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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third-quarter Hawaiian Electric Industries, Inc., earnings conference call. My name is Marissa and I will be your operator for today.

At this time all participants analyst are in listen-only mode. We will facilitate a question-and-answer session towards the end of today's conference. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

I would now like to turn this conference over to your host for today's call, Mrs. Shelee Kimura, Manager of Investor Relations and Strategic Planning. You may proceed.

Shelee Kimura  
Hawaiian Electric Industries, Inc. - Manager IR & Strategic Planning

Thank you, Marissa, and welcome, everyone to Hawaiian Electric Industries' third-quarter 2010 earnings conference call. I am Shelee Kimura, and joining me today are Connie Lau, HEI President and Chief Executive Officer; Jim Ajello, HEI Senior Financial Vice President, Treasurer, and Chief Financial Officer; and Dick Rosenblum, Hawaiian Electric Company President and Chief Executive Officer; as well as other members of senior management.

In today's presentation management will be using non-GAAP financial measures to describe the Bank's operating performance. Our press release and our slides and appendices accompanying this webcast, which are posted on our investor relations website, contain additional disclosures regarding these non-GAAP measures including reconciliation of these measures to the equivalent GAAP measures.

Forward-looking statements will also be made on today's call. Please reference the accompanying disclosure to the webcast slides located on our website.

I will now turn the call over to Connie Lau.
Aloha, everyone, and mahalo. Thank you for joining us today.

First I will provide a few highlights for the quarter and discuss our strategic progress, particularly with respect to our new utility regulatory model. Then Jim will provide more detail on the numbers and economic conditions.

Third-quarter earnings were $0.35 per share compared to $0.37 per share in the same quarter last year, with the decline coming from our utility operations and substantially offset by profitability improvements in our banking operations. Here on slide 3 we highlight the primary earnings drivers for the third quarter 2010 relative to the same quarter last year.

I will provide some color on just a few items. At the utility, rate relief from constructive regulatory outcomes over the last year contributed to third-quarter earnings; but it was largely offset by lower weather-driven sales. O&M is higher, but we are running at a lower rate than originally projected due to cost-management actions.

At the Bank, we saw significant improvement over last year from our efforts to lower operating expenses. And unlike the same quarter last year, the Bank had no other-than-temporary impairment charges since we liquidated our private-issue mortgage-related securities in the fourth quarter of last year.

Provision for loan losses was not a big part of the story this quarter, as it remained in the range of our expectations and was only slightly higher than the same quarter last year. While our credit has remained relatively strong throughout the cycle, we expect earnings will benefit from lower provisions in the future as the economy strengthens, although this improvement will likely occur more slowly since consensus expectations for a recovery have extended.

Turning to strategic progress on slide 4, at the utility, the Hawaii PUC's final decision approving decoupling on August 31 was a significant milestone in the evolution of our utilities' business model and our role in Hawaii's clean energy future. The final decision largely mirrored the joint proposed D&O submitted by the utilities and the Consumer Advocate in March 2010, but left open the implementation timeline and changes in our expectation of the allowed ROE.

Our earlier expectation for a more rapid implementation of decoupling was based on the joint proposed D&O filed earlier this year with the Commission, which would have had decoupling for our largest utility implemented retroactively in 2010. The order indicates that decoupling will be implemented prospectively for each utility when an interim or final D&O in the utilities' pending rate cases is issued by the PUC and reflects a reduced rate of return due to decoupling.

As we phase in implementation of sales decoupling and the revenue adjustment mechanisms for O&M and plant additions for each of our three utilities, we expect to narrow the gap between our earned and allowed rates of return.

On slide 5 we show our rate case schedule. Although there are uncertainties in the implementation timeline, there are clearly identified opportunities at which decoupling may be implemented for each utility. We expected an interim decision in the HELCO rate case this month and, based on the settlement agreement, decoupling could go into effect for HELCO with interim rates. This would be the first opportunity for one of our utilities to implement decoupling. Our stipulated agreement with the Consumer Advocate includes an ROE of 10 1/8% with decoupling.

The Commission could use the pending 2009 final HECO Oahu rate case decision to implement decoupling for HECO. If this decision is not received by June of next year, the 2011 HECO rate case interim decision, which has a statutory deadline of July 2011, would likely be the implementing decision for Oahu.

Maui electric is in a similar situation as it awaits its 2010 final. Its next rate case is expected to be a 2012 test year.
Again, without trying to predict the specific start date of decoupling at each of the utilities, slide 6 illustrates the general profile of decoupling implementation based on the mechanisms approved in the decoupling order. For each utility once we receive a D&O that implements decoupling, sales decoupling will becoming effective.

At this point, kilowatthour sales will no longer be an earnings driver. Revenues will be fixed at the amount approved in that decision.

We assume that the RAMs for O&M and capital or rate adjustment mechanisms would start the following January. In the year that the RAMs are effective, the gap between our earned and our allowed ROE should narrow significantly relative to the gap we see today. However, an additional rate case cycle is necessary to close the gap further.

While the new regulatory model is much better than what we have now, we still have items that need to work their way through the rate case cycle. For example, in the near term, we expect our O&M expense to increase at a faster rate than inflation each year because of the scope of the Clean Energy Initiative, which continue to evolve. Therefore, our O&M levels need to be reset in the next rate case.

Another example relates to our rate-base addition. The rate base RAM for baseline projects annually adjusts our rate base for the historical five-year average of our baseline additions. Over the next few years, we expect our baseline additions to be significantly higher than the historical average as we prepare our system to integrate more renewables and address aging infrastructure needs.

Although actual baseline additions true up in the following year, we will experience some lag until the historical average catches up to the current level of additions.

Lastly, until we can address the procedural schedule of our general rate cases, we will continue to experience at least five months of cost recovery lag in the respective test year of each utility. Since many of you have asked, other examples of items that are not covered by recovery mechanisms are included in the appendix to this presentation on slide 38.

All that said, our recovery mechanisms provide for a very strong regulatory framework, aligned in our clean energy goal and significantly improved from our traditional regulatory model. We would expect the remainder of the ROE gap to close with the next rate case cycle for our three utilities, less approximately 40 to 50 basis points of ongoing underearning at HECO Oahu, and 10 to 15 basis points at our other two utilities for costs the Commission has historically disallowed.

Slide 7 shows our actual versus allowed 12-month trailing ROEs as of September 30. As you can see, the opportunity to close the gap is significant. While we would like to give you a cleaner estimate of the timing for narrowing this gap, we will not know until we know the timing of decoupling implementation for each utility.

The PUC was also busy with several other decisions in the quarter and over the last month. We received three final rate case decisions and one interim.

The final decisions for the HECO Oahu and Maui Electric 2007 rate cases and the HELCO 2006 rate case effectively confirmed the interim decisions. The interim decision for the Maui 2010 rate case effectively approved the settlement agreement with the Consumer Advocate agreed to in June.

The PUC also approved the first set of feed-in tariffs to encourage more renewable energy and also a pilot program offering lower off-peak electric rates for electric vehicle charging. And just two weeks ago, the PUC approved the redesign of Phase 2 of the East Oahu transmission project which utilizes Smart Grid technology to improve system reliability. This will also take us to advantage of $5.3 million in federal funding for Smart Grid investment, approximately a third of the total modification costs.
All of these PUC decisions are important steps in executing our clean energy strategy. Other clean energy developments include progress on Big Wind. The state has started work on the procurement process for the interisland cable system and has begun the Environmental Impact Statement process for the undersea cable. And First Wind’s Kahuku Wind Project remains on track for commercial operation early next year.

Turning to the Bank’s progress on strategic initiatives on slide 9, we had another solid quarter reflecting additional cost savings from the prior quarter and achievement of our non-interest expense annualized run rate target of $140 million to $145 million. For all the metrics shown here, we are beating our benchmark of the median of our high-performing peers.

Turning to slide 10, we see the gains from the completion of the Performance Improvement Project in ASB’s third-quarter GAAP annualized pretax preprovision income of $121 million. It is up from $107 million last quarter.

The third quarter includes a decrease of approximately $1.8 million in NSF fee income resulting from Regulation E which became effective on August 15 for existing accounts. We had originally disclosed that our exposure for the Regulation E reduction in NSF fees was about $15 million to $11 million, assuming a zero to 25% recovery rate.

We have now achieved the 25% recovery rate in our current annualized run rate, and we believe we can reduce our exposure further to about $9 million of lost NSF fees. Including the impact of Regulation E we still expect to deliver results meeting our pretax preprovision profit of $110 million to $120 million.

Lastly, we are excited to welcome Rich Wacker as American Savings Bank’s President and CEO and as a member of the Bank’s Board of Directors. Rich is just finishing a commitment with the Korea Exchange Bank, KEB, where he will step down as board chair on November 9 and join us on November 15.

KEB is the fifth largest Korean bank, with $90 billion in assets and does business in 22 countries. After a 20-year career with GE in both their industrial and capital businesses in the US and in Europe, Rich was recruited to help turn around Korea Exchange Bank, first joining them in 2004 as COO, then serving as CEO from 2005 to 2009, and finally as board chair.

Rich and his family have lived in Hawaii for the past three years, and Rich has commuted to Seoul from Honolulu since then. So he is definitely looking forward to having a job closer to home.

Let me break here and ask Jim now to update you on our Hawaii economy and financial results.

Jim Ajello - Hawaiian Electric Industries, Inc. - Senior Financial VP, Treasurer, CFO

Thanks, Connie. First the economic backdrop on slide 13. Let me start with Hawaii’s tourism industry, a significant driver of Hawaii’s economy and also one of our largest utility customer segments.

Tourism continues to reflect a trend a positive growth that started at the end of 2009. Through August, visitor arrivals had nine consecutive visitor arrivals had nine consecutive months of growth. Year to date through August, arrivals are up 7%; visitor expenditures are up 12.7% as compared to the same period last year.

Hawaii’s unemployment rate was 6.3% in September, down from 6.4% in August, and improved from the prior year at 7.3%. This compares very favorably relative to the US unemployment rate of 9.6% in September, although still weak compared to our prerecession levels.

Oahu continues to be comparatively stronger than the neighbor islands as shown on this slide, with the Oahu unemployment rate of 5.6%. Conditions in the housing market appear to be improving towards a recovery, although primarily on Oahu. The
Oahu housing market in the first nine months of 2010 has seen improvement over the same period last year for both sales, volumes, and prices.

On the neighbor islands, sales volumes were up for the first nine months of 2010 compared to the same period in 2009. Median prices were up for Kauai, but down for the Big Island and Maui.

Turning to slide 16, we show a local economist’s forecast for key economic indicators. Hawaii’s gradual recovery continues to be led by improved performance in the visitor industry. However, the visitor upturn has not yet had much effect on broader state economy as much of the state remains relatively weak. Local economists expect continued Hawaii expansion but at a restrained pace through 2011. The relatively slow pace of recovery will continue to pose challenges for the job market.

Turning to third-quarter financial results on slide 17, HEI earned $32.4 million in 2010, $1 million less than the same quarter for 2009. Utility earnings were down $4.5 million; but this was largely offset by $4 million of higher Bank earnings.

On slide 18 we summarize utility results. Net income was $22 million for the quarter compared to $26.5 million in 2009. Weather was a big part of the story and resulted in a $4 million impact to earnings from lower sales.

$6 million or rate relief granted in our HECO Oahu 2009 and MECO 2010 rate cases was more than offset by expected increases in O&M, financing and depreciation expenses, totaling $7 million. The financing expense increase is primarily the result of lower AFUDC from the completion of our biofuels generating unit in 2009.

On a year-to-date basis, the utility maintained improved performance. Net income was $1.5 million ahead of last year.

Third-quarter kilowatthour sales were 2.9% below the same quarter last year due to weather. While we are seeing signs of improvement in our local economy it is not yet being reflected in kilowatthour sales. Year to date sales are now down 0.8% compared to last year.

As a result, we go back to our original expectation of annual sales being 1% below 2009. Note that once we are able to implement decoupling our results will not be impacted by kilowatthour sales and revenues will be more predictable.

Because weather was the primary factor in our third-quarter sales, we included slide 20 to show cooling degree days and wetbulb temperature, a measure of humidity, both significant drivers of sales in Hawaii. Here you can see that the third, in yellow, was significantly cooler and drier relative to the same period of 2009, whereas the weather in the first half of 2010 was generally hotter than the first half of 2009.

O&M expenses for the third quarter were 9% higher than the third quarter of last year. Year to date, O&M expenses were also up 9% over last year, and we now expect the annual 2010 O&M increase to be approximately 13%.

Slide 22 recaps the utilities’ earnings drivers. As Connie discussed in detail the utilities’ regulatory outcomes and their timing will determine the length of our transition phase to stronger fundamentals. HELCO’s interim decision is expected shortly. If the Commission approves the settlement agreement, this would be the first PUC decision on an ROE implementing decoupling.

The sales and O&M guidance for the year are shown here as we just discussed. Beyond 2010, HECO’s 2011 interim decision is expected in mid-2011 and will be a key driver for our long-term performance.

Turning to the Bank on slide 23, third-quarter 2010 earnings were $15.3 million or $4 million higher than the third-quarter 2009 and $0.8 million lower than the linked quarter. The major drivers for the increase over last year after tax were $6 million of OTTI charges in 2009 that did not occur in 2010 and $2 million in lower non-interest expense, offset by $3 million in lower revenues.
Compared to the linked quarter, the primary drivers after-tax were $3 million higher provision for loan losses, partially offset by $2 million in lower non-interest expense as a result of the Performance Improvement Project.

On slide 24 you can see that our net interest margin was up 9 basis points from the second quarter of 2010 and continues to be one of the strongest in our peer set at 4.31%. Third-quarter yields were helped by the accelerated recognition of the deferred loan fees due to loan repayments, which are typically high in this type of low interest rate environment.

In addition, we reduced funding cost 45 basis points, a 4 basis point decline from the already low second quarter. Without the recognition of the deferred loan fees NIM would have been lower at approximately 4.22%, even with last quarter and still a strong number in the industry.

While we were able to achieve a higher net interest margin in the quarter, we continue to expect some moderation going forward due to ongoing loan repayments, asset repricing downward, and little room for additional declines in our cost of funds. However, we believe our already low funding cost will continue to support better-than-industry margins of comparable banks. And we expect that our net interest margin will remain slightly above 4%.

Given the uncertainty of the timing of interest rate recovery and our strategy of strict underwriting standards, we plan to selectively hold a portion of our mortgage production on our balance sheet going forward, to help maintain our asset size, as opposed to our practice over the last year of selling almost 100%. Also, as we continue to seek organic growth in interest-friendly assets such as HELOCs or home equity lines of credit, in commercial markets and commercial real estate loans, we also plan to take a conservative approach to redeploy excess cash currently earning 25 basis points into investment securities that will continue to provide flexibility for an eventual rise in rates. As of September 30, 2010, we held $230 million of excess cash at American Savings Bank.

Moving on to provision on slide 25. The Bank recorded $6 million of provision for loan losses in the quarter, which included $1.3 million for specific commercial credits that were reclassified to a higher risk classification. This remains in the range of our expectation for approximately $5 million per quarter.

Relative to the second quarter of 2010, provision was $5 million higher. However, second quarter of 2010 reflected $2.4 million of loan loss reserves that were released for specific circumstances on two commercial credits. Excluding these items the provision for the second quarter would have been higher at approximately $3.4 million.

The increase in provision this quarter is not viewed as a trend going forward. And we continue to expect fourth-quarter provision to remain in the range of $5 million.

Turning to slide 26, our efficiency ratio at 54% on a GAAP basis and 52% on an adjusted basis has come down significantly in the last quarter and is now ahead of our high-performing peer benchmark. As for non-interest expenses, we now have met our target of an annualized rate of $140 million to $145 million on a GAAP basis, one quarter ahead of plan. We are targeting to maintain our 2011 run rate at approximately $145 million.

Turning to our balance sheet on slide 27, here we show you our peer banks and ASB in terms of asset and funding mix. Our last complete available data set for our peers is as of June 30, 2010, we use that data here compared to ASB's September 30, 2010, balance sheet.

A key differentiator for ASB versus the industry is our low-cost deposit base which contribute to a low average cost of funds of 45 basis points in the third quarter and 49 basis points in the second quarter, versus 128 basis points for the industry in the second quarter. As you saw on previous slides, this also benefits our margins.
We also remain strongly capitalized with a Tier 1 leverage ratio of 9.3%; tangible common equity to total assets of 8.8%; and a total risk-based capital ratio of 14.2% as of September 30, 2010. In addition, the Bank has been able to manage its balance sheet and return capital to HEI in excess of its earnings.

ASB expects to pay dividends of $51 million on year to date September earnings of $45 million.

On slide 28 we are encouraged by another quarter of lower nonperforming assets with a 3 basis point decrease in the NPA ratio to 187 basis points. Our primary credit risks continue to be in the $76 million of residential lot loans, primarily on the neighbor islands, $315 million of neighbor island one-to-four family mortgages produced from 2005 to 2007 and $104 million of mainly residential loans purchased. These three loan portfolios that now total $495 million are down $98 million or 16% over last year.

Our net loan charge-off ratio remains low and improved on the linked-quarter basis by 4 basis points. Third-quarter 2010 net loan chargeoffs of $4.7 million were primarily attributed to neighbor island residential one-to-four family, land loans, and home equity lines of credit loans that were previously provisioned for.

In contrast to Hawaii’s third-quarter foreclosure rate, which increased by 48% over the prior year, ASB’s rate of new cases entering foreclosure is trending relatively flat year to date.

I will now sum up the Bank’s earnings drivers for the fourth quarter and our outlook for the Bank. As with many banks across the country, regulatory uncertainty, a low rate, low growth environment, and lower fee income are expected to pressure revenues and the outlook for the industry. We expect our low cost funding base, reduced cost structure, and lower risk profile to continue to deliver strong relative performance to the industry.

We expect net interest income to continue to be pressured with mortgage rates at historic lows and our conservative approach to redeploying assets. However, we continue to pursue opportunities to gain market share and shift our loan portfolio to more interest-friendly assets.

Fee income will continue to trend lower than last year due to the regulatory changes in overdraft fees. However, we expect an improving trend from the September fee levels, and we expect to remain in our target range for pretax preprovision income of $110 million to $120 million over the next year.

Provision may continue to be lumpy; but we estimate provision expense at approximately $5 million for the fourth quarter of 2010. We expect modest and gradual improvement in 2011, noting that our credit quality remains strong throughout the cycle relative to the industry.

On non-interest expense, we have reached our target of an annualized run rate of $140 million to $145 million this quarter, and we expect it to remain around $145 million. Overall, while revenue growth will be a challenge, it is one that Rich will focus on while continuing to maintain ASB as a safe and strong and profitable community bank.

With that, let me turn to the quarterly dividend. The Board declared the dividend payable on December 10 to holders of record on November 15. The ex-dividend date is November 10. Our dividend yield remains attractive and above utility peers. As of Friday’s close, our dividend yield was 5.5%.

Now let me turn the call back over to Connie.
Connie Lau  - Hawaiian Electric Industries, Inc.  - President, CEO

Thanks, Jim. While we expect some near-term headwinds, we are pleased with the solid progress we have made to strengthen the core businesses of both operating companies and to continue to execute our transition to business models that will deliver strong fundamental earnings for our shareholders over the long term.

At our utility we look forward to implementing our newly approved regulatory model that will give us the opportunity to be financially viable, strong enough to attract the capital necessary to execute our state's public policy of reducing Hawaii's dependence on imported oil.

With a decoupled model, the quality of earnings should significantly improve. It should be less volatile and more predictable. In addition, we expect rate base to grow over time as we make investments to our system to accept increasing renewable generation and increase equipment replacement rates to address our aging infrastructure.

At the Bank, we have achieved the goals of our two-year Performance Improvement Project. And we have a new President and CEO with outstanding credentials and a strong track record to lead ASB forward as we target consistent performance in line with high-performing peers. As it has through the credit cycle, our Bank continues to maintain its low risk profile, strong balance sheet, terrific funding base, and a simple business model.

We expect to see earnings benefit as the Hawaii economy and credit environment improve.

Finally, we continue to maintain our dividend at an above-average yield. In summary, we believe we remain well positioned to deliver attractive, risk-adjusted returns to our investors.

I will now open the call to questions and ask Jim, Dick, Tayne, and Alvin to join me in answering your questions.

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**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Paul Patterson, Glenrock Associates.

**Paul Patterson - Glenrock Associates - Analyst**

Good morning. I wanted to go over the decoupling and the ROE lag, and your comments in terms of not having a specific time frame as to when we are going to be getting to a more normalized ROE.

It would seem to me if we look at slide 7 and, I don't know, slide 22, or the other slides you have in terms of your rate cases, that by 2012 one would think that a large portion of this, in terms of having the rate cases at least on an interim basis decided, that we should be getting closer to that ROE number. Can you give us a little bit of a flavor for that?

**Connie Lau - Hawaiian Electric Industries, Inc. - President, CEO**

Yes, actually Paul, I think that you are correct. The bottom line is that we did get approval for the new regulatory model and so the transitioning over time will occur. We have received a lot of questions about the amount of so-called leakage that is not covered by the recovery mechanism. That is why we wanted in this call to be able to provide all of you some of those details.
A lot of that leakage is, I think, what you would expect. For example on the O&M RAM you would expect that if we were addressing issues like aging infrastructure, particularly in our state, to position our grid to accept more renewable generation, that we might be increasing expenditures at a faster rate than inflation or at a faster rate than historical averages on the capital RAM side.

But we wanted to detail all of that out, just so that you all would have a good feel for that.

Paul Patterson - Glenrock Associates - Analyst
Well, that brought me up to my second question which is -- the O&M does seem to be quite high year over year. You mentioned as to why that is.

How much should we think about that? It would seem that this is clearly a policy driven by the state's desire to have -- at least a large portion of this because of renewables and the aging infrastructure. How much of that O&M I guess should we expect to be seeing in the next few years?

And I guess how can we think about that in terms of the Commission giving you obviously some sort of relief associated with that?

Connie Lau - Hawaiian Electric Industries, Inc. - President, CEO
Yes, I am going to ask Dick to address it in a moment. But I think what you have to do is you have to put those O&M increases in, the capital increases, in the context of this big policy shift that is occurring in Hawaii to really move us off of oil. So a lot of those increasing levels really are driven by the commitment on the utilities' part to strengthen our system to accept all of the renewable generation and actually achieve the policy objective.

So maybe I can ask Dick, who actually is in Honolulu; we all are here at EEI in California. But if I can ask Dick to address that question.

Dick Rosenblum - Hawaiian Electric Company, Inc. - President, CEO
Hi, this is Dick Rosenblum. There's kind of two parts to the question. How long would we expect the increase to continue, and is there some vehicle for PUC relief -- I am going to add, other than rate cases?

The short version of the answer is, we would expect O&M to increase this year as it has and to some extent next year, and then tend to flatten out to more moderate increases that more or less reflect the environment. They are associated largely with clean energy.

I would give you an example of -- as we have more intermittency on our system we end up needing more operators in our power plants to maneuver the power plants more frequently to deal with the intermittent outside resources. So that is just one of many examples of how the change to clean energy tends to drive internal costs.

The only mechanism other than rate cases, which we have talked about, is the clean energy surcharge mechanism. It can be used for some of these increases, but it is not particularly well suited to them. They have to be more or less what I'd describe project-related, approved in advance. So we would have to package some up, request that relief, go through a proceeding where the relief is granted, and then attempt recovery.
In reality, the rate cases are the most effective mechanism. And that is the reason why the lag tends to exist until we go through a full rate case cycle.

**Paul Patterson** - *Glenrock Associates - Analyst*

Okay, but since we are having the rate cases coming up, we should have at least a considerable portion of this O&M being theoretically recovered. And then of course decoupling sort of aiding that as well.

Or should we expect --? How should we think about I guess the earnings potential of the Company, and subsequent to the rate cases the decoupling mechanism dealing with this demand for clean energy and what have you?

**Dick Rosenblum** - *Hawaiian Electric Company, Inc. - President, CEO*

Yes, I think the right way to think about that -- and this is Dick Rosenblum again -- is exactly as you say. That the rate cases will largely close those gaps, and then it is not just decoupling but the entire regulatory process will tend to be largely compensatory for the sorts of costs we expect to be seeing in the future.

**Paul Patterson** - *Glenrock Associates - Analyst*

Okay. Let me move on to the Bank.

**Connie Lau** - *Hawaiian Electric Industries, Inc. - President, CEO*

Paul, before you do that -- I would just add. Remember that those general rate case cycles were actually contemplated in the clean energy agreement itself.

**Paul Patterson** - *Glenrock Associates - Analyst*

Right, great. Now, let me ask you about the Bank. The mortgage products that you wish to hold on, and I guess you guys are also looking to invest in some securities, is that basically associated with the $230 million of excess cash that you currently have? Is that the amount we should be thinking about, or is there some different amount?

And what kind of return should we assume you guys will be getting from the securities and the mortgage-related products versus what you are currently earning?

**Connie Lau** - *Hawaiian Electric Industries, Inc. - President, CEO*

You know, I would say -- I would not tie the mortgages that we are going to hold directly to the $230 million in cash. That $230 million in cash -- and you will recall that at the start of the year we had about $200 million. We are constantly trying to put those into good, solid loan assets, primarily looking at some of the other loan categories like C&I, even commercial real estate, which is beginning to pick up in our market. The HELOCs program that we have had going this year and anticipate also pushing into next year.

One of the major reasons for us looking to hold more of the mortgage production is that, as you know, the rates really dropped in the third quarter. So we actually experienced refinancing of that portfolio and runoff of that portfolio at a rate about twice as fast as earlier in the year.
I think we were running maybe at about $75 million a quarter, and now in the third quarter in very round numbers about $150 million. So that is the reason why we need to keep a little bit more of the mortgage production.

But as we go forward we are going to continue to look at all of the loan products. The last resort actually will be to put money into the securities portfolio, because you can't really obtain much of a yield there.

We are probably going to look at some barbelling of that securities portfolio, trying to look at when rates may change and loan growth return, because we still want to very much be leveraged to the upside as the economy recovers and interest rates rise.

So we might get to maybe about a 2% yield in the securities portfolio. But that is not nearly as much as we can make on the loan side.

Paul Patterson - Glenrock Associates - Analyst

Right. The effects of QE2 on this refinancing and what have you, do you guys have any thoughts about how QE2 might impact that or other elements of your business?

Connie Lau - Hawaiian Electric Industries, Inc. - President, CEO

You know, we have looked at that and we frankly don't think that there is major impacts that are going to occur, primarily because we run such a simple model and we retain pretty high capital levels.

Paul Patterson - Glenrock Associates - Analyst

Okay. Then fee income, you guys expect that to improve I guess through opt-in and what have you. How should we think about that in 2011?

Connie Lau - Hawaiian Electric Industries, Inc. - President, CEO

Well, I think I put the number out that we expect to pick up maybe about another $2 million back of those lost loan fees -- I'm sorry, the overdraft fees.

Jim Ajello - Hawaiian Electric Industries, Inc. - Senior Financial VP, Treasurer, CFO

So, Paul, it's Jim. Right? So for the last couple of quarters we were trying to provide some indications of that. We said $11 million to $15 million, the $15 million being if we had lost all of it.

Paul Patterson - Glenrock Associates - Analyst

Right.

Jim Ajello - Hawaiian Electric Industries, Inc. - Senior Financial VP, Treasurer, CFO

What I indicated here is that we see --
Paul Patterson - Glenrock Associates - Analyst

About $9 million.

Jim Ajello - Hawaiian Electric Industries, Inc. - Senior Financial VP, Treasurer, CFO

Line of sight to $9 million, so that is off the $15 million or even down from the $11 million.

Paul Patterson - Glenrock Associates - Analyst

And that is a 2011 number?

Jim Ajello - Hawaiian Electric Industries, Inc. - Senior Financial VP, Treasurer, CFO

That's correct.

Connie Lau - Hawaiian Electric Industries, Inc. - President, CEO

Right.

Paul Patterson - Glenrock Associates - Analyst

Okay. I'm sorry. I didn't get that all. Okay, okay. I think that's about --

Connie Lau - Hawaiian Electric Industries, Inc. - President, CEO

Right, and if we are able to do better, Paul, we will update that number.

Jim Ajello - Hawaiian Electric Industries, Inc. - Senior Financial VP, Treasurer, CFO

Yes.

Paul Patterson - Glenrock Associates - Analyst

Okay, great. Then just also you mentioned that obviously foreclosures are having a bit of a tough time there in Hawaii, and there is also a pickup in short sales.

You guys are doing better considerably than the state average. Could you just elaborate a little bit as to why that continues to be the case?

Connie Lau - Hawaiian Electric Industries, Inc. - President, CEO

Well, I think when the very heavy mortgage production that was going on in our state, a lot of that really went to the national lenders as opposed to the local banks. The local banks pretty much stayed true to their traditional loan product, which is a 30-year fixed-rate mortgage, and the same levels of underwriting standards.
So we didn't have a lot of those types of mortgages on the books that are being foreclosed on now. So I think if you look at the foreclosure rolls in our weekly Pacific Business News you will see a lot of national lender names as opposed to the local banks.

Paul Patterson - Glenrock Associates - Analyst
Okay, great. Thanks a lot.

Operator
(Operator Instructions) Bobby Bohlen, KBW.

Bobby Bohlen - KBW - Analyst
Hi, I was wondering on the Bank if you could elaborate some on the some of the deposit flows that we have seen recently.

Connie Lau - Hawaiian Electric Industries, Inc. - President, CEO
Sure. You know, we have had a conscious strategy to allow the higher costing deposits to run off. So those are the CDs. And we actually have been very successful in making up the overall deposit outflows from the CDs with inflows of core deposits. So as you can see, Bobby, we continue to increase the core deposit percentage of our total funding base.

We have also had a strategy to look at optimizing the size of the Bank's balance sheet. As you have probably noted, we have been shrinking it under the current circumstances where there isn’t great loan demand to put assets to work or cash to work. And we are -- we will continue to do that.

Unfortunately, with our wholesale funding, the small amount that still remains, which is about 7% of the liability side, those are longer-term advances which we cannot unwind without significant penalties.

So the main area that we can improve the funding cost is through runoff of the CD portfolio.

Bobby Bohlen - KBW - Analyst
So when we see that mix shift from the CDs to the core, is that -- are those deposits moving straight -- like when people move out of CDs into core? Or is that pickup of market share in the core that we are seeing?

Connie Lau - Hawaiian Electric Industries, Inc. - President, CEO
I would say a pickup of market share. That is something that has always been a focus of ours, is to really build that checking in particular base. So we have got the free checking product that has been very popular in our marketplace.

Our belief has always been that it is the deposit base, the very high-quality, low-cost deposit base in Hawaii that drives profitability of the Bank.

Bobby Bohlen - KBW - Analyst
Okay, thank you.
Operator

(Operator Instructions) At this time we conclude the question-and-answer portion of today’s call. I would like to turn this call over to Mrs. Shelee Kimura for closing remarks. Please go ahead.

Shelee Kimura - Hawaiian Electric Industries, Inc. - Manager IR & Strategic Planning

Thank you, everyone, for joining us today and we look forward to seeing many of you at the EEI conference over the next couple of days. As always I am available for calls if you have any follow-up questions. Thank you.

Operator

Ladies and gentlemen, that concludes the presentation. Thank you for your participation in today’s conference. You may now disconnect. Have a great day.