impair the ability of ASB's adjustable-rate borrowers to make increased payments. Interest rate risk is a significant risk of ASB's operations. ASB's net interest income consists primarily of interest income received on fixed-rate and adjustable-rate loans, mortgage-related securities and investments and interest expense consisting primarily of interest paid on deposits and other borrowings. Interest rate risk arises when earning assets mature or when their interest rates change in a time frame different from that of the costing liabilities. Changes in market interest rates, including changes in the relationship between short-term and long-term market interest rates or between different interest rate indices, can impact ASB's net interest margin.

Although ASB pursues an asset-liability management strategy designed to mitigate its risk from changes in market interest rates, unfavorable movements in interest rates could result in lower net interest income. Residential 1-4 family

fixed-rate mortgage loans comprised about 41% of ASB’s loan portfolio as of December 31, 2015 and do not re-price with movements in interest rates. ASB continues to face a challenging interest rate environment. Interest rates remained low in 2015 and new loan production rates remained at historically low levels and below ASB's loan portfolio yields. This placed additional pressure on ASB's asset yields and net interest margin. The degree to which compression of ASB's margin continues is uncertain if interest rates rise.

Increases in market interest rates could have an adverse impact on ASB’s cost of funds. Higher market interest rates could lead to higher interest rates paid on deposits and other borrowings. Significant increases in market interest rates, or the

perception that an increase may occur, could adversely affect ASB's ability to originate new loans and grow. An increase in market interest rates, especially a sudden increase, could also adversely affect the ability of ASB's adjustable-rate borrowers to meet their higher payment obligations. If this occurred, it could cause an increase in nonperforming assets and charge-offs. Conversely, a decrease in interest rates or a mismatching of maturities of interest sensitive financial instruments could result in an acceleration in the prepayment of loans and mortgage-related securities and impact ASB's ability to reinvest its liquidity in similar yielding assets.

ASB's operations are affected by factors that are beyond its control, that could result in lower revenues, higher expenses or decreased demand for its products and services. ASB's results of operations depend primarily on the income generated by the supply of and demand for its products and services, which primarily consist of loans and deposit services. ASB's revenues and expenses may be adversely affected by various factors, including:

- local, regional, national and other economic and political conditions that could result in declines in employment and real estate values, which in turn could adversely affect the ability of borrowers to make loan payments and the ability of ASB to recover the full amounts owing to it under defaulted loans;
- the ability of borrowers to obtain insurance and the ability of ASB to place insurance where borrowers fail to do so, particularly in the event of catastrophic damage to collateral securing loans made by ASB;
- 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 profiles and asset quality, which may increase or decrease the required level of allowance for loan losses;
- technological disruptions affecting ASB's operations or financial or operational difficulties experienced by any outside vendor on whom ASB relies to provide key components of its business operations, such as business processing, network access or internet connections;
- the impact of legislative and regulatory changes, including changes affecting capital requirements, increasing oversight of and reporting by banks, or affecting the lending programs or other business activities of ASB;
- additional legislative changes regulating the assessment of overdraft, interchange and credit card fees, which can have a negative impact on noninterest income;
- public opinion about ASB and financial institutions in general, which, if negative, could impact the public's trust and confidence in ASB and adversely affect ASB's ability to attract and retain customers and expose ASB to adverse legal and regulatory consequences;
- increases in operating costs (including employee compensation expense and benefits and regulatory compliance costs), inflation and other factors, that exceed increases in ASB' s net interest, fee and other income; and
- the ability of ASB to maintain or increase the level of deposits, ASB's lowest costing funds.

Banking and related regulations could result in significant restrictions being imposed on ASB's business or in a requirement that HEI divest ASB. ASB is subject to examination and comprehensive regulation by the Department of Treasury, the OCC and the FDIC, and is subject to reserve requirements established by the Board of Governors of the Federal Reserve System. In addition, the FRB is responsible for regulating ASB's holding companies, HEI and ASB Hawaii. The regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities and examination policies to address not only ASB's compliance with applicable banking laws and regulations, but also capital adequacy, asset quality, management ability and performance, earnings, liquidity and various other factors.

Under certain circumstances, including any determination that ASB's relationship with HEI results in an unsafe and unsound banking practice, these regulatory authorities have the authority to restrict the ability of ASB to transfer assets and to make distributions to its shareholders (including payment of dividends to HEI), or they could seek to require HEI to sever its relationship with or divest its ownership of ASB. Payment by ASB of dividends to HEI may also be restricted by the OCC and FRB under its prompt corrective action regulations or its capital distribution regulations if ASB's capital position deteriorates. In order to maintain its status as a QTL, ASB is required to maintain at least 65% of its assets in "qualified thrift investments." Institutions that fail to maintain QTL status are subject to various penalties, including limitations on their activities. In ASB's case, the activities of HEI and HEI's other subsidiaries would also be subject to restrictions, and a failure or inability to comply with those restrictions could

effectively result in the required divestiture of ASB. Federal legislation has also been proposed in the past that could result in a required divestiture of ASB. In the event of a required divestiture, federal law substantially limits the types of entities that could potentially acquire ASB.

Recent legislative and regulatory initiatives could have an adverse effect on ASB's business. The Dodd-Frank Act, which became law in July 2010, has had a substantial impact on the financial services industry. The Dodd-Frank Act establishes a framework through which regulatory reform will be written and changes to statutes, regulations or regulatory policies could affect HEI and ASB in substantial and unpredictable ways. A major component of the Dodd-Frank Act is the creation of the Consumer Financial Protection Bureau that has the responsibility for setting and enforcing clear, consistent rules relating to consumer financial products and services and has the authority to prohibit practices it finds to be unfair, deceptive or abusive.

Compliance with any such directives could have adverse effects on ASB's revenues or operating costs. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on ASB's business, results of operations, financial condition and liquidity.

A large percentage of ASB's loans and securities are collateralized by real estate, and adverse changes in the real estate market and/or general economic or other conditions may result in loan losses and adversely affect the Company's profitability. As of December 31, 2015 approximately 81% of ASB's loan portfolio was comprised of loans primarily collateralized by real estate, most of which was concentrated in the State of Hawaii. Growth has been in the commercial real estate loan portfolio which now comprises 18% of total real estate loans. ASB's financial results may be adversely affected by changes in prevailing economic conditions, either nationally or in the state of Hawaii, including decreases in real estate values, adverse employment conditions, the monetary and fiscal policies of the federal and state government and other significant external events. Adverse changes in the economy may have a negative effect on the ability of borrowers to make timely repayments of their loans. A deterioration of the economic environment in Hawaii, including a material decline in the real estate market, further declines in home resales, or a material external shock, or any environmental clean-up obligation, may also significantly impair the value of ASB's collateral and ASB's ability to sell the collateral upon foreclosure. In the event of a default, amounts received upon sale of the collateral may be insufficient to recover outstanding principal and interest. In addition, if poor economic conditions result in decreased demand for real estate loans, ASB's profits may decrease if its alternative investments earn less income than real estate loans.

ASB's strategy to expand its commercial and commercial real estate lending activities may result in higher service costs and greater credit risk than residential lending activities due to the unique characteristics of these markets. ASB has been aggressively pursuing a strategy that includes expanding its commercial and commercial real estate lines of business. ASB's commercial real estate loan portfolio grew by 30% during 2015 and now comprises 15% of total loans. These types of loans generally entail higher underwriting and other service costs and present greater credit risks than traditional residential mortgages.

Generally, both commercial and commercial real estate loans have shorter terms to maturity and earn higher spreads than residential mortgage loans. Only the assets of the business typically secure commercial loans. In such cases, upon default, any collateral repossessed may not be sufficient to repay the outstanding loan balance. In addition, loan collections are dependent on the borrower's continuing financial stability and, thus, are more likely to be affected by current economic conditions and adverse business developments.

ASB has grown its national syndicated lending portfolio where ASB is a participant in credit facilities agented by established and reputable national lenders. Management selectively chooses each deal based on conservative credit criteria to ensure a high quality, well diversified portfolio.

Commercial real estate properties tend to be unique and are more difficult to value than residential real estate properties. Commercial real estate loans may not be fully amortizing, meaning that they may have a significant principal balance or "balloon" payment due at maturity. In addition, commercial real estate properties, particularly industrial and warehouse properties, are generally subject to relatively greater environmental risks than noncommercial properties and to the corresponding burdens and costs of compliance with environmental laws and regulations. Also, there may be costs and delays involved in enforcing rights of a property owner against tenants in default under the terms of leases with respect to commercial properties. For example, a tenant may seek the protection of bankruptcy laws, which could result in termination of the tenant's lease.

ITEM 1B. UNRESOLVED STAFF COMMENTS

HEI: None.

Hawaiian Electric: Not applicable.

ITEM 2. PROPERTIES

HEI and Hawaiian Electric: See the "Properties" sections under "HEI," "Electric utility" and "Bank" in Item 1. Business above.

ITEM 3. LEGAL PROCEEDINGS

HEI and Hawaiian Electric: HEI subsidiaries (including Hawaiian Electric and its subsidiaries and ASB) may be involved in ordinary routine PUC proceedings, environmental proceedings and/or litigation incidental to their respective businesses. The Company is involved in PUC proceedings and litigation related to the proposed Merger. See the descriptions of legal proceedings (including judicial proceedings and proceedings before the PUC and environmental and other administrative agencies) in "Item 1. Business," in HEI's MD&A and in the Notes 2 (which includes a discussion of PUC proceedings and litigation related to the Merger), 4 and 5 of the Consolidated Financial Statements. The outcomes of litigation and administrative proceedings are necessarily uncertain and there is a risk that the outcome of such matters could have a material adverse effect on the financial position, results of operations or liquidity of HEI or one or more of its subsidiaries for a particular period in the future.

ITEM 4. MINE SAFETY DISCLOSURES

HEI and Hawaiian Electric: Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

HEI:

Certain of the information required by this item is incorporated herein by reference to Note 14, "Regulatory restrictions on net assets" and Note 18, "Quarterly information (unaudited)" of the Consolidated Financial Statements and "Item 6. Selected Financial Data" and "Equity compensation plan information" under "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this Form 10-K. Certain restrictions on dividends and other distributions of HEI are described in this report under "Item 1. Business—HEI—Regulation—Restrictions on dividends and other distributions" and that description is incorporated herein by reference. HEI's common stock is traded on the New York Stock Exchange and the total number of holders of record of HEI common stock (i.e., registered shareholders) as of February 12, 2016, was 6,885.

Purchases of HEI common shares were made during the fourth quarter to satisfy the requirements of certain plans as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period*	(a) Total Number of Shares Purchased **	(b) Average Price Paid per Share **	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to 31, 2015	17,262	$29.34	—	NA
November 1 to 30, 2015	13,883	$28.71	—	NA
December 1 to 31, 2015	240,274	$28.35	—	NA

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), 16,262 of the 17,262 shares, all of the 13,883 shares and 214,474 of the 240,274 shares were purchased for the DRIP; 21,600 of the 240,274 shares were purchased for the HEIRSP; and 1,000 of the 17,262 shares and 4,200 of the 240,274 shares 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.

Hawaiian Electric:

Since a corporate restructuring on July 1, 1983, all the common stock of Hawaiian Electric has been held solely by its parent, HEI, and is not publicly traded. Accordingly, information required with respect to "Market information" and "holders" is not applicable to Hawaiian Electric.

The dividends declared and paid on Hawaiian Electric's common stock for the quarters of 2015 and 2014 were as follows:

Quarters ended	2015	2014
March 31	$22,601,504	$22,706,842
June 30	22,601,504	21,539,126
September 30	22,601,504	22,122,984
December 31	22,601,503	22,122,984

Also, see "Liquidity and capital resources" in HEI's MD&A.

See the discussion of regulatory and other restrictions on dividends or other distributions under "Item 1. Business—HEI—Regulation—Restrictions on dividends and other distributions" and in Note 14 of the Consolidated Financial Statements.

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ITEM 6. SELECTED FINANCIAL DATA

HEI:

Selected Financial Data

Hawaiian Electric Industries, Inc. and Subsidiaries

Years ended December 31 (dollars in thousands, except per share amounts)	2015	2014	2013	2012	2011
Results of operations					
Revenues	$2,602,982	$3,239,542	$3,238,470	$3,374,995	$3,242,335
Net income for common stock	$159,877	$168,129	$161,709	$138,705	$137,808
Basic earnings per common share	$1.50	$1.65	$1.63	$1.43	$1.44
Diluted earnings per common share	$1.50	$1.63	$1.62	$1.42	$1.44
Return on average common equity	8.6 %	9.6 %	9.7 %	8.9 %	9.2 %
Financial position *					
Total assets	$11,790,196	$11,185,142	$10,340,906	$10,150,055	$9,595,310
Deposit liabilities	5,025,254	4,623,415	4,372,477	4,229,916	4,070,032
Other bank borrowings	328,582	290,656	244,514	195,926	233,229
Long-term debt, net	1,586,546	1,506,546	1,492,945	1,422,872	1,340,070
Preferred stock of subsidiaries – not subject to mandatory redemption	34,293	34,293	34,293	34,293	34,293
Common stock equity	1,927,640	1,790,573	1,726,406	1,593,008	1,527,802
Common stock					
Book value per common share *	$17.94	$17.46	$17.05	$16.27	$15.91
Market price per common share					
High	34.86	35.00	28.30	29.24	26.79
Low	27.02	22.71	23.84	23.65	20.59
December 31	28.95	33.48	26.06	25.14	26.48
Dividends per common share	1.24	1.24	1.24	1.24	1.24
Dividend payout ratio	82 %	75 %	76 %	87 %	86 %
Market price to book value per common share *	161 %	192 %	153 %	155 %	166 %
Price earnings ratio **	19.3x	20.3 x	16.0 x	17.6 x	18.4 x
Common shares outstanding (thousands) *	107,460	102,565	101,260	97,928	96,038
Weighted-average	106,418	101,968	98,968	96,908	95,510
Shareholders ***	27,927	29,415	30,653	31,349	32,004
Employees *	3,918	3,965	3,966	3,870	3,654

* At December 31.

** Calculated using December 31 market price per common share divided by basic earnings per common share. The principal trading market for HEI's common stock is the New York Stock Exchange (NYSE).

*** At December 31. Represents registered shareholders plus participants in the HEI Dividend Reinvestment and Stock Purchase Plan (DRIP) who are not registered shareholders. As of February 12, 2016, HEI had 6,885 registered shareholders (i.e., holders of record of HEI common stock), 24,611 DRIP participants and total shareholders of 27,829.

Financial data for prior periods has been updated to reflect the retrospective application of Accounting Standards Update (ASU) No. 2014-01. See Note 1 for a discussion of, and the impact to certain prior period financial data of, the adoption of ASU No. 2014-01. See Note 2 and "Commitments and contingencies" in Note 4 of the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for discussions of certain contingencies that could adversely affect future results of operations and factors that affected reported results of operations.

For 2014, 2013, 2012 and 2011, under the two-class method of computing basic earnings per share, distributed earnings were $1.24 per share each year and undistributed earnings (loss) were $0.41, $0.39, $0.19 and $0.21 per share, respectively, for both unvested restricted stock awards and unrestricted common stock. For 2014, 2013, 2012 and 2011, under the two-class method of computing diluted earnings per share, distributed earnings were $1.24 per share each year and undistributed earnings (loss) were $0.40, $0.38, $0.18 and $0.20 per share, respectively, for both unvested restricted stock awards and unrestricted common stock. There were no restricted stock awards outstanding during 2015.

Hawaiian Electric:
Selected Financial Data
Hawaiian Electric Company, Inc. and Subsidiaries

Years ended December 31 (in thousands)	2015	2014	2013	2012	2011
Results of operations					
Revenues	$2,335,166	$2,987,323	$2,980,172	$3,109,439	$2,978,690
Net income for common stock	135,714	137,641	122,929	99,276	99,986
Financial position *					
Utility plant	$6,543,799	$6,220,397	$5,896,991	$5,567,346	$5,242,379
Accumulated depreciation	(2,266,004)	(2,175,510)	(2,111,229)	(2,040,789)	(1,966,894)
Net utility plant	$4,277,795	$4,044,887	$3,785,762	$3,526,557	$3,275,485
Total assets	$5,680,054	$5,557,542	$5,066,427	$5,108,793	$4,674,007
Current portion of long-term debt	$—	$—	$11,400	$—	$57,500
Long-term debt, net	1,286,546	1,206,546	1,206,545	1,147,872	1,000,570
Common stock equity	1,728,325	1,682,144	1,593,564	1,472,136	1,402,841
Cumulative preferred stock-not subject to mandatory redemption	34,293	34,293	34,293	34,293	34,293
Capital structure	$3,049,164	$2,922,983	$2,845,802	$2,654,301	$2,495,204
Capital structure ratios (%)					
Debt (short-term debt, which is nil, and long-term debt, net, including current portion)	42.2	41.3	42.8	43.2	42.4
Cumulative preferred stock	1.1	1.2	1.2	1.3	1.4
Common stock equity	56.7	57.5	56	55.5	56.2

* At December 31.

HEI owns all of Hawaiian Electric’s common stock. Therefore, per share data is not meaningful.
See Note 1 for a discussion of, and the impact to certain prior period financial data of, the adoption of ASU No. 2015-17.
See "Forward-Looking Statements" above, the “electric utility” sections and all information related to, or including, Hawaiian Electric and its subsidiaries in HEI’s MD&A and Note 2 and “Commitments and contingencies” in Note 4 of the Consolidated Financial Statements for discussions of certain contingencies that could adversely affect future results of operations, financial condition and cash flows.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The following discussion should be read in conjunction with the Consolidated Financial Statements. The general discussion of HEI's consolidated results should be read in conjunction with the electric utility and bank segment discussions that follow.

HEI Consolidated

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

Executive overview and strategy. HEI is a holding company that operates subsidiaries (collectively, the Company), principally in Hawaii's electric utility and banking sectors. HEI's strategy is to build fundamental earnings and profitability of its electric utilities and bank in a controlled risk manner to support its current dividend and improve operating and capital efficiency in order to build shareholder value.

HEI, through its electric utility subsidiaries (Hawaiian Electric and its subsidiaries, Hawaii Electric Light and Maui Electric), provides the only electric public utility service to approximately 95% of Hawaii's population. HEI also provides a wide array of banking and other financial services to consumers and businesses through its bank subsidiary, ASB, one of Hawaii's largest financial institutions based on total assets. 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.

In 2015, net income for HEI common stock was $160 million, down 5% from $168 million in 2014 primarily due to the $10 million higher net loss at the "other" segment resulting from higher merger-related costs and the Utilities' 1% lower net income. ASB had 7% higher net income in 2015 compared to 2014. Basic earnings per share were $1.50 per share in 2015, down 9% from $1.65 per share in 2014.

The Utilities' strategic focus has been to meet Hawaii's energy needs by modernizing and adding needed infrastructure through capital investment, placing emphasis on energy efficiency and conservation, pursuing renewable energy generation and taking the necessary steps to secure regulatory support for their plans. Electric utility net income for common stock in 2015 of $136 million, decreased from the prior year by 1% due primarily to higher depreciation expense (as a result of increasing investments for the integration of more renewable energy, improved customer reliability and greater system efficiency) and higher O&M expenses (impacted by a regulatory decision denying recovery of enterprise resource planning software costs, additional reserves for environmental costs and higher employee benefit costs, partly offset by higher 2014 costs for initial phase smart grid installations), partly offset by the recovery of costs for clean energy and reliability investments

ASB continues to develop and introduce new products and services in order to meet the needs of both consumer and commercial customers. Additionally, ASB is making investments in electronic banking platforms, data and risk management capabilities and process improvements to deliver a continuously better experience for its customers, healthy growth and a more efficient bank. ASB's earnings in 2015 of $55 million increased $3 million compared to prior year net income due primarily to higher net interest income and higher noninterest income, partly offset by higher noninterest expenses. In 2015, ASB earnings benefited from higher net interest income as interest income from loan and investment growth were funded primarily by low cost deposit liabilities, higher mortgage banking income and higher deposit-related fee initiatives. These increases were partly offset by higher noninterest expenses due primarily to higher pension and benefits expenses. ASB's future financial results will continue to be impacted by the interest rate environment and the quality of ASB's loan portfolio.

HEI's "other" segment had a net loss in 2015 of $30.6 million, compared to a net loss of $20.8 million in 2014. In 2015, HEI incurred $10 million higher expenses related to the proposed merger (net of taxes).

Shareholder dividends are declared and paid quarterly by HEI at the discretion of HEI's Board of Directors. HEI and its predecessor company, Hawaiian Electric, have paid dividends continuously since 1901. The dividend has been stable at $1.24

per share annually since 1998. The indicated dividend yield as of December 31, 2015 was 4.3%. The dividend payout ratios based on net income for common stock for 2015, 2014 and 2013 were 82%, 75% and 76%, respectively. The HEI Board of Directors considers many factors in determining the dividend quarterly, 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.

HEI's subsidiaries from time to time consider various strategies designed to enhance their competitive positions and to maximize shareholder value. Management cannot predict whether any of these strategies or transactions will be carried out or, if so, whether they will be successfully implemented. See "Proposed merger" above.

Economic conditions.

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

Hawaii's tourism industry, a significant driver of Hawaii's economy, ended 2015 with record highs in both visitor spending and arrivals for the fourth consecutive year. Visitor expenditures increased 2.3% and arrivals increased 4.1% compared to the same time period in 2014. Looking ahead, the Hawaii Tourism Authority expects scheduled nonstop seats to Hawaii for the first quarter of 2016 to increase by 2.4% over the first quarter of 2015 driven primarily by a 4.2% increase in domestic seats.

Hawaii's unemployment rate continued to decline to 3.2% in December 2015, lower than the state's 4.0% rate in December 2014 and the December 2015 national unemployment rate of 5.0%.

Hawaii real estate activity, as indicated by the home resale market, experienced growth in median sales prices in 2015. Median sales prices for single family residential homes and condominiums on Oahu increased 3.7% and 2.9%, respectively, over 2014. The number of closed sales also increased from 2014. Closed sales for both single family residential homes and condominiums were up compared to 2014, 5.2% and 4.5% respectively.

Hawaii's petroleum product prices reflect supply and demand in the Asia-Pacific region and the price of crude oil in international markets. In the second quarter of 2015, prices of all petroleum fuels recovered from an initial decline during the first quarter of 2015. However, prices then subsequently declined during the third and fourth quarters of 2015, falling sharply to levels not seen since 2009.

At its December 2015 meeting, the Federal Open Market Committee (FOMC) increased the federal funds rate target from 0.25% to 0.5% for the first time in seven years. The FOMC stated there had been considerable positive improvement in labor market conditions which lead to the rate adjustment. They will continue to assess the timing and size of future adjustments in light of its objectives of a continued improved labor market and a movement back to 2% inflation.

Overall, Hawaii's economy is expected to see positive growth in 2016. Tourism had another record year in 2015, and added service by Virgin America will expand capacity through 2016. However, continued weakening in the Canadian dollar and the yen could negatively affect both spending and visitors, dampening any impact from expanded domestic capacity. Lower energy costs could also provide a boost to the economy if energy costs remain near the low levels experienced in the latter part of 2015. Conversely, military troop reductions stationed in Hawaii could negatively impact the economy. Near-term, known reductions are mostly offset by transfers from other military bases in the Pacific region. Further reductions in the military are planned in 2017 and 2018, but it is not yet known if those reductions will negatively impact Hawaii bases. Additional risks to local economic growth include volatility to global economies and their impact on the local real estate and construction markets.

Recent tax developments. See Note 12 and Hawaiian Electric's consolidated income taxes refunded in Note 13 of the Consolidated Financial Statements.

Results of operations.

(dollars in millions, except per share amounts)	2015	% change	2014	% change	2013
Revenues	$2,603	(20)	$3,240	—	$3,238
Operating income	323	(3)	333	5	318
Net income for common stock	160	(5)	168	4	162
Net income (loss) by segment:					
Electric utility	$136	(1)	$138	12	$123
Bank	55	7	51	(11)	58
Other	(31)	NM	(21)	NM	(19)
Net income for common stock	$160	(5)	$168	4	$162
Basic earnings per share	$1.50	(9)	$1.65	1	$1.63
Diluted earnings per share	$1.50	(8)	$1.63	1	$1.62
Dividends per share	$1.24	—	$1.24	—	$1.24
Weighted-average number of common shares outstanding (millions)	106.4	4	102.0	3	99.0
Dividend payout ratio	82%		75%		76%

NMNot meaningful.

See “Executive overview and strategy” above and the “Other segment,” “Electric utility” and “Bank” sections below for discussions of results of operations.

Retirement benefits. The Company’s reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions about future experience. For example, retirement benefits costs are impacted by actual employee demographics (including age and compensation levels), the level of contributions to the plans, plus earnings and realized and unrealized gains and losses on plan assets, and changes made to the provisions of the plans. (See Note 10 of the Consolidated Financial Statements.) Costs may also be significantly affected by changes in key actuarial assumptions, including the expected return on plan assets, the discount rate and mortality. The Company’s accounting for retirement benefits under the plans in which the employees of the Utilities participate is also adjusted to account for the impact of decisions by the Public Utilities Commission of the State of Hawaii (PUC). Changes in obligations associated with the factors noted above may not be immediately recognized as costs on the income statement, but generally are recognized in future years over the remaining average service period of plan participants.

The assumptions used by management in making benefit and funding calculations are based on current economic conditions. Changes in economic conditions will impact the underlying assumptions in determining retirement benefits costs on a prospective basis.

For 2015, the Company’s retirement benefit plans’ assets generated a loss of 1.2%, including investment management fees, resulting in net losses and unrealized losses of $17 million, compared to net earnings and unrealized gains of $90 million for 2014 and $223 million for 2013. The market value of the retirement benefit plans’ assets for December 31, 2015 and 2014 was $1.4 billion.

The Company intends to make contributions to the qualified pension plan for HEI and Hawaiian Electric equal to the calculated net periodic pension cost for the year. However, if the minimum required contribution determined under the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Pension Protection Act of 2006, for the year is greater than the net periodic pension cost, then the Company will contribute the minimum required contribution and the Utilities’ difference between the minimum required contribution and the net periodic pension cost will increase their regulatory asset. In the next rate case, the regulatory asset will be amortized over five years and used to reduce the cash funding requirement based on net periodic pension cost. The regulatory asset may not be applied against the ERISA minimum required contribution.

The net periodic pension cost is expected to be higher than the ERISA minimum required contribution for 2016. Therefore, to satisfy the requirements of the electric utilities’ pension tracking mechanism, net periodic pension cost will be the basis of the cash funding for 2016. Based on plan assets as of December 31, 2015 and various assumptions

in Note 10 of the Consolidated Financial Statements, the Company estimates the net periodic pension cost contribution for 2016 will be $65 million ($1 million for HEI and $64 million for the Utilities).

Based on various assumptions in Note 10 of the Consolidated Financial Statements and assuming no further changes in retirement benefit plan provisions, information regarding consolidated HEI's and consolidated Hawaiian Electric's retirement benefits was, or is estimated to be, as follows, and constitutes "forward-looking statements:"

	AOCI debit/(credit), net of taxes (benefits), related to retirement benefits liability		Retirement benefits expense, net of tax benefits				Retirement benefits paid and plan expenses		
	December 31		Years ended December 31				Years ended December 31		
(in millions)	2015	2014	(Estimated) 2016	2015	2014	2013	2015	2014	2013
Consolidated HEI	$24	$28	$20	$22	$20	$21	$76	$71	$70
Consolidated Hawaiian Electric	(1)	—	18	18	19	18	71	66	65

Based on various assumptions in Note 10 of the Consolidated Financial Statements, sensitivities of the projected benefit obligation (PBO) and accumulated postretirement benefit obligation (APBO) as of December 31, 2015, associated with a change in certain actuarial assumptions, were as follows and constitute "forward-looking statements."

Actuarial assumption	Change in assumption in basis points	Impact on HEI Consolidated PBO or APBO	Impact on Consolidated Hawaiian Electric PBO or APBO
(dollars in millions)			
Pension benefits			
Discount rate	'+/- 50	$(129)/$146	$(119)/$135
Other benefits			
Discount rate	'+/- 50	(14)/16	(14)/15
Health care cost trend rate	'+/- 100	4/(4)	4/(4)

See Note 10 of the Consolidated Financial Statements for further retirement benefits information.

Other segment.

(dollars in millions)	2015	% change	2014	% change	2013
Revenues	$ –	NM	$ –	NM	$ –
Operating loss	(35)	NM	(22)	NM	(17)
Net loss	(31)	NM	(21)	NM	(19)

NM Not meaningful.

The "other" business segment includes results of the stand-alone corporate operations of HEI and ASB Hawaii, both holding companies; HEI Properties, Inc., a company which held passive, venture capital investments (all of which have been sold or abandoned prior to its dissolution in December of 2015); and The Old Oahu Tug Service, Inc., a maritime freight transportation company that ceased operations in 1999; as well as eliminations of intercompany transactions.

HEI corporate-level operating, general and administrative expenses were $34 million in 2015 compared to $21 million in 2014 and $16 million in 2013. In 2015 and 2014, HEI had approximately $17 million (including $7 million of legal expenses and $5 million of investment banking fees) and $5 million, respectively, of expenses related to the proposed merger.

The "other" segment's interest expenses were $11 million in 2015, $12 million in 2014 and $16 million in 2013. In 2015 and 2014, HEI had lower average interest rates, partly offset by the impact of higher average borrowings, than 2013. In 2015, HEI had lower average borrowings than 2014 and a $125 million Eurodollar term loan was amended at improved pricing. In 2014, a 6.51% medium-term note of $100 million was paid off and a $125 million Eurodollar term loan (at rates ranging from 1.12% to 1.14% through December 31, 2014) was drawn. The "other" segment's income tax benefits were $16 million in 2015, $13 million in 2014 and $14 million in 2013.

Effects of inflation. U.S. inflation, as measured by the U.S. Consumer Price Index (CPI), averaged 0.1% in 2015, 1.6% in 2014 and 1.5% in 2013. Hawaii inflation, as measured by the Honolulu CPI, was 1.0% in 2015, 1.4% in 2014 and 1.8% in 2013.

Inflation continues to have an impact on HEI's operations. Inflation increases operating costs and the replacement cost of assets. Subsidiaries with significant physical assets, such as the electric utilities, replace assets at much higher costs and must

request and obtain rate increases to maintain adequate earnings. In the past, the PUC has granted rate increases in part to cover increases in construction costs and operating expenses due to inflation.

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

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 Company's total assets were $11.8 billion as of December 31, 2015 and $11.2 billion as of December 31, 2014.

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

December 31	2015			2014		
(dollars in millions)						
Short-term borrowings—other than bank	$103	3	%	$119	3	%
Long-term debt, net—other than bank	1,587	43		1,506	44	
Preferred stock of subsidiaries	34	1		34	1	
Common stock equity	1,928	53		1,791	52	
	$3,652	100	%	$3,450	100	%

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

	Year ended December 31, 2015		
(in millions)	Average balance	End-of-period balance	December 31, 2014
Short-term borrowings [1]			
Commercial paper	$58	$103	$119
Line of credit draws	—	—	—
Undrawn capacity under HEI's line of credit facility	150	150	150

[1] This table does not include Hawaiian Electric's separate commercial paper issuances and line of credit facilities and draws, which are disclosed below under "Electric utility—Financial Condition—Liquidity and capital resources." At February 12, 2016, HEI's outstanding commercial paper balance was $95 million and its line of credit facility was undrawn. The maximum amount of HEI's short-term borrowings in 2015 was $134 million.

HEI utilizes short-term debt, typically commercial paper, to support normal operations, to refinance commercial paper, to retire long-term debt, to pay dividends and for other temporary requirements. HEI also periodically makes short-term loans to Hawaiian Electric to meet Hawaiian Electric's cash requirements, including the funding of loans by Hawaiian Electric to Hawaii Electric Light and Maui Electric, but no such short-term loans to Hawaiian Electric were outstanding as of December 31, 2015. HEI periodically utilizes long-term debt, historically consisting of medium-term notes and other unsecured indebtedness, to fund investments in and loans to its subsidiaries to support their capital improvement or other requirements, to repay long-term and short-term indebtedness and for other corporate purposes.

In March 2013, HEI entered into equity forward transactions in which a forward counterparty borrowed 7 million shares of HEI's common stock from third parties and such borrowed shares were sold pursuant to an HEI registered public offering. See Note 9 of the Consolidated Financial Statements. In March 2015, HEI issued the 4.7 million shares remaining under the equity forward transaction for proceeds of $104.5 million.

In October 2015, HEI amended and extended a two-year $125 million term loan agreement that it entered into on May 2, 2014. See Note 8 of the Consolidated Financial Statements for a brief description of the loan agreement.

In December 2014, HEI filed an omnibus registration statement to register an indeterminate amount of debt and equity securities.

HEI has a line of credit facility, as amended and restated on April 2, 2014, of $150 million. See Note 7 of the Consolidated Financial Statements.

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The rating of HEI’s commercial paper and debt securities could significantly impact the ability of HEI to sell its commercial paper and issue debt securities and/or the cost of such debt. The rating agencies use a combination of qualitative measures (i.e., assessment of business risk that incorporates an analysis of the qualitative factors such as management, competitive positioning, operations, markets and regulation) as well as quantitative measures (e.g., cash flow, debt, interest coverage and liquidity ratios) in determining the ratings of HEI securities.

In January 2015, S&P reported the ratings of HEI (BBB-/Watch positive/A-3). S&P indicated that “[g]iven the proposed funding for the transaction (all equity and the assumption of existing debt), along with opportunities for growth for NextEra Energy, we expect to view HEI as a core subsidiary of NextEra Energy and therefore to raise the issuer credit rating (ICR) on HEI to be in line with that of NextEra Energy.”

In August 2015, Moody’s changed HEI’s rating outlook from stable to negative “due to concerns about the execution risk inherent in transforming its oil-dominated generation base to renewables.” Moody's stated that they could reevaluate HEI's rating or outlook upon the closing of the pending merger with NEE.

In December 2015, Fitch maintained HEI’s Issuer Default Rating (IDR) at BBB on Rating Watch Positive. “Fitch expects to resolve the Rating Watch on the conclusion of the merger transaction with NextEra Energy, Inc. (NEE), which is expected in the first half of 2016.” Fitch stated that “[o]nce the transaction is completed, HEI (or its successor within NEE) would become a first-tier holding company under NextEra Energy Capital Holdings, Inc. Fitch expects to equalize the IDR of HEI with that of HECO once the bank is spun off and the acquisition with NEE is completed. Over the long term, Fitch sees a bias toward positive rating actions for HECO and HEI under NEE’s ownership. In the event that the merger is not completed (not anticipated by Fitch), Fitch believes the credit profile of HECO and HEI remains robust.”

As of February 12, 2016, the Fitch, Moody's and S&P ratings of HEI were as follows:

	Fitch	Moody’s	S&P
Long-term issuer default and senior unsecured; senior unsecured; and corporate credit; respectively	BBB	Baa2	BBB-
Commercial paper	F3	P-2	A-3
Outlook	Watch-Positive	Negative	Watch-Positive

The above ratings reflect only the view, at the time the ratings are issued, of the applicable rating agency, from whom an explanation of the significance of such ratings may be obtained. Such ratings are not recommendations to buy, sell or hold any securities; such ratings may be subject to revision or withdrawal at any time by the rating agencies; and each rating should be evaluated independently of any other rating.

Management believes that, if HEI’s commercial paper ratings were to be downgraded, or if credit markets for commercial paper with HEI’s ratings or in general were to tighten, it could be more difficult and/or expensive for HEI to sell commercial paper or HEI might not be able to sell commercial paper in the future. Such limitations could cause HEI to draw on its syndicated credit facility instead, and the costs of such borrowings could increase under the terms of the credit agreement as a result of any such ratings downgrades. Similarly, if HEI’s long-term debt ratings were to be downgraded, it could be more difficult and/or expensive for HEI to issue long-term debt. Such limitations and/or increased costs could materially adversely affect the results of operations, financial condition and liquidity of HEI and its subsidiaries.

Issuances of common stock through the Hawaiian Electric Industries, Inc. Dividend Reinvestment and Stock Purchase Plan (DRIP), Hawaiian Electric Industries Retirement Savings Plan (HEIRSP) and the ASB 401(k) Plan provided new capital of $3 million (approximately 0.1 million shares) in 2014 and $48 million (approximately 1.8 million shares) in 2013. From March 6, 2014 through January 5, 2016, HEI satisfied the share purchase requirements of the DRIP, HEIRSP and ASB 401(k) Plan through open market purchases of its common stock rather than new issuances.

Operating activities provided net cash of $356 million in 2015, $325 million in 2014 and $362 million in 2013. Investing activities used net cash of $706 million in 2015, $592 million in 2014 and $598 million in 2013. In 2015, net cash used in investing activities was primarily due to a net increase in loans held for investment, Hawaiian Electric’s consolidated capital expenditures (net of contributions in aid of construction) and ASB's purchases of investment securities, partly offset by the repayments of investment securities, redemption of stock from Federal Home Loan Bank and sale of real estate held for sale. Financing activities provided net cash of $475 million in 2015, $223 million

in 2014 and $237 million in 2013. In 2015, net cash provided by financing activities included net increases in deposits, retail repurchase agreements and long-term debt and proceeds from the issuance of common stock, partly offset by a decrease in short-term borrowings and payment of common and preferred stock dividends. Other than capital contributions from their parent company, intercompany services (and related intercompany payables and receivables), Hawaiian Electric's periodic short-term borrowings from HEI (and related interest) and the payment of dividends to HEI, the electric utility and bank segments are largely autonomous in their operating, investing and financing activities. (See the electric utility and bank segments' discussions of their cash flows in their respective

"Financial condition–Liquidity and capital resources" sections below.) During 2015, Hawaiian Electric and ASB (through ASB Hawaii) paid cash dividends to HEI of $90 million and $30 million, respectively.

A portion of the net assets of Hawaiian Electric and ASB is not available for transfer to HEI in the form of dividends, loans or advances without regulatory approval. One of the conditions to the PUC's approval of the Merger and corporate restructuring of Hawaiian Electric and HEI requires that Hawaiian Electric maintain a consolidated common equity to total capitalization ratio of not less than 35% (actual ratio of 57% at December 31, 2015), and restricts Hawaiian Electric from making distributions to HEI to the extent it would result in that ratio being less than 35%. In the absence of an unexpected material adverse change in the financial condition of the electric utilities or ASB, such restrictions are not expected to significantly affect the operations of HEI, its ability to pay dividends on its common stock or its ability to meet its debt or other cash obligations. See Note 14 of the Consolidated Financial Statements.

Forecasted HEI consolidated "net cash used in investing activities" (excluding "investing" cash flows from ASB) for 2016 through 2018 consists primarily of the net capital expenditures of the Utilities. In addition to the funds required for the Utilities' construction programs (see "Electric utility–Liquidity and capital resources"), approximately $200 million will be required during 2016 through 2018 to repay HEI senior notes of $75 million maturing in March 2016 and and HEI's $125 million two-year term loan maturing in October 2017, which are expected to be repaid with the proceeds from the issuance of commercial paper, bank borrowings, other medium- or long-term debt, common stock and/or dividends from subsidiaries (assuming that the proposed Merger has not closed by the maturity dates). Additional debt and/or equity financing may be utilized to invest in the Utilities and bank; to pay down commercial paper or other short-term borrowings; or to fund unanticipated expenditures not included in the 2016 through 2018 forecast, such as increases in the costs of or an acceleration of the construction of capital projects of the Utilities, unanticipated utility capital expenditures that may be required by the HCEI or new environmental laws and regulations, unbudgeted acquisitions or investments in new businesses, significant increases in retirement benefit funding requirements and higher tax payments that would result if certain tax positions taken by the Company do not prevail or if taxes are increased by federal or state legislation. In addition, existing debt may be refinanced prior to maturity with additional debt or equity financing (or both). Further, in anticipation of the possible completion of the Merger, the Company will make financing arrangements for the funding of additional transaction advisory fees and contingent payments through additional debt.

As further explained in "Retirement benefits" above and Notes 1 and 10 of the Consolidated Financial Statements, the Company maintains pension and OPEB plans. The Company's contributions to the retirement benefit plans totaled $88 million in 2015 ($86 million by the Utilities, $2 million by HEI and nil by ASB), $60 million in 2014 ($59 million by the Utilities, $1 million by HEI and nil by ASB) and $83 million in 2013 ($81 million by the Utilities, $2 million by HEI and nil by ASB) and are expected to total $65 million in 2016 ($64 million by the Utilities, $1 million by HEI and nil by ASB). These contributions satisfied the minimum funding requirements pursuant to ERISA, including changes promulgated by the Pension Protection Act of 2006, and the requirements of the electric utilities' pension and OPEB tracking mechanisms. In addition, the Company paid directly $1 million of benefits in 2015, $2 million in 2014 and $2 million in 2013 and expects to pay $2 million of benefits in 2016. With an increase in the discount rate at December 31, 2015 to 4.60% (from 4.22%) and a downward revision to the Mortality Improvement Scale used in calculating net periodic pension cost, it is estimated that the net periodic pension cost for 2016 will decline to $65 million (from $87 million in 2015) for the HEI Retirement Plan. Depending on the performance of the assets held in the plans' trusts and numerous other factors, additional contributions may be required in the future to meet the minimum funding requirements of ERISA or to pay benefits to plan participants. The Company believes it will have adequate cash flow or access to capital resources to support any necessary funding requirements.

Selected contractual obligations and commitments. Information about payments under the specified contractual obligations and commercial commitments of HEI and its subsidiaries was as follows:

December 31, 2015

(in millions)	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Contractual obligations					
Investment in qualifying affordable housing projects	$6	$4	$—	$—	$10
Time certificates	197	137	138	3	475
Other bank borrowings	215	114	—	—	329
Long-term debt	75	175	96	1,241	1,587
Interest on certificates of deposit, other bank borrowings and long-term debt	80	148	138	798	1,164
Operating leases, service bureau contract, maintenance and ASB construction-related agreements	35	43	26	29	133
Hawaiian Electric open purchase order obligations[1]	89	12	2	1	104
Hawaiian Electric fuel oil purchase obligations (estimate based on December 31, 2015 fuel oil prices)	245	4	—	—	249
Hawaiian Electric power purchase obligations–minimum fixed capacity charges	107	190	194	497	988
Liabilities for uncertain tax positions	—	4	—	—	4
Total (estimated)	$1,049	$831	$594	$2,569	$5,043

[1] Includes contractual obligations and commitments for capital expenditures and expense amounts.

The tables above do not include other categories of obligations and commitments, such as deferred taxes, trade payables, amounts that will become payable in future periods under collective bargaining and other employment agreements and employee benefit plans, obligations that may arise under indemnities provided to purchasers of discontinued operations, potential refunds of amounts collected from ratepayers (e.g., under the earnings sharing mechanism) and additional transaction advisory fees and contingent payments related to the proposed merger (approximately $24 million). As of December 31, 2015, the fair value of the assets held in trusts to satisfy the obligations of the Company's retirement benefit plans did not exceed the retirement benefit plans' benefit obligation. Minimum funding requirements for retirement benefit plans have not been included in the tables above; however, see "Retirement benefits" above for estimated minimum required contributions for 2016.

See Note 4 of the Consolidated Financial Statements for a discussion of fuel and power purchase commitments. See Note 5 of the Consolidated Financial Statements for a further discussion of ASB's commitments.

Off-balance sheet arrangements. Although the Company has off-balance sheet arrangements, management has determined that it has no off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors, including the following types of off-balance sheet arrangements:

1. obligations under guarantee contracts,
2. retained or contingent interests in assets transferred to an unconsolidated entity or similar arrangements that serve as credit, liquidity or market risk support to that entity for such assets,
3. obligations under derivative instruments, and
4. obligations under a material variable interest held by the Company in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or engages in leasing, hedging or research and development services with the Company.

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 its control and could cause future results of operations to differ materially from historical results. The following is a discussion of certain of these factors. Also see "Forward-Looking Statements" and "Risk Factors" above and "Certain factors that may affect future

results and financial condition" in each of the electric utility and bank segment discussions below.

Proposed Merger. On December 3, 2014, HEI, NEE, Merger Sub II and Merger Sub I entered into an Agreement and Plan of Merger. The Merger Agreement provides that, prior to completion of the Merger, HEI will distribute to its shareholders, on a pro-rata basis, all of the issued and outstanding shares of ASB Hawaii (parent company of ASB). In addition, the Merger Agreement contemplates that, immediately prior to the closing of the Merger, HEI will pay its shareholders a special dividend of $0.50 per share. At the effective time of the Merger, shares of HEI common stock will be converted into shares of NEE

common stock and HEI shareholders will become stockholders of NEE. The closing of the Merger is subject to various conditions, including federal and state regulatory approvals. See Note 2 of the Consolidated Financial Statements and “Risk Factors Related to the Merger” above.

Economic conditions, U.S. capital markets and credit and interest rate environment. Because the core businesses of HEI’s subsidiaries are providing local electric public utility services and banking services in Hawaii, the Company’s operating results are significantly influenced by Hawaii’s economy, which in turn is influenced by economic conditions in the mainland U.S. (particularly California) and Asia (particularly Japan) as a result of the impact of those conditions on tourism, by the impact of interest rates, particularly on the construction and real estate industries, and by the impact of world conditions on federal government spending in Hawaii. The two largest components of Hawaii’s economy are tourism and the federal government (including the military).

If Fitch, Moody's or S&P were to downgrade HEI’s or Hawaiian Electric’s debt ratings, or if future events were to adversely affect the availability of capital to the Company, HEI’s and Hawaiian Electric’s ability to borrow and raise capital could be constrained and their future borrowing costs would likely increase.

Changes in the U.S. capital markets can also have significant effects on the Company. For example, pension funding requirements are affected by the market performance of the assets in the master pension trust and by the discount rate used to estimate the service and interest cost components of net periodic pension cost and value obligations. The Utilities’ pension tracking mechanisms help moderate pension expense; however, a decline in the value of the Company’s defined benefit pension plan assets may increase the unfunded status of the Company’s pension plans and result in increases in future funding requirements.

Because the earnings of ASB depend primarily on net interest income, interest rate risk is a significant risk of ASB’s operations. Changes in interest rates and credit spreads also affect the fair value of ASB’s investment securities. HEI and its electric utility subsidiaries are also exposed to interest rate risk primarily due to their periodic borrowing requirements, the discount rate used to determine pension funding requirements and the possible effect of interest rates on the electric utilities’ rates of return and overall economic activity. Interest rates are sensitive to many factors, including general economic conditions and the policies of government and regulatory authorities. HEI cannot predict future changes in interest rates, nor be certain that interest rate risk management strategies it or its subsidiaries have implemented will be successful in managing interest rate risk.

Limited insurance. In the ordinary course of business, the Company purchases insurance coverages (e.g., property and liability coverages) to protect itself against loss of or damage to its properties and against claims made by third-parties and employees for property damage or personal injuries. However, the protection provided by such insurance is limited in significant respects and, in some instances, the Company has no coverage. The Utilities’ transmission and distribution systems (excluding substation buildings and contents) have a replacement value roughly estimated at $7 billion and are largely uninsured. Similarly, the Utilities have no business interruption insurance. If a hurricane or other uninsured catastrophic natural disaster were to occur, and if the PUC were not to allow the Utilities to recover from ratepayers restoration costs and revenues lost from business interruption, their results of operations, financial condition and liquidity could be materially adversely impacted. Certain of the Company’s insurance has substantial “deductibles” or has limits on the maximum amounts that may be recovered. Insurers also have exclusions or limitations of coverage for claims related to certain perils. If a series of losses occurred, such as from a series of lawsuits in the ordinary course of business each of which were subject to an insurance deductible amount, or if the maximum limit of the available insurance were substantially exceeded, the Company could incur uninsured losses in amounts that would have a material adverse effect on the Company’s results of operations, financial condition and liquidity.

Environmental matters. HEI 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. These laws and regulations, among other things, may require that certain environmental permits be obtained and maintained as a condition to constructing or operating certain facilities. Obtaining such permits can entail significant expense and cause substantial construction delays. Also, these laws and regulations may be amended from time to time, including amendments that increase the burden and expense of compliance.

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.

Material estimates that are particularly susceptible to significant change include the amounts reported for pension and other postretirement benefit obligations; contingencies and litigation; income taxes; property, plant and equipment; regulatory assets and liabilities; electric utility revenues; allowance for loan losses; nonperforming loans; troubled debt restructurings; and fair

value. Management considers an accounting estimate to be material if it requires assumptions to be made that were uncertain at the time the estimate was made and changes in the assumptions selected could have a material impact on the estimate and on the Company's results of operations or financial condition.

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 the policies discussed below 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. The policies affecting both of the Company's two principal segments are discussed below and the policies affecting just one segment are discussed in the respective segment's section of "Material estimates and critical accounting policies." Management has reviewed the material estimates and critical accounting policies with the HEI Audit Committee and, as applicable, the Hawaiian Electric Audit Committee.

For additional discussion of the Company's accounting policies, see Note 1 of the Consolidated Financial Statements and for additional discussion of material estimates and critical accounting policies, see the electric utility and bank segment discussions below under the same heading.

Pension and other postretirement benefits obligations. For a discussion of material estimates related to pension and other postretirement benefits (collectively, retirement benefits), including costs, major assumptions, plan assets, other factors affecting costs, accumulated other comprehensive income (loss) (AOCI) charges and sensitivity analyses, see "Retirement benefits" in "Consolidated—Results of operations" above and Notes 1 and 10 of the Consolidated Financial Statements.

Contingencies and litigation. The Company is subject to proceedings (including PUC proceedings), lawsuits and other claims. Management assesses the likelihood of any adverse judgments in or outcomes of these matters as well as potential ranges of probable losses, including costs of investigation. A determination of the amount of reserves required, if any, for these contingencies is based on an analysis of each individual case or proceeding often with the assistance of outside counsel. The required reserves may change in the future due to new developments in each matter or changes in approach in dealing with these matters, such as a change in settlement strategy.

In general, environmental contamination treatment costs are charged to expense, unless it is probable that the PUC would allow such costs to be recovered through future rates, in which case such costs would be capitalized as regulatory assets. Also, environmental costs are capitalized if the costs extend the life, increase the capacity, or improve the safety or efficiency of property; the costs mitigate or prevent future environmental contamination; or the costs are incurred in preparing the property for sale.

See Notes 2, 4 and 5 of the Consolidated Financial Statements.

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

Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations and rules. Management considers the possibility of alternative outcomes based upon past experience, previous actions by taxing authorities (e.g., actions taken in other jurisdictions) and advice from its tax advisors. Management believes that the Company's provision for tax contingencies is reasonable. However, the ultimate resolution of tax treatments disputed by governmental authorities may adversely affect the Company's current and deferred income tax amounts.

See Note 12 of the Consolidated Financial Statements.

Following are discussions of the electric utility and bank segments. Additional segment information is shown in Note 2 of the Consolidated Financial Statements. The discussion concerning Hawaiian Electric should be read in conjunction with its consolidated financial statements and accompanying notes.

Electric utility

Executive overview and strategy. The Utilities provide electricity on all the principal islands in the state other than Kauai and operate on five separate grids. The Utilities' strategic focus is meeting Hawaii's energy needs in a reliable, economical and environmentally sound way by modernizing the electric grid, maximizing the use of low-cost, clean energy sources, sustaining an effective asset management program and promoting smart use of energy by customers through information and choices. The Utilities are focused on helping Hawaii achieve its statutory goal of 40% of electricity from clean, locally-generated sources by 2030.

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

On August 26, 2014, Hawaiian Electric, Hawaii Electric Light and Maui Electric filed proposed power supply improvement and interconnection plans with the PUC, as required by PUC orders issued in April 2014 (see "April 2014 regulatory orders" in Note 4 of the Consolidated Financial Statements). Under these plans, the Utilities will support sustainable growth of rooftop solar, expand use of energy storage systems, empower customers by developing smart grids, offer new products and services to customers (e.g., community solar, microgrids and voluntary "demand response" programs), and switch from high-priced oil to lower cost liquefied natural gas.

On October 1, 2015, Hawaiian Electric, Hawaii Electric Light and Maui Electric filed a proposed community-based renewable energy program and tariff with the PUC that will allow customers who cannot, or chose not to, take advantage of rooftop solar to receive the benefits of renewable energy to help offset their monthly electric bills and support clean energy for Hawaii. The program, upon approval by the PUC, will allow customers to buy an interest in electricity generated by community renewable projects in diverse locations on their island without installing systems on their own roofs or property.

Transition to renewable energy. The Utilities are committed to assisting the State of Hawaii in achieving its Renewable Portfolio Standard goal of 100% renewable energy by 2045. Hawaii's RPS law was revised in the 2015 Legislature and requires electric utilities to meet an RPS of 15%, 30%, 40%, 70% and 100% by December 31, 2015, 2020, 2030, 2040 and 2045, respectively. Energy savings resulting from DSM energy efficiency programs and solar water heating do not count toward these RPS. The Utilities have been successful in adding significant amounts of renewable energy resources to their electric systems and exceeded their 2015 RPS goal. The Utilities' RPS for 2015 is estimated at 23%, exceeding the 2015 RPS goal, and the Utilities led the nation in 2015 in the percentage of its customers who have installed PV systems. (See "Developments in renewable energy efforts" below).

The Utilities are pursuing the transition to renewable energy in a manner that will help stabilize customer bills as they become less dependent on costly and price-volatile fossil fuel, ensure reliable service as more intermittent renewables are integrated to the grid and enable more options for customers as distributed technologies advance. To achieve 100% renewables by 2045, the Utilities seek to achieve a diversified mix of renewable resources, including utility scale and distributed resources. Under the state's renewable energy strategy, there has been exponential growth in recent years in variable generation (e.g. solar and wind) on Hawaii's island grids. As more generating resources are added to the Utilities' electric systems and as customers reduce their energy usage, the ability to accommodate additional generating resources and to accept energy from existing resources is becoming more challenging. As a result, there is a growing risk that energy production from generating resources may need to be curtailed and the interconnection of additional resources will need to be closely evaluated. Much of this variable generation is in the form of distributed generators interconnected at distribution circuits that cannot be directly controlled by system operators. As a consequence, grid resiliency in response to events that cause significant frequency and/or voltage excursions has weakened, and the prospects for larger and more frequent service outages have increased. As part of its transition, the Utilities have been progressively making changes in their operating practices, are making investments in grid modernization technologies, and are working with the solar industry to mitigate these risks and continue the integration of more renewable energy.

The Utilities are also working with the State of Hawaii and other entities to examine the possibility of using liquefied natural gas (LNG) as a cleaner and lower cost fuel as transition fuel for some generation as the Utilities move from oil

to renewable energy. Since 2014 the Utilities have been evaluating delivering LNG in specialized shipping containers to their generating stations on a transitional basis, an approach that requires minimal on-island infrastructure. In March 2014, Hawaiian Electric issued a RFP for the supply of containerized LNG and is currently in negotiations to resolve key contractual provisions with the preferred bidder. In August 2015, Hawaii State Governor Ige voiced his opposition to LNG as a replacement fuel for power generation citing (a) the high infrastructure costs, (b) permitting requirements as primary obstacles and (c) the potential to distract Hawaii from achieving the State's renewable energy goals. The Utilities are working to align their containerized LNG

plans with the State's directives and plan on finalizing LNG fuel agreements in the first quarter of 2016. The Utilities would seek approval from the PUC for the fuel agreement(s) and for the commitment of funds for related capital improvements shortly thereafter.

After launching a smart grid customer engagement plan during the second quarter of 2014. Hawaiian Electric replaced approximately 5,200 residential and commercial meters with smart meters, 160 direct load control switches, fault circuit indicators and remote controlled switches in selected areas across Oahu as part of the Smart Grid Initial Phase implementation. Also under the Initial Phase a grid efficiency measure called Volt/Var Optimization (or Conservation Voltage Reduction) was turned on, customer energy portals were launched and are available for customer use and a PrePay Application was launched. The Initial Phase implementation was completed in 2015. The smart grid provides benefits such as customer tools to manage their electric bills, potentially shortening outages and enabling the Utilities to integrate more low-cost renewable energy, like wind and solar, which will reduce Hawaii's dependence on imported oil. The Utilities are planning to seek approval from the PUC in the first quarter of 2016 to commit funds for an expansion of the smart grid project, including at Hawaii Electric Light and Maui Electric.

Decoupling. In 2010, the PUC issued an order approving decoupling, which was implemented by the Utilities in 2011 and 2012. The decoupling model implemented delinks revenues from sales and includes annual rate adjustments for certain O&M expenses and rate base changes. On May 31, 2013, as provided for in its original order issued in 2010 approving decoupling, the PUC opened an investigative docket to review whether the decoupling mechanisms are functioning as intended, are fair to the Utilities and their ratepayers, and are in the public interest. On March 31, 2015, the PUC issued an Order to make certain modifications to the decoupling mechanism. See "Decoupling" in Note 4 of the Consolidated Financial Statements for a discussion of changes to the RAM mechanism. Under decoupling, as modified by the PUC, the most significant drivers for improving earnings are:

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

Actual and PUC-allowed (as of December 31, 2015) returns were as follows:

%	Return on rate base (RORB)*			ROACE**			Rate-making ROACE***		
Year ended December 31, 2015	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Hawaiian Electric	Hawaii Electric Light	Maui Electric
Utility returns	7.39	6.58	7.19	8.02	7.22	8.52	9.20	7.49	8.76
PUC-allowed returns	8.11	8.31	7.34	10.00	10.00	9.00	10.00	10.00	9.00
Difference	(0.72)	(1.73)	(0.15)	(1.98)	(2.78)	(0.48)	(0.80)	(2.51)	(0.24)

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

** Recorded net income divided by average common equity.

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

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

- the timing of general rate case decisions,
- the effective date of June 1 (rather than January 1) for the RAMs for Hawaii Electric Light and Maui Electric currently, and for Hawaiian Electric beginning in 2017,
- plant additions not recoverable through the RAM or other mechanism outside of the RAM cap,
- the modification to the RBA interest rate per the PUC's February 2014 decision on decoupling (as discussed in Note 4 of the Consolidated Financial Statements), and
- the PUC's consistent exclusion of certain expenses from rates.

The structural gap in 2016 is expected to be 90 to 110 basis points. Factors which impact the range of the structural gap include the actual sales impacting the size of the RBA regulatory asset, the actual level of plant additions in any given year relative to the amount recoverable through the RAM, the 2015 RAM Revenue adjustment pursuant to PUC Order, and the

timing, nature, and size of any general rate case. Between rate cases, items not covered by the annual RAMs could also have a negative impact on the actual ROACEs achieved by the Utilities. Items not likely to be covered by the annual RAMs include the changes in rate base for the regulatory asset for pension contributions in excess of the pension amount in rates, investments in software projects, changes in fuel inventory and O&M and capital additions in excess of indexed escalations. The specific magnitude of the impact will depend on various factors, including changes in the required annual pension contribution, the size of software projects, changes in fuel prices and management's ability to manage costs within the current mechanisms.

As part of decoupling, the Utilities also track their rate-making ROACEs as calculated under the earnings sharing mechanism, which includes only items considered in establishing rates. At year-end, each utility's rate-making ROACE is compared against its ROACE allowed by the PUC to determine whether earnings sharing has been triggered. Annual earnings of a utility over and above the ROACE allowed by the PUC are shared between the utility and its ratepayers on a tiered basis. The earnings share mechanism was not triggered for any of the utilities in 2015. For 2014, the earnings sharing mechanism was triggered for Maui Electric, and Maui Electric will credit $0.5 million to its customers for their portion of the earnings sharing during the period June 2015 to May 2016. Earnings sharing credits are included in the annual decoupling filing for the following year.

Annual decoupling filings. See "Decoupling" in Note 4 of the Consolidated Financial Statements for a discussion of the 2015 annual decoupling filings.

Results of operations.

•2015 vs. 2014

2015	2014	Increase (decrease)		(dollars in millions, except per barrel amounts)
$2,335	$2,987	$(652)		Revenues. Decrease largely due to:
			$(520)	lower fuel prices
			(134)	lower purchased power energy costs
			2	higher KWH purchased
655	1,132	(477)		Fuel oil expense. Decrease largely due to lower fuel costs and lower KWH generated
594	722	(128)		Purchased power expense. Decrease due to lower purchased power energy prices offset by higher KWH purchased
413	411	2		Operation and maintenance expense. Net increase due to:
			5	ERP software costs write off resulting from PUC ERP/EAM decision
			4	additional reserves for environmental costs[1]
			3	higher employee benefit costs
			(9)	higher 2014 smart grid initial phase costs
399	447	(48)		Other expenses. Decrease in revenue taxes due to lower revenue offset by higher depreciation expense for plant investments
274	276	(2)		Operating income. Decrease due to lower revenues
136	138	(2)		Net income for common stock. Decrease due to lower operating income
8.0 %	8.4 %	(0.4)%		Return on average common equity
74.71	129.65	(54.94)		Average fuel oil cost per barrel [2]
8,957	8,976	(19)		Kilowatthour sales (millions) [3]
5,082	4,909	173		Cooling degree days (Oahu)
2,727	2,759	(32)		Number of employees (at December 31)

2014	2013	2014 vs. 2013 Increase (decrease)		(dollars in millions, except per barrel amounts)
$2,987	$2,980	$7		Revenues. Increase largely due to:
			$52	higher rate base and O&M RAM
			8	higher purchased power costs
			5	Maui Electric refund in 2013 due to final 2012 rate case decision
			(32)	lower KWH generated
			(28)	lower fuel prices
1,132	1,186	(54)		Fuel oil expense. Decrease largely due to lower KWHs generated and lower fuel costs
722	711	11		Purchased power expense. Increase due to higher KWHs purchased as a result of decreased availability of AES in 2013 and expanded capacity of HPower in 2014, partly offset by lower purchased energy costs due to lower fuel prices
411	403	8		Operation and maintenance expense. Increase largely due to:
			8	smart grid initial phase
			8	consultant costs associated with energy transformation plans
			4	storm restoration
			4	customer information system upgrade
			(9)	lower customer service costs that were elevated in 2013 during the stabilization period for the new customer information system
			(5)	lower overhaul costs due to reduced scope of overhauls
			(5)	lower production costs due to deactivation of HPP
447	435	12		Other expenses. Increase primarily due to depreciation expense for plant investments
276	246	30		Operating income. Increase due to higher revenues and a decrease in overall expenses
138	123	15		Net income for common stock. Increase due to higher operating income
8.4 %	8.0 %	0.4 %		Return on average common equity
129.65	131.10	(1.45)		Average fuel oil cost per barrel [2]
8,976	9,070	(94)		Kilowatthour sales (millions) [3]
4,909	4,506	403		Cooling degree days (Oahu)
2,759	2,764	(5)		Number of employees (at December 31)

[1] Costs to complete Waiau Power Plant's onshore and offshore investigations and the remediation of PCB contamination in the offshore sediment.

[2] The rate schedules of the electric utilities currently contain energy cost adjustment clauses (ECACs) through which changes in fuel oil prices and certain components of purchased energy costs are passed on to customers.

[3] KWH sales were lower in 2015 and 2014 when compared to the prior year due largely to continued energy efficiency and conservation efforts by customers and increasing levels of customer-sited renewable generation.

Most recent rate proceedings. Unless otherwise agreed or ordered, each electric utility is currently required by PUC order to initiate a rate proceeding every third year (on a staggered basis) to allow the PUC and the Consumer Advocate to regularly evaluate decoupling and to allow the utility 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.

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 any granted interim and final PUC D&O increases.

Test year (dollars in millions)	Date (filed/ implemented)	Amount	% over rates in effect	ROACE (%)	RORB (%)	Rate base	Common equity %	Stipulated agreement reached with Consumer Advocate
Hawaiian Electric								
2011 (1)								
Request	7/30/10	$113.5	6.6	10.75	8.54	$1,569	56.29	Yes
Interim increase	7/26/11	53.2	3.1	10.00	8.11	1,354	56.29	
Interim increase (adjusted)	4/2/12	58.2	3.4	10.00	8.11	1,385	56.29	
Interim increase (adjusted)	5/21/12	58.8	3.4	10.00	8.11	1,386	56.29	
Final increase	9/1/12	58.1	3.4	10.00	8.11	1,386	56.29	
2014 (2)	6/27/14							
Hawaii Electric Light								
2010 (3)								
Request	12/9/09	$20.9	6.0	10.75	8.73	$487	55.91	Yes
Interim increase	1/14/11	6.0	1.7	10.50	8.59	465	55.91	
Interim increase (adjusted)	1/1/12	5.2	1.5	10.50	8.59	465	55.91	
Final increase	4/9/12	4.5	1.3	10.00	8.31	465	55.91	
2013 (4)								
Request	8/16/12	$19.8	4.2	10.25	8.30	$455	57.05	
Closed	3/27/13							
2016 (5)	6/17/15							
Maui Electric								
2012 (6)								
Request	7/22/11	$27.5	6.7	11.00	8.72	$393	56.85	Yes
Interim increase	6/1/12	13.1	3.2	10.00	7.91	393	56.86	
Final increase	8/1/13	5.3	1.3	9.00	7.34	393	56.86	
2015 (7)	12/30/14							

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) Hawaiian Electric filed a request with the PUC for a general rate increase of $113.5 million, based on depreciation rates and methodology as proposed by Hawaiian Electric in a separate depreciation proceeding. Hawaiian Electric’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.

The $53.2 million, $58.2 million and $58.8 million interim increases, and the $58.1 million final increase, include the $15 million in annual revenues that were being recovered through the decoupling RAM prior to the first interim increase.

(2) See “Hawaiian Electric 2014 test year rate case” below.

(3) Hawaii Electric Light’s request was primarily to cover investments for system upgrade projects, two major transmission line upgrades and increasing O&M expenses. On February 8, 2012, the PUC issued a final D&O, which reflected the approval of decoupling and cost-recovery mechanisms, and on February 21, 2012, Hawaii Electric Light filed its revised tariffs to reflect the increase in rates. On April 4, 2012, the PUC issued an order approving the revised tariffs, which became effective April 9, 2012. Hawaii Electric Light implemented the decoupling mechanism and began tracking the target revenues and actual recorded revenues via a revenue balancing account. Hawaii Electric Light also reset the heat rates and implemented heat rate deadbands and the PPAC, which provides a surcharge mechanism that more closely aligns cost recovery with costs incurred. The

revised tariffs reflect a lower increase in annual revenue requirement compared to the interim increase due to factors that became effective concurrently with the revised tariffs (lower depreciation rates and lower ROACE) and therefore, no refund to customers was required.

(4) Hawaii Electric Light's request was 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. As a result of the 2013 Agreement and 2013 Order (described below), the rate case was withdrawn and the docket has been closed.

(5) See "Hawaii Electric Light 2016 test year rate case" below.

(6) Maui Electric's request was 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. See discussion on final D&O, including the refund to customers in September and October 2013 required as a result of the final D&O, in Note 4 of the Consolidated Financial Statements.

(7) See “Maui Electric 2015 test year rate case” below.

Hawaiian Electric 2011 test year rate case. In the Hawaiian Electric 2011 test year rate case, the PUC had granted Hawaiian Electric’s request to defer CIS project O&M expenses (limited to $2,258,000 per year in 2011 and 2012) that were to be subject to a regulatory audit of project costs, and allowed Hawaiian Electric to accrue allowance for funds used during construction (AFUDC) on these deferred costs until the completion of the regulatory audit.

On January 28, 2013, the Utilities and the Consumer Advocate entered into the 2013 Agreement to, among other things, write-off $40 million of CIS Project costs in lieu of conducting the regulatory audits of the CIP CT-1 and the CIS projects, with the remaining recoverable costs for the projects of $52 million to be included in rate base as of December 31, 2012. The parties agreed that Hawaii Electric Light would withdraw its 2013 test year rate case and not file a rate case until its next turn in the rate case cycle, for a 2016 test year, and Hawaiian Electric would delay the filing of its scheduled 2014 test year rate case to no earlier than January 2, 2014. The parties also agreed that, starting in 2014, Hawaiian Electric will be allowed to record RAM revenues starting on January 1 (instead of the prior start date of June 1) for the years 2014, 2015 and 2016. For 2015 and 2014, Hawaiian Electric had additional net RAM revenues of $4 million and $12 million, respectively.

Hawaiian Electric 2014 test year rate case. On October 30, 2013 Hawaiian Electric filed with the PUC a Notice of Intent to file an application for a general rate case (on or after January 2, 2014, but before June 30, 2014, using a 2014 test year) and a motion, which was subsequently recommended by the Consumer Advocate, for approval of test period waiver. Hawaiian Electric’s filing of a 2014 rate case would be in accordance with a PUC order which calls for a mandatory triennial rate case cycle. On March 7, 2014, the PUC issued an order granting Hawaiian Electric’s motion to waive the requirement to utilize a split test year, and authorized a 2014 test year.

On June 27, 2014, Hawaiian Electric submitted an abbreviated rate case filing (abbreviated filing), stating that it intends to forgo the opportunity to seek a general rate increase in base rates, and if approved, this filing would result in no change in base rates. Hawaiian Electric stated that it is foregoing a rate increase request in recognition that its customers are already in a challenging high electricity bill environment. The abbreviated filing explained that Hawaiian Electric is aggressively attacking the root causes of high rates, by, among other things, vigorously pursuing the opportunity to switch from oil to liquefied natural gas, acquiring lower-cost renewable energy resources, pursuing opportunities to achieve operational efficiencies and deactivating older, high-cost generation. Instead of seeking a rate increase, Hawaiian Electric is focused on developing and executing the new business model, plans and strategies required by the PUC’s April 2014 regulatory orders discussed in Note 4 of the Consolidated Financial Statements, as well as other actions that will reduce rates.

Hawaiian Electric further explained that the abbreviated filing satisfies the obligation to file a general rate case under the three-year cycle established by the PUC in the decoupling final D&O. If the PUC determines that additional materials are required, Hawaiian Electric stated it will work with the Consumer Advocate on a schedule to submit additional information as needed. Hawaiian Electric asked for an expedited decision on this filing and stated that if the PUC decides that such a ruling is not in order, Hawaiian Electric reserves the right to supplement the abbreviated filing with additional material to support the increase in revenue requirements forgone by this filing-calculated to be $56 million over revenues at current effective rates. Hawaiian Electric’s revenue at current effective rates includes: (1) the revenue from Hawaiian Electric’s base rates, including the revenue from the energy cost adjustment clause and the purchased power adjustment clause, (2) the revenue that would be included in the decoupling revenue balancing account (RBA) in 2014 based on 2014 test year forecasted sales, and (3) the revenue from the 2014 rate adjustment mechanism (RAM) implemented in connection with the decoupling mechanism.

Under Hawaiian Electric’s proposal, the decoupling RBA and RAM would continue, subject to any change to these mechanisms ordered by the PUC in Schedule B of the decoupling proceedings, the DSM surcharge would continue since demand response (DR) program costs would not be rolled into base rates (as required in the April 28, 2014 DR Order) until the next rate case, and the pension and OPEB tracking mechanisms would continue. Hawaiian Electric plans to file its next rate case according to the normal rate case cycle using a 2017 test year. If circumstances change, Hawaiian Electric may file its next rate case earlier.

Management cannot predict whether the PUC will accept this abbreviated filing to satisfy Hawaiian Electric’s obligation to file a rate case in 2014, whether additional material will be required or whether Hawaiian Electric will be

required to proceed with a traditional rate proceeding.

Maui Electric 2015 test year rate case. On December 30, 2014, Maui Electric filed its abbreviated 2015 test year rate case filing. In recognition that its customers have been enduring a high bill environment, Maui Electric proposed no change to its base rates, thereby foregoing the opportunity to seek a general rate increase. If Maui Electric were to seek an increase in base rates, its requested increase in revenue, based on its revenue requirement for a normalized 2015 test year, would have been $11.6 million, or 2.8%, over revenues at current effective rates with estimated 2015 RAM revenues. The normalized 2015 test

year revenue requirement is based on an estimated cost of common equity of 10.75%. Management cannot predict any actions by the PUC as a result of this filing.

Hawaii Electric Light 2016 test year rate case. On June 17, 2015, Hawaii Electric Light filed its notice of intent to file a general rate case application by December 30, 2016, and simultaneously filed a motion which requested an extension to file its 2016 rate case to no later than December 30, 2016. On November 19, 2015, the PUC issued an order granting Hawaii Electric Light's motion, extending the deadline to file its 2016 rate case to December 30, 2016, and requiring a number of conditions, including the removal of all HEI non-incentive executive compensation from the Company's base rates, a demonstration that it substantially reduced its cost structure, a proposal of a set of economic incentive and cost recovery mechanisms to further encourage reductions in rates and an acceleration of its clean energy transformation, and a proposal to modify the ECAC to provide incentives to reduce fuel and purchased power expenses.

Integrated resource planning and April 2014 regulatory orders. See "April 2014 regulatory orders" in Note 4 to the Consolidated Financial Statements.

Developments in renewable energy efforts. Developments in the Utilities' efforts to further their renewable energy strategy include the following:

- In July 2011, the PUC directed Hawaiian Electric to submit a draft RFP for the PUC's consideration for a competitive bidding process for 200 MW or more of renewable energy to be delivered to, or to be sited on, the island of Oahu. In October 2011, Hawaiian Electric filed a draft RFP with the PUC. In July 2013, the PUC issued orders related to the 200-MW RFP, ordering that Hawaiian Electric shall amend its current draft of the Oahu 200-MW RFP to remove references to the Lanai Wind Project, eliminate solicitations for an undersea transmission cable, and amend the draft RFP to reflect other guidance provided in the order.
- In May 2012, Hawaii Electric Light signed a PPA, which the PUC approved in December 2013, with Hu Honua Bioenergy, LLC (Hu Honua) for 21.5 MW of renewable, dispatchable firm capacity fueled by locally grown biomass from a facility on the island of Hawaii. Per the terms of the PPA, the Hu Honua plant was scheduled to be in service in 2016. However, Hu Honua encountered construction delays, has failed to meet its current obligations under the PPA and failed to provide adequate assurances that it can perform or has the financial means to perform. Absent compelling changes in circumstances, Hawaii Electric Light currently intends to terminate the PPA effective March 1, 2016.
- In May 2012, the PUC instituted a proceeding for a competitive bidding process for up to 50 MW of firm renewable geothermal dispatchable energy (Geothermal RFP) on the island of Hawaii. Bids were received in January 2015, and in February 2015, Ormat Technologies, Inc. was selected to provide 25 MW of additional geothermal energy, subject to successful contract negotiations and PUC approval of the final agreement. In February 2016, Hawaii Electric Light provided the PUC with a status update notifying the PUC that the selected bidder had determined the proposed project was not economically and financially viable, resulting in conclusion of PPA negotiations.
- In August 2012, the battery facility at a 30-MW Kahuku wind farm experienced a fire. After the interconnection infrastructure was rebuilt and voltage regulation equipment was installed, the facility came up to full output in January 2014 to perform control system acceptance testing, and energy is being purchased at a base rate until PUC approval of an amendment to the PPA. An application for PUC approval of an amendment to the PPA was filed in April 2014.
- In August 2012, the PUC approved a waiver from the competitive bidding framework to allow Hawaiian Electric to negotiate with the U.S. Army for construction of a 50-MW utility-owned and operated firm, renewable and dispatchable generation facility at Schofield Barracks on the island of Oahu. In September 2015, the PUC approved Hawaiian Electric's application with conditions and limitations. See "Schofield Generating Station Project" in Note 4 of the Consolidated Financial Statement.
- In May 2013, Maui Electric requested a waiver from the PUC Competitive Bidding Framework to conduct negotiations for a PPA for approximately 4.5 to 6.0 MW of firm power from a proposed Mahinahina Energy Park, LLC project, fueled with biofuel. The PUC approved the waiver request, provided that an executed PPA must be filed for PUC approval by February 2015. The parties did not execute a PPA by the PUC deadline. In September 2015, Anaergia Services, Maui Energy park and Maui Resource Recovery Facility filed a Petition for Declaratory Order, asking the PUC to find that Hawaiian Electric and Maui Electric have violated Hawaii state law and clear legislative

policy by wrongfully refusing and failing to forward several bona fide requests for preferential rates for the purchase of firm renewable energy produced in conjunction with agricultural activities to the PUC for approval.

- In October 2013, the PUC approved Hawaiian Electric's 20-year contract with Hawaii BioEnergy to supply 10 million gallons per year of biocrude at the Kahe Power Plant; however, in January 2016, Hawaiian Electric terminated the contract due to Hawaii BioEnergy's inability to meet its contractual obligations/milestones.
- In December 2013, Hawaiian Electric requested PUC approval for a waiver of the Na Pua Makani Power Partners, LLC's proposed 24-MW wind farm located in the Kahuku area on Oahu from the competitive bidding process and the PPA for Renewable As-Available Energy dated October 3, 2013 between Hawaiian Electric and Na Pua Makani Power Partners, LLC for the proposed 24-MW wind farm. In December 2014, the PUC approved both the waiver request and the PPA.
- In July 2015, the PUC issued orders approving (with conditions) four PPAs for a combined 137 MW of solar projects. Hawaiian Electric expects to manage curtailment levels of these projects. In August 2015, the PUC issued orders denying Hawaiian Electric's applications to approve three other solar projects. In January 2016, two of the four approved projects received notices of default from Hawaiian Electric for failure to meet guaranteed project milestones, and in February 2016 a third project received a notice of failure to meet a substantial commitment milestone. On January 28, 2016, the PUC reopened proceedings for the three projects requesting Hawaiian Electric to file a status report. On February 12, 2016, Hawaiian Electric filed updates with the PUC regarding the status of the projects. On this same day, Hawaiian Electric terminated these three PPAs totaling 109.6 MW of the four approved PPAs totaling 137 MW. The developer of the terminated PPAs and the Consumer Advocate have until February 23, 2016 to file a response with the PUC regarding Hawaiian Electric's status report.
- In July 2015, Maui Electric signed two PPAs, with Kuia Solar and South Maui Renewable Resources, each for a 2.87-MW solar facility. In February 2016, the PUC approved both PPAs, subject to certain conditions and modifications.
- In September 2015, the PUC approved Hawaiian Electric's 2-year biodiesel supply contract with Pacific Biodiesel Technologies, LLC to supply 2 million to 3 million gallons of biodiesel at CIP CT-1 and the Honolulu International Airport Emergency Power Facility beginning in November 2015. Renewable Energy Group has supplied 3 million to 7 million gallons per year to CIP CT-1 under its contract with Hawaiian Electric originally set to expire November 2015. The contract has been extended from November 2015 to November 2016 as a contingency supply contract with no volume purchase requirements.
- In October 2015, the Utilities filed with the PUC a proposal for a Community-Based Renewable Energy program and tariff that would allow customers who cannot, or chose not to, take advantage of rooftop solar to receive the benefits of renewable energy to help offset their monthly electric bills and support clean energy for Hawaii. In November 2015, the PUC suspended the filing and opened a docket to investigate the matter.
- The Utilities began accepting energy from feed-in tariff projects in 2011. As of December 31, 2015, there were 14 MW, 3 MW and 4 MW of installed feed-in tariff capacity from renewable energy technologies at Hawaiian Electric, Hawaii Electric Light and Maui Electric, respectively.
- As of December 31, 2015, there were approximately 258 MW, 60 MW and 64 MW of installed NEM capacity from renewable energy technologies (mainly PV) at Hawaiian Electric, Hawaii Electric Light and Maui Electric, respectively.

Other regulatory matters. In addition to the items below, also see Note 4 of the Consolidated Financial Statements.

Adequacy of supply.

Hawaiian Electric. In January 2016, Hawaiian Electric filed its 2016 Adequacy of Supply (AOS) letter, which indicated that based on its May 2015 sales and peak forecast for the 2016 to 2017 time period, Hawaiian Electric's generation capacity will be sufficient to meet reasonably expected demands for service and provide reasonable reserves for emergencies through 2017.

In accordance to its planning criteria, Hawaiian Electric deactivated two fossil fuel generating units from active service at its Honolulu Power Plant in January 2014 and anticipates deactivating two additional fossil fuel units at its Waiau Power Plant in the 2018 timeframe. Hawaiian Electric is proceeding with future firm capacity additions in coordination with the State of Hawaii Department of Transportation in 2016, and with the U.S. Department of the Army for a utility owned and operated renewable, dispatchable, including black start capabilities, generation security

project on federal lands, which is expected to be in service in the first quarter of 2018. Hawaiian Electric is continuing negotiations with two firm capacity IPPs on Oahu under PPAs scheduled to expire in 2016 and 2022.

Hawaii Electric Light. In January 2016, Hawaii Electric Light filed its 2016 AOS letter, which indicated that Hawaii Electric Light's generation capacity through 2018 is sufficient to meet reasonably expected demands for service and provide for reasonable reserves for emergencies. The 2016 AOS letter also indicated that the Company's Shipman plant in Hilo was retired in 2015.

Additional generation from other renewable resources could be added in the 2020-2025 timeframe.

Maui Electric. In January 2016, Maui Electric filed its 2016 AOS letter, which indicated that Maui Electric's generation capacity for the islands of Lanai and Molokai for the next three years is sufficiently large to meet all reasonably expected demands for service and provide reasonable reserves for emergencies. The 2016 AOS letter also indicated that without the peak reduction benefits of demand response but with the equivalent firm capacity value of wind generation, Maui Electric expects to have a small reserve capacity shortfall from 2017 to 2022 on the island of Maui. Maui Electric is evaluating several measures to mitigate the anticipated reserve capacity shortfall. Maui Electric anticipates needing a significant amount of additional firm capacity on Maui in the 2022 timeframe after the planned retirement of Kahului Power Plant. In February 2014, Maui Electric deactivated two fossil fuel generating units, with a combined rating of 9.5 MW, at its Kahului Power Plant. Due to various system conditions including lack of wind generation, approaching storms, and scheduled and unscheduled outages of generating units, transmission lines, and independent power producers, the two deactivated units at Kahului Power Plant were reactivated for several days in 2015. In consideration of the time needed to acquire replacement firm generating capacity, Maui Electric now anticipates the retirement of all generating units at the Kahului Power Plant, which have a combined rating of 32.3 MW, in the 2022 timeframe. A capacity planning analysis is in progress to better define needs and timing. Maui Electric plans to issue one or more RFPs for energy storage, demand response and firm generating capacity, and to make system improvements needed to ensure reliability and voltage support in this timeframe.

April 2014 regulatory orders. In April 2014, the PUC issued four orders that collectively provide certain key policy, resource planning, and operational directives to the Utilities. See "April 2014 regulatory orders" in Note 4 of the Consolidated Financial Statements.

Legislation and regulation. Congress and the Hawaii legislature periodically consider legislation that could have positive or negative effects on the Utilities and their customers. Also see "Environmental regulation" in Note 4 of the Consolidated Financial Statements and "Recent tax developments" above.

Renewable energy. In 2011, a Hawaii law was enacted that gives the PUC the authority to allow those electric utilities (including the Utilities) that aggregate their renewable portfolios in measuring whether they achieve the renewable portfolio standards under the Hawaii RPS law discussed above under "Renewable energy strategy" to distribute 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. Also passed in 2011, Act 10 provides for continued inclusion of customer-sited, grid-connected renewable energy generation in the RPS calculations after 2015. This is the current practice in calculating RPS levels, which provides electric utility ratepayers with a clear value from a program such as net energy metering.

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

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

Liquidity and capital resources. Management believes that Hawaiian Electric's ability, and that of its subsidiaries, to generate cash, both internally from operations and externally from issuances of equity and debt securities and commercial paper and draws on 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 in the foreseeable future.

Hawaiian Electric's consolidated capital structure was as follows:

December 31	2015			2014		
(dollars in millions)						
Long-term debt, net	$1,287	42	%	$1,207	41	%
Preferred stock	34	1		34	1	

Common stock equity	1,728	57		1,682	58	
	$3,049	100	%	$2,923	100	%

Information about Hawaiian Electric's short-term borrowings (other than from Hawaii Electric Light and Maui Electric) and Hawaiian Electric's line of credit facility were as follows:

(in millions)	Year ended December 31, 2015 Average balance	End-of-period balance	December 31, 2014
Short-term borrowings[1]			
Commercial paper	$47	$—	$—
Line of credit draws	—	—	—
Borrowings from HEI	—	—	—
Undrawn capacity under line of credit facility	200	200	200

[1] The maximum amount of external short-term borrowings in 2015 was $126 million. At December 31, 2015, Hawaiian Electric had short-term borrowings from Hawaii Electric Light and Maui Electric of $15.5 million and $7.5 million, respectively, which intercompany borrowings are eliminated in consolidation. At February 12, 2016, Hawaiian Electric had $61 million of outstanding commercial paper, its line of credit facility was undrawn, it had no borrowings from HEI and it had short-term borrowings from Hawaii Electric Light and Maui Electric of $5.5 million and $1.5 million, respectively.

Hawaiian Electric utilizes short-term debt, typically commercial paper, to support normal operations, to refinance short-term debt and for other temporary requirements. Hawaiian Electric also borrows short-term from HEI for itself and on behalf of Hawaii Electric Light and Maui Electric, and Hawaiian Electric may borrow from or loan to Hawaii Electric Light and Maui Electric short-term. The intercompany borrowings among the Utilities, but not the borrowings from HEI, are eliminated in the consolidation of Hawaiian Electric's financial statements. The Utilities periodically utilize long-term debt, historically borrowings of the proceeds of special purpose revenue bonds (SPRBs) issued by the Department of Budget and Finance of the State of Hawaii (DBF) and more recently the issuance of privately placed taxable unsecured senior notes, to finance the Utilities' capital improvement projects, or to repay short-term borrowings used to finance such projects. The PUC must approve issuances, if any, of equity and long-term debt securities by the Utilities.

Hawaiian Electric has a line of credit facility, as amended and restated on April 2, 2014, of $200 million. In January 2015, the PUC approved Hawaiian Electric's request to extend the term of the credit facility to April 2, 2019. See Note 7 of the Consolidated Financial Statements.

The ratings of Hawaiian Electric's commercial paper and debt securities could significantly impact the ability of Hawaiian Electric to sell its commercial paper and issue debt securities and/or the cost of such debt. The rating agencies use a combination of qualitative measures (e.g., assessment of business risk that incorporates an analysis of the qualitative factors such as management, competitive positioning, operations, markets and regulation) as well as quantitative measures (e.g., cash flow, debt, interest coverage and liquidity ratios) in determining the ratings of Hawaiian Electric securities.

In January 2015, S&P reported the ratings of Hawaiian Electric (BBB-/Watch Positive/A-3). S&P indicated that "[g]iven the proposed funding for the transaction (all equity and the assumption of existing debt), along with opportunities for growth for NextEra Energy, we expect to view HEI as a core subsidiary of NextEra Energy and therefore to raise the issuer credit rating (ICR) on HEI and HECO to be in line with that of NextEra Energy."

In August 2015, Moody's changed Hawaiian Electric's rating outlook from stable to negative "due to concerns about the execution risk inherent in transforming its oil-dominated generation base to renewables." Moody's stated that they could reevaluate Hawaiian Electric's rating or outlook upon the closing of the pending merger with NEE.

In December 2015, Fitch affirmed the Issuer Default Rating for Hawaiian Electric at BBB+ with a Stable Outlook. Fitch also maintained HEI's outlook as Watch Positive. Fitch stated that "[o]nce the transaction is completed, HEI (or its successor within NEE) would become a first-tier holding company under NextEra Energy Capital Holdings, Inc. Fitch expects to equalize the IDR of HEI with that of HECO once the bank is spun off and the acquisition with NEE is completed. The acquisition would not result in any change in rating of HECO. The structural weakness in HECO's service territory due to rising penetration of rooftop solar, the concessions offered for merger approval and the uncertainty regarding the fleet modernization plan until the Power Supply Improvement Plan (PSIP) is approved by the regulators offset the positives of NEE's ownership and a sharp decline in oil prices over last year. Over the long

term, Fitch sees a bias toward positive rating actions for HECO and HEI under NEE's ownership."

As of February 12, 2016, the Fitch, Moody's and S&P ratings of Hawaiian Electric were as follows:

	Fitch	Moody's	S&P
Long-term issuer default, long-term issuer and corporate credit, respectively	BBB+	Baa1	BBB-
Commercial paper	F2	P-2	A-3
Special purpose revenue bonds	A-[1]	Baa1	BBB-
Hawaiian Electric-obligated preferred securities of trust subsidiary	*	Baa2	BB
Cumulative preferred stock (selected series)	*	Baa3	*
Senior unsecured debt	A-	Baa1	*
Subordinated debt	BBB	*	*
Outlook	Stable	Negative	Watch-Positive

* Not rated.

[1] Rated only for SPRB issued in 2015.

The above ratings reflect only the view, at the time the ratings are issued, of the applicable rating agency, from whom an explanation of the significance of such ratings may be obtained. Such ratings are not recommendations to buy, sell or hold any securities; such ratings may be subject to revision or withdrawal at any time by the rating agencies; and each rating should be evaluated independently of any other rating.

Management believes that, if Hawaiian Electric's commercial paper ratings were to be downgraded or if credit markets were to further tighten, it could be more difficult and/or expensive to sell commercial paper or secure other short-term borrowings. Similarly, management believes that if Hawaiian Electric's long-term credit ratings were to be downgraded, or if credit markets further tighten, it could be more difficult and/or expensive for DBF and/or the Company to sell SPRBs and other debt securities, respectively, for the benefit of the Utilities in the future. Such limitations and/or increased costs could materially adversely affect the results of operations, financial condition and liquidity of the Utilities.

SPRBs have been issued by the DBF to finance (and refinance) capital improvement projects of Hawaiian Electric and its subsidiaries, but the sources of their repayment are the non-collateralized obligations of Hawaiian Electric and its subsidiaries under loan agreements and notes issued to the DBF, including Hawaiian Electric's guarantees of its subsidiaries' obligations. The payment of principal and interest due on the Series 2007A and Refunding Series 2007B SPRBs are insured by Financial Guaranty Insurance Company (FGIC), which was placed in a rehabilitation proceeding in the State of New York in June 2012. On August 19, 2013 FGIC's plan of rehabilitation became effective and the rehabilitation proceeding terminated. The S&P and Moody's ratings of FGIC, which at the time the insured obligations were issued were higher than the ratings of the Utilities, have been withdrawn. Management believes that if Hawaiian Electric's long-term credit ratings were to be downgraded, or if credit markets further tighten, it could be more difficult and/or expensive to sell bonds in the future.

The PUC approved the use of an expedited approval procedure for the approval of long-term debt financings or refinancings (including the issuance of taxable debt) by the Utilities, up to specified amounts, during the period 2013 through 2015, subject to certain conditions. On October 3, 2013, after obtaining such expedited approvals, the Utilities issued, through a private placement, non-collateralized senior notes bearing taxable interest in an aggregate principal amount of $236 million.

In September 2014, the Utilities filed a request with the PUC under the expedited approval procedure for approval to issue unsecured obligations bearing taxable interest through December 31, 2015 of up to $80 million (Hawaiian Electric $50 million, Hawaii Electric Light $25 million and Maui Electric $5 million). In May 2015, the PUC approved the Utilities' request. On October 15, 2015, the Utilities issued, through a private placement, unsecured senior notes bearing taxable interest in the aggregate principal amount of $80 million. See Note 8 of the Consolidated Financial Statements.

In June 2015, the Utilities refiled with the PUC a letter request to refinance outstanding revenue bonds with refunding revenue bonds totaling $47 million. Following the PUC's approval of the Utilities' request, on December 15, 2015, the Department issued, at par, Refunding Series 2015 SPRBs in the aggregate principal amount of $47 million with a maturity of January 1, 2025. See Note 8 of the Consolidated Financial Statements.

In May 2015, up to $80 million of Special Purpose Revenue Bonds (SPRBs) ($70 million for Hawaiian Electric, $2.5 million for Hawaii Electric Light and $7.5 million for Maui Electric) were authorized by the Hawaii legislature for issuance, with PUC approval, prior to June 30, 2020 to finance the utilities' capital improvement programs.
In June 2015, Hawaiian Electric, Hawaii Electric Light and Maui Electric filed an application with the PUC for approval to issue and sell each utility's common stock in one or more sales in 2016 (Hawaiian Electric's sale to the owner at the time of each such sale of up to $330 million and Hawaii Electric Light's and Maui Electric's sales to Hawaiian Electric of up to $15

million and $45 million, respectively), and the purchase of the Hawaii Electric Light and Maui Electric common stock by Hawaiian Electric in 2016.

Cash flows from operating activities generally relate to the amount and timing of cash received from customers and payments made to third parties. Using the indirect method of determining cash flows from operating activities, noncash expense items such as depreciation and amortization, as well as changes in certain assets and liabilities, are added to (or deducted from) net income. In 2015 and 2014, net cash provided by operating activities increased by $26 million and decreased by $20 million, respectively, compared to the prior year. In 2015, noncash depreciation and amortization amounted to $186 million due to an increase in plant and equipment and deferred income taxes increased $76 million. Further, net cash provided by operating activities included a decrease of $64 million in accounts receivable and accrued unbilled revenues due largely to the decrease in customer bills as a result of lower fuel oil prices included in rates, a $35 million decrease in fuel oil stock, offset by a $55 million decrease in accounts payable due to the decrease in the fuel oil prices and timing of vendor payments. In 2014, noncash depreciation and amortization amounted to $176 million due to an increase in plant and equipment and deferred income taxes increased $83 million. Further, net cash provided by operating activities included a decrease of $33 million in accounts receivable and accrued unbilled revenues due to result of timing of customer payments, a $28 million decrease in fuel oil stock, offset by a $66 million decrease in accounts payable due to timing of vendor payments.

In 2015 and 2014, net cash used in investing activities increased by $15 million and decreased by $51 million, respectively, compared to the prior year. In 2015 and 2014, capital expenditures amounted to $350 million and $337 million, respectively, offset by contributions in aid of construction of $40 million and $42 million, respectively.

Financing activities provide supplemental cash for both day-to-day operations and capital requirements as needed. In 2015 and 2014, cash flows from financing activities changed by a positive $48 million and a negative $126 million, respectively, compared to the prior year. In 2015, cash used in financing activities consisted primarily of the payment of $92 million of common and preferred stock dividends offset by the proceeds received from the issuance of $80 million of taxable unsecured senior notes. In 2014, cash used in financing activities consisted primarily of the payment of $90 million of common and preferred stock dividends and the redemption of $11 million of special purpose revenue bonds, partially offset by net proceeds received from the issuance of $40 million of common stock.

For 2016, the Utilities forecast $450 million of net capital expenditures (including the purchase of HEP), which could change over time based upon external factors such as the timing and scope of environmental regulations, unforeseen delays in permitting and timing of PUC decisions. Proceeds from the issuance of equity and long-term debt, cash flows from operating activities, temporary increases in short-term borrowings and existing cash and cash equivalents are expected to provide the forecasted $450 million needed for the net capital expenditures in 2016 as well as to pay down commercial paper or other short-term borrowings, fund any unanticipated expenditures not included in the 2016 forecast such as increases in the costs or acceleration of the construction of capital projects, unanticipated capital expenditures that may be required by new environmental laws and regulations, unbudgeted acquisitions or investments in new businesses and significant increases in retirement benefit funding requirements.

Management periodically reviews capital expenditure estimates and the timing of construction projects. These estimates may change significantly as a result of many considerations, including changes in economic conditions, changes in forecasts of KWH sales and peak load, the availability of purchased power and changes in expectations concerning the construction and ownership of future generation units, the availability of generating sites and transmission and distribution corridors, the need for fuel infrastructure investments, the ability to obtain adequate and timely rate increases, escalation in construction costs, the effects of opposition to proposed construction projects and requirements of environmental and other regulatory and permitting authorities.

For a discussion of funding for the electric utilities' retirement benefits plans, see Notes 1 and 10 of the Consolidated Financial Statements and "Retirement benefits" above. The electric utilities were required to make contributions of $9 million for 2015, $56 million for 2014 and $61 million for 2013 to the qualified pension plans to meet minimum funding requirements pursuant to ERISA, including changes promulgated by the Pension Protection Act of 2006. The electric utilities made additional voluntary contributions in 2015, 2014 and 2013. Contributions by the electric utilities to the retirement benefit plans for 2015, 2014 and 2013 totaled $86 million, $59 million and $81 million, respectively, and are expected to total $64 million in 2016. In addition, the electric utilities paid directly $0.4 million of benefits in

2015, $1 million of benefits in 2014 and $1 million of benefits in 2013 and expect to pay $1 million of benefits in 2016. Depending on the performance of the assets held in the plans' trusts and numerous other factors, additional contributions may be required in the future to meet the minimum funding requirements of ERISA or to pay benefits to plan participants. The electric utilities believe they will have adequate cash flow or access to capital resources to support any necessary funding requirements.

Selected contractual obligations and commitments. The following table presents aggregated information about total payments due from the Utilities during the indicated periods under the specified contractual obligations and commitments:

December 31, 2015 (in millions)	Payments due by period				
	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Long-term debt	$—	$50	$96	$1,141	$1,287
Interest on long-term debt	64	128	126	793	1,111
Operating leases	8	10	6	10	34
Open purchase order obligations [1]	89	12	2	1	104
Fuel oil purchase obligations (estimate based on December 31, 2015 fuel oil prices)	245	4	—	—	249
Purchase power obligations-minimum fixed capacity charges	107	190	194	497	988
Liabilities for uncertain tax positions	—	4	—	—	4
Total (estimated)	$513	$398	$424	$2,442	$3,777

[1] Includes contractual obligations and commitments for capital expenditures and expense amounts.

The table above does not include other categories of obligations and commitments, such as deferred taxes, trade payables, amounts that will become payable in future periods under collective bargaining and other employment agreements and employee benefit plans and potential refunds of amounts collected from ratepayers (e.g., under the earnings sharing mechanism). As of December 31, 2015, the fair value of the assets held in trusts to satisfy the obligations of the Utilities' retirement benefit plans did not exceed the retirement benefit plans' benefit obligation. Minimum funding requirements for retirement benefit plans have not been included in the table above, but retirement benefit plan obligations, including estimated minimum required contributions for 2016 are discussed in the section "Retirement benefits" in Hawaiian Electric's MD&A and Note 10 of the Consolidated Financial Statements.

See Note 4 of the Consolidated Financial Statements for a discussion of fuel and power purchase commitments.

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

Clean energy initiatives and Renewable Portfolio Standards (RPS). The far-reaching nature of the Utilities' renewable energy commitments and the RPS goals presents risks to the Company. Among such risks are: (1) the dependence on third party suppliers of renewable purchased energy, which if the Utilities are unsuccessful in negotiating purchased power agreements with such IPPs or if a major IPP fails to deliver the anticipated capacity in its purchased power agreement, could impact the Utilities' achievement of their commitments to RPS goals and/or the Utilities' ability to deliver reliable service; (2) delays in acquiring or unavailability of non-fossil fuel supplies for renewable generation; (3) the impact of intermittent power to the electrical grid and reliability of service if appropriate supporting infrastructure is not installed or does not operate effectively; (4) the likelihood that the Utilities may need to make substantial investments in related infrastructure, which could result in increased borrowings and, therefore, materially impact the financial condition and liquidity of the Utilities; and (5) the commitment to support a variety of initiatives, which, if approved by the PUC, may have a material impact on the results of operations and financial condition of the Utilities depending on their design and implementation. These initiatives include, but are not limited to, removing the system-wide caps on net energy metering (but studying distributed generation interconnections on a per-circuit basis); and developing an Energy Efficiency Portfolio Standard. The implementation of these or other programs may adversely impact the results of operations, financial condition and liquidity of the Utilities.

Regulation of electric utility rates. The rates the electric utilities are allowed to charge for their services, and the timeliness of permitted rate increases, are among the most important items influencing their results of operations, financial condition and liquidity. The PUC has broad discretion over the rates the electric utilities charge and other matters. Any adverse decision by the PUC concerning the level or method of determining electric utility rates, the items and amounts permitted to be included in rate base, the authorized returns on equity or rate base found to be reasonable, the potential consequences of exceeding or not meeting such returns, or any prolonged delay in rendering a decision in a rate or other proceeding could have a material adverse effect on the Company's and Hawaiian Electric's consolidated results of operations, financial condition and liquidity. Upon a showing of probable entitlement, the PUC

is required to issue an interim D&O in a rate case within 10 months from the date of filing a completed application if the evidentiary hearing is completed (subject to extension for 30 days if the evidentiary hearing is not completed). There is no time limit for rendering a final D&O and interim rate increases are subject to refund with interest if the interim increase is greater than the increase approved in the final D&O.

Fuel oil and purchased power. The electric utilities rely on fuel oil suppliers and IPPs to deliver fuel oil and power, respectively. See “Fuel contracts” and “Power purchase agreements” in Note 4 of the Consolidated Financial Statements. The Company estimates that 67% of the net energy the Utilities generate and purchase in 2016 will be from the burning of fossil

fuel oil as compared to 70% in 2015. Purchased KWHs provided approximately 46%, 46% and 44% of the total net energy generated and purchased in 2015, 2014 and 2013, respectively.

Failure or delay by the electric utilities' oil suppliers and shippers to provide fuel pursuant to existing supply contracts, or failure by a major IPP to deliver the firm capacity anticipated in its PPA, could interrupt the ability of the electric utilities to deliver electricity, thereby materially adversely affecting the Company's results of operations and financial condition. Hawaiian Electric generally maintains an average system fuel inventory level equivalent to 47 days of forward consumption. Hawaii Electric Light and Maui Electric generally maintain an inventory level equivalent to one month's supply of both medium sulfur fuel oil and diesel fuel. Some, but not all, of the Utilities' PPAs require that the IPPs maintain minimum fuel inventory levels and all of the firm capacity PPAs include provisions imposing substantial penalties for failure to produce the firm capacity anticipated by those agreements.

Other operation and maintenance expenses. O&M expenses increased by 1% in 2015, 2% in 2014 and 1% in 2013 when compared to the prior year. O&M expenses (excluding expenses covered by surcharges or by third parties) increased by 1% each year for 2015, 2014 and 2013 when compared to the prior year. O&M expenses (excluding expenses covered by surcharges or by third parties) for 2016 are projected to be up to 5% lower than the 2015 level as 2015 included significant write-offs and reserves that are not expected to recur in 2016. In addition, the Utilities expect to realize the benefits of the cost management strategies that began in 2015.

Other regulatory and permitting contingencies. Many public utility projects require PUC approval and various permits (e.g., environmental and land use permits) from other agencies. Delays in obtaining PUC approval or permits can result in increased costs. If a project does not proceed or if the PUC disallows costs of the project, the project costs may need to be written off in amounts that could have a material adverse effect on the Company. For example, two major capital improvement utility projects, the Keahole project (consisting of CT-4, CT-5 and ST-7) and the East Oahu Transmission Project (EOTP), encountered opposition and were seriously delayed before being placed in service, with a writedown being required for both the Keahole and EOTP projects in 2007 and 2011, respectively. More recently, the Utilities and the Consumer Advocate signed a settlement agreement, subject to approval by the PUC, to write off $40 million of costs in 2012 in lieu of conducting the regulatory audits of the CIP CT-1 and the CIS projects. See Note 4 of the Consolidated Financial Statements for a discussion of additional regulatory contingencies.

Competition. Although competition in the generation sector in Hawaii is moderated by the scarcity of generation sites, various permitting processes and lack of interconnections to other electric utilities, the PUC has promoted a more competitive electric industry environment through its decisions concerning competitive bidding and distributed generation (DG). An increasing amount of generation is provided by IPPs and customer distributed generation.

Competitive bidding. In December 2006, the PUC issued a decision that included a final competitive bidding framework, which became effective immediately. The final framework states, among other things, that: (1) a utility is required to use competitive bidding to acquire a future generation resource or a block of generation resources unless the PUC finds bidding to be unsuitable; (2) the framework does not apply in certain situations identified in the framework; (3) waivers from competitive bidding for certain circumstances will be considered; (4) the utility is required to select an independent observer from a list approved by the PUC whenever the utility or its affiliate seeks to advance a project proposal (i.e., in competition with those offered by bidders); (5) the utility may consider its own self-bid proposals in response to generation needs identified in its RFP; and (6) for any resource to which competitive bidding does not apply (due to waiver or exemption), the utility retains its traditional obligation to offer to purchase capacity and energy from a Qualifying Facility (QF) at avoided cost upon reasonable terms and conditions approved by the PUC.

The Kalaeloa Solar Two photovoltaic energy PPA and the Kawailoa Wind windfarm PPA are two renewable projects that resulted from Hawaiian Electric's Renewable Energy RFP under the Competitive Bidding Framework.

The Utilities received PUC approval for exemptions from the competitive framework to negotiate modifications to existing PPAs that generate electricity from renewable resources, including the City & County of Honolulu's HPower facility expansion and the Puna Geothermal Venture geothermal facility expansion. Also, certain renewable energy projects were "grandfathered" from the competitive bidding process, including the Kahuku Wind Power, Auwahi Wind Energy LLC, and Kaheawa Wind Power II wind farms. The PUC can also grant waivers to renewable energy projects that are not exempt from the Competitive Bidding Framework.

Distributed generation. In January 2006, the PUC issued a D&O indicating that its policy is to promote the development of a market structure that assures DG is available at the lowest feasible cost, DG that is economical and reliable has an opportunity to come to fruition and DG that is not cost-effective does not enter the system. The D&O affirmed the ability of the Utilities to procure and operate DG for utility purposes at utility sites. The PUC also indicated its desire to promote the development of a competitive market for customer-sited DG. The D&O allows the utility to provide DG services on a

customer-owned site as a regulated service when (1) the DG resolves a legitimate system need, (2) the DG is the lowest cost alternative to meet that need and (3) it can be shown that, in an open and competitive process acceptable to the PUC, the customer operator was unable to find another entity ready and able to supply the proposed DG service at a price and quality comparable to the utility's offering.

Environmental matters. The Utilities' generating stations operate under air pollution control permits issued by the Hawaii Department of Health (DOH) and, in a limited number of cases, by the federal Environmental Protection Agency (EPA). Hawaii law requires an environmental assessment for proposed waste-to-energy facilities, landfills, oil refineries, power-generating facilities greater than 5 MW and wastewater facilities, except individual wastewater systems. Meeting this requirement for environmental assessments results in increased project costs.

The 1990 amendments to the Clean Air Act (CAA), changes to the National Ambient Air Quality Standard (NAAQS) for ozone and adoption of a NAAQS for fine particulate matter resulted in substantial changes for the electric utility industry such as the installation of additional emissions controls, retirements of older generating units and switches to lower-emissions fuels. Further, significant impacts may occur under newly adopted rules (e.g., one-hour NAAQS for sulfur dioxide and nitrogen dioxide; control of GHGs under the GHG PSD Rule; and the Clean Power Plan, which currently exempts non-continental electric utilities); under rules deemed applicable to the Utilities' facilities (e.g., the Regional Haze Rule); or if new legislation, rules or standards are adopted in the future. Similarly, the rules governing cooling water intakes may significantly impact Hawaiian Electric's steam generating facilities on Oahu.

Management believes that the recovery through rates of most, if not all, of any costs incurred by the Utilities in complying with environmental requirements would be allowed by the PUC, but no assurance can be given that this will in fact be the case. In addition, there can be no assurance that a significant environmental liability will not be incurred by the Utilities or that the related costs will be recoverable through rates. See "Environmental regulation" in Note 4 of the Consolidated Financial Statements.

Technological developments. New technological developments (e.g., the commercial development of energy storage, fuel cells, DG and generation from renewable sources) may impact the Utilities' future competitive position, results of operations, financial condition and liquidity.

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

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

The Utilities evaluate the impact of applying lease accounting standards to their new PPAs, PPA amendments and other arrangements they enter into. A possible outcome of the evaluation is that an arrangement results in its classification as a capital lease, which could have a material effect on Hawaiian Electric's consolidated balance sheet if a significant amount of capital assets of the IPP and lease obligations needed to be recorded.

Management believes that the PUC will allow recovery of property, plant and equipment in its electric rates. If the PUC does not allow recovery of any such costs, the electric utility would be required to write off the disallowed costs at that time. See the discussion under "Utility projects" in Note 4 of the Consolidated Financial Statements concerning costs of major projects that have not yet been approved for inclusion in the applicable utility's rate base.

Regulatory assets and liabilities. The Utilities are regulated by the PUC. In accordance with accounting standards for regulatory operations, the Company's financial statements reflect assets, liabilities, revenues and costs of the Utilities based on current cost-based rate-making regulations. The actions of regulators can affect the timing of recognition of revenues, expenses, assets and liabilities.

Regulatory liabilities represent amounts collected from customers for costs that are expected to be incurred in the future. Regulatory assets represent incurred costs that have been deferred because their recovery in future customer rates is probable. As of December 31, 2015, the consolidated regulatory liabilities and regulatory assets of the Utilities

amounted to $372 million and $897 million, respectively, compared to $345 million and $905 million as of December 31, 2014, respectively. Regulatory liabilities and regulatory assets are itemized in Note 4 of the Consolidated Financial Statements. Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable

regulatory environment. Because current rates include the recovery of regulatory assets existing as of the last rate case and rates in effect allow the Utilities to earn a reasonable rate of return, management believes that the recovery of the regulatory assets as of December 31, 2015 is probable. This determination assumes continuation of the current political and regulatory climate in Hawaii, and is subject to change in the future.

Management believes that the operations of the Utilities currently satisfy the criteria for regulatory accounting. If events or circumstances should change so that those criteria are no longer satisfied, the Utilities expect that their regulatory assets, net of regulatory liabilities, would be charged to the statement of income in the period of discontinuance, which may result in a material adverse effect on the Company's results of operations, financial condition and liquidity.

Revenues. Electric utility revenues are based on rates authorized by the PUC and include revenues applicable to energy consumed in the accounting period, but not yet billed to customers, and RBA revenues or refunds for the difference between PUC-approved target revenues and recorded adjusted revenues, which delinks revenues from kilowatthour sales. As of December 31, 2015, revenues applicable to energy consumed, but not yet billed to customers, amounted to $96 million and the RBA revenues recognized in 2015 amounted to $62 million.

Revenue amounts recorded pursuant to a PUC interim order are subject to refund, with interest, pending a final order. The rate schedules of the Utilities include ECACs under which electric rates are adjusted for changes in the weighted-average price paid for fuel oil and certain components of purchased power, and the relative amounts of company-generated power and purchased power. The rate schedules of the Utilities also include PPACs under which electric rates are more closely aligned with purchase power costs incurred. Management believes that a material adverse effect on the Company’s results of operations, financial condition and liquidity may result if the ECACs, PPACs or RBAs were lost or adversely modified.

Consolidation of variable interest entities. A business enterprise must evaluate whether it should consolidate a variable interest entity (VIE). The Company evaluates the impact of applying accounting standards for consolidation to its relationships with IPPs with whom the Utilities execute new PPAs or execute amendments of existing PPAs. A possible outcome of the analysis is that Hawaiian Electric or its subsidiaries may be found to meet the definition of a primary beneficiary of a VIE which finding may result in the consolidation of the IPP in the Consolidated Financial Statements. The consolidation of IPPs could have a material effect on the Consolidated Financial Statements, including the recognition of a significant amount of assets and liabilities, and, if such a consolidated IPP were operating at a loss and had insufficient equity, the potential recognition of such losses. The Utilities do not know how the consolidation of IPPs would be treated for regulatory or credit ratings purposes. See Notes 1 and 6 of the Consolidated Financial Statements.

Bank

Executive overview and strategy. When ASB was acquired by HEI in 1988, it was a traditional thrift with assets of $1 billion and net income of about $13 million. ASB has grown by both acquisition and internal growth, but has been optimizing its balance sheet in recent years as a result of its multi-year performance improvement project, which has resulted in a reduction in asset size and a concomitant improvement in profitability and capital efficiency. ASB ended 2015 with assets of $6.0 billion and net income of $55 million, compared to assets of $5.6 billion as of December 31, 2014 and net income of $51 million in 2014.

ASB is a full-service community bank serving both consumer and commercial customers. In order to remain competitive and continue building core franchise value, ASB continues to develop and introduce new products and services in order to meet the needs of those markets such as mobile banking. Additionally, the banking industry is constantly changing and ASB is making the investments in people and technology necessary to adapt and remain competitive. ASB's ongoing challenge is to continue to increase revenues and control expenses.

The interest rate environment and the quality of ASB's assets will continue to impact its financial results.

ASB continues to face a challenging interest rate environment. The persistent, low level of interest rates and excess liquidity in the financial system have impacted new loan production rates and made it challenging to find investments with adequate risk-adjusted returns, which resulted in a negative impact on ASB's asset yields and net interest margin. The potential for compression of ASB's margin when interest rates rise is an ongoing concern.

As part of its interest rate risk management process, ASB uses simulation analysis to measure net interest income sensitivity to changes in interest rates (see "Quantitative and Qualitative Disclosures about Market Risk"). ASB then employs strategies to limit the impact of changes in interest rates on net interest income. ASB's key strategies include:

1. attracting and retaining low-cost, core deposits, particularly those in non-interest bearing transaction accounts; reducing the overall exposure to fixed-rate residential mortgage loans and diversifying the loan portfolio with
2. higher-spread, shorter-maturity loans and/or variable-rate loans such as commercial, commercial real estate and consumer loans;
3. managing costing liabilities to optimize cost of funds and manage interest rate sensitivity; and
4. focusing new investments on shorter duration or variable rate securities.

ASB's loan quality remained strong in 2015 as a result of stabilized or increasing property values, more financial flexibility of borrowers, and overall general economic improvement in the state of Hawaii. ASB's annualized net charge-offs as a percentage of total average loans was 0.04% for 2015 compared to 0.01% for 2014. ASB's provision for loan losses for 2015 was $6.3 million compared to $6.1 million for 2014 primarily due to loan loss reserves needed for growth in the loan portfolio.

Effective July 2013, ASB became non-exempt from the Durbin Amendment to the Dodd-Frank Act which resulted in lower debit card interchange fees. For 2015, 2014 and 2013, the estimated net income impact of the lower debit card interchange fees was $6 million, $6 million and $3 million, respectively. If the Spin-off of ASB occurs as contemplated by the Merger Agreement, ASB expects to be exempt from the Durbin Amendment.

Results of operations.
2015 vs. 2014

(in millions)	2015	2014	Increase (decrease)	Primary reason(s)
Interest income	$200	$191	$9	The impact of higher average earning asset balances was partly offset by lower yields on earning assets. ASB's average loan portfolio balance for 2015 was $213 million higher than 2014 as the average commercial real estate, residential, HELOC and commercial loan balances increased by $111 million, $40 million, $37 million and $15 million, respectively. The growth in these loan portfolios was consistent with ASB's portfolio mix targets and loan growth strategy. The loan portfolio yield continued to be impacted by the interest rate environment as new loan production yields were lower than the average portfolio yield. The average investment and mortgage-related securities portfolio balance increased by $150 million as ASB purchased investments with liquidity in excess of loan growth funding.
Noninterest income	67	61	6	Higher noninterest income was due to an increase in gain on sale of loans as loan sales increased by $119 million as a result of ASB's decision to sell a larger portion of its low rate residential loan production, higher deposit related fee initiatives and gains on sales of real estate and mortgage servicing rights. 2014 noninterest income included the gain on sale of the municipal bond portfolio with no similar security sales in 2015.
Revenues	267	252	15	
Interest expense	12	11	1	Higher interest expense was due to an increase in average interest-bearing liabilities. Average deposit balances for 2015 increased by $293 million compared to 2014 due to an increase in core deposits and term certificates of $279 million and $14 million, respectively. The other borrowings average balance increased by $64 million due to an increase in public repurchase agreements.
Provision for loan losses	6	6	—	The provision for loan losses for 2015 and 2014 were used primarily to establish loan loss reserves for the growth in the loan portfolio and cover net loan charge-offs. The provision for loan losses in 2015 also included higher reserve levels for the commercial loan portfolio.
Noninterest expense	166	156	10	Higher noninterest expense was primarily due to higher compensation and benefits expense as a result of an increase in retail delivery compensation cost, higher performance-based incentive cost and higher benefits expenses related to the frozen defined benefit plan and medical insurance premium costs.

Expenses	184		173		11	
Operating income	83		79		4	Higher interest and noninterest income, partly offset by higher noninterest expenses.
Net income	55		51		4	Higher operating income, partly offset by higher taxes.
Return on average common equity [1]	9.9	%	9.6	%	0.3	%

2014 vs. 2013

(in millions)	2014	2013	Increase (decrease)	Primary reason(s)
Interest income	$191	$186	$5	The impact of higher average earning asset balances was partly offset by lower yields on earning assets. ASB's average loan portfolio balance for 2014 was $327 million higher than 2013 as the average HELOC, residential, commercial real estate and commercial loan balances increased by $110 million, $53 million, $116 million and $57 million, respectively. The growth in these loan portfolios was consistent with ASB's portfolio mix targets and loan growth strategy. The loan portfolio yield continued to be impacted by the interest rate environment as new loan production yields were lower than the average portfolio yield. The average investment and mortgage-related securities portfolio balance decreased by $51 million as ASB sold its $79 million municipal bond portfolio. ASB used excess liquidity to fund the loan growth.
Noninterest income	61	72	(11)	Lower debit card interchange fees as a result of ASB being non-exempt from the Durbin Amendment and lower mortgage banking income as a result of a slowdown in refinance activity. 2013 noninterest income included the gain from the sale of the credit card portfolio of $2.3 million.
Revenues	252	258	(6)	
Interest expense	11	10	1	The impact of higher average interest-bearing liabilities was partly offset by lower rates resulting from the low interest rate environment. Average deposit balances for 2014 increased by $224 million compared to 2013 due to an increase in core deposits of $243 million, partly offset by a decrease in term certificates of $19 million. Also, the other borrowings average balance increased by $44 million.
Provision for loan losses	6	1	5	Loan loss reserves established for the growth in the loan portfolio. The 2013 provision for loan losses included the release of loan loss reserves related to the sale of ASB's credit card portfolio.
Noninterest expense	156	158	(2)	Higher printing expenses as the printing function was outsourced beginning in the fourth quarter of 2013 and additional consulting expenses for ASB's mobile banking product and technology security, offset by lower compensation and benefits expense related to the frozen defined benefit plan and lower payroll taxes.
Expenses	173	169	4	
Operating income	79	89	(10)	Lower noninterest income.
Net income	51	58	(7)	Lower operating income, partly offset by lower taxes.
	9.6%	11.4%	(1.8)%	

Return on average
common equity [1]

[1] Calculated using the average daily balances.

See Note 5 of the Consolidated Financial Statements for a discussion of guarantees and further information about ASB.

Average balance sheet and net interest margin. The following table provides a summary of our consolidated average balances including major categories of interest-earning assets and interest-bearing liabilities:

	2015			2014			2013		
(dollars in thousands)	Average balance	Interest[1] income/ expense	Yield/ rate (%)	Average balance	Interest[1] income/ expense	Yield/ rate (%)	Average balance	Interest[1] income/ expense	Yield/ rate (%)
Assets:									
Other investments [2]	$157,014	$471	0.30	$171,142	$ 310	0.18	$170,695	$ 239	0.14
Securities purchased under resale agreements	—	—	—	5,096	20	0.39	11,370	43	0.38
Available-for-sale investment securities									
Taxable	687,215	14,649	2.13	525,949	11,336	2.16	519,220	11,192	2.16
Non-taxable	—	—	—	11,600	429	3.69	69,377	2,494	3.60
Total available-for-sale investment securities	687,215	14,649	2.13	537,549	11,765	2.19	588,597	13,686	2.33
Loans									
Residential 1-4 family	2,064,170	89,933	4.36	2,023,816	90,591	4.48	1,970,918	93,293	4.73
Commercial real estate	669,184	26,558	3.97	557,924	23,904	4.28	441,734	19,547	4.42
Home equity line of credit	828,129	26,511	3.20	790,701	25,716	3.25	680,445	20,442	3.00
Residential land	17,304	1,101	6.36	16,276	1,106	6.79	20,985	1,308	6.23
Commercial	798,182	29,282	3.67	783,670	29,294	3.74	726,597	29,188	4.02
Consumer	119,267	11,397	9.56	110,440	8,730	7.90	114,871	9,191	8.00
Total loans [3,4]	4,496,236	184,782	4.11	4,282,827	179,341	4.19	3,955,550	172,969	4.37
Total interest-earning assets	5,340,465	199,902	3.74	4,996,614	191,436	3.83	4,726,212	186,937	3.96
Allowance for loan losses	(46,881)			(42,242)			(42,114)		
Non-interest-earning assets	490,187			459,513			425,238		
Total Assets	$5,783,771			$5,413,885			$5,109,336		
Liabilities and Stockholder's Equity:									
Savings	$1,980,151	1,257	0.06	$1,879,373	1,134	0.06	$1,805,363	1,052	0.06
Interest-bearing checking	782,811	139	0.02	738,651	126	0.02	665,941	106	0.02
Money market	164,568	205	0.12	171,889	214	0.12	182,343	232	0.13
Time certificates	449,179	3,747	0.83	434,934	3,603	0.83	454,021	3,702	0.82
Total interest-bearing deposits	3,376,709	5,348	0.16	3,224,847	5,077	0.16	3,107,668	5,092	0.16
Advances from Federal Home Loan Bank	100,438	3,146	3.13	100,389	3,146	3.13	64,630	2,432	3.76
Securities sold under agreements to repurchase	219,351	2,832	1.29	155,012	2,585	1.67	146,758	2,553	1.74
Total interest-bearing liabilities	3,696,498	11,326	0.31	3,480,248	10,808	0.31	3,319,056	10,077	0.30

Non-interest bearing liabilities:			
Deposits	1,426,962	1,285,964	1,179,559
Other	109,386	113,401	105,802
Stockholder's equity	550,925	534,272	504,919
Total Liabilities and Stockholder's Equity	$5,783,771	$5,413,885	$5,109,336
Net interest income	$188,576	$ 180,628	$ 176,860
Net interest margin (%)[5]	3.53	3.62	3.74

1 Interest income includes taxable equivalent basis adjustments, based upon a federal statutory tax rate of 35%, of $nil, $0.2 million and $0.9 million for 2015, 2014 and 2013, respectively.

2 Includes federal funds sold, interest bearing deposits and stock in the Federal Home Loan Bank ($32 million, $83 million and $95 million as of December 31, 2015, 2014 and 2013, respectively).

3 Includes loans held for sale, at lower of cost or fair value, of $5.6 million, $3.1 million and $8.1 million as of December 31, 2015, 2014 and 2013, respectively.

4 Includes recognition of net deferred loan fees of $2.7 million, $3.7 million and $5.2 million for 2015, 2014 and 2013, respectively, together with interest accrued prior to suspension of interest accrual on nonaccrual loans.

5 Defined as net interest income, on a fully taxable equivalent basis, as a percentage of average total interest-earning assets.

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

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

Loan portfolio. ASB's loan volumes and yields are affected by market interest rates, competition, demand for financing, availability of funds and management's responses to these factors. See Note 5 of the Consolidated Financial Statements for the composition of ASB's loans receivable.

The increase in the total loan portfolio from $4.4 billion at the end of 2014 to $4.6 billion at the end of 2015 was primarily due to growth in the commercial real estate, HELOC and residential 1-4 family loan portfolios, which was consistent with ASB's portfolio mix targets and loan growth strategy.

Home equity — key credit statistics.

December 31	2015	2014
Outstanding balance (in thousands)	$846,294	$818,815
Percent of portfolio in first lien position	42.9 %	40.9 %
Net charge-off ratio	0.02 %	(0.07)%
Delinquency ratio	0.25 %	0.25 %

			End of draw period – interest only			
December 31, 2015	Total	Interest only	2015-2016	2017-2019	Thereafter	Current amortizing
Outstanding balance (in thousands)	$846,294	$650,613	$137	$128,882	$521,594	$195,681
% of total	100 %	77 %	— %	15 %	62 %	23 %

The home equity line of credit (HELOC) portfolio makes up 18% of the total loan portfolio and is generally an interest-only revolving loan for a 10-year period, after which time the HELOC outstanding balance converts to a fully amortizing variable rate term loan with a 20-year amortization period. This product type comprises 96% of the total HELOC portfolio and is the current product offering. Within this product type, borrowers also have a "Fixed Rate Loan Option" to convert a part of their available line of credit into a 5, 7 or 10-year fully amortizing fixed rate loan with level principal and interest payments. As of December 31, 2015, approximately 19% of the portfolio balances were amortizing loans under the Fixed Rate Loan Option. Nearly all originations prior to 2008 consisted of amortizing equity lines that have structured principal payments during the draw period. These older vintage equity lines represent 4% of the portfolio and are included in the amortizing balances identified in the table above.

Loan portfolio risk elements. When a borrower fails to make a required payment on a loan and does not cure the delinquency promptly, the loan is classified as delinquent. If delinquencies are not cured promptly, ASB normally commences a collection action, including foreclosure proceedings in the case of secured loans. In a foreclosure action, the property securing the delinquent debt is sold at a public auction in which ASB may participate as a bidder to protect its interest. If ASB is the successful bidder, the property is classified as real estate owned until it is sold.

See "Allowance for loan losses" in Note 5 of the Consolidated Financial Statements for information with respect to nonperforming assets. The level of nonperforming loans has continued to decrease with the improving Hawaii economy.

Allowance for loan losses. See "Allowance for loan losses" in Note 5 of the Consolidated Financial Statements for the tables which sets forth the allocation of ASB's allowance for loan losses. For 2015, the allowance for loan losses increased by $4.4 million primarily due to loan loss reserves for the growth in the loan portfolio and an increase in commercial loan loss reserves.

Available-for sale investment securities. ASB's investment portfolio was comprised as follows:

December 31	2015		2014	
(dollars in thousands)	Balance	% of total	Balance	% of total
U.S. Treasury and federal agency obligations	$212,959	26 %	$119,560	22 %
Mortgage-related securities — FNMA, FHLMC and GNMA	607,689	74	430,834	78
Total available-for-sale investment securities	$820,648	100 %	$550,394	100 %

Principal and interest on mortgage-related securities issued by Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) are guaranteed by the issuer and, in the case of GNMA, backed by the full faith and credit of the U.S. government. U.S. Treasury securities are also backed by the full faith of the U.S. government. The increase in investment securities was due to the purchase of federal agency obligations and mortgage-related securities with excess liquidity.

The net unrealized losses on ASB's investment securities were primarily caused by movements in interest rates. All contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Based upon ASB's evaluation at December 31, 2015 and 2014, there was no indicated impairment as the bank expects to collect the contractual cash flows for these investments. See "Investment securities" in Note 1 for a discussion of securities impairment assessment.

As of December 31, 2015, 2014 and 2013, ASB did not have any private-issue mortgage-related securities.

Deposits and other borrowings. Deposits continue to be the largest source of funds for ASB and are affected by market interest rates, competition and management's responses to these factors. Deposit retention and growth will remain challenging in the current environment due to competition for deposits and the low level of short-term interest rates. Advances from the FHLB of Des Moines and securities sold under agreements to repurchase continue to be additional sources of funds. As of December 31, 2015 and 2014, ASB's costing liabilities consisted of 94% deposits and 6% other borrowings. See Note 5 of the Consolidated Financial Statements for the composition of ASB's deposit liabilities and other borrowings.

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

As of December 31, 2015 and 2014, ASB had an unrealized loss, net of taxes, on available-for-sale investment securities (including securities pledged for repurchase agreements) in AOCI of $1.9 million compared to an unrealized gain, net of taxes, of $0.5 million as of December 31, 2014. See "Quantitative and qualitative disclosures about market risk."

Legislation and regulation. ASB is subject to extensive regulation, principally by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC). Depending on ASB's level of regulatory capital and other considerations, these regulations could restrict the ability of ASB to compete with other institutions and to pay dividends to its shareholder. See the discussion below under "Liquidity and capital resources." Also see "Federal Deposit Insurance Corporation restoration plan" and "Deposit insurance coverage" in Note 5 of the Consolidated Financial Statements.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Regulation of the financial services industry, including regulation of HEI, ASB Hawaii 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, ASB Hawaii and ASB, under the Dodd-Frank Act, on July 21, 2011, all of the functions of the Office of Thrift Supervision (OTS) transferred to the OCC, the FDIC, the Federal Reserve Board (FRB) and the Consumer Financial Protection Bureau (Bureau). Supervision and regulation of HEI and ASB Hawaii, as thrift holding companies, moved to the FRB, and supervision and regulation of ASB, as a federally chartered savings bank, moved to the OCC. While the laws and regulations applicable to HEI and ASB did not generally change, the applicable laws and regulations are being interpreted, and new and amended regulations may be adopted, by the FRB, OCC and the Bureau. In addition, HEI will continue to be required to serve as a source of strength to ASB in the event of its financial distress. If the Spin-Off of ASB Hawaii

occurs as contemplated by the Merger Agreement, HEI (or its successor) will no longer be required to serve as a source of strength to ASB. The Dodd-Frank Act also imposes new restrictions on the ability of a savings bank to pay dividends should it fail to remain a qualified thrift lender.

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

The Dodd-Frank Act established the Bureau. It has authority to prohibit practices it finds to be unfair, deceptive or abusive, and it may also issue rules requiring specified disclosures and the use of new model forms. On January 10, 2013, the Bureau issued the Ability-to-Repay rule which closed for comment on February 25, 2013. For mortgages, under the proposed Ability-to-Repay rule, among other things, (i) potential borrowers will have to supply financial information, and lenders must verify it, (ii) to qualify for a particular loan, a consumer will have to have sufficient assets or income to pay back the loan, and (iii) lenders will have to determine the consumer's ability to repay both the principal and the interest over the long term - not just during an introductory period when the rate may be lower.
ASB may also be subject to new state regulation because of a provision in the Dodd-Frank Act that acknowledges that a federal savings bank may be subject to state regulation and allows federal law to preempt a state consumer financial law on a "case by case" basis only when (1) the state law would have a discriminatory effect on the bank compared to that on a bank chartered in that state; (2) the state law prevents or significantly interferes with a bank's exercise of its power; or (3) the state law is preempted by another federal law.
The Dodd-Frank Act also adopts a number of provisions that will impact the mortgage industry, including the imposition of new specific duties on the part of mortgage originators (such as ASB) to act in the best interests of consumers and to take steps to ensure that consumers will have the capability to repay loans they may obtain, as well as provisions imposing new disclosure requirements and requiring appraisal reforms.
Also, the Dodd-Frank Act directs the Bureau to publish rules and forms that combine certain disclosures that consumers receive in connection with applying for and closing on a mortgage loan under the Truth in Lending Act and the Real Estate Settlement Procedures Act. Consistent with this requirement, the Bureau amended Regulation X (Real Estate Settlement Procedures Act) and Regulation Z (Truth in Lending) to establish new disclosure requirements and forms in Regulation Z for most closed-end consumer credit transactions secured by real property. In addition to combining the existing disclosure requirements and implementing new requirements, the final rule provides extensive guidance regarding compliance with those requirements. This rule was effective October 3, 2015.
The "Durbin Amendment" to the Dodd-Frank Act required the FRB to issue rules to ensure that debit card interchange fees are "reasonable and proportional" to the processing costs incurred. In June 2011, the FRB issued a final rule establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. Under the final rule, effective October 1, 2011, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction is 21-24 cents, depending on certain components. Financial institutions and their affiliates that have less than $10 billion in assets are exempt from this Amendment; however, on July 1, 2013, ASB became non-exempt as the consolidated assets of HEI exceeded $10 billion. The debit card interchange fees received by ASB have been lower as a result of the application of this Amendment.
Final Capital Rules. On July 2, 2013, the FRB finalized its rule implementing the Basel III regulatory capital framework. The final rule would apply to banking organizations of all sizes and types regulated by the FRB and the OCC, except bank holding companies subject to the FRB's Small Bank Holding Company Policy Statement and Savings & Loan Holding Companies (SLHCs) substantially engaged in insurance underwriting or commercial activities. HEI currently meets the requirements of the exemption as a top-tier grandfathered unitary SLHC that derived, as of June 30 of the previous calendar year, either 50% or more of its total consolidated assets or 50% or more of its total revenues on an enterprise-wide basis (calculated under GAAP) from activities that are not financial in nature pursuant to Section 4(k) of the Bank Holding Company Act. The FRB is temporarily excluding these SLHCs from the final rule while it considers a proposal relating to capital and other requirements for SLHC intermediate holding companies (such as ASB Hawaii). The FRB indicated that it would release a proposal on intermediate holding companies that would specify the criteria for establishing and transferring activities to intermediate holding companies and propose to apply the FRB's capital requirements to such intermediate holding companies. The FRB has not yet issued such a proposal, or a proposal on how to apply the Basel III capital rules to SLHCs that are substantially engaged in commercial or insurance underwriting activities, such as grandfathered unitary SLHCs like HEI.
Pursuant to the final rule and consistent with the proposals, all banking organizations, including covered holding companies, would initially be subject to the following minimum regulatory capital requirements: a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6%, a total capital ratio of 8% of risk-weighted assets and a tier 1 leverage ratio of 4%, and these requirements would increase in subsequent years. In order to avoid restrictions on

capital distributions and discretionary bonus payments to executive officers, the final rule requires a banking organization to hold a buffer of common equity tier 1 capital above its minimum capital requirements in an amount greater than 2.5% of total risk-weighted assets (capital conservation buffer). In addition, a countercyclical capital buffer would expand the capital conservation buffer by up to 2.5% of a banking organization's total risk-weighted assets for advanced approaches banking organizations. The final rule would establish qualification criteria for common equity, additional tier 1 and tier 2 capital instruments that help to ensure their ability to absorb losses. All banking organizations would be required to calculate risk-weighted assets under the standardized approach, which harmonizes the banking agencies' calculation of risk-weighted assets and address shortcomings

in capital requirements identified by the agencies. The phased-in effective dates of the capital requirements under the final rule are:

Minimum Capital Requirements										
Effective dates	1/1/2015		1/1/2016		1/1/2017		1/1/2018		1/1/2019	
Capital conservation buffer			0.625	%	1.25	%	1.875	%	2.50	%
Common equity Tier 1 ratio + conservation buffer	4.50	%	5.125	%	5.75	%	6.375	%	7.00	