Section 1: 10-Q (10-Q)

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

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2018
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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

State of Hawaii
(State or other jurisdiction of incorporation or organization)

Hawaiian Electric Industries, Inc. – 1001 Bishop Street, Suite 2900, Honolulu, Hawaii 96813
Hawaiian Electric Company, Inc. – 900 Richards Street, Honolulu, Hawaii 96813
(Address of principal executive offices and zip code)

Hawaiian Electric Industries, Inc. – (808) 543-5662
Hawaiian Electric Company, Inc. – (808) 543-7771
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act of 1934.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Hawaiian Electric Industries, Inc. ☐ Hawaiian Electric Company, Inc. ☐

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date.

Class of Common Stock	Outstanding July 27, 2018
Hawaiian Electric Industries, Inc. (Without Par Value)	108,879,245 Shares
Hawaiian Electric Company, Inc. ($6-2/3 Par Value)	16,142,216 Shares (not publicly traded)

Hawaiian Electric Industries, Inc. (HEI) is the sole holder of Hawaiian Electric Company, Inc. (Hawaiian Electric) common stock.

This combined Form 10-Q is separately filed by HEI and Hawaiian Electric. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. No registrant makes any representation as to information relating to the other registrant, except that information relating to Hawaiian Electric is also attributed to HEI.

Hawaiian Electric Industries, Inc. and Subsidiaries
Hawaiian Electric Company, Inc. and Subsidiaries
Form 10-Q—Quarter ended June 30, 2018

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GLOSSARY OF TERMS

Terms	Definitions
ADIT	Accumulated deferred income tax balances
AES Hawaii	AES Hawaii, Inc.
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income/(loss)
ASC	Accounting Standards Codification
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of ASB Hawaii, 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.
ASU	Accounting Standards Update
CIAC	Contributions in aid of construction
CIP CT-1	Campbell Industrial Park 110 MW combustion turbine No. 1
Company	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.; Pacific Current, LLC and its subsidiaries, Hamakua Holdings, LLC (and its subsidiary, Hamakua Energy, LLC) and Mauo Holdings, LLC (and its subsidiary, Mauo, LLC); The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.); and HEI Properties, Inc. (dissolved in 2015 and wound up in 2017)
Consumer Advocate	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii
CBRE	Community-based renewable energy
DER	Distributed energy resources
D&O	Decision and order from the PUC
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
ECAC	Energy cost adjustment clause
ECRC	Energy cost recovery clause
EIP	2010 Equity and Incentive Plan, as amended and restated
EPA	Environmental Protection Agency — federal
EPS	Earnings per share
ERP/EAM	Enterprise Resource Planning/Enterprise Asset Management
EVE	Economic value of equity
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
federal	U.S. Government
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
FRB	Federal Reserve Board
GAAP	Accounting principles generally accepted in the United States of America

Terms	Definitions
GNMA	Government National Mortgage Association
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.
Hamakua Energy	Hamakua Energy, LLC, an indirect subsidiary of HEI and successor in interest to Hamakua Energy Partners, L.P., an affiliate of Arclight Capital Partners (a Boston based private equity firm focused on energy infrastructure investments) and successor in interest to Encogen Hawaii, L.P.
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., ASB Hawaii, Inc., HEI Properties, Inc. (dissolved in 2015 and wound up in 2017), The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.) and Pacific Current, LLC
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HELOC	Home equity line of credit
HPOWER	City and County of Honolulu with respect to a power purchase agreement for a refuse-fired plant
IPP	Independent power producer
Kalaeloa	Kalaeloa Partners, L.P.
KWH	Kilowatthour/s (as applicable)
LTIP	Long-term incentive plan
Maui Electric	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
MPIR	Major Project Interim Recovery
MSR	Mortgage servicing right
Mauo	Mauo, LLC, an indirect subsidiary of HEI
MW	Megawatt/s (as applicable)
NEM	Net energy metering
NII	Net interest income
NPBC	Net periodic benefit costs
NPPC	Net periodic pension costs
O&M	Other operation and maintenance
OCC	Office of the Comptroller of the Currency
OPEB	Postretirement benefits other than pensions
Pacific Current	Pacific Current, LLC, a wholly owned subsidiary of HEI and parent company of Hamakua Holdings, LLC and Mauo Holdings, LLC
PIMs	Performance incentive mechanisms
PPA	Power purchase agreement
PPAC	Purchased power adjustment clause
PSIPs	Power Supply Improvement Plans
PUC	Public Utilities Commission of the State of Hawaii
PV	Photovoltaic
RAM	Rate adjustment mechanism
RBA	Revenue balancing account
RFP	Request for proposals
ROACE	Return on average common equity
RORB	Return on rate base
RPS	Renewable portfolio standards
SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference
Tax Act	2017 Tax Cuts and Jobs Act (H.R. 1, An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018)
TDR	Troubled debt restructuring
Trust III	HECO Capital Trust III
Utilities	Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited
VIE	Variable interest entity

CAUTIONARY NOTE REGARDING 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 "will," "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, political and market factors, among other things. These forward-looking statements are not guarantees of future performance.

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

- international, national and local economic and political 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; the effects of changes that have or may occur in U.S. policy, such as with respect to immigration and trade; terrorist acts; 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, monetary policy, trade policy and tariffs, and other policy and regulation changes advanced or proposed by President Trump and his administration;
- 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 (including tax 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, 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 included in their updated Power Supply Improvement Plans (PSIPs), Demand Response Portfolio Plan, Distributed Generation Interconnection Plan, Grid Modernization Plans, and business model changes, which have been and are continuing to be developed and updated in response to the orders issued by the PUC, the PUC's April 2014 statement of its 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 subsequent orders of the PUC;
- capacity and supply constraints or difficulties, especially if generating units (utility-owned or IPP-owned) fail or measures such as demand-side management, distributed generation, combined heat and power or other firm capacity supply-side resources fall short of achieving their forecasted benefits or are otherwise insufficient to reduce or meet peak demand;
- fuel oil price changes, delivery of adequate fuel by suppliers and the continued availability to the electric utilities of their energy cost adjustment clauses (ECACs);
- the continued availability to the electric utilities 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 ability of the Utilities to achieve performance incentive mechanisms currently in place;
- the impact from the PUC's implementation of performance-based ratemaking for the Utilities pursuant to Senate Bill No. 2939 SD2, including the potential addition of new performance incentive mechanisms, third party proposals to the PUC's implementation of PBR, and the implications of not achieving performance incentive goals;
- 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 such as the commercial development of energy storage and microgrids and banking through alternative channels;
- cyber security risks and the potential for cyber incidents, including potential incidents at HEI, its third-party vendors, and its subsidiaries (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;
- any failure in the implementation of the ERP/EAM system could adversely affect the Utilities' ability to timely and accurately report financial information and make payments to vendors and employees;
- 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 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);
- changes in accounting principles applicable to HEI and its subsidiaries, 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/finance lease or on-balance-sheet operating 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 and its subsidiaries;
- the risks of suffering losses and incurring liabilities that are uninsured (e.g., damages to the Utilities' transmission and distribution system and losses from business interruption) or underinsured (e.g., losses not covered as a result of insurance deductibles or other exclusions or exceeding policy limits);
- the ability of the Company's non-regulated subsidiary, Pacific Current, LLC, to achieve its performance and growth objectives, which in turn could affect its ability to service its non-recourse debt;
- the Company's reliance on third parties and the risk of their non-performance; and
- other risks or uncertainties described elsewhere in this report and in other reports (e.g., "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K) previously and subsequently filed by HEI and/or 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, Pacific Current and their subsidiaries undertake no obligation to publicly update or revise any forward-looking statements, whether written or oral and whether as a result of new information, future events or otherwise.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Hawaiian Electric Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Income (unaudited)

	Three months ended June 30		Six months ended June 30	
(in thousands, except per share amounts)	2018	2017	2018	2017
Revenues				
Electric utility	$ 608,126	$ 556,875	$ 1,178,553	$ 1,075,486
Bank	77,104	75,329	152,523	148,185
Other	47	77	75	172
Total revenues	685,277	632,281	1,331,151	1,223,843
Expenses				
Electric utility	552,982	500,393	1,072,040	968,643
Bank	50,187	50,332	100,719	98,833
Other	3,309	3,754	7,704	8,827
Total expenses	606,478	554,479	1,180,463	1,076,303
Operating income (loss)				
Electric utility	55,144	56,482	106,513	106,843
Bank	26,917	24,997	51,804	49,352
Other	(3,262)	(3,677)	(7,629)	(8,655)
Total operating income	78,799	77,802	150,688	147,540
Retirement defined benefits expense—other than service costs	(1,564)	(1,906)	(3,397)	(3,782)
Interest expense, net—other than on deposit liabilities and other bank borrowings	(22,001)	(20,440)	(43,519)	(40,008)
Allowance for borrowed funds used during construction	1,365	1,143	2,809	2,032
Allowance for equity funds used during construction	2,983	3,027	6,277	5,426
Income before income taxes	59,582	59,626	112,858	111,208
Income taxes	13,055	20,492	25,611	37,408
Net income	46,527	39,134	87,247	73,800
Preferred stock dividends of subsidiaries	473	473	946	946
Net income for common stock	$ 46,054	$ 38,661	$ 86,301	$ 72,854
Basic earnings per common share	$ 0.42	$ 0.36	$ 0.79	$ 0.67
Diluted earnings per common share	$ 0.42	$ 0.36	$ 0.79	$ 0.67
Dividends declared per common share	$ 0.31	$ 0.31	$ 0.62	$ 0.62
Weighted-average number of common shares outstanding	108,842	108,750	108,830	108,712
Net effect of potentially dilutive shares	121	47	223	157
Weighted-average shares assuming dilution	108,963	108,797	109,053	108,869

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

Hawaiian Electric Industries, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)	Three months ended June 30 2018	Three months ended June 30 2017	Six months ended June 30 2018	Six months ended June 30 2017
Net income for common stock	$ 46,054	$ 38,661	$ 86,301	$ 72,854
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on available-for-sale investment securities:				
Net unrealized gains (losses) on available-for-sale investment securities arising during the period, net of tax benefits (taxes) of $1,592, $(1,334), $6,459 and $(1,482), respectively	(4,348)	2,021	(17,645)	2,244
Derivatives qualifying as cash flow hedges:				
Reclassification adjustment to net income, net of tax benefits of nil, nil, nil and $289, respectively	—	—	—	454
Retirement benefit plans:				
Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $1,862, $2,508, $3,654 and $5,010, respectively	5,350	3,930	10,496	7,851
Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $1,674, $2,281, $3,277 and $4,582, respectively	(4,827)	(3,581)	(9,449)	(7,194)
Other comprehensive income (loss), net of taxes	(3,825)	2,370	(16,598)	3,355
Comprehensive income attributable to Hawaiian Electric Industries, Inc.	$ 42,229	$ 41,031	$ 69,703	$ 76,209

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

Hawaiian Electric Industries, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (unaudited)

(dollars in thousands)	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 254,665	$ 261,881
Accounts receivable and unbilled revenues, net	299,771	263,209
Available-for-sale investment securities, at fair value	1,409,528	1,401,198
Held-to-maturity investment securities, at amortized cost	62,630	44,515
Stock in Federal Home Loan Bank, at cost	10,158	9,706
Loans held for investment, net	4,721,941	4,617,131
Loans held for sale, at lower of cost or fair value	5,248	11,250
Property, plant and equipment, net of accumulated depreciation of $2,615,259 and $2,553,295 at June 30, 2018 and December 31, 2017, respectively	4,611,949	4,460,248
Regulatory assets	860,410	869,297
Other	565,614	513,535
Goodwill	82,190	82,190
Total assets	$ 12,884,104	$ 12,534,160
Liabilities and shareholders' equity		
Liabilities		
Accounts payable	$ 213,832	$ 193,714
Interest and dividends payable	27,594	25,837
Deposit liabilities	6,116,109	5,890,597
Short-term borrowings—other than bank	202,857	117,945
Other bank borrowings	126,930	190,859
Long-term debt, net—other than bank	1,783,009	1,683,797
Deferred income taxes	375,832	388,430
Regulatory liabilities	905,216	880,770
Defined benefit pension and other postretirement benefit plans liability	494,541	509,514
Other	500,873	521,018
Total liabilities	10,746,793	10,402,481
Preferred stock of subsidiaries - not subject to mandatory redemption	34,293	34,293
Commitments and contingencies (Notes 3 and 4)		
Shareholders' equity		
Preferred stock, no par value, authorized 10,000,000 shares; issued: none	—	—
Common stock, no par value, authorized 200,000,000 shares; issued and outstanding: 108,879,245 shares and 108,787,807 shares at June 30, 2018 and December 31, 2017, respectively	1,665,901	1,662,491
Retained earnings	495,656	476,836
Accumulated other comprehensive loss, net of tax benefits	(58,539)	(41,941)
Total shareholders' equity	2,103,018	2,097,386
Total liabilities and shareholders' equity	$ 12,884,104	$ 12,534,160

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

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

(in thousands)	Common stock Shares	Common stock Amount	Retained Earnings	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2017	108,788	$ 1,662,491	$ 476,836	$ (41,941)	$ 2,097,386
Net income for common stock	—	—	86,301	—	86,301
Other comprehensive loss, net of tax benefits	—	—	—	(16,598)	(16,598)
Issuance of common stock, net of expenses	91	3,410	—	—	3,410
Common stock dividends	—	—	(67,481)	—	(67,481)
Balance, June 30, 2018	108,879	$ 1,665,901	$ 495,656	$ (58,539)	$ 2,103,018
Balance, December 31, 2016	108,583	$ 1,660,910	$ 438,972	$ (33,129)	$ 2,066,753
Net income for common stock	—	—	72,854	—	72,854
Other comprehensive income, net of taxes	—	—	—	3,355	3,355
Issuance of common stock, net of expenses	202	(507)	—	—	(507)
Common stock dividends	—	—	(67,426)	—	(67,426)
Balance, June 30, 2017	108,785	$ 1,660,403	$ 444,400	$ (29,774)	$ 2,075,029

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

Hawaiian Electric Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (unaudited)

	Six months ended June 30	
(in thousands)	**2018**	**2017**
Cash flows from operating activities		
Net income	$ 87,247	$ 73,800
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	106,063	100,062
Other amortization	20,603	6,101
Provision for loan losses	6,304	6,741
Loans originated and purchased, held for sale	(78,313)	(69,595)
Proceeds from sale of loans, held for sale	77,382	79,944
Deferred income taxes	(9,672)	17,047
Share-based compensation expense	4,414	3,285
Allowance for equity funds used during construction	(6,277)	(5,426)
Other	(147)	246
Changes in assets and liabilities		
Increase in accounts receivable and unbilled revenues, net	(41,526)	(12,394)
Increase in fuel oil stock	(19,867)	(5,962)
Decrease (increase) in regulatory assets	(19,600)	8,179
Increase in accounts, interest and dividends payable	31,784	43,530
Change in prepaid and accrued income taxes, tax credits and utility revenue taxes	(26,558)	(37,954)
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	(871)	420
Change in other assets and liabilities	(22,695)	(33,922)
Net cash provided by operating activities	108,271	174,102
Cash flows from investing activities		
Available-for-sale investment securities purchased	(133,698)	(295,510)
Principal repayments on available-for-sale investment securities	108,379	99,663
Purchases of held-to-maturity investment securities	(20,450)	—
Principal repayments of held-to-maturity investment securities	2,270	—
Purchase of stock from Federal Home Loan Bank	(7,533)	(2,868)
Redemption of stock from Federal Home Loan Bank	7,080	2,380
Net increase in loans held for investment	(111,521)	(20,326)
Proceeds from sale of commercial loans	7,149	13,493
Proceeds from sale of real estate acquired in settlement of loans	589	185
Capital expenditures	(259,898)	(210,325)
Contributions in aid of construction	13,573	17,571
Contributions to low income housing investments	(3,279)	—
Other	5,919	8,216
Net cash used in investing activities	(391,420)	(387,521)
Cash flows from financing activities		
Net increase in deposit liabilities	123,137	175,457
Net increase in short-term borrowings with original maturities of three months or less	84,881	49,789
Net increase in retail repurchase agreements	38,446	9,048
Proceeds from other bank borrowings	177,000	59,500
Repayments of other bank borrowings	(177,000)	(73,034)
Proceeds from issuance of long-term debt	100,000	265,000
Repayment of long-term debt and funds transferred for redemption of special purpose revenue bonds	(878)	(265,000)
Withheld shares for employee taxes on vested share-based compensation	(996)	(3,787)
Common stock dividends	(67,481)	(67,426)
Preferred stock dividends of subsidiaries	(946)	(946)
Other	(230)	(3,253)
Net cash provided by financing activities	275,933	145,348
Net decrease in cash and cash equivalents	(7,216)	(68,071)
Cash and cash equivalents, beginning of period	261,881	278,452

Cash and cash equivalents, end of period	$ 254,665	$ 210,381

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidated Statements of Income (unaudited)

(in thousands)	Three months ended June 30 2018	Three months ended June 30 2017	Six months ended June 30 2018	Six months ended June 30 2017
Revenues	$ 608,126	$ 556,875	$ 1,178,553	$ 1,075,486
Expenses				
Fuel oil	171,717	141,259	338,685	285,529
Purchased power	160,738	153,067	300,648	280,191
Other operation and maintenance	112,642	104,939	220,252	203,756
Depreciation	50,361	48,156	100,827	96,372
Taxes, other than income taxes	57,524	52,972	111,628	102,795
Total expenses	552,982	500,393	1,072,040	968,643
Operating income	55,144	56,482	106,513	106,843
Allowance for equity funds used during construction	2,983	3,027	6,277	5,426
Retirement defined benefits expense—other than service costs	(988)	(1,435)	(2,252)	(2,858)
Interest expense and other charges, net	(18,160)	(18,214)	(35,854)	(35,718)
Allowance for borrowed funds used during construction	1,365	1,143	2,809	2,032
Income before income taxes	40,344	41,003	77,493	75,725
Income taxes	8,676	14,860	17,851	27,618
Net income	31,668	26,143	59,642	48,107
Preferred stock dividends of subsidiaries	229	229	458	458
Net income attributable to Hawaiian Electric	31,439	25,914	59,184	47,649
Preferred stock dividends of Hawaiian Electric	270	270	540	540
Net income for common stock	$ 31,169	$ 25,644	$ 58,644	$ 47,109

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

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

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)	Three months ended June 30 2018	Three months ended June 30 2017	Six months ended June 30 2018	Six months ended June 30 2017
Net income for common stock	$ 31,169	$ 25,644	$ 58,644	$ 47,109
Other comprehensive income (loss), net of taxes:				
Derivatives qualifying as cash flow hedges:				
Reclassification adjustment to net income, net of tax benefits of nil, nil, nil and $289, respectively	—	—	—	454
Retirement benefit plans:				
Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $1,683, $2,306, $3,297 and $4,610, respectively	4,853	3,621	9,506	7,239
Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $1,674, $2,281, $3,277 and $4,582, respectively	(4,827)	(3,581)	(9,449)	(7,194)
Other comprehensive income, net of taxes	26	40	57	499
Comprehensive income attributable to Hawaiian Electric Company, Inc.	$ 31,195	$ 25,684	$ 58,701	$ 47,608

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (unaudited)

(dollars in thousands, except par value)	June 30, 2018	December 31, 2017
Assets		
Property, plant and equipment		
Utility property, plant and equipment		
Land	$ 52,914	$ 53,177
Plant and equipment	6,652,982	6,401,040
Less accumulated depreciation	(2,534,428)	(2,476,352)
Construction in progress	165,608	263,094
Utility property, plant and equipment, net	4,337,076	4,240,959
Nonutility property, plant and equipment, less accumulated depreciation of $1,253 as of June 30, 2018 and $1,251 as of December 31, 2017	7,581	7,580
Total property, plant and equipment, net	4,344,657	4,248,539
Current assets		
Cash and cash equivalents	20,860	12,517
Customer accounts receivable, net	157,260	127,889
Accrued unbilled revenues, net	110,839	107,054
Other accounts receivable, net	6,896	7,163
Fuel oil stock, at average cost	107,016	86,873
Materials and supplies, at average cost	57,941	54,397
Prepayments and other	29,240	25,355
Regulatory assets	103,566	88,390
Total current assets	593,618	509,638
Other long-term assets		
Regulatory assets	756,844	780,907
Other	108,595	91,529
Total other long-term assets	865,439	872,436
Total assets	$ 5,803,714	$ 5,630,613
Capitalization and liabilities		
Capitalization		
Common stock ($6 2/3 par value, authorized 50,000,000 shares; outstanding 16,142,216 shares at June 30, 2018 and December 31, 2017)	$ 107,634	$ 107,634
Premium on capital stock	614,667	614,675
Retained earnings	1,131,185	1,124,193
Accumulated other comprehensive loss, net of tax benefits	(1,162)	(1,219)
Common stock equity	1,852,324	1,845,283
Cumulative preferred stock — not subject to mandatory redemption	34,293	34,293
Long-term debt, net	1,418,474	1,318,516
Total capitalization	3,305,091	3,198,092
Commitments and contingencies (Note 3)		
Current liabilities		
Current portion of long-term debt	49,983	49,963
Short-term borrowings from non-affiliates	91,880	4,999
Accounts payable	153,759	159,610
Interest and preferred dividends payable	22,684	22,575
Taxes accrued, including revenue taxes	172,063	199,101
Regulatory liabilities	9,787	3,401
Other	59,203	59,456
Total current liabilities	559,359	499,105
Deferred credits and other liabilities		
Deferred income taxes	388,875	394,041
Regulatory liabilities	895,429	877,369
Unamortized tax credits	92,798	90,369
Defined benefit pension and other postretirement benefit plans liability	457,953	472,948

Other		104,209		98,689
Total deferred credits and other liabilities		1,939,264		1,933,416
Total capitalization and liabilities	$	5,803,714	$	5,630,613

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

Hawaiian Electric Company, Inc. and Subsidiaries

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

(in thousands)	Common stock Shares	Common stock Amount	Premium on capital stock	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2017	16,142	$ 107,634	$ 614,675	$ 1,124,193	$ (1,219)	$ 1,845,283
Net income for common stock	—	—	—	58,644	—	58,644
Other comprehensive income, net of taxes	—	—	—	—	57	57
Common stock dividends	—	—	—	(51,652)	—	(51,652)
Common stock issuance expenses	—	—	(8)	—	—	(8)
Balance, June 30, 2018	16,142	$ 107,634	$ 614,667	$ 1,131,185	$ (1,162)	$ 1,852,324
Balance, December 31, 2016	16,020	$ 106,818	$ 601,491	$ 1,091,800	$ (322)	$ 1,799,787
Net income for common stock	—	—	—	47,109	—	47,109
Other comprehensive income, net of taxes	—	—	—	—	499	499
Common stock dividends	—	—	—	(43,884)	—	(43,884)
Common stock issuance expenses	—	—	(5)	—	—	(5)
Balance, June 30, 2017	16,020	$ 106,818	$ 601,486	$ 1,095,025	$ 177	$ 1,803,506

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (unaudited)

	Six months ended June 30	
(in thousands)	**2018**	**2017**
Cash flows from operating activities		
Net income	$ 59,642	$ 48,107
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	100,827	96,372
Other amortization	13,021	4,262
Deferred income taxes	(8,343)	23,599
Allowance for equity funds used during construction	(6,277)	(5,426)
Other	978	1,615
Changes in assets and liabilities		
Increase in accounts receivable	(34,068)	(1,729)
Increase in accrued unbilled revenues	(3,785)	(11,903)
Increase in fuel oil stock	(20,143)	(5,962)
Increase in materials and supplies	(3,544)	(3,420)
Decrease (increase) in regulatory assets	(19,600)	8,179
Increase in accounts payable	18,284	39,716
Change in prepaid and accrued income taxes, tax credits and revenue taxes	(31,061)	(40,910)
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	(1,961)	302
Change in other assets and liabilities	5,866	(14,047)
Net cash provided by operating activities	69,836	138,755
Cash flows from investing activities		
Capital expenditures	(213,220)	(190,159)
Contributions in aid of construction	13,573	17,571
Other	4,301	6,250
Net cash used in investing activities	(195,346)	(166,338)
Cash flows from financing activities		
Common stock dividends	(51,652)	(43,884)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(998)	(998)
Proceeds from issuance of long-term debt	100,000	265,000
Funds transferred for redemption of special purpose revenue bonds	—	(265,000)
Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	86,881	43,990
Other	(378)	(3,229)
Net cash provided by (used in) financing activities	133,853	(4,121)
Net increase (decrease) in cash and cash equivalents	8,343	(31,704)
Cash and cash equivalents, beginning of period	12,517	74,286
Cash and cash equivalents, end of period	$ 20,860	$ 42,582

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

Note 1 · Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim financial information, the instructions to SEC Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the unaudited condensed consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited condensed consolidated financial statements and the following notes should be read in conjunction with the audited consolidated financial statements and the notes thereto in HEI's and Hawaiian Electric's Form 10-K for the year ended December 31, 2017.

In the opinion of HEI's and Hawaiian Electric's management, the accompanying unaudited condensed consolidated financial statements contain all material adjustments required by GAAP to fairly state consolidated HEI's and Hawaiian Electric's financial positions as of June 30, 2018 and December 31, 2017 and the results of their operations for the three and six months ended June 30, 2018 and 2017 and cash flows for the six months ended June 30, 2018 and 2017. All such adjustments are of a normal recurring nature, unless otherwise disclosed below or in other referenced material. Results of operations for interim periods are not necessarily indicative of results for the full year.

Recent accounting pronouncements.

Revenues from contracts with customers. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The core principle of the guidance in ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company and Hawaiian Electric adopted ASU No. 2014-09 (and subsequently issued revenue-related ASUs, as applicable) in the first quarter of 2018. There was no cumulative effect adjustment and no impact on the timing or pattern of revenue recognition, but ASU No. 2014-09 required changes with respect to the Company's and Hawaiian Electric's revenue disclosures. See Note 7.

Financial instruments. In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which, among other things:

- Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.
- Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
- Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables).
- Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost.

The Company adopted ASU No. 2016-01 in the first quarter of 2018 and the impact of adoption was not material to the Company's and Hawaiian Electric's consolidated financial statements.

Cash flows. In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which provides guidance on eight specific cash flow issues - debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies), distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle.

The Company adopted ASU No. 2016-15 in the first quarter of 2018 using a retrospective transition method and there was no impact from the adoption to the Company's and Hawaiian Electric's consolidated statements of cash flows.

Restricted cash. In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

The Company adopted ASU No. 2016-18 in the first quarter of 2018 using a retrospective transition method and the impact of adoption was not material to the Company's and Hawaiian Electric's consolidated statements of cash flows.

Definition of a Business. In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations—Clarifying the Definition of a Business." This update clarifies the definition of a business and adds guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company adopted ASU No. 2017-01 in the first quarter of 2018 and the impact of adoption was not material to the Company's and Hawaiian Electric's consolidated financial statements.

Net periodic pension cost and net periodic postretirement benefit cost. In March 2017, the FASB issued ASU No. 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost (NPPC) and net periodic postretirement benefit cost (NPBC) as defined in paragraphs 715-30-35-4 and 715-60-35-9 to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. Additionally, only the service cost component is eligible for capitalization under GAAP, when applicable.

The Company adopted ASU No. 2017-07 in the first quarter of 2018: (1) retrospectively for the presentation in the income statement of the service cost component and the other components of NPPC and NPBC, and (2) prospectively for the capitalization in assets of the service cost component of NPPC and NPBC for Hawaiian Electric and its subsidiaries. HEI and ASB do not capitalize pension and OPEB costs.

In settlement agreements in the 2018 Maui Electric, 2017 Hawaiian Electric and 2016 Hawaii Electric Light rate cases, Maui Electric, Hawaiian Electric and Hawaii Electric Light, respectively, and the Consumer Advocate agreed to the deferral of the non-service cost components of NPPC and NPBC, which would have been capitalized prior to ASU No. 2017-07, as part of the pension tracking mechanism. The PUC approved this treatment in the final decision and order (D&O) in the Hawaiian Electric and Hawaii Electric Light rate cases. The treatment under the settlement agreements was followed beginning in 2018 until each utility's next rate case. In each utility's next rate case, rates established would include recovery of the deferred non-service cost components and seek to adopt the capitalization policy which reflects the requirements of ASU No. 2017-07 (i.e., only the service cost components of NPPC and NPBC will be capitalized).

Thus, the adoption of ASU 2017-07 in the first quarter of 2018 does not have a net income impact. The following table summarizes the impact to the prior period financial statements of the adoption of ASU No. 2017-07:

(in thousands)	Three months ended June 30, 2017			Six months ended June 30, 2017		
	As previously filed	Adjustment from adoption of ASU No. 2017-07	As currently reported	As previously filed	Adjustment from adoption of ASU No. 2017-07	As currently reported
HEI Condensed Consolidated Income Statement						
Expenses						
Electric utility	$ 501,828	$ (1,435)	$ 500,393	$ 971,501	$ (2,858)	$ 968,643
Bank	50,533	(201)	50,332	99,229	(396)	98,833
Other	4,024	(270)	3,754	9,355	(528)	8,827
Total expenses	556,385	(1,906)	554,479	1,080,085	(3,782)	1,076,303
Operating income						
Electric utility	55,047	1,435	56,482	103,985	2,858	106,843
Bank	24,796	201	24,997	48,956	396	49,352
Other	(3,947)	270	(3,677)	(9,183)	528	(8,655)
Total operating income	75,896	1,906	77,802	143,758	3,782	147,540
Retirement defined benefits expense--other than service costs	—	(1,906)	(1,906)	—	(3,782)	(3,782)
Hawaiian Electric Condensed Consolidated Income Statement						
Other operation and maintenance	106,374	(1,435)	104,939	206,614	(2,858)	203,756
Total expense	501,828	(1,435)	500,393	971,501	(2,858)	968,643
Operating income	55,047	1,435	56,482	103,985	2,858	106,843
Retirement defined benefits expense--other than service costs	—	(1,435)	(1,435)	—	(2,858)	(2,858)
Hawaiian Electric Condensed Consolidating Income Statement (in Note 3)						
Hawaiian Electric (parent only)						
Other operation and maintenance	70,961	(1,302)	69,659	138,239	(2,587)	135,652
Total expense	357,575	(1,302)	356,273	690,763	(2,587)	688,176
Operating income	36,839	1,302	38,141	66,494	2,587	69,081
Retirement defined benefits expense--other than service costs	—	(1,302)	(1,302)	—	(2,587)	(2,587)
Hawaii Electric Light						
Other operation and maintenance	17,558	85	17,643	33,074	168	33,242
Total expense	72,903	85	72,988	141,400	168	141,568
Operating income	8,807	(85)	8,722	19,292	(168)	19,124
Retirement defined benefits expense--other than service costs	—	85	85	—	168	168
Maui Electric						
Other operation and maintenance	17,855	(218)	17,637	35,301	(439)	34,862
Total expense	71,350	(218)	71,132	139,338	(439)	138,899
Operating income	9,415	218	9,633	18,220	439	18,659
Retirement defined benefits expense--other than service costs	—	(218)	(218)	—	(439)	(439)
ASB Statements of Income Data (in Note 4)						
Compensation and employee benefits	24,742	(201)	24,541	47,979	(396)	47,583
Other expense	4,705	201	4,906	9,016	396	9,412

Derivatives and Hedging. In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," which is intended to improve and simplify accounting rules around hedge accounting. The amendments in ASU No. 2017-12 improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in the financial statements. The amendments also expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. For public business entities, the new guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, but early adoption is permitted. The Company early adopted ASU No. 2017-12 in the second quarter of 2018, with an effective date of April 1, 2018, and the adoption did not have a material impact on the Company's consolidated financial statements.

Leases. In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires that lessees recognize a liability to make lease payments (the lease liability) and a right-of-use asset, representing its right to use the underlying asset for the lease term, for all leases (except short-term leases) at the commencement date. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election and recognize lease expense for such leases generally on a straight-line basis over the lease term. For finance leases, a lessee is required to recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of income. For operating leases, a lessee is required to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.

The Company plans to adopt ASU No. 2016-02 in the first quarter of 2019 and is currently analyzing the potential impact of adoption, including the impact of electing certain practical expedients available under the standard. The Company has reviewed its agreements and has compiled a preliminary inventory of its operating leases and other arrangements that meet the definition of a lease under the new standard. The Company is in the process of analyzing the measurement provisions of the new standard and their impact to its existing lease arrangements that fall within the scope of ASU No. 2016-02.

Credit losses. In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. ASU No. 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date (based on historical experience, current conditions and reasonable and supportable forecasts) and enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU No. 2016-13 amends the accounting for credit losses on available-for-sale (AFS) debt securities and purchased financial assets with credit deterioration. The other-than-temporary impairment model of accounting for credit losses on AFS debt securities will be replaced with an estimate of expected credit losses only when the fair value is below the amortized cost of the asset. The length of time the fair value of an AFS debt security has been below the amortized cost will no longer impact the determination of whether a credit loss exists. The AFS debt security model will also require the use of an allowance to record the estimated losses (and subsequent recoveries). The accounting for the initial recognition of the estimated expected credit losses for purchased financial assets with credit deterioration would be recognized through an allowance for credit losses with an offset to the cost basis of the related financial asset at acquisition (i.e., there is no impact to net income at initial recognition).

The Company plans to adopt ASU No. 2016-13 in the first quarter of 2020. The guidance is to be applied on a modified retrospective basis with the cumulative effect of initially applying the amendments recognized in retained earnings at the date of initial application. The Company has assembled a project team that meets regularly to evaluate the provisions of this ASU, identify additional data requirements necessary and determine an approach for implementation. The team has assigned roles and responsibilities and developed key tasks to complete and a general timeline to be followed. The Company is evaluating the effect that this ASU will have on the consolidated financial statements and disclosures. Economic conditions and the composition of the Company's loan portfolio at the time of adoption will influence the extent of the adopting accounting adjustment.

Condensed Consolidated Statements of Cash Flows error. Subsequent to the issuance of interim Condensed Consolidated Financial Statements (unaudited) for the quarter ended June 30, 2017, the Company and the Utilities identified an error within their previously reported interim Condensed Consolidated Statements of Cash Flows (unaudited). The timing of certain capital expenditure payments, including those that had retainage balances or were related to certain capitalized amounts were not reflected timely. The Company and the Utilities have evaluated the effect of the error, both qualitatively and quantitatively, and concluded that it is immaterial to their respective previously issued condensed consolidated financial statements. For the six months ended June 30, 2017, the correction of this error resulted in decreases in Net Cash Provided by Operating Activities (impacting the change in Accounts, Interest and Dividends Payable for the Company and Accounts Payable for the Utilities) and Net Cash Used in Investing Activities (impacting the Capital Expenditures for the Company and the Utilities) of $12 million.

Reclassifications. Reclassifications made to prior year-end financial statements to conform to 2018 presentation include a reclassification of contributions in aid of construction (CIAC) balances to "Property, plant and equipment, net" and "Total property, plant and equipment, net" for the Company and Hawaiian Electric, respectively, which reduced the amounts of the respective balances.

Note 2 · Segment financial information

(in thousands)	Electric utility	Bank	Other	Total
Three months ended June 30, 2018				
Revenues from external customers	$ 608,112	$ 77,104	$ 61	$ 685,277
Intersegment revenues (eliminations)	14	—	(14)	—
Revenues	$ 608,126	$ 77,104	$ 47	$ 685,277
Income (loss) before income taxes	$ 40,344	$ 26,514	$ (7,276)	$ 59,582
Income taxes (benefit)	8,676	5,953	(1,574)	13,055
Net income (loss)	31,668	20,561	(5,702)	46,527
Preferred stock dividends of subsidiaries	499	—	(26)	473
Net income (loss) for common stock	$ 31,169	$ 20,561	$ (5,676)	$ 46,054
Six months ended June 30, 2018				
Revenues from external customers	$ 1,178,526	$ 152,523	$ 102	$ 1,331,151
Intersegment revenues (eliminations)	27	—	(27)	—
Revenues	$ 1,178,553	$ 152,523	$ 75	$ 1,331,151
Income (loss) before income taxes	$ 77,493	$ 51,014	$ (15,649)	$ 112,858
Income taxes (benefit)	17,851	11,493	(3,733)	25,611
Net income (loss)	59,642	39,521	(11,916)	87,247
Preferred stock dividends of subsidiaries	998	—	(52)	946
Net income (loss) for common stock	$ 58,644	$ 39,521	$ (11,864)	$ 86,301
Total assets (at June 30, 2018)	$ 5,803,714	$ 6,983,583	$ 96,807	$ 12,884,104
Three months ended June 30, 2017				
Revenues from external customers	$ 556,836	$ 75,329	$ 116	$ 632,281
Intersegment revenues (eliminations)	39	—	(39)	—
Revenues	$ 556,875	$ 75,329	$ 77	$ 632,281
Income (loss) before income taxes	$ 41,003	$ 24,796	$ (6,173)	$ 59,626
Income taxes (benefit)	14,860	8,063	(2,431)	20,492
Net income (loss)	26,143	16,733	(3,742)	39,134
Preferred stock dividends of subsidiaries	499	—	(26)	473
Net income (loss) for common stock	$ 25,644	$ 16,733	$ (3,716)	$ 38,661
Six months ended June 30, 2017				
Revenues from external customers	$ 1,075,402	$ 148,185	$ 256	$ 1,223,843
Intersegment revenues (eliminations)	84	—	(84)	—
Revenues	$ 1,075,486	$ 148,185	$ 172	$ 1,223,843
Income (loss) before income taxes	$ 75,725	$ 48,956	$ (13,473)	$ 111,208
Income taxes (benefit)	27,618	16,410	(6,620)	37,408
Net income (loss)	48,107	32,546	(6,853)	73,800
Preferred stock dividends of subsidiaries	998	—	(52)	946
Net income (loss) for common stock	$ 47,109	$ 32,546	$ (6,801)	$ 72,854
Total assets (at December 31, 2017)	$ 5,630,613	$ 6,798,659	$ 104,888	$ 12,534,160

Intercompany electricity sales of the Utilities to the bank and “other” segments are not eliminated because those segments would need to purchase electricity from another source if it were not provided by the Utilities and the profit on such sales is nominal.

Bank fees that ASB charges the Utilities and “other” segments are not eliminated because those segments would pay fees to another financial institution if they were to bank with another institution and the profit on such fees is nominal.

Hamakua Energy’s sales to Hawaii Electric Light (a regulated affiliate) are eliminated in consolidation. Hamakua Energy's profit on electricity sales to Hawaii Electric Light is not required to be eliminated because the PPA was approved by the PUC and it is probable that, through the ratemaking process, future revenue from Hawaii Electric Light’s sale of the electricity will approximate its purchase price from Hamakua Energy under the PPA.

Note 3 · Electric utility segment

Revenue taxes. The Utilities’ revenues include amounts for recovery of various Hawaii state revenue taxes. Revenue taxes are generally recorded as an expense in the period the related revenues are recognized. For the second quarters of 2018 and 2017 and the six months ended June 30, 2018 and 2017, the Utilities’ revenues include recovery of revenue taxes of approximately $54 million, $50 million, $105 million and $96 million, respectively, which amounts are included in “Taxes, other than income taxes” expense, in the unaudited condensed consolidated statements of income. However, the Utilities pay revenue taxes to the taxing authorities in the period based on (1) the prior year’s billed revenues (in the case of public service company taxes and PUC fees) in the current year or (2) the current year’s cash collections from electric sales (in the case of franchise taxes) after year-end.

Unconsolidated variable interest entities.

HECO Capital Trust III. Trust III has at all times been an unconsolidated subsidiary of Hawaiian Electric. Since Hawaiian Electric, as the holder of 100% of the trust common securities, does not have the power to direct the activities that most significantly impact the economic performance of Trust III nor the obligation to absorb its expected losses, if any, that could potentially be significant to Trust III, Hawaiian Electric is not the primary beneficiary and does not consolidate Trust III in accordance with accounting rules on the consolidation of VIEs. Trust III’s balance sheets as of June 30, 2018 and December 31, 2017 each consisted of $51.5 million of 2004 Debentures; $50.0 million of 2004 Trust Preferred Securities; and $1.5 million of trust common securities. Trust III’s income statements for the six months ended June 30, 2018 and 2017 consisted of $1.7 million of interest income received from the 2004 Debentures; $1.6 million of distributions to holders of the Trust Preferred Securities; and $50,000 of common dividends on the trust common securities to Hawaiian Electric.

Power purchase agreements. As of June 30, 2018, the Utilities had five PPAs for firm capacity and other PPAs with independent power producers (IPPs) and Schedule Q providers (i.e., customers with cogeneration and/or power production facilities who buy power from or sell power to the Utilities), none of which is currently required to be consolidated as VIEs.

Pursuant to the current accounting standards for VIEs, the Utilities are deemed to have a variable interest in Kalaeloa Partners, L.P. (Kalaeloa), AES Hawaii, Inc. (AES Hawaii) and the predecessor of Hamakua Energy by reason of the provisions of the PPA that the Utilities have with the three IPPs. However, management has concluded that the Utilities are not the primary beneficiary of Kalaeloa, AES Hawaii and the predecessor of Hamakua Energy because the Utilities do not have the power to direct the activities that most significantly impact the three IPPs’ economic performance nor the obligation to absorb their expected losses, if any, that could potentially be significant to the IPPs. Thus, the Utilities have not consolidated Kalaeloa, AES Hawaii and the predecessor of Hamakua Energy in its unaudited condensed consolidated financial statements. In November 2017, HEI acquired the Hamakua project through Hamakua Energy, an indirect subsidiary of Pacific Current, and has consolidated it in HEI’s unaudited condensed consolidated financial statements since the acquisition.

For the other PPAs with IPPs, the Utilities have concluded that the consolidation of the IPPs was not required because either the Utilities do not have variable interests in the IPPs due to the absence of an obligation in the PPAs for the Utilities to absorb any variability of the IPPs, or the IPPs were considered a “governmental organization,” and thus excluded from the scope of accounting standards for VIEs. Two IPPs of as-available energy declined to provide the information necessary for Utilities to determine the applicability of accounting standards for VIEs. If information is ultimately received from the IPPs, a possible outcome of future analyses of such information is the consolidation of one or both of such IPPs in the unaudited condensed consolidated financial statements. The consolidation of any significant IPP could have a material effect on the unaudited condensed consolidated financial statements, including the recognition of a significant amount of assets and liabilities and, if such a consolidated IPP were operating at a loss and had insufficient equity, the potential recognition of such losses. If the Utilities determine they are required to consolidate the financial statements of such an IPP and the consolidation has a material effect, the Utilities would retrospectively apply accounting standards for VIEs to the IPP.

Commitments and contingencies.

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

Power purchase agreements. Purchases from all IPPs were as follows:

	Three months ended June 30		Six months ended June 30	
(in millions)	**2018**	**2017**	**2018**	**2017**
Kalaeloa	$ 52	$ 48	$ 92	$ 88
AES Hawaii	32	35	69	64
HPOWER	17	16	32	33
Puna Geothermal Venture	4	10	15	18
Hamakua Energy	15	10	22	17
Other IPPs [1]	41	34	71	60
Total IPPs	$ 161	$ 153	$ 301	$ 280

[1] Includes wind power, solar power, feed-in tariff projects and other PPAs.

Kalaeloa Partners, L.P. Under a 1988 PPA, as amended, Hawaiian Electric is committed to purchase 208 MW of firm capacity from Kalaeloa. Hawaiian Electric and Kalaeloa are currently in negotiations to address the PPA term that ended on May 23, 2016. The PPA automatically extends on a month-to-month basis as long as the parties are still negotiating in good faith, but would end 60 days after either party notifies the other in writing that negotiations have terminated. Hawaiian Electric and Kalaeloa have agreed that neither party will terminate the PPA prior to October 31, 2018. This agreement contemplates continued negotiations between the parties and accounts for time needed for PUC approval of a negotiated resolution.

AES Hawaii, Inc. Under a PPA entered into in March 1988, as amended (through Amendment No. 2) for a period of 30 years beginning September 1992, Hawaiian Electric agreed to purchase 180 MW of firm capacity from AES Hawaii. 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, and amend the energy pricing formula in the PPA. The PUC approved the exemption in April 2013, but Hawaiian Electric and AES Hawaii were not able to reach agreement on the amendment. In June 2015, AES Hawaii filed an arbitration demand regarding a dispute about whether Hawaiian Electric was obligated to buy up to 9 MW of additional capacity based on a 1992 letter. Hawaiian Electric responded to the arbitration demand and in October 2015, AES Hawaii and Hawaiian Electric entered into a settlement agreement to stay the arbitration proceeding. The settlement agreement included certain conditions precedent which, if satisfied, would have released the parties from the claims under the arbitration proceeding. Among the conditions precedent was the successful negotiation and PUC approval of an amendment to the existing PPA.

In November 2015, Hawaiian Electric entered into Amendment No. 3 for which PUC approval was requested and subsequently denied in January 2017. Approval of Amendment No. 3 would have satisfied the final condition for effectiveness of the settlement agreement and resolved AES Hawaii's claims. Following the PUC's decision, the parties agreed to extend the stay of the arbitration proceeding, while settlement discussions continued. In February 2018, Hawaiian Electric reached agreement with AES Hawaii on Amendment No. 4, which was submitted to the PUC for approval in April 2018. Amendment No. 4, among other things, provides (1) that AES Hawaii will make certain operational commitments to improve reliability, (2) for inclusion of AES Hawaii in the Utilities’ greenhouse gas partnership, (3) provisions to allow AES Hawaii to reduce coal combustion by modifying its fuel consumption to include biomass upon approval by Hawaiian Electric, and (4) for release of an option agreement by Hawaiian Electric for land owned by AES Hawaii. Amendment No. 4 includes a stay of the arbitration proceeding pending review by the PUC. If approved by the PUC, Amendment No. 4 will resolve AES Hawaii’s claims. In June 2018, the PUC issued an order suspending the Amendment No. 4 docket pending a DOH decision on AES’ request for approval of its Emission Reduction Plan and partnership with Hawaiian Electric.

Hu Honua Bioenergy, LLC. 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. Under the terms of the PPA, the Hu Honua plant was scheduled to be in service in 2016. However, Hu Honua encountered construction delays, failed to meet its obligations under the PPA and failed to provide adequate assurances that it could perform or had the financial means to perform. Hawaii Electric Light terminated the PPA on March 1, 2016. On November 30, 2016, Hu Honua filed a civil complaint in the United States District Court for the District of Hawaii that included claims purportedly arising out of the termination of Hu Honua’s PPA. On May 26, 2017, Hawaii Electric Light and Hu Honua entered into a settlement agreement that will settle all claims related to the termination of the original PPA. The settlement agreement was contingent on the PUC's approval of an amended and restated PPA between Hawaii Electric Light and Hu Honua dated May 5, 2017. In July 2017, the PUC approved the amended and restated PPA. On August 25, 2017, the PUC's approval was appealed by a third party. The appeal is still pending. Hu Honua is expected to be on-line by the end of 2018.

Utility projects. Many public utility projects require PUC approval and various permits from other governmental agencies. Difficulties in obtaining, or the inability to obtain, the necessary approvals or permits can result in significantly increased project costs or even cancellation of projects. In the event a project does not proceed, or if it becomes probable the PUC will disallow cost recovery for all or part of a project, or if PUC-imposed caps on project costs are expected to be exceeded, project costs may need to be written off in amounts that could result in significant reductions in Hawaiian Electric's consolidated net income.

Enterprise Resource Planning/Enterprise Asset Management (ERP/EAM) implementation project. On August 11, 2016, the PUC approved the Utilities' request to commence the ERP/EAM implementation project, subject to certain conditions, including a $77.6 million cap on cost recovery as well as a requirement that the Utilities pass onto customers a minimum of $244 million in benefits associated with the system over its 12-year service life. The D&O approved the deferral of certain project costs and allowed the accrual of allowance for funds used during construction (AFUDC), but limited the AFUDC rate to 1.75%. Pursuant to the D&O and subsequent orders, in September 2017, the Utilities filed a bottom-up, low-level analysis of the project's benefits and performance metrics and tracking mechanism for passing the project's benefits on to customers.

On November 30, 2017, the PUC issued an order, which, among other things, directed the Utilities to file a position statement regarding the reasonableness of the project, a reworked low-level benefits analysis and initial details of the metrics that will be used to demonstrate the achievement of benefits. On December 18, 2017, the Utilities filed their response to the order, re-affirming the need for the project and guaranteed minimum level of $244 million in benefits to customers. The response further noted that in Hawaiian Electric's 2017 test year rate case, Hawaiian Electric and the Consumer Advocate have agreed in principle to a "rate case-centric" approach for a benefits delivery mechanism pending PUC approval. On January 4, 2018, the Consumer Advocate filed a statement of position (SOP) on the Utilities' response, stating that it does not recommend revocation of the PUC's prior conditional approval of the project or reductions to the previously ordered cost caps, and continues to recommend the use of a rate case-centric approach to facilitate pass through of the system's benefits to customers. The Utilities filed a response to the Consumer Advocate's SOP on January 11, 2018, noting among other things that the Consumer Advocate's SOP is in general alignment with the Utilities' position on the project. Monthly reports on the status and costs of the project continue to be filed. The parties have reached substantive agreement regarding the approach for delivering system benefits to customers, but are still in the process of developing an annual enterprise systems benefits report.

The ERP/EAM Implementation Project is expected to go live in October 2018. As of June 30, 2018, the Project incurred costs of $61.2 million of which $10.6 million were charged to other operation and maintenance (O&M) expense, $2.6 million relate to capital costs and $48.0 million are deferred costs.

Schofield Generating Station Project. 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 the construction of a 50 MW utility owned and operated firm, renewable and dispatchable generation facility at Schofield Barracks. In September 2015, the PUC approved Hawaiian Electric's application to expend $167 million for the project. In approving the project, the PUC placed a cost cap of $167 million for the project, stated 90% of the cap is allowed for cost recovery through cost recovery mechanisms other than base rates, and stated the $167 million cap will be adjusted downward due to any reduction in the cost of the engine contract due to a reduction in the foreign exchange rate. Hawaiian Electric was required to take all necessary steps to lock in the lowest possible exchange rate. On January 5, 2016, Hawaiian Electric executed window forward contracts, which lowered the cost of the engine contract by $9.7 million, resulting in a revised project cost cap of $157.3 million. Hawaiian Electric received all of the major permits for the project, including a 35-year site lease from the U.S. Army. Construction of the facility began in October 2016, and the facility was placed in service on June 7, 2018. A request to recover the capital costs of the project through the newly-established Major Project Interim Recovery (MPIR) adjustment mechanism was approved by the PUC on June 27, 2018. (See "Decoupling" section below for MPIR guidelines and capital cost recovery discussion.) A decision on recovery of related operation and maintenance expense (approximately $1.8 million annualized) during the interim period (i.e., between the in-service date and the next rate case) is pending. Project costs incurred as of June 30, 2018 amounted to $141.5 million.

West Loch PV Project. In July 2016, Hawaiian Electric announced plans to build, own and operate a utility-owned, grid-tied 20-MW (ac) solar facility on property owned by the Department of the Navy. In June 2017, the PUC approved the expenditure of funds for the project, including Hawaiian Electric's proposed project cost cap of $67 million and a performance guarantee to provide energy at 9.56 cents/KWH or less to the system.

In approving the project, the PUC agreed that the project is eligible for recovery of costs offset by related net benefits under the newly-established MPIR adjustment mechanism. (See "Decoupling" section below for MPIR guidelines and capital cost recovery discussion.) Hawaiian Electric provided supplemental materials in August 2017, as requested by the PUC, to support meeting the MPIR guidelines, accompanied by system performance guarantee and cost savings sharing mechanisms. A decision on these matters is pending.

Hawaiian Electric executed a fixed-price Engineering, Procurement, and Construction (EPC) contract for the project on December 6, 2017. The EPC contract includes the cost of the solar panels for the project, which is not subject to modification due to any tariffs that may be imposed under the current photovoltaic (PV) cell and module import tariffs. Construction of the facility began in the second quarter of 2018, and the facility is expected to be placed in service in the second quarter of 2019. Project costs incurred as of June 30, 2018 amounted to $9.1 million.

Hawaiian Telcom. The Utilities each have separate agreements for the joint ownership and maintenance of utility poles with Hawaiian Telcom, Inc. (Hawaiian Telcom), the respective county or counties in which each utility operates and other third parties, such as the State of Hawaii. The agreements set forth various circumstances requiring pole removal/installation/replacement and the sharing of costs among the joint pole owners. The agreements allow for the cost of work done by one joint pole owner to be shared by the other joint pole owners based on the apportionment of costs in the agreements. The Utilities have maintained, replaced and installed the majority of the jointly-owned poles in each of the respective service territories, and have billed the other joint pole owners for their respective share of the costs. The counties and the State have been reimbursing the Utilities for their share of the costs. However, Hawaiian Telcom has been delinquent in reimbursing the Utilities for its share of the costs.

Hawaiian Electric initiated a dispute resolution process to collect the unpaid amounts from Hawaiian Telcom as specified by the joint pole agreement. This dispute resolution process is stayed pending PUC approval of a settlement agreement further described below. For Hawaii Electric Light, the agreement does not specify an alternative dispute resolution process, and thus a complaint for payment was filed with the Circuit Court in June 2016. This complaint is stayed pending PUC approval of a settlement agreement further described below. Maui Electric has not yet commenced any legal action to recover the delinquent amounts. On April 4, 2018, the Utilities and Hawaiian Telcom entered into several agreements, subject to PUC approval, for the purchase by the Utilities of Hawaiian Telcom's interest in all the joint poles, and licensing and operating agreement between the Utilities and Hawaiian Telcom subsequent to the transfer of the joint pole interest to the Utilities. Consideration of approximately $48 million to be paid for Hawaiian Telcom's interest in the poles will be offset in part by the receivables owed by Hawaiian Telcom to the Utilities. As of June 30, 2018, receivables under the joint pole agreement, net of a reserve for a portion of the interest, from Hawaiian Telcom are $17.4 million ($11.6 million at Hawaiian Electric, $4.7 million at Hawaii Electric Light, and $1.1 million at Maui Electric). Although PUC approval has not yet been received, management expects the net receivable amounts will be realized. The remaining consideration for acquiring Hawaiian Telcom's interest in the joint poles is to be settled through the set-off of current and future license fees due from Hawaiian Telcom, after which Hawaiian Telcom would make cash payments for license fees under the agreement.

Environmental regulation. The Utilities are subject to environmental laws and regulations that regulate the operation of existing facilities, the construction and operation of new facilities and the proper cleanup and disposal of hazardous waste and toxic substances.

Hawaiian Electric, Hawaii Electric Light and Maui Electric, like other utilities, periodically encounter petroleum or other chemical releases associated with current or previous operations. The Utilities report and take action on these releases when and as required by applicable law and regulations. The Utilities believe the costs of responding to such releases identified to date will not have a material effect, individually or in the aggregate, on Hawaiian Electric's consolidated results of operations, financial condition or liquidity.

Former Molokai Electric Company generation site. In 1989, Maui Electric acquired by merger Molokai Electric Company. Molokai Electric Company had sold its former generation site (Site) in 1983, but continued to operate at the Site under a lease until 1985. The Environmental Protection Agency (EPA) has since identified environmental impacts in the subsurface soil at the Site. Although Maui Electric never operated at the Site or owned the Site property, after discussions with the EPA and the Hawaii Department of Health (DOH), Maui Electric agreed to undertake additional investigations at the Site and an adjacent parcel that Molokai Electric Company had used for equipment storage (the Adjacent Parcel) to determine the extent of environmental contamination. A 2011 assessment by a Maui Electric contractor of the Adjacent Parcel identified environmental impacts, including elevated polychlorinated biphenyls (PCBs) in the subsurface soils. In cooperation with the DOH and EPA, Maui Electric is further investigating the Site and the Adjacent Parcel to determine the extent of impacts of PCBs, residual fuel oils and other subsurface contaminants. Maui Electric has a reserve balance of $2.7 million as of June 30, 2018, representing the probable and reasonably estimated cost to complete the additional investigation and estimated cleanup costs at the Site and the Adjacent Parcel; however, final costs of remediation will depend on the results of continued investigation.

Pearl Harbor sediment study. In July 2014, the U.S. Navy notified Hawaiian Electric of the Navy’s determination that Hawaiian Electric is a Potentially Responsible Party responsible for cleanup of PCB contamination in sediment in the area offshore of the Waiau Power Plant as part of the Pearl Harbor Superfund Site. The Navy has also requested that Hawaiian Electric reimburse the costs incurred by the Navy to investigate the area. The Navy has completed a remedial investigation and a feasibility study (FS) for the remediation of contaminated sediment at several locations in Pearl Harbor and issued its Final FS Report on June 29, 2015. On February 2, 2016, the Navy released the Proposed Plan for Pearl Harbor Sediment Remediation and Hawaiian Electric submitted comments. The extent of the contamination, the appropriate remedial measures to address it and Hawaiian Electric’s potential responsibility for any associated costs have not been determined.

On March 23, 2015, Hawaiian Electric received a letter from the EPA requesting that Hawaiian Electric submit a work plan to assess potential sources and extent of PCB contamination onshore at the Waiau Power Plant. Hawaiian Electric submitted a sampling and analysis (SAP) work plan to the EPA and the DOH. Onshore sampling at the Waiau Power Plant was completed in two phases in December 2015 and June 2016. Appropriate remedial measures are being developed to address the extent of the onshore contamination, and any associated costs have not yet been determined.

As of June 30, 2018, the reserve account balance recorded by Hawaiian Electric to address the PCB contamination was $4.7 million. The reserve represents the probable and reasonably estimable cost to complete the onshore and offshore investigations and the remediation of PCB contamination in the offshore sediment. The final remediation costs will depend on the assessment of potential source control requirements, as well as the further investigation of contaminated sediment offshore from the Waiau Power Plant by the Navy.

Regulatory proceedings

Decoupling. Decoupling is a regulatory model that is intended to facilitate meeting the State of Hawaii’s goals to transition to a clean energy economy and achieve an aggressive renewable portfolio standard. The decoupling model, implemented in Hawaii in 2011, delinks revenues from sales and includes annual rate adjustments. The decoupling mechanism has the following major components: (1) a sales decoupling component via a revenue balancing account (RBA), (2) a revenue escalation component via a rate adjustment mechanism (RAM), (3) major project interim recovery component (MPIR), (4) performance incentive mechanisms (PIMs), and (5) an earnings sharing mechanism, which would provide for a reduction of revenues between rate cases in the event the utility exceeds the return on average common equity (ROACE) allowed in its most recent rate case. Under the decoupling mechanism, triennial general rate cases are required.

Rate adjustment mechanism. On March 31, 2015, the PUC issued an Order (the 2015 Decoupling Order) that modified the RAM portion of the decoupling mechanism to be capped at the lesser of the RAM revenue adjustment as then determined (based on an inflationary adjustment for certain O&M expenses and return on investment for certain rate base changes) and a RAM revenue adjustment calculated based on the cumulative annual compounded increase in Gross Domestic Product Price Index applied to annualized target revenues (the RAM Cap). The 2015 Decoupling Order provided a specific basis for calculating the target revenues until the next rate case, at which time the target revenues will reset upon the issuance of an interim or final D&O in a rate case.

The RAM Cap impacted the Utilities' recovery of capital investments as follows:

- Hawaiian Electric's RAM revenues were limited to the RAM Cap in 2017 and 2018.
- Maui Electric's RAM revenues in 2017 and 2018 were below the RAM Cap.
- Hawaii Electric Light’s RAM revenues in 2017 and 2018 were below the RAM Cap.

For the RAM years 2014 - 2016, Hawaiian Electric was allowed to record RAM revenue beginning on January 1 and to bill such amounts from June 1 of the applicable year through May 31 of the following year. Subsequent to 2016, Hawaiian Electric reverted to the RAM provisions initially approved in March 2011—i.e., RAM is both accrued and billed from June 1 of each year through May 31 of the following year.

Major project interim recovery. On April 27, 2017, the PUC issued an Order that provided guidelines for interim recovery of revenues to support major projects placed in service between general rate cases.

Projects eligible for recovery through the MPIR adjustment mechanism are major projects (i.e., projects with capital expenditures net of customer contributions in excess of $2.5 million), including, but not restricted to, renewable energy, energy efficiency, utility scale generation, grid modernization and smaller qualifying projects grouped into programs for review. The MPIR adjustment mechanism provides the opportunity to recover revenues for approved costs of eligible projects placed in service between general rate cases wherein cost recovery is limited by a revenue cap and is not provided by other effective recovery mechanisms. The request for PUC approval must include a business case and all costs that are allowed to be recovered through the MPIR adjustment mechanism must be offset by any related benefits. The guidelines provide for accrual of revenues approved for recovery upon in-service date to be collected from customers through the annual RBA tariff. Capital projects that are not recovered through the MPIR would be included in the RAM and be subject to the RAM Cap, until the next rate case when the Utilities would request recovery in base rates.

The PUC has approved recovery of a capped portion of the Schofield generating station through the MPIR mechanism. Hawaiian Electric has filed an MPIR for Schofield of $6.6 million in annual revenues, which would adjust revenues in July through December 2018 and be collected in customer bills beginning in June 2019.

Performance incentive mechanisms. The PUC has ordered the following performance incentive mechanisms (PIM), which will be reflected in the annual decoupling filing beginning in 2019. The PIM tariff requires the performance targets, deadbands and the amount of maximum financial incentives used to determine the PIM financial incentive levels for each of the PIMs to be re-determined upon issuance of an interim or final order in a general rate case for each utility.

- Service Quality performance incentives are measured on a calendar-year basis beginning in 2018.
    - Service Reliability Performance measured by System Average Interruption Duration and Frequency Indexes (penalties only). Target performance is based on each utility's historical 10-year average performance with a deadband of one standard deviation. The maximum penalty for each performance index is 20 basis points applied to the common equity share of each respective utility's rate base (or maximum penalties of approximately $6.2 million - pending adjustment to $6.7 million as a result of the final orders for the Hawaiian Electric and Hawaii Electric Light rate cases - for both indices in total for the three utilities).
    - Call Center Performance measured by the percentage of calls answered within 30 seconds. Target performance is based on the annual average performance for each utility for the most recent 8 quarters with a deadband of 3% above and below the target. The maximum penalty or incentive is 8 basis points applied to the common equity share of each respective utility's rate base (or maximum penalties or incentives of approximately $1.2 million - pending adjustment to $1.3 million as a result of the final orders for the Hawaiian Electric and Hawaii Electric Light rate cases - in total for the three utilities).
- Demand Response measured by the demand response resources acquired in 2018. The award is equal to 5% of the total of the annual maintenance cost for cost-effective demand response capability contracted with aggregators by December 31, 2018. The maximum award is $0.5 million for the three utilities in total and there are no penalties. This incentive applies to one-time performance in 2018 only.
- Procurement of low-cost variable renewable resources through the request for proposal process in 2018 measured by comparison of the procurement price to target prices. The incentive is 20% of savings determined by comparing procured price to a target of 11.5 cents per kilowatt-hour for renewable projects with storage capability and 9.5 cents per kilowatt-hour for energy-only renewable projects. This incentive has a cap of $3.5 million for the three utilities in total and has no penalty.

Annual decoupling filings. The net annual incremental amounts to be collected (refunded) from June 1, 2018 through May 31, 2019 are as follows:

(in millions)	Hawaiian Electric	Hawaii Electric Light	Maui Electric
2018 Annual incremental RAM adjusted revenues	$ 13.8	$ 3.4	$ 2.0
Annual change in accrued RBA balance as of December 31, 2017 (and associated revenue taxes)	$ 6.6	$ 0.7	$ 3.2
2017 Tax Act Adjustment	$ —	$ —	$ (2.8)
Net annual incremental amount to be collected under the tariffs	$ 20.4	$ 4.1	$ 2.4

* Maui Electric incorporated a $2.8 million adjustment into its 2018 annual decoupling filing to incorporate the impact of the lower corporate income tax rate and the exclusion of the domestic production activities deduction, as a result of the 2017 Tax Cuts and Jobs Act (the Tax Act). Tax adjustments for Hawaiian Electric and Hawaii Electric Light are described in the discussion below of their respective on-going rate cases.

Performance-based regulation proceeding. On April 18, 2018, the PUC issued an order, instituting a proceeding to investigate performance-based regulation (PBR). The PUC intends to provide a forum to collaboratively develop modifications or new components to better align utility and customer interests. The PUC stated that PBR seeks to utilize both revenue adjustment mechanisms and performance mechanisms to more strongly align utilities' incentives with customer interests.

The order stated that, in general, the PUC is interested in ratemaking elements and/or mechanisms that result in:

- Greater cost control and reduced rate volatility;
- Efficient investment and allocation of resources regardless of classification as capital or operating expense;
- Fair distribution of risks between utilities and customers; and
- Fulfillment of State policy goals.

The PUC envisions that the PBR components through this investigation are those that: (a) target areas of current utility performance that may benefit from improvement; and (b) reward the utility for achieving specific outcomes that are in the public interest and/or penalize the utility for not achieving said outcomes. To that end, through this investigation, the PUC intends to: (1) identify specific areas of utility performance that should be improved; (2) determine appropriate metrics for measuring successful outcomes in those areas; and (3) establish reasonable financial rewards and/or penalties that are sufficient to incent the utility to achieve those outcomes.

The order indicated that the proceeding would have two phases. Phase 1 would examine the current regulatory framework and identify those areas of utility performance that are deserving of further focus for PBR framework development and/or PIMs in Phase 2. A subsequent order established a procedural process and schedule for Phase I, which the PUC anticipated would take approximately nine months.

On July 10, 2018, the PUC submitted a Staff Report to provide the Parties with an initial set of proposed regulatory goals and outcomes to respond to, or expand upon, and to offer alternatives. Specifically, the Staff Report: (a) provides an overview of Phase 1 of the proceeding; (b) discusses the terms and concepts that form the PBR process framework; and (c) proposes three overarching goals (enhance customer experience, improve utility performance, advance societal outcomes) along with a preliminary set of associated outcomes to help guide PBR evaluation and development.

On July 23 and 24, 2018, the PUC held a technical workshop on goals and outcomes, attended by the parties in the proceeding.

Performance-based ratemaking legislation. On April 24, 2018, Senate Bill No. 2939 SD2 was signed into law, which establishes performance metrics that the PUC shall consider while establishing performance incentives and penalty mechanisms under a performance-based ratemaking model. The law requires that the PUC establish these performance-based ratemaking mechanisms on or before January 1, 2020. The PUC opened a proceeding on April 18, 2018. See “Performance-based regulation proceeding” above.

Most recent rate proceedings.

Hawaiian Electric consolidated 2014 and 2017 test year rate cases. In June 2014, Hawaiian Electric submitted its 2014 test year rate case filing, stating that it intended to forgo the opportunity to seek a general rate increase in base rates. In December 2016, Hawaiian Electric filed an application with the PUC for a general rate increase, and the PUC issued an order consolidating the Hawaiian Electric filings for the 2014 and 2017 test year rate cases. On February 16, 2018, Hawaiian Electric implemented an interim increase of $36.0 million. On April 13, 2018, Hawaiian Electric implemented an additional interim rate adjustment to adjust rates for the impact of the Tax Act.

On June 22, 2018, the PUC issued its Final D&O, approving final rate relief of a $37.7 million increase before the Tax Act impact reduction of $38.3 million, based on an ROACE of 9.5% and an overall rate of return of 7.57%. The PUC indicated that the ECRC mechanism shall reflect a 98/2% risk-sharing split between ratepayers and Hawaiian Electric, with an annual maximum exposure cap of $2.5 million.

Maui Electric consolidated 2015 and 2018 test year rate cases. In December 2014, Maui Electric submitted its 2015 test year rate case filing, proposing no change to its base rates. In August 2017, the PUC issued an order consolidating the Maui Electric filings for the 2015 and 2018 test year rate cases. In October 2017, Maui Electric filed its 2018 test year rate case application with the PUC for a general rate increase of $30.1 million over revenues at current effective rates (for a 9.3% increase in revenues) based on a 2018 test year and an 8.05% rate of return (which incorporates a ROACE of 10.6% and a capital structure that includes a 56.9% common equity capitalization) on a $473 million rate base. Subsequently, in accordance with a PUC order, on February 26, 2018, Maui Electric filed revised schedules to reflect the following adjustments resulting from the Tax Act in its 2018 test year revenue requirement: (1) $8.1 million income tax expense reduction; (2) $0.5 million annual amortization credit for excess accumulated deferred income tax balances (ADIT); and (3) $7.1 million increase in rate base resulting from the decrease in ADIT for bonus depreciation loss and CIAC taxability.

Maui Electric and the Consumer Advocate filed a stipulated settlement letter and the Parties’ joint statement of probable entitlement on June 15, 2018 and July 6, 2018, respectively. The stipulated settlement resolved all issues between the parties, except for the narrow issue of whether the ROACE should be reduced from 9.75% by up to 25 basis points based solely on the impact of decoupling, considering current circumstances and relevant precedents. The parties agreed that the ROACE issue shall be addressed based on the information contained in the record without the need for an evidentiary hearing, and further agreed to the use of a 9.50% ROACE for the limited purpose of determining the revenue requirement for the interim order. The joint statement of probable entitlement reflects a general rate increase of $6.4 million over revenues at current effective rates (for a 1.95% increase in revenues) based on 7.43% rate of return (which incorporates a ROACE of 9.5% and a capital structure that includes a 57% common equity capitalization) on a $465 million rate base. The general rate increase would be $12.5 million over revenues at current effective rates with the depreciation rates approved in the depreciation proceeding. In the decision and order issued on July 30, 2018 in the depreciation proceeding, the PUC ordered that the effective date of the approved depreciation rates shall coincide with the effective date of interim or final rates in each of the Utilities' subsequent general rate case proceedings, beginning with Maui Electric's 2018 test year rate case. The PUC may consider the Parties' joint statement of probable entitlement in issuing its interim order. The interim D&O is scheduled for August 13, 2018.

Hawaii Electric Light 2016 test year rate case. In September 2016, Hawaii Electric Light filed an application with the PUC for a general rate increase.

In August 2017, the PUC issued an order granting an interim rate increase of $9.9 million based on the Stipulated Settlement Letter of Hawaii Electric Light and the Consumer Advocate filed on July 11, 2017 and an ROACE of 9.5% and subject to refund with interest, if it exceeds amounts allowed in a final order. The interim rate increase was implemented on August 31, 2017. On May 1, 2018, Hawaii Electric Light implemented an interim rate reduction of $9.9 million which was primarily to incorporate the effects of the Tax Act.

On June 29, 2018, the PUC issued its Final D&O, approving the rates implemented in the interim rate reduction.

Tax Cuts and Jobs Act impact on utility rates. The Utilities began tracking the impact of the Tax Cuts and Jobs Act of 2017 (Tax Act) as of January 1, 2018. Each Utility accrued regulatory liabilities for estimated tax savings from January 1 to the date incorporated in rates. Hawaiian Electric's rates for the 2017 test year reflected the Tax Act reductions effective April 13, 2018. Hawaii Electric Light's rates for the 2016 test year reflect the Tax Act reductions effective May 1, 2018. Adjustments to Maui Electric's current rates for the Tax Act are incorporated in the annual Revenue Balancing Account adjustment which became effective on June 1, 2018. See discussion in "Decoupling" section above.

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

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

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Income
Three months ended June 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$ 431,699	89,548	86,938	—	(59)	$ 608,126
Expenses						
Fuel oil	120,007	19,432	32,278	—	—	171,717
Purchased power	121,812	24,664	14,262	—	—	160,738
Other operation and maintenance	76,845	19,015	16,782	—	—	112,642
Depreciation	34,391	10,038	5,932	—	—	50,361
Taxes, other than income taxes	40,951	8,408	8,165	—	—	57,524
Total expenses	394,006	81,557	77,419	—	—	552,982
Operating income	37,693	7,991	9,519	—	(59)	55,144
Allowance for equity funds used during construction	2,588	124	271	—	—	2,983
Equity in earnings of subsidiaries	9,080	—	—	—	(9,080)	—
Retirement defined benefits expense—other than service costs	(554)	(105)	(329)	—	—	(988)
Interest expense and other charges, net	(12,930)	(2,922)	(2,367)	—	59	(18,160)
Allowance for borrowed funds used during construction	1,150	77	138	—	—	1,365
Income before income taxes	37,027	5,165	7,232	—	(9,080)	40,344
Income taxes	5,588	1,269	1,819	—	—	8,676
Net income	31,439	3,896	5,413	—	(9,080)	31,668
Preferred stock dividends of subsidiaries	—	133	96	—	—	229
Net income attributable to Hawaiian Electric	31,439	3,763	5,317	—	(9,080)	31,439
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income for common stock	$ 31,169	3,763	5,317	—	(9,080)	$ 31,169

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income
Three months ended June 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$ 31,169	3,763	5,317	—	(9,080)	$ 31,169
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	4,853	734	649	—	(1,383)	4,853
Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(4,827)	(733)	(649)	—	1,382	(4,827)
Other comprehensive income, net of taxes	26	1	—	—	(1)	26
Comprehensive income attributable to common shareholder	$ 31,195	3,764	5,317	—	(9,081)	$ 31,195

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Income
Three months ended June 30, 2017

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$ 394,414	81,710	80,765	—	(14)	$ 556,875
Expenses						
Fuel oil	99,814	14,475	26,970	—	—	141,259
Purchased power	116,458	23,482	13,127	—	—	153,067
Other operation and maintenance	69,659	17,643	17,637	—	—	104,939
Depreciation	32,723	9,686	5,747	—	—	48,156
Taxes, other than income taxes	37,619	7,702	7,651	—	—	52,972
Total expenses	356,273	72,988	71,132	—	—	500,393
Operating income	38,141	8,722	9,633	—	(14)	56,482
Allowance for equity funds used during construction	2,659	134	234	—	—	3,027
Equity in earnings of subsidiaries	7,936	—	—	—	(7,936)	—
Retirement defined benefits expense—other than service costs	(1,302)	85	(218)	—	—	(1,435)
Interest expense and other charges, net	(12,562)	(2,996)	(2,670)	—	14	(18,214)
Allowance for borrowed funds used during construction	988	55	100	—	—	1,143
Income before income taxes	35,860	6,000	7,079	—	(7,936)	41,003
Income taxes	9,946	2,235	2,679	—	—	14,860
Net income	25,914	3,765	4,400	—	(7,936)	26,143
Preferred stock dividends of subsidiaries	—	133	96	—	—	229
Net income attributable to Hawaiian Electric	25,914	3,632	4,304	—	(7,936)	25,914
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income for common stock	$ 25,644	3,632	4,304	—	(7,936)	$ 25,644

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income
Three months ended June 30, 2017

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$ 25,644	3,632	4,304	—	(7,936)	$ 25,644
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	3,621	449	344	—	(793)	3,621
Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(3,581)	(448)	(343)	—	791	(3,581)
Other comprehensive income, net of taxes	40	1	1	—	(2)	40
Comprehensive income attributable to common shareholder	$ 25,684	3,633	4,305	—	(7,938)	$ 25,684

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Income
Six months ended June 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$ 832,879	177,481	168,294	—	(101)	$ 1,178,553
Expenses						
Fuel oil	234,505	37,919	66,261	—	—	338,685
Purchased power	229,182	48,498	22,968	—	—	300,648
Other operation and maintenance	149,785	35,113	35,354	—	—	220,252
Depreciation	68,830	20,093	11,904	—	—	100,827
Taxes, other than income taxes	79,118	16,620	15,890	—	—	111,628
Total expenses	761,420	158,243	152,377	—	—	1,072,040
Operating income	71,459	19,238	15,917	—	(101)	106,513
Allowance for equity funds used during construction	5,475	235	567	—	—	6,277
Equity in earnings of subsidiaries	18,405	—	—	—	(18,405)	—
Retirement defined benefits expense—other than service costs	(1,616)	(208)	(428)	—	—	(2,252)
Interest expense and other charges, net	(25,425)	(5,829)	(4,701)	—	101	(35,854)
Allowance for borrowed funds used during construction	2,388	141	280	—	—	2,809
Income before income taxes	70,686	13,577	11,635	—	(18,405)	77,493
Income taxes	11,502	3,446	2,903	—	—	17,851
Net income	59,184	10,131	8,732	—	(18,405)	59,642
Preferred stock dividends of subsidiaries	—	267	191	—	—	458
Net income attributable to Hawaiian Electric	59,184	9,864	8,541	—	(18,405)	59,184
Preferred stock dividends of Hawaiian Electric	540	—	—	—	—	540
Net income for common stock	$ 58,644	9,864	8,541	—	(18,405)	$ 58,644

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income
Six months ended June 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$ 58,644	9,864	8,541	—	(18,405)	$ 58,644
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	9,506	1,409	1,211	—	(2,620)	9,506
Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(9,449)	(1,408)	(1,211)	—	2,619	(9,449)
Other comprehensive income, net of taxes	57	1	—	—	(1)	57
Comprehensive income attributable to common shareholder	$ 58,701	9,865	8,541	—	(18,406)	$ 58,701

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Income
Six months ended June 30, 2017

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$ 757,257	160,692	157,558	—	(21)	$ 1,075,486
Expenses						
Fuel oil	197,815	31,732	55,982	—	—	285,529
Purchased power	216,605	42,071	21,515	—	—	280,191
Other operation and maintenance	135,652	33,242	34,862	—	—	203,756
Depreciation	65,445	19,371	11,556	—	—	96,372
Taxes, other than income taxes	72,659	15,152	14,984	—	—	102,795
Total expenses	688,176	141,568	138,899	—	—	968,643
Operating income	69,081	19,124	18,659	—	(21)	106,843
Allowance for equity funds used during construction	4,715	249	462	—	—	5,426
Equity in earnings of subsidiaries	16,539	—	—	—	(16,539)	—
Retirement defined benefits expense—other than service costs	(2,587)	168	(439)	—	—	(2,858)
Interest expense and other charges, net	(24,619)	(6,000)	(5,120)	—	21	(35,718)
Allowance for borrowed funds used during construction	1,737	100	195	—	—	2,032
Income before income taxes	64,866	13,641	13,757	—	(16,539)	75,725
Income taxes	17,217	5,158	5,243	—	—	27,618
Net income	47,649	8,483	8,514	—	(16,539)	48,107
Preferred stock dividends of subsidiaries	—	267	191	—	—	458
Net income attributable to Hawaiian Electric	47,649	8,216	8,323	—	(16,539)	47,649
Preferred stock dividends of Hawaiian Electric	540	—	—	—	—	540
Net income for common stock	$ 47,109	8,216	8,323	—	(16,539)	$ 47,109

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income
Six months ended June 30, 2017

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$ 47,109	8,216	8,323	—	(16,539)	$ 47,109
Other comprehensive income (loss), net of taxes:						
Derivatives qualifying as cash flow hedges:						
Reclassification adjustment to net income, net of taxes	454	—	—	—	—	454
Retirement benefit plans:						
Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	7,239	952	810	—	(1,762)	7,239
Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(7,194)	(951)	(810)	—	1,761	(7,194)
Other comprehensive income, net of taxes	499	1	—	—	(1)	499
Comprehensive income attributable to common shareholder	$ 47,608	8,217	8,323	—	(16,540)	$ 47,608

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Balance Sheet
June 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consoli-dating adjustments	Hawaiian Electric Consolidated
Assets						
Property, plant and equipment						
Utility property, plant and equipment						
Land	$ 44,023	5,876	3,015	—	—	$ 52,914
Plant and equipment	4,363,195	1,217,147	1,072,640	—	—	6,652,982
Less accumulated depreciation	(1,491,505)	(536,210)	(506,713)	—	—	(2,534,428)
Construction in progress	127,343	10,154	28,111	—	—	165,608
Utility property, plant and equipment, net	3,043,056	696,967	597,053	—	—	4,337,076
Nonutility property, plant and equipment, less accumulated depreciation	5,934	115	1,532	—	—	7,581
Total property, plant and equipment, net	3,048,990	697,082	598,585	—	—	4,344,657
Investment in wholly owned subsidiaries, at equity	561,764	—	—	—	(561,764)	—
Current assets						
Cash and cash equivalents	13,922	4,516	2,321	101	—	20,860
Advances to affiliates	5,600	1,000	—	—	(6,600)	—
Customer accounts receivable, net	109,285	24,005	23,970	—	—	157,260
Accrued unbilled revenues, net	80,239	15,243	15,357	—	—	110,839
Other accounts receivable, net	10,657	2,561	1,124	—	(7,446)	6,896
Fuel oil stock, at average cost	74,485	12,632	19,899	—	—	107,016
Materials and supplies, at average cost	31,077	8,600	18,264	—	—	57,941
Prepayments and other	21,482	6,329	2,943	—	(1,514)	29,240
Regulatory assets	88,581	6,353	8,632	—	—	103,566
Total current assets	435,328	81,239	92,510	101	(15,560)	593,618
Other long-term assets						
Regulatory assets	538,925	118,000	99,919	—	—	756,844
Other	71,486	19,378	17,731	—	—	108,595
Total other long-term assets	610,411	137,378	117,650	—	—	865,439
Total assets	$ 4,656,493	915,699	808,745	101	(577,324)	$ 5,803,714
Capitalization and liabilities						
Capitalization						
Common stock equity	$ 1,852,324	288,865	272,798	101	(561,764)	$ 1,852,324
Cumulative preferred stock—not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	999,915	217,699	200,860	—	—	1,418,474
Total capitalization	2,874,532	513,564	478,658	101	(561,764)	3,305,091
Current liabilities						
Current portion of long-term debt	29,990	10,996	8,997	—	—	49,983
Short-term borrowings from non-affiliates	91,880	—	—	—	—	91,880
Short-term borrowings from affiliate	1,000	—	5,600	—	(6,600)	—
Accounts payable	115,806	17,405	20,548	—	—	153,759
Interest and preferred dividends payable	15,743	4,203	2,752	—	(14)	22,684
Taxes accrued	120,513	27,353	25,711	—	(1,514)	172,063
Regulatory liabilities	2,751	2,499	4,537	—	—	9,787
Other	42,449	10,223	13,963	—	(7,432)	59,203
Total current liabilities	420,132	72,679	82,108	—	(15,560)	559,359
Deferred credits and other liabilities						
Deferred income taxes	277,599	54,505	56,771	—	—	388,875
Regulatory liabilities	627,369	173,305	94,755	—	—	895,429

Unamortized tax credits	60,893	16,463	15,442	—	—	92,798
Defined benefit pension and other postretirement benefit plans liability	330,356	64,175	63,422	—	—	457,953
Other	65,612	21,008	17,589	—	—	104,209
Total deferred credits and other liabilities	1,361,829	329,456	247,979	—	—	1,939,264
Total capitalization and liabilities	$ 4,656,493	915,699	808,745	101	(577,324)	$ 5,803,714

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Balance Sheet
December 31, 2017

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consoli-dating adjustments	Hawaiian Electric Consolidated
Assets						
Property, plant and equipment						
Utility property, plant and equipment						
Land	$ 43,972	6,189	3,016	—	—	$ 53,177
Plant and equipment	4,140,892	1,206,776	1,053,372	—	—	6,401,040
Less accumulated depreciation	(1,451,612)	(528,024)	(496,716)	—	—	(2,476,352)
Construction in progress	231,571	8,182	23,341	—	—	263,094
Utility property, plant and equipment, net	2,964,823	693,123	583,013	—	—	4,240,959
Nonutility property, plant and equipment, less accumulated depreciation	5,933	115	1,532	—	—	7,580
Total property, plant and equipment, net	2,970,756	693,238	584,545	—	—	4,248,539
Investment in wholly owned subsidiaries, at equity	557,013	—	—	—	(557,013)	—
Current assets						
Cash and cash equivalents	2,059	4,025	6,332	101	—	12,517
Advances to affiliates	—	—	12,000	—	(12,000)	—
Customer accounts receivable, net	86,987	22,510	18,392	—	—	127,889
Accrued unbilled revenues, net	77,176	15,940	13,938	—	—	107,054
Other accounts receivable, net	11,376	2,268	1,210	—	(7,691)	7,163
Fuel oil stock, at average cost	64,972	8,698	13,203	—	—	86,873
Materials and supplies, at average cost	28,325	8,041	18,031	—	—	54,397
Prepayments and other	17,928	4,514	2,913	—	—	25,355
Regulatory assets	76,203	5,038	7,149	—	—	88,390
Total current assets	365,026	71,034	93,168	101	(19,691)	509,638
Other long-term assets						
Regulatory assets	557,464	122,783	100,660	—	—	780,907
Other	60,157	16,311	15,061	—	—	91,529
Total other long-term assets	617,621	139,094	115,721	—	—	872,436
Total assets	$ 4,510,416	903,366	793,434	101	(576,704)	$ 5,630,613
Capitalization and liabilities						
Capitalization						
Common stock equity	$ 1,845,283	286,647	270,265	101	(557,013)	$ 1,845,283
Cumulative preferred stock—not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	924,979	202,701	190,836	—	—	1,318,516
Total capitalization	2,792,555	496,348	466,101	101	(557,013)	3,198,092
Current liabilities						
Current portion of long-term debt	29,978	10,992	8,993	—	—	49,963
Short-term borrowings-non-affiliate	4,999	—	—	—	—	4,999
Short-term borrowings-affiliate	12,000	—	—	—	(12,000)	—
Accounts payable	121,328	17,855	20,427	—	—	159,610
Interest and preferred dividends payable	15,677	4,174	2,735	—	(11)	22,575
Taxes accrued	133,839	34,950	30,312	—	—	199,101
Regulatory liabilities	607	1,245	1,549	—	—	3,401
Other	43,121	9,818	14,197	—	(7,680)	59,456
Total current liabilities	361,549	79,034	78,213	—	(19,691)	499,105
Deferred credits and other liabilities						
Deferred income taxes	281,223	56,955	55,863	—	—	394,041
Regulatory liabilities	613,329	169,139	94,901	—	—	877,369

Unamortized tax credits	59,039	16,167	15,163	—	—	90,369
Defined benefit pension and other postretirement benefit plans liability	340,983	66,447	65,518	—	—	472,948
Other	61,738	19,276	17,675	—	—	98,689
Total deferred credits and other liabilities	1,356,312	327,984	249,120	—	—	1,933,416
Total capitalization and liabilities	$ 4,510,416	903,366	793,434	101	(576,704)	$ 5,630,613

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Changes in Common Stock Equity
Six months ended June 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Balance, December 31, 2017	$ 1,845,283	286,647	270,265	101	(557,013)	$ 1,845,283
Net income for common stock	58,644	9,864	8,541	—	(18,405)	58,644
Other comprehensive income, net of taxes	57	1	—	—	(1)	57
Common stock dividends	(51,652)	(7,644)	(6,010)	—	13,654	(51,652)
Common stock issuance expenses	(8)	(3)	2	—	1	(8)
Balance, June 30, 2018	$ 1,852,324	288,865	272,798	101	(561,764)	$ 1,852,324

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Changes in Common Stock Equity
Six months ended June 30, 2017

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Balance, December 31, 2016	$ 1,799,787	291,291	259,554	101	(550,946)	$ 1,799,787
Net income for common stock	47,109	8,216	8,323	—	(16,539)	47,109
Other comprehensive income, net of taxes	499	1	—	—	(1)	499
Common stock dividends	(43,884)	(7,748)	(5,973)	—	13,721	(43,884)
Common stock issuance expenses	(5)	—	(1)	—	1	(5)
Balance, June 30, 2017	$ 1,803,506	291,760	261,903	101	(553,764)	$ 1,803,506

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Cash Flows
Six months ended June 30, 2018

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income	$ 59,184	10,131	8,732	—	(18,405)	$ 59,642
Adjustments to reconcile net income to net cash provided by operating activities:						
Equity in earnings of subsidiaries	(18,455)	—	—	—	18,405	(50)
Common stock dividends received from subsidiaries	13,679	—	—	—	(13,654)	25
Depreciation of property, plant and equipment	68,830	20,093	11,904	—	—	100,827
Other amortization	9,200	2,976	845	—	—	13,021
Deferred income taxes	(6,708)	(2,429)	794	—	—	(8,343)
Allowance for equity funds used during construction	(5,475)	(235)	(567)	—	—	(6,277)
Other	1,469	(322)	(169)	—	—	978
Changes in assets and liabilities:						
Increase in accounts receivable	(25,673)	(2,387)	(5,763)	—	(245)	(34,068)
Decrease (increase) in accrued unbilled revenues	(3,063)	697	(1,419)	—	—	(3,785)
Increase in fuel oil stock	(9,513)	(3,934)	(6,696)	—	—	(20,143)
Increase in materials and supplies	(2,752)	(559)	(233)	—	—	(3,544)
Increase in regulatory assets	(14,728)	(1,974)	(2,898)	—	—	(19,600)
Increase in accounts payable	13,093	3,096	2,095	—	—	18,284
Change in prepaid and accrued income taxes, tax credits and revenue taxes	(15,343)	(9,952)	(5,165)	—	(601)	(31,061)
Decrease in defined benefit pension and other postretirement benefit plans liability	(1,117)	(380)	(464)	—	—	(1,961)
Change in other assets and liabilities	1,116	3,173	1,357	—	245	5,891
Net cash provided by operating activities	63,744	17,994	2,353	—	(14,255)	69,836
Cash flows from investing activities						
Capital expenditures	(156,600)	(26,667)	(29,953)	—	—	(213,220)
Contributions in aid of construction	9,680	2,243	1,650	—	—	13,573
Other	2,241	884	575	—	601	4,301
Advances (to) from affiliates	(5,600)	(1,000)	12,000	—	(5,400)	—
Net cash used in investing activities	(150,279)	(24,540)	(15,728)	—	(4,799)	(195,346)
Cash flows from financing activities						
Common stock dividends	(51,652)	(7,644)	(6,010)	—	13,654	(51,652)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(540)	(267)	(191)	—	—	(998)
Proceeds from issuance of long-term debt	75,000	15,000	10,000	—	—	100,000
Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	75,881	—	5,600	—	5,400	86,881
Other	(291)	(52)	(35)	—	—	(378)
Net cash provided by financing activities	98,398	7,037	9,364	—	19,054	133,853
Net increase (decrease) in cash and cash equivalents	11,863	491	(4,011)	—	—	8,343
Cash and cash equivalents, beginning of period	2,059	4,025	6,332	101	—	12,517
Cash and cash equivalents, end of period	$ 13,922	4,516	2,321	101	—	$ 20,860

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Cash Flows
Six months ended June 30, 2017

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income	$ 47,649	8,483	8,514	—	(16,539)	$ 48,107
Adjustments to reconcile net income to net cash provided by operating activities:						
Equity in earnings of subsidiaries	(16,589)	—	—	—	16,539	(50)
Common stock dividends received from subsidiaries	13,771	—	—	—	(13,721)	50
Depreciation of property, plant and equipment	65,445	19,371	11,556	—	—	96,372
Other amortization	1,875	905	1,482	—	—	4,262
Deferred income taxes	15,060	3,590	4,988	—	(39)	23,599
Allowance for equity funds used during construction	(4,715)	(249)	(462)	—	—	(5,426)
Other	1,089	699	(173)	—	—	1,615
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	(5,100)	1,182	(1,067)	—	3,256	(1,729)
Increase in accrued unbilled revenues	(8,819)	(602)	(2,482)	—	—	(11,903)
Decrease (increase) in fuel oil stock	(4,250)	94	(1,806)	—	—	(5,962)
Increase in materials and supplies	(788)	(1,472)	(1,160)	—	—	(3,420)
Decrease (increase) in regulatory assets	11,378	(1,575)	(1,624)	—	—	8,179
Increase in accounts payable	33,121	970	5,625	—	—	39,716
Change in prepaid and accrued income taxes, tax credits and revenue taxes	(29,430)	(6,290)	(4,725)	—	(465)	(40,910)
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	355	26	(79)	—	—	302
Change in other assets and liabilities	(12,727)	129	1,807	—	(3,256)	(14,047)
Net cash provided by operating activities	107,325	25,261	20,394	—	(14,225)	138,755
Cash flows from investing activities						
Capital expenditures	(146,721)	(22,423)	(21,015)	—	—	(190,159)
Contributions in aid of construction	14,078	1,870	1,623	—	—	17,571
Other	4,820	619	307	—	504	6,250
Advances (to) from affiliates	—	(600)	9,000	—	(8,400)	—
Net cash used in investing activities	(127,823)	(20,534)	(10,085)	—	(7,896)	(166,338)
Cash flows from financing activities						
Common stock dividends	(43,884)	(7,748)	(5,973)	—	13,721	(43,884)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(540)	(267)	(191)	—	—	(998)
Proceeds from issuance of special purpose revenue bonds	162,000	28,000	75,000	—	—	265,000
Funds transferred for redemption of special purpose revenue bonds	(162,000)	(28,000)	(75,000)	—	—	(265,000)
Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	35,590	—	—	—	8,400	43,990
Other	(2,068)	(357)	(804)	—	—	(3,229)
Net cash used in financing activities	(10,902)	(8,372)	(6,968)	—	22,121	(4,121)
Net increase (decrease) in cash and cash equivalents	(31,400)	(3,645)	3,341	—	—	(31,704)
Cash and cash equivalents, beginning of period	61,388	10,749	2,048	101	—	74,286
Cash and cash equivalents, end of period	$ 29,988	7,104	5,389	101	—	$ 42,582

Note 4 · Bank segment

Selected financial information

American Savings Bank, F.S.B.

Statements of Income Data

	Three months ended June 30		Six months ended June 30	
(in thousands)	**2018**	**2017**	**2018**	**2017**
Interest and dividend income				
Interest and fees on loans	$ 54,633	$ 52,317	$ 107,433	$ 103,059
Interest and dividends on investment securities	8,628	6,763	17,830	13,743
Total interest and dividend income	63,261	59,080	125,263	116,802
Interest expense				
Interest on deposit liabilities	3,284	2,311	6,241	4,414
Interest on other borrowings	393	824	889	1,640
Total interest expense	3,677	3,135	7,130	6,054
Net interest income	**59,584**	**55,945**	**118,133**	**110,748**
Provision for loan losses	2,763	2,834	6,304	6,741
Net interest income after provision for loan losses	**56,821**	**53,111**	**111,829**	**104,007**
Noninterest income				
Fees from other financial services	4,744	5,810	9,398	11,420
Fee income on deposit liabilities	5,138	5,565	10,327	10,993
Fee income on other financial products	1,675	1,971	3,329	3,837
Bank-owned life insurance	1,133	1,925	2,004	2,908
Mortgage banking income	617	587	1,230	1,376
Other income, net	536	391	972	849
Total noninterest income	13,843	16,249	27,260	31,383
Noninterest expense				
Compensation and employee benefits	23,655	24,541	48,095	47,583
Occupancy	4,194	4,185	8,474	8,339
Data processing	3,540	3,207	7,004	6,487
Services	3,028	2,766	6,075	5,126
Equipment	1,874	1,771	3,602	3,519
Office supplies, printing and postage	1,491	1,527	2,998	3,062
Marketing	1,085	839	1,730	1,356
FDIC insurance	727	822	1,440	1,550
Other expense	4,556	4,906	8,657	9,412
Total noninterest expense	44,150	44,564	88,075	86,434
Income before income taxes	**26,514**	**24,796**	**51,014**	**48,956**
Income taxes	5,953	8,063	11,493	16,410
Net income	**$ 20,561**	**$ 16,733**	**$ 39,521**	**$ 32,546**

Reconciliation to amounts per HEI Condensed Consolidated Statements of Income*:

	Three months ended June 30		Six months ended June 30	
(in thousands)	**2018**	**2017**	**2018**	**2017**
Interest and dividend income	63,261	59,080	$ 125,263	$ 116,802
Noninterest income	13,843	16,249	27,260	31,383
***Revenues-Bank**	**77,104**	**75,329**	**152,523**	**148,185**
Total interest expense	3,677	3,135	7,130	6,054
Provision for loan losses	2,763	2,834	6,304	6,741
Noninterest expense	44,150	44,564	88,075	86,434
Less: Retirement defined benefits expense—other than service costs	(403)	(201)	(790)	(396)
***Expenses-Bank**	**50,187**	**50,332**	**100,719**	**98,833**
***Operating income-Bank**	**26,917**	**24,997**	**51,804**	**49,352**
Add back: Retirement defined benefits expense—other than service costs	403	201	790	396
Income before income taxes	**$ 26,514**	**$ 24,796**	**$ 51,014**	**$ 48,956**

American Savings Bank, F.S.B.
Statements of Comprehensive Income Data

	Three months ended June 30		Six months ended June 30	
(in thousands)	**2018**	**2017**	**2018**	**2017**
Net income	$ 20,561	$ 16,733	$ 39,521	$ 32,546
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on available-for-sale investment securities:				
Net unrealized gains (losses) on available-for-sale investment securities arising during the period, net of tax benefits (taxes) of $1,592, $(1,334), $6,459 and $(1,482), respectively	(4,348)	2,021	(17,645)	2,244
Retirement benefit plans:				
Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $133, $133, $827 and $537, respectively	366	202	1,588	814
Other comprehensive income (loss), net of taxes	(3,982)	2,223	(16,057)	3,058
Comprehensive income	$ 16,579	$ 18,956	$ 23,464	$ 35,604

American Savings Bank, F.S.B.
Balance Sheets Data

(in thousands)		June 30, 2018		December 31, 2017
Assets				
Cash and due from banks		$ 120,189		$ 140,934
Interest-bearing deposits		109,230		93,165
Investment securities				
Available-for-sale, at fair value		1,409,528		1,401,198
Held-to-maturity, at amortized cost (fair value of $61,444 and $44,412, respectively)		62,630		44,515
Stock in Federal Home Loan Bank, at cost		10,158		9,706
Loans held for investment		4,774,744		4,670,768
Allowance for loan losses		(52,803)		(53,637)
Net loans		4,721,941		4,617,131
Loans held for sale, at lower of cost or fair value		5,248		11,250
Other		462,469		398,570
Goodwill		82,190		82,190
Total assets		$ 6,983,583		$ 6,798,659
Liabilities and shareholder's equity				
Deposit liabilities—noninterest-bearing		$ 1,812,348		$ 1,760,233
Deposit liabilities—interest-bearing		4,303,761		4,130,364
Other borrowings		126,930		190,859
Other		131,063		110,356
Total liabilities		6,374,102		6,191,812
Commitments and contingencies				
Common stock		1		1
Additional paid in capital		346,188		345,018
Retained earnings		310,298		292,957
Accumulated other comprehensive loss, net of tax benefits				
Net unrealized losses on securities	$ (32,596)		$ (14,951)	
Retirement benefit plans	(14,410)	(47,006)	(16,178)	(31,129)
Total shareholder's equity		609,481		606,847
Total liabilities and shareholder's equity		$ 6,983,583		$ 6,798,659

	June 30, 2018	December 31, 2017
Other assets		
Bank-owned life insurance	$ 150,797	$ 148,775
Premises and equipment, net	186,620	136,270
Prepaid expenses	4,993	3,961
Accrued interest receivable	19,597	18,724
Mortgage-servicing rights	8,509	8,639
Low-income housing equity investments	63,033	59,016
Real estate acquired in settlement of loans, net	—	133
Other	28,920	23,052
	$ 462,469	$ 398,570
Other liabilities		
Accrued expenses	$ 63,734	$ 39,312
Federal and state income taxes payable	1,200	3,736
Cashier's checks	28,236	27,000
Advance payments by borrowers	10,415	10,245
Other	27,478	30,063
	$ 131,063	$ 110,356

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

Other borrowings consisted of securities sold under agreements to repurchase and advances from the Federal Home Loan Bank (FHLB) of $77 million and $50 million, respectively, as of June 30, 2018 and $141 million and $50 million, respectively, as of December 31, 2017.

Investment securities. The major components of investment securities were as follows:

					Gross unrealized losses					
					Less than 12 months			12 months or longer		
(dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Number of issues	Fair value	Amount	Number of issues	Fair value	Amount
June 30, 2018										
Available-for-sale										
U.S. Treasury and federal agency obligations	$ 179,986	$ 72	$ (4,125)	$ 175,933	19	$ 98,578	$ (2,018)	9	$ 67,283	$ (2,107)
Mortgage-related securities- FNMA, FHLMC and GNMA	1,218,313	350	(40,831)	1,177,832	81	694,629	(19,345)	83	456,218	(21,486)
Corporate bonds	40,331	23	(18)	40,336	4	23,841	(18)	—	—	—
Mortgage revenue bond	15,427	—	—	15,427	—	—	—	—	—	—
	$ 1,454,057	$ 445	$ (44,974)	$ 1,409,528	104	$ 817,048	$ (21,381)	92	$ 523,501	$ (23,593)
Held-to-maturity										
Mortgage-related securities- FNMA, FHLMC and GNMA	$ 62,630	$ 41	$ (1,227)	$ 61,444	3	$ 41,138	$ (1,227)	—	$ —	$ —
	$ 62,630	$ 41	$ (1,227)	$ 61,444	3	$ 41,138	$ (1,227)	—	$ —	$ —
December 31, 2017										
Available-for-sale										
U.S. Treasury and federal agency obligations	$ 185,891	$ 438	$ (2,031)	$ 184,298	15	$ 83,137	$ (825)	8	$ 62,296	$ (1,206)
Mortgage-related securities- FNMA, FHLMC and GNMA	1,220,304	793	(19,624)	1,201,473	67	653,635	(6,839)	77	459,912	(12,785)
Mortgage revenue bond	15,427	—	—	15,427	—	—	—	—	—	—
	$ 1,421,622	$ 1,231	$ (21,655)	$ 1,401,198	82	$ 736,772	$ (7,664)	85	$ 522,208	$ (13,991)
Held-to-maturity										
Mortgage-related securities- FNMA, FHLMC and GNMA	$ 44,515	$ 1	$ (104)	$ 44,412	2	$ 35,744	$ (104)	—	$ —	$ —
	$ 44,515	$ 1	$ (104)	$ 44,412	2	$ 35,744	$ (104)	—	$ —	$ —

ASB does not believe that the investment securities that were in an unrealized loss position at June 30, 2018, represent an other-than-temporary impairment (OTTI). Total gross unrealized losses were primarily attributable to rising interest rates relative to when the investment securities were purchased and not due to the credit quality of the investment securities. The contractual cash flows of the U.S. Treasury, federal agency obligations and mortgage-related securities are backed by the full faith and credit guaranty of the United States government or an agency of the government. The corporate bonds are all investment grade and rated A- or higher. ASB does not intend to sell the securities before the recovery of its amortized cost basis and there have been no adverse changes in the timing of the contractual cash flows for the securities. ASB did not recognize OTTI for the quarters and six months ended June 30, 2018 and 2017.

U.S. Treasury, federal agency obligations, corporate, and the mortgage revenue bond have contractual terms to maturity. Mortgage-related securities have contractual terms to maturity, but require periodic payments to reduce principal. In addition, expected maturities will differ from contractual maturities because borrowers have the right to prepay the underlying mortgages.

The contractual maturities of investment securities were as follows:

June 30, 2018	Amortized cost	Fair value
(in thousands)		
Available-for-sale		
Due in one year or less	$ 25,005	$ 24,860
Due after one year through five years	105,425	104,020
Due after five years through ten years	77,526	75,563
Due after ten years	27,788	27,253
	235,744	231,696
Mortgage-related securities-FNMA, FHLMC and GNMA	1,218,313	1,177,832
Total available-for-sale securities	$ 1,454,057	$ 1,409,528
Held-to-maturity		
Mortgage-related securities-FNMA, FHLMC and GNMA	$ 62,630	$ 61,444
Total held-to-maturity securities	$ 62,630	$ 61,444

Proceeds from the sale of available-for-sale securities were nil for both the three and six months ended June 30, 2018 and 2017. Gross realized gains and losses were nil for both the three and six months ended June 30, 2018 and 2017.

Loans. The components of loans were summarized as follows:

	June 30, 2018	December 31, 2017
(in thousands)		
Real estate:		
Residential 1-4 family	$ 2,099,950	$ 2,118,047
Commercial real estate	758,835	733,106
Home equity line of credit	938,902	913,052
Residential land	16,032	15,797
Commercial construction	124,421	108,273
Residential construction	14,873	14,910
Total real estate	3,953,013	3,903,185
Commercial	593,596	544,828
Consumer	228,804	223,564
Total loans	4,775,413	4,671,577
Less: Deferred fees and discounts	(669)	(809)
Allowance for loan losses	(52,803)	(53,637)
Total loans, net	$ 4,721,941	$ 4,617,131

ASB's policy is to require private mortgage insurance on all real estate loans 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. ASB is subject to the risk that the private mortgage insurance company cannot satisfy the bank's claim on policies.

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

(in thousands)	Residential 1-4 family	Commercial real estate	Home equity line of credit	Residential land	Commercial construction	Residential construction	Commercial loans	Consumer loans	Unallo-cated	Total
Three months ended June 30, 2018										
Allowance for loan losses:										
Beginning balance	$ 2,525	$ 15,959	$ 7,982	$ 674	$ 4,361	$ 4	$ 10,355	$ 12,035	$ —	$ 53,895
Charge-offs	—	—	(144)	(9)	—	—	(540)	(3,888)	—	(4,581)
Recoveries	14	—	13	46	—	—	280	373	—	726
Provision	400	(661)	(517)	(69)	255	—	66	3,289	—	2,763
Ending balance	$ 2,939	$ 15,298	$ 7,334	$ 642	$ 4,616	$ 4	$ 10,161	$ 11,809	$ —	$ 52,803
Three months ended June 30, 2017										
Allowance for loan losses:										
Beginning balance	$ 2,781	$ 16,504	$ 5,417	$ 1,479	$ 7,257	$ 11	$ 14,902	$ 7,646	$ —	$ 55,997
Charge-offs	—	—	—	(92)	—	—	(752)	(2,390)	—	(3,234)
Recoveries	49	—	39	15	—	—	299	357	—	759
Provision	300	2,336	71	(138)	(2,551)	(2)	103	2,715	—	2,834
Ending balance	$ 3,130	$ 18,840	$ 5,527	$ 1,264	$ 4,706	$ 9	$ 14,552	$ 8,328	$ —	$ 56,356
Six months ended June 30, 2018										
Allowance for loan losses:										
Beginning balance	$ 2,902	$ 15,796	$ 7,522	$ 896	$ 4,671	$ 12	$ 10,851	$ 10,987	$ —	$ 53,637
Charge-offs	(31)	—	(144)	(17)	—	—	(1,142)	(8,120)	—	(9,454)
Recoveries	68	—	27	51	—	—	1,450	720	—	2,316
Provision	—	(498)	(71)	(288)	(55)	(8)	(998)	8,222	—	6,304
Ending balance	$ 2,939	$ 15,298	$ 7,334	$ 642	$ 4,616	$ 4	$ 10,161	$ 11,809	$ —	$ 52,803
June 30, 2018										
Ending balance: individually evaluated for impairment	$ 1,027	$ 53	$ 1,161	$ 7	$ —	$ —	$ 597	$ 3		$ 2,848
Ending balance: collectively evaluated for impairment	$ 1,912	$ 15,245	$ 6,173	$ 635	$ 4,616	$ 4	$ 9,564	$ 11,806	$ —	$ 49,955
Financing Receivables:										
Ending balance	$ 2,099,950	$ 758,835	$ 938,902	$ 16,032	$ 124,421	$ 14,873	$ 593,596	$ 228,804		$ 4,775,413
Ending balance: individually evaluated for impairment	$ 17,605	$ 993	$ 13,849	$ 1,171	$ —	$ —	$ 5,874	$ 91		$ 39,583
Ending balance: collectively evaluated for impairment	$ 2,082,345	$ 757,842	$ 925,053	$ 14,861	$ 124,421	$ 14,873	$ 587,722	$ 228,713		$ 4,735,830
Six months ended June 30, 2017										
Allowance for loan losses:										
Beginning balance	$ 2,873	$ 16,004	$ 5,039	$ 1,738	$ 6,449	$ 12	$ 16,618	$ 6,800	$ —	$ 55,533
Charge-offs	(6)	—	(14)	(92)	—	—	(2,262)	(5,200)	—	(7,574)
Recoveries	58	—	130	218	—	—	596	654	—	1,656
Provision	205	2,836	372	(600)	(1,743)	(3)	(400)	6,074	—	6,741
Ending balance	$ 3,130	$ 18,840	$ 5,527	$ 1,264	$ 4,706	$ 9	$ 14,552	$ 8,328	$ —	$ 56,356
December 31, 2017										
Ending balance: individually evaluated for impairment	$ 1,248	$ 65	$ 647	$ 47	$ —	$ —	$ 694	$ 29		$ 2,730
Ending balance: collectively evaluated for impairment	$ 1,654	$ 15,731	$ 6,875	$ 849	$ 4,671	$ 12	$ 10,157	$ 10,958	$ —	$ 50,907
Financing Receivables:										
Ending balance	$ 2,118,047	$ 733,106	$ 913,052	$ 15,797	$ 108,273	$ 14,910	$ 544,828	$ 223,564		$ 4,671,577
Ending balance: individually evaluated for impairment	$ 18,284	$ 1,016	$ 8,188	$ 1,265	$ —	$ —	$ 4,574	$ 66		$ 33,393
Ending balance: collectively evaluated for impairment	$ 2,099,763	$ 732,090	$ 904,864	$ 14,532	$ 108,273	$ 14,910	$ 540,254	$ 223,498		$ 4,638,184

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

Each commercial and commercial real estate loan is assigned an Asset Quality Rating (AQR) reflecting the likelihood of repayment or orderly liquidation of that loan transaction pursuant to regulatory credit classifications: Pass, Special Mention, Substandard, Doubtful and Loss. The AQR is a function of the probability of default model rating, the loss given default and possible non-model factors which impact the ultimate collectability of the loan such as character of the business owner/guarantor, interim period performance, litigation, tax liens and major changes in business and economic conditions. Pass exposures generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral. Special Mention loans have potential weaknesses that, if left uncorrected, could jeopardize the liquidation of the debt. Substandard loans have well-defined weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the Bank may sustain some loss. An asset classified Doubtful has the weaknesses of those classified Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. An asset classified Loss is considered uncollectible and has such little value that its continuance as a bankable asset is not warranted.

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

	June 30, 2018			December 31, 2017		
(in thousands)	**Commercial real estate**	**Commercial construction**	**Commercial**	**Commercial real estate**	**Commercial construction**	**Commercial**
Grade:						
Pass	$ 671,592	$ 99,632	$ 539,168	$ 630,877	$ 83,757	$ 492,942
Special mention	38,424	22,500	32,711	49,347	22,500	27,997
Substandard	48,819	2,289	21,717	52,882	2,016	23,421
Doubtful	—	—	—	—	—	468
Loss	—	—	—	—	—	—
Total	$ 758,835	$ 124,421	$ 593,596	$ 733,106	$ 108,273	$ 544,828

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

(in thousands)	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Current	Total financing receivables	Recorded investment> 90 days and accruing
June 30, 2018							
Real estate:							
Residential 1-4 family	$ 2,975	$ 1,348	$ 4,360	$ 8,683	$ 2,091,267	$ 2,099,950	$ —
Commercial real estate	—	725	—	725	758,110	758,835	—
Home equity line of credit	2,075	288	2,545	4,908	933,994	938,902	—
Residential land	741	111	631	1,483	14,549	16,032	—
Commercial construction	—	—	—	—	124,421	124,421	—
Residential construction	—	—	—	—	14,873	14,873	—
Commercial	1,721	491	551	2,763	590,833	593,596	—
Consumer	3,421	2,019	1,579	7,019	221,785	228,804	—
Total loans	$ 10,933	$ 4,982	$ 9,666	$ 25,581	$ 4,749,832	$ 4,775,413	$ —
December 31, 2017							
Real estate:							
Residential 1-4 family	$ 1,532	$ 1,715	$ 5,071	$ 8,318	$ 2,109,729	$ 2,118,047	$ —
Commercial real estate	—	—	—	—	733,106	733,106	—
Home equity line of credit	425	114	2,051	2,590	910,462	913,052	—
Residential land	23	—	625	648	15,149	15,797	—
Commercial construction	—	—	—	—	108,273	108,273	—
Residential construction	—	—	—	—	14,910	14,910	—
Commercial	1,825	2,025	730	4,580	540,248	544,828	—
Consumer	3,432	2,159	1,876	7,467	216,097	223,564	—
Total loans	$ 7,237	$ 6,013	$ 10,353	$ 23,603	$ 4,647,974	$ 4,671,577	$ —

The credit risk profile based on nonaccrual loans, accruing loans 90 days or more past due and troubled debt restructuring (TDR) loans was as follows:

(in thousands)	June 30, 2018	December 31, 2017
Real estate:		
Residential 1-4 family	$ 13,121	$ 12,598
Commercial real estate	—	—
Home equity line of credit	6,051	4,466
Residential land	843	841
Commercial construction	—	—
Residential construction	—	—
Commercial	4,385	3,069
Consumer	2,820	2,617
Total nonaccrual loans	$ 27,220	$ 23,591
Real estate:		
Residential 1-4 family	$ —	$ —
Commercial real estate	—	—
Home equity line of credit	—	—
Residential land	—	—
Commercial construction	—	—
Residential construction	—	—
Commercial	—	—
Consumer	—	—
Total accruing loans 90 days or more past due	$ —	$ —
Real estate:		
Residential 1-4 family	$ 10,777	$ 10,982
Commercial real estate	993	1,016
Home equity line of credit	10,255	6,584
Residential land	328	425
Commercial construction	—	—
Residential construction	—	—
Commercial	1,716	1,741
Consumer	64	66
Total troubled debt restructured loans not included above	$ 24,133	$ 20,814

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

	June 30, 2018			Three months ended June 30, 2018		Six months ended June 30, 2018	
(in thousands)	Recorded investment	Unpaid principal balance	Related Allowance	Average recorded investment	Interest income recognized*	Average recorded investment	Interest income recognized*
With no related allowance recorded							
Real estate:							
Residential 1-4 family	$ 8,966	$ 9,498	$ —	$ 8,900	$ 50	$ 8,699	$ 157
Commercial real estate	—	—	—	—	—	—	—
Home equity line of credit	2,505	2,803	—	2,374	7	2,037	12
Residential land	1,141	1,449	—	1,132	5	1,150	10
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial	4,158	5,079	—	3,026	10	2,691	20
Consumer	33	33	—	15	—	11	—
	$ 16,803	$ 18,862	$ —	$ 15,447	$ 72	$ 14,588	$ 199
With an allowance recorded							
Real estate:							
Residential 1-4 family	$ 8,639	$ 8,842	$ 1,027	$ 8,778	$ 97	$ 8,953	$ 190
Commercial real estate	993	993	53	997	10	1,003	21
Home equity line of credit	11,344	11,414	1,161	10,420	96	9,080	177
Residential land	30	30	7	40	1	58	3
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial	1,716	1,716	597	1,738	30	1,848	66
Consumer	58	58	3	58	1	58	2
	$ 22,780	$ 23,053	$ 2,848	$ 22,031	$ 235	$ 21,000	$ 459
Total							
Real estate:							
Residential 1-4 family	$ 17,605	$ 18,340	$ 1,027	$ 17,678	$ 147	$ 17,652	$ 347
Commercial real estate	993	993	53	997	10	1,003	21
Home equity line of credit	13,849	14,217	1,161	12,794	103	11,117	189
Residential land	1,171	1,479	7	1,172	6	1,208	13
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial	5,874	6,795	597	4,764	40	4,539	86
Consumer	91	91	3	73	1	69	2
	$ 39,583	$ 41,915	$ 2,848	$ 37,478	$ 307	$ 35,588	$ 658

(in thousands)	December 31, 2017 Recorded investment	December 31, 2017 Unpaid principal balance	December 31, 2017 Related allowance	Three months ended June 30, 2017 Average recorded investment	Three months ended June 30, 2017 Interest income recognized*	Six months ended June 30, 2017 Average recorded investment	Six months ended June 30, 2017 Interest income recognized*
With no related allowance recorded							
Real estate:							
Residential 1-4 family	$ 9,097	$ 9,644	$ —	$ 9,304	$ 76	$ 9,429	$ 160
Commercial real estate	—	—	—	143	11	182	11
Home equity line of credit	1,496	1,789	—	2,401	51	2,203	65
Residential land	1,143	1,434	—	1,075	8	1,016	34
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial	2,328	3,166	—	1,949	2	3,428	8
Consumer	8	8	—	1	—	—	—
	$ 14,072	$ 16,041	$ —	$ 14,873	$ 148	$ 16,258	$ 278
With an allowance recorded							
Real estate:							
Residential 1-4 family	$ 9,187	$ 9,390	$ 1,248	$ 10,054	$ 117	$ 10,051	$ 236
Commercial real estate	1,016	1,016	65	1,292	14	1,296	28
Home equity line of credit	6,692	6,736	647	4,372	47	4,467	96
Residential land	122	122	47	1,532	24	1,804	61
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial	2,246	2,252	694	2,562	68	4,915	469
Consumer	58	58	29	68	1	49	1
	$ 19,321	$ 19,574	$ 2,730	$ 19,880	$ 271	$ 22,582	$ 891
Total							
Real estate:							
Residential 1-4 family	$ 18,284	$ 19,034	$ 1,248	$ 19,358	$ 193	$ 19,480	$ 396
Commercial real estate	1,016	1,016	65	1,435	25	1,478	39
Home equity line of credit	8,188	8,525	647	6,773	98	6,670	161
Residential land	1,265	1,556	47	2,607	32	2,820	95
Commercial construction	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Commercial	4,574	5,418	694	4,511	70	8,343	477
Consumer	66	66	29	69	1	49	1
	$ 33,393	$ 35,615	$ 2,730	$ 34,753	$ 419	$ 38,840	$ 1,169

* Since loan was classified as impaired.

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

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

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

Loan modifications that occurred during the second quarters and first six months of 2018 and 2017 and the impact on the allowance for loan losses were as follows:

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	Three months ended June 30, 2018				Six months ended June 30, 2018			
		Outstanding recorded investment[1]		Net increase in allowance		Outstanding recorded investment[1]		Net increase in allowance
(dollars in thousands)	Number of contracts	Pre-modification	Post-modification	(as of period end)	Number of contracts	Pre-modification	Post-modification	(as of period end)
Troubled debt restructurings								
Real estate:								
Residential 1-4 family	—	$ —	$ —	$ —	1	$ 339	$ 344	$ 16
Commercial real estate	—	—	—	—	—	—	—	—
Home equity line of credit	21	3,338	3,338	554	39	5,508	5,512	942
Residential land	—	—	—	—	1	109	109	—
Commercial construction	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—
Commercial	2	43	43	42	7	2,294	2,294	42
Consumer	—	—	—	—	—	—	—	—
	23	$ 3,381	$ 3,381	$ 596	48	$ 8,250	$ 8,259	$ 1,000

	Three months ended June 30, 2017				Six months ended June 30, 2017			
		Outstanding recorded investment[1]		Net increase in allowance		Outstanding recorded investment[1]		Net increase in allowance
(dollars in thousands)	Number of contracts	Pre-modification	Post-modification	(as of period end)	Number of contracts	Pre-modification	Post-modification	(as of period end)
Troubled debt restructurings								
Real estate:								
Residential 1-4 family	2	$ 360	$ 360	$ —	5	$ 872	$ 880	$ 45
Commercial real estate	—	—	—	—	—	—	—	—
Home equity line of credit	5	298	298	59	13	524	510	93
Residential land	—	—	—	—	—	—	—	—
Commercial construction	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—
Commercial	—	—	—	—	1	342	342	—
Consumer	—	—	—	—	1	59	59	27
	7	$ 658	$ 658	$ 59	20	$ 1,797	$ 1,791	$ 165

[1] The reported balances include loans that became TDR during the period, and were fully paid-off, charged-off, or sold prior to period end.

Loans modified in TDRs that experienced a payment default of 90 days or more during the second quarters and first six months of 2018 and 2017, and for which the payment of default occurred within one year of the modification, were as follows:

	Three months ended June 30, 2018		Six months ended June 30, 2018	
(dollars in thousands)	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Troubled debt restructurings that subsequently defaulted				
Real estate:				
Residential 1-4 family	—	$ —	—	$ —
Commercial real estate	—	—	—	—
Home equity line of credit	1	100	2	181
Residential land	—	—	—	—
Commercial construction	—	—	—	—
Residential construction	—	—	—	—
Commercial	1	291	1	291
Consumer	—	—	—	—
	2	$ 391	3	$ 472

	Three months ended June 30, 2017		Six months ended June 30, 2017	
(dollars in thousands)	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Troubled debt restructurings that subsequently defaulted				
Real estate:				
Residential 1-4 family	1	$ 222	2	$ 523
Commercial real estate	—	—	—	—
Home equity line of credit	—	—	—	—
Residential land	—	—	—	—
Commercial construction	—	—	—	—
Residential construction	—	—	—	—
Commercial	—	—	—	—
Consumer	—	—	—	—
	1	$ 222	2	$ 523

If loans modified in a TDR subsequently default, ASB evaluates the loan for further impairment. Based on its evaluation, adjustments may be made in the allocation of the allowance or partial charge-offs may be taken to further write-down the carrying value of the loan. Commitments to lend additional funds to borrowers whose loan terms have been modified in a TDR totaled $0.01 million and nil at June 30, 2018 and December 31, 2017.

The Company had $5.0 million and $4.3 million of consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure at June 30, 2018 and December 31, 2017, respectively.

Mortgage servicing rights. In its mortgage banking business, ASB sells residential mortgage loans to government-sponsored entities and other parties, who may issue securities backed by pools of such loans. ASB retains no beneficial interests in these loans other than the servicing rights of certain loans sold.

ASB received proceeds from the sale of residential mortgages of $44.3 million and $39.3 million for the three months ended June 30, 2018 and 2017 and $77.4 million and $79.9 million for the six months ended June 30, 2018 and 2017, respectively, and recognized gains on such sales of $0.6 million for both the three months ended June 30, 2018 and 2017 and $1.2 million and $1.4 million for the six months ended June 30, 2018 and 2017, respectively.

There were no repurchased mortgage loans for the three and six months ended June 30, 2018 and 2017. The repurchase reserve was $0.1 million as of June 30, 2018 and 2017.

Mortgage servicing fees, a component of other income, net, were $0.8 million and $0.7 million for the three months ended June 30, 2018 and 2017, respectively, and $1.5 million for both the six months ended June 30, 2018 and 2017.

Changes in the carrying value of mortgage servicing rights were as follows:

(in thousands)	Gross carrying amount[1]	Accumulated amortization[1]	Valuation allowance	Net carrying amount
June 30, 2018	$ 18,238	$ (9,729)	$ —	$ 8,509
December 31, 2017	17,511	(8,872)	—	8,639

[1] Reflects the impact of loans paid in full.

Changes related to mortgage servicing rights were as follows:

	Three months ended June 30		Six months ended June 30	
(in thousands)	2018	2017	2018	2017
Mortgage servicing rights				
Beginning balance	$ 8,541	$ 9,294	$ 8,639	$ 9,373
Amount capitalized	392	362	727	798
Amortization	(424)	(475)	(857)	(990)
Other-than-temporary impairment	—	—	—	—
Carrying amount before valuation allowance	8,509	9,181	8,509	9,181
Valuation allowance for mortgage servicing rights				
Beginning balance	—	—	—	—
Provision (recovery)	—	—	—	—
Other-than-temporary impairment	—	—	—	—
Ending balance	—	—	—	—
Net carrying value of mortgage servicing rights	$ 8,509	$ 9,181	$ 8,509	$ 9,181

ASB capitalizes mortgage servicing rights (MSRs) acquired upon the sale of mortgage loans with servicing rights retained. On a monthly basis, ASB compares the net carrying value of the mortgage servicing rights to its fair value to determine if there are any changes to the valuation allowance and/or other-than-temporary impairment for the mortgage servicing rights. ASB's MSRs are stratified based on predominant risk characteristics of the underlying loans including loan type such as fixed-rate 15 and 30 year mortgages and note rate in bands of 50 to 100 basis points. For each stratum, fair value is calculated by discounting expected net income streams using discount rates that reflect industry pricing for similar assets. Changes in mortgage interest rates impact the value of ASB's mortgage servicing rights. Rising interest rates typically result in slower prepayment speeds in the loans being serviced for others, which increases the value of mortgage servicing rights, whereas declining interest rates typically result in faster prepayment speeds which decrease the value of mortgage servicing rights and increase the amortization of the mortgage servicing rights. Expected net income streams are estimated based on industry assumptions regarding prepayment expectations and income and expenses associated with servicing residential mortgage loans for others.

ASB uses a present value cash flow model using techniques described above to estimate the fair value of MSRs. Impairment is recognized through a valuation allowance for each stratum when the carrying amount exceeds fair value, with any associated provision recorded as a component of loan servicing fees included in "Revenues - bank" in the consolidated statements of income. A direct write-down is recorded when the recoverability of the valuation allowance is deemed to be unrecoverable.

Key assumptions used in estimating the fair value of ASB's mortgage servicing rights used in the impairment analysis were as follows:

(dollars in thousands)	June 30, 2018	December 31, 2017
Unpaid principal balance	$ 1,192,901	$ 1,195,454
Weighted average note rate	3.96%	3.94%
Weighted average discount rate	10.0%	10.0%
Weighted average prepayment speed	6.8%	9.0%

The sensitivity analysis of fair value of MSRs to hypothetical adverse changes of 25 and 50 basis points in certain key assumptions was as follows:

(dollars in thousands)	June 30, 2018	December 31, 2017
Prepayment rate:		
25 basis points adverse rate change	$ (344)	$ (869)
50 basis points adverse rate change	(797)	(1,828)
Discount rate:		
25 basis points adverse rate change	(135)	(111)
50 basis points adverse rate change	(268)	(220)

The effect of a variation in certain assumptions on fair value is calculated without changing any other assumptions. This analysis typically cannot be extrapolated because the relationship of a change in one key assumption to the changes in the fair value of MSRs typically is not linear.

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

(in millions)	Gross amount of recognized liabilities	Gross amount offset in the Balance Sheet	Net amount of liabilities presented in the Balance Sheet
Repurchase agreements			
June 30, 2018	$ 77	$ —	$ 77
December 31, 2017	141	—	141

	Gross amount not offset in the Balance Sheet		
(in millions)	Net amount of liabilities presented in the Balance Sheet	Financial instruments	Cash collateral pledged
June 30, 2018			
Commercial account holders	$ 77	$ 193	$ —
Total	$ 77	$ 193	$ —
December 31, 2017			
Commercial account holders	$ 141	$ 165	$ —
Total	$ 141	$ 165	$ —

The securities underlying the agreements to repurchase are book-entry securities and were delivered by appropriate entry into the counterparties' accounts or into segregated tri-party custodial accounts at the FHLB. The securities underlying the agreements to repurchase continue to be reflected in ASB's asset accounts.

Derivative financial instruments. ASB enters into interest rate lock commitments (IRLCs) with borrowers, and forward commitments to sell loans or to-be-announced mortgage-backed securities to investors to hedge against the inherent interest rate and pricing risks associated with selling loans.

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

ASB enters into forward commitments to hedge the interest rate risk for rate locked mortgage applications in process and closed mortgage loans held for sale. These commitments are primarily forward sales of to-be-announced mortgage backed securities. Generally, when mortgage loans are closed, the forward commitment is liquidated and replaced with a mandatory delivery forward sale of the mortgage to a secondary market investor. In some cases, a best-efforts forward sale agreement is utilized as the forward commitment. These commitments are free-standing derivatives which are carried at fair value with changes recorded in mortgage banking income.

Changes in the fair value of IRLCs and forward commitments subsequent to inception are based on changes in the fair value of the underlying loan resulting from the fulfillment of the commitment and changes in the probability that the loan will fund within the terms of the commitment, which is affected primarily by changes in interest rates and the passage of time.

The notional amount and fair value of ASB's derivative financial instruments were as follows:

	June 30, 2018		December 31, 2017	
(in thousands)	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Interest rate lock commitments	$ 21,954	$ 248	$ 13,669	$ 131
Forward commitments	24,911	(62)	14,465	(24)

ASB's derivative financial instruments, their fair values and balance sheet location were as follows:

Derivative Financial Instruments Not Designated as Hedging Instruments [1]	June 30, 2018		December 31, 2017	
(in thousands)	**Asset derivatives**	**Liability derivatives**	**Asset derivatives**	**Liability derivatives**
Interest rate lock commitments	$ 248	$ —	$ 133	$ 2
Forward commitments	2	64	4	28
	$ 250	$ 64	$ 137	$ 30

[1] Asset derivatives are included in other assets and liability derivatives are included in other liabilities in the balance sheets.

The following table presents ASB's derivative financial instruments and the amount and location of the net gains or losses recognized in ASB's statements of income:

Derivative Financial Instruments Not Designated as Hedging Instruments	**Location of net gains (losses) recognized in the Statement of Income**	Three months ended June 30		Six months ended June 30	
(in thousands)		**2018**	**2017**	**2018**	**2017**
Interest rate lock commitments	Mortgage banking income	$ (7)	$ (191)	$ 117	$ (295)
Forward commitments	Mortgage banking income	(2)	192	(38)	265
		$ (9)	$ 1	$ 79	$ (30)

Low-Income Housing Tax Credit (LIHTC). ASB's unfunded commitments to fund its LIHTC investment partnerships were $20.6 million and $15.8 million at June 30, 2018 and December 31, 2017, respectively. These unfunded commitments were unconditional and legally binding and are recorded in other liabilities with a corresponding increase in other assets. As of June 30, 2018, ASB did not have any impairment losses resulting from forfeiture or ineligibility of tax credits or other circumstances related to its LIHTC investment partnerships.

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

Note 5 · Credit agreements and long-term debt

Credit agreements. HEI and Hawaiian Electric each entered into a separate agreement with a syndicate of eight financial institutions (the HEI Facility and Hawaiian Electric Facility, respectively, and together, the Facilities), effective July 3, 2017, to amend and restate their respective previously existing revolving unsecured credit agreements. The $150 million HEI Facility extended the term of the facility to June 30, 2022. In March 2018, the PUC approved Hawaiian Electric's request to extend the term of the $200 million Hawaiian Electric Facility to June 30, 2022. As of June 30, 2018 and December 31, 2017, no amounts were outstanding under the Facilities.

The Facilities will be maintained to support each company's respective short-term commercial paper program, but may be drawn on to meet each company's respective working capital needs and general corporate purposes.

Changes in long-term debt. On May 30, 2018, the Utilities issued, through a private placement pursuant to separate Note Purchase Agreements (the Note Purchase Agreements), the following unsecured notes bearing taxable interest (the Notes):

	Series 2018A	Series 2018B	Series 2018C
Aggregate principal amount	$67.5 million	$17.5 million	$15 million
Fixed coupon interest rate	4.38%	4.53%	4.72%
Maturity date	May 30, 2028	March 30, 2033	May 30, 2048
Principal amount by company:			
Hawaiian Electric	$52 million	$12.5 million	$10.5 million
Hawaii Electric Light	$9 million	$3 million	$3 million
Maui Electric	$6.5 million	$2 million	$1.5 million

The Notes include substantially the same financial covenants and customary conditions as Hawaiian Electric's credit agreement. Hawaiian Electric is also a party as guarantor under the Note Purchase Agreements entered into by Hawaii Electric Light and Maui Electric. All the proceeds of the Notes were used by Hawaiian Electric, Hawaii Electric Light and Maui Electric to finance their capital expenditures and/or to reimburse funds used for the payment of capital expenditures. The Notes may be prepaid in whole or in part at any time at the prepayment price of the principal amount plus a "Make-Whole Amount," as defined in the Note Purchase Agreements.

In June 2018, Mauo, LLC, an indirect subsidiary of Pacific Current, LLC, entered into an unsecured $50.5 million construction loan facility in connection with the construction of the solar-plus-storage PPA project. The loan bears interest at LIBOR plus 1.375% and matures in March 2021. As of June 30, 2018, no amounts were outstanding under the facility. The loan is guaranteed by HEI.

Note 6 · Shareholders' equity

Accumulated other comprehensive income/(loss). Changes in the balances of each component of accumulated other comprehensive income/(loss) (AOCI) were as follows:

	HEI Consolidated				Hawaiian Electric Consolidated		
(in thousands)	Net unrealized gains (losses) on securities	Unrealized gains (losses) on derivatives	Retirement benefit plans	AOCI	Unrealized gains (losses) on derivatives	Retirement benefit plans	AOCI
Balance, December 31, 2017	$ (14,951)	$ —	$ (26,990)	$ (41,941)	$ —	$ (1,219)	$ (1,219)
Current period other comprehensive income (loss)	(17,645)	—	1,047	(16,598)	—	57	57
Balance, June 30, 2018	$ (32,596)	$ —	$ (25,943)	$ (58,539)	$ —	$ (1,162)	$ (1,162)
Balance, December 31, 2016	$ (7,931)	$ (454)	$ (24,744)	$ (33,129)	$ (454)	$ 132	$ (322)
Current period other comprehensive income	2,244	454	657	3,355	454	45	499
Balance, June 30, 2017	$ (5,687)	$ —	$ (24,087)	$ (29,774)	$ —	$ 177	$ 177

Reclassifications out of AOCI were as follows:

	Amount reclassified from AOCI				
	Three months ended June 30		Six months ended June 30		Affected line item in the
(in thousands)	2018	2017	2018	2017	Statements of Income / Balance Sheets
HEI consolidated					
Derivatives qualifying as cash flow hedges:					
Window forward contracts	$ —	$ —	$ —	$ 454	Property, plant and equipment-electric utilities
Retirement benefit plans:					
Amortization of prior service credit and net losses recognized during the period in net periodic benefit cost	5,350	3,930	10,496	7,851	See Note 8 for additional details
Impact of D&Os of the PUC included in regulatory assets	(4,827)	(3,581)	(9,449)	(7,194)	See Note 8 for additional details
Total reclassifications	$ 523	$ 349	$ 1,047	$ 1,111	
Hawaiian Electric consolidated					
Derivatives qualifying as cash flow hedges:					
Window forward contracts	$ —	$ —	$ —	$ 454	Property, plant and equipment
Retirement benefit plans:					
Amortization of prior service credit and net losses recognized during the period in net periodic benefit cost	4,853	3,621	9,506	7,239	See Note 8 for additional details
Impact of D&Os of the PUC included in regulatory assets	(4,827)	(3,581)	(9,449)	(7,194)	See Note 8 for additional details
Total reclassifications	$ 26	$ 40	$ 57	$ 499	

Note 7 · Revenues

Adoption of ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." In the first quarter of 2018, the Company and Hawaiian Electric adopted ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with accounting standards in effect for those periods. The adoption of Topic 606 had no significant impact on the timing or pattern of revenue recognition for the Company or Hawaiian Electric. No practical expedients were used by the Company or Hawaiian Electric in the adoption of ASU No. 2014-09.

Revenue from contracts with customers. The revenues subject to Topic 606 include the Utilities' electric energy sales revenue and the Utilities' and ASB's transaction fees, as further described below.

Electric Utilities.

Electric energy sales and fees under tariff. Electric energy sales represent revenues from the generation and transmission of electricity to customers and utility fees include transaction-based fees associated with the delivery of electricity provided by the Utilities under tariffs approved by the PUC.

Electric energy sales under tariff - Transaction pricing for electricity is determined and approved by the PUC for each rate class and includes revenues from the base electric charges, which are composed of (1) the customer, demand, energy, and minimum charges, and (2) the power factor, service voltage, and other adjustments as provided in each rate and rate rider schedule. The Utilities satisfy performance obligations over time, i.e., the Utilities generate and transfer control of the electricity over time as the customer simultaneously receives and consumes the benefits provided by the Utilities' performance. Payments from customers are generally due within 30 days from the end of the billing period.

Utility fees - Pricing for transaction fees associated with electric service are set and approved by the PUC. Adjustments to the fee schedules are either requested by the Utilities during ratemaking years or during off cycle periods as needed. Such transaction fees include connection fees, late payment fees and other one-time transaction fees. These transaction-based fees are recognized at the point in time when the transaction has occurred and the performance obligation satisfied (e.g., connection fees are recognized when an electric connection is completed).

Bank.

Bank fees. Bank fees are primarily transaction-based and are recognized when the transaction has occurred and the performance obligation satisfied. From time to time, customers will request a fee waiver and ASB may grant reversals of fees. Revenues are not recorded for the estimated amount of fee reversals for each period. Under the new standard, certain fees paid to third parties that were previously recognized as a component of noninterest expense are now netted with fee income. The change in presentation will have no effect on the reported amount of operating income.

Fees from other financial services - These fees primarily include debit card interchange income and fees, automated teller machine fees, credit card interchange income and fees, check ordering fees, wire fees, safe deposit rental fees, corporate/business fees, merchant income, online banking fees and international banking fees. Amounts paid to third parties for payment network expenses are included in this financial statement caption in ASB's Statements of Income Data (in Revenues—Bank financial statement caption of HEI's Consolidated Statements of Income). Previously, these expenses were recorded in the other expense financial statement caption of ASB's Statements of Income Data (in Expenses—Bank financial statement caption of HEI's Consolidated Statements of Income).

Fee income on deposit liabilities - These fees primarily include "not sufficient funds" fees, monthly deposit account service charge fees, commercial account analysis fees and other deposit fees.

Fee income on other financial products - These fees primarily include commission income from the sales of annuity, mutual fund, and life insurance products. In 2017, ASB began offering a fee-based, managed account product in which income is based on a percentage of assets under management. ASB satisfies its performance obligations under the managed account arrangement over time, and consequently, fees for assets under management are recognized over time as the customer simultaneously receives and consumes the benefit of asset management services. Fees recognized to date from the managed account product were minimal.

Revenues from other sources. Revenues from other sources not subject to Topic 606 are accounted for as follows:

Electric Utilities.

Regulatory revenues. Regulatory revenues primarily consist of revenues from decoupling mechanism, cost recovery surcharges and the Tax Act adjustments.

Decoupling mechanism - Under the decoupling mechanism, the Utilities are allowed to recover or refund the difference between actual revenue and the target revenue as determined by the PUC. These adjustments will be reflected in tariffs in future periods.

Cost recovery surcharges **-** For the timely recovery of additional costs incurred, and reconciliation of costs and expenses included in tariffed rates, the Utilities recognize revenues under surcharge mechanisms approved by the PUC. These will be reflected in tariffs in future periods (e.g., ECAC and PPAC).

Tax Act adjustments - These represent adjustments to revenues for the amounts included in tariffed revenues that will be returned to customers as a result of the Tax Act.

Since revenue adjustments discussed above resulted from either agreements with the PUC or change in tax law, rather than contracts with customers, they are not subject to the scope of Topic 606. See Notes 1, 3 and 10 to the audited consolidated financial statements in the Company's Form 10-K for the year ended December 31, 2017.

Bank.

Interest and dividend income. Interest and fees on loans are recognized in accordance with ASC Topic 310, *Receivables,* including the related allowance for loan losses. Interest and dividends on investment securities are recognized in accordance with ASC Topic 320, *Investments-Debt and Equity Securities*. See Notes 1 and 4 to the audited consolidated financial statements in the Company's Form 10-K for the year ended December 31, 2017.

Other bank noninterest income. Other bank noninterest income primarily consists of mortgage banking income and bank-owned life insurance income.

Mortgage banking income - Mortgage banking income consists primarily of realized and unrealized gains on sale of loans accounted for pursuant to ASC Topic 860, *Transfers and Servicing*. Interest rate lock commitments and forward loan sales are considered derivatives and are accounted pursuant to ASC Topic 815, *Derivatives and Hedging*.

Bank-Owned Life Insurance (BOLI) - The recognition of BOLI cash surrender value does not represent a contract with a customer and is accounted for in accordance with Emerging Issues Task Force Issue 06-05, *Accounting for Purchases of Life Insurance-Determining the Amount that Could be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance.*

Revenue disaggregation. The following tables disaggregates revenues by major source, timing of revenue recognition, and segment:

	Three months ended June 30, 2018				Six months ended June 30, 2018			
	Electric utility	Bank	Other	Total	Electric utility	Bank	Other	Total
(in thousands)								
Revenues from contracts with customers								
Electric energy sales - residential	$ 185,217	$ —	$ —	$ 185,217	$ 363,806	$ —	$ —	$ 363,806
Electric energy sales - commercial	206,169	—	—	206,169	395,167	—	—	395,167
Electric energy sales - large light and power	214,676	—	—	214,676	406,997	—	—	406,997
Electric energy sales - other	3,217	—	—	3,217	6,480	—	—	6,480
Utility fees	751	—	—	751	1,548	—	—	1,548
Bank fees	—	11,557	—	11,557	—	23,054	—	23,054
Total revenues from contracts with customers	610,030	11,557	—	621,587	1,173,998	23,054	—	1,197,052
Revenues from other sources								
Regulatory revenue	(4,643)	—	—	(4,643)	107	—	—	107
Bank interest and dividend income	—	63,261	—	63,261	—	125,263	—	125,263
Other bank noninterest income	—	2,286	—	2,286	—	4,206	—	4,206
Other	2,739	—	47	2,786	4,448	—	75	4,523
Total revenues from other sources	(1,904)	65,547	47	63,690	4,555	129,469	75	134,099
Total revenues	$ 608,126	$ 77,104	$ 47	$ 685,277	$1,178,553	$152,523	$ 75	$1,331,151
Timing of revenue recognition								
Services/goods transferred at a point in time	$ 751	$ 11,557	$ —	$ 12,308	$ 1,548	$ 23,054	$ —	$ 24,602
Services/goods transferred over time	609,279	—	—	609,279	1,172,450	—	—	1,172,450
Total revenues from contracts with customers	$ 610,030	$ 11,557	$ —	$ 621,587	$1,173,998	$ 23,054	$ —	$1,197,052

There are no material contract assets or liabilities associated with revenues from contracts with customers existing at the beginning or at the end of the six months ended June 30, 2018. Accounts receivable and unbilled revenues related to contracts with customers represent an unconditional right to consideration since all performance obligations have been satisfied. These amounts are disclosed as *accounts receivable and unbilled revenues, net* on HEI's condensed consolidated balance sheets and *customer accounts receivable, net* and *accrued unbilled revenues, net* on Hawaiian Electric's condensed consolidated balance sheets.

As of June 30, 2018, the Company had no material remaining performance obligations due to the nature of the Company's contracts with its customers. For the Utilities, performance obligations are fulfilled as electricity is delivered to customers. For the bank, fees are recognized when a transaction is completed.

Note 8 · Retirement benefits

Defined benefit pension and other postretirement benefit plans information. For the first six months of 2018, the Company contributed $32 million ($32 million by the Utilities) to its pension and other postretirement benefit plans, compared to $33 million ($33 million by the Utilities) in the first six months of 2017. The Company's current estimate of contributions to its pension and other postretirement benefit plans in 2018 is $42 million ($41 million by the Utilities, $1 million by HEI and nil by ASB), compared to $67 million ($66 million by the Utilities, $1 million by HEI and nil by ASB) in 2017. In addition, the Company expects to pay directly $2 million ($1 million by the Utilities) of benefits in 2018, compared to $1 million ($0.5 million by the Utilities) paid in 2017.

The components of NPPC and NPBC for HEI consolidated and Hawaiian Electric consolidated were as follows:

	Three months ended June 30				Six months ended June 30			
	Pension benefits		Other benefits		Pension benefits		Other benefits	
(in thousands)	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
HEI consolidated								
Service cost	$ 17,428	$ 15,870	$ 692	$ 847	$ 34,541	$ 32,364	$ 1,361	$ 1,687
Interest cost	19,459	20,361	2,030	2,315	38,693	40,577	3,961	4,726
Expected return on plan assets	(27,224)	(25,646)	(3,267)	(3,104)	(54,478)	(51,367)	(6,459)	(6,170)
Amortization of net prior service gain	(11)	(13)	(451)	(448)	(21)	(27)	(903)	(897)
Amortization of net actuarial loss	7,634	6,707	48	199	15,029	13,220	46	565
Net periodic pension/benefit cost (return)	17,286	17,279	(948)	(191)	33,764	34,767	(1,994)	(89)
Impact of PUC D&Os	7,179	(4,867)	1,024	527	9,836	(10,023)	2,095	673
Net periodic pension/benefit cost (adjusted for impact of PUC D&Os)	$ 24,465	$ 12,412	$ 76	$ 336	$ 43,600	$ 24,744	$ 101	$ 584
Hawaiian Electric consolidated								
Service cost	$ 17,007	$ 15,436	$ 688	$ 841	$ 33,680	$ 31,530	$ 1,352	$ 1,676
Interest cost	17,937	18,726	1,955	2,231	35,647	37,315	3,814	4,558
Expected return on plan assets	(25,577)	(23,935)	(3,216)	(3,056)	(51,184)	(47,946)	(6,356)	(6,073)
Amortization of net prior service loss (gain)	2	2	(451)	(451)	4	4	(902)	(902)
Amortization of net actuarial loss	6,941	6,190	49	192	13,651	12,196	49	551
Net periodic pension/benefit cost (return)	16,310	16,419	(975)	(243)	31,798	33,099	(2,043)	(190)
Impact of PUC D&Os	7,179	(4,867)	1,024	527	9,836	(10,023)	2,095	673
Net periodic pension/benefit cost (adjusted for impact of PUC D&Os)	$ 23,489	$ 11,552	$ 49	$ 284	$ 41,634	$ 23,076	$ 52	$ 483

HEI consolidated recorded retirement benefits expense of $27 million ($25 million by the Utilities) and $17 million ($15 million by the Utilities) in the first six months of 2018 and 2017, respectively, and charged the remaining net periodic benefit cost primarily to electric utility plant.

The Utilities have implemented pension and OPEB tracking mechanisms under which all of their retirement benefit expenses (except for executive life and nonqualified pension plan expenses) determined in accordance with GAAP are recovered over time. Under the tracking mechanisms, these retirement benefit costs that are over/under amounts allowed in rates are charged/credited to a regulatory asset/liability. The regulatory asset/liability for each utility will be amortized over 5 years beginning with the issuance of the PUC's D&O in the respective utility's next rate case.

Defined contribution plans information. For the first six months of 2018 and 2017, the Company's expenses for its defined contribution pension plans under the Hawaiian Electric Industries Retirement Savings Plan (HEIRSP) and the ASB 401(k) Plan were $3.2 million and $3.3 million, respectively, and cash contributions were $4.8 million and $4.0 million, respectively. For the first six months of 2018 and 2017, the Utilities' expenses for its defined contribution pension plan under the HEIRSP were $1.1 million and $1.0 million, respectively, and cash contributions were $1.1 million and $1.0 million, respectively.

Note 9 · Share-based compensation

Under the 2010 Equity and Incentive Plan, as amended, HEI can issue shares of common stock as incentive compensation to selected employees in the form of stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares and other share-based and cash-based awards. The 2010 Equity and Incentive Plan (original EIP) was amended and restated effective March 1, 2014 (EIP) and an additional 1.5 million shares were added to the shares available for issuance under these programs.

As of June 30, 2018, approximately 3.2 million shares remained available for future issuance under the terms of the EIP, assuming recycling of shares withheld to satisfy minimum statutory tax liabilities relating to EIP awards, including an estimated 0.6 million shares that could be issued upon the vesting of outstanding restricted stock units and the achievement of performance goals for awards outstanding under long-term incentive plans (assuming that such performance goals are achieved at maximum levels).

Under the 2011 Nonemployee Director Stock Plan (2011 Director Plan), HEI can issue shares of common stock as compensation to nonemployee directors of HEI, Hawaiian Electric and ASB. As of June 30, 2018, there were 46,607 shares remaining available for future issuance under the 2011 Director Plan.

Share-based compensation expense and the related income tax benefit were as follows:

	Three months ended June 30		Six months ended June 30	
(in millions)	2018	2017	2018	2017
HEI consolidated				
Share-based compensation expense [1]	$ 2.8	$ 2.2	$ 4.4	$ 3.3
Income tax benefit	0.5	0.8	0.7	1.2
Hawaiian Electric consolidated				
Share-based compensation expense [1]	0.9	0.7	1.5	1.1
Income tax benefit	0.2	0.3	0.3	0.4

[1] For the three and six months ended June 30, 2018 and 2017, the Company has not capitalized any share-based compensation.

Stock awards. HEI granted HEI common stock to nonemployee directors of HEI, Hawaiian Electric and ASB under the 2011 Director Plan as follows:

	Three months ended June 30		Six months ended June 30	
(dollars in millions)	2018	2017	2018	2017
Shares granted	37,747	35,000	38,821	35,770
Fair value	$ 1.3	$ 1.1	$ 1.3	$ 1.2
Income tax benefit	0.3	0.4	0.3	0.5

The number of shares issued to each nonemployee director of HEI, Hawaiian Electric and ASB is determined based on the closing price of HEI Common Stock on the grant date.

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

	Three months ended June 30				Six months ended June 30			
	2018		2017		2018		2017	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	208,088	$ 32.97	236,036	$ 31.42	197,047	$ 31.53	220,683	$ 29.57
Granted	3,159	33.78	896	33.06	92,064	34.09	97,873	33.47
Vested	(448)	31.94	(7,370)	29.17	(75,683)	30.56	(88,994)	28.88
Forfeited	(9,943)	32.05	(23,079)	31.50	(12,572)	32.27	(23,079)	31.50
Outstanding, end of period	200,856	$ 33.03	206,483	$ 31.50	200,856	$ 33.03	206,483	$ 31.50
Total weighted-average grant-date fair value of shares granted (in millions)	$ 0.1		$ —		$ 3.1		$ 3.3	

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

For the first six months of 2018 and 2017, total restricted stock units and related dividends that vested had a fair value of $2.7 million and $3.3 million, respectively, and the related tax benefits were $0.4 million and $1.2 million, respectively.

As of June 30, 2018, there was $5.4 million of total unrecognized compensation cost related to the nonvested restricted stock units. The cost is expected to be recognized over a weighted-average period of 2.8 years.

Long-term incentive plan payable in stock. The 2017-2019 and 2018-2020 long-term incentive plans (LTIP) provide for performance awards under the EIP of shares of HEI common stock based on the satisfaction of performance goals, including a market condition goal. The number of shares of HEI common stock that may be awarded is fixed on the date the grants are made, subject to the achievement of specified performance levels and calculated dividend equivalents. The potential payout varies from 0% to 200% of the number of target shares depending on the achievement of the goals. The market condition goal is based on HEI's total shareholder return (TSR) compared to the Edison Electric Institute Index over the three-year period. The other performance condition goals relate to EPS growth, return on average common equity (ROACE) and ASB's efficiency ratio. The 2016-2018 LTIP provides for performance awards payable in cash, and thus is not included in the tables below.

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

	Three months ended June 30				Six months ended June 30			
	2018		2017		2018		2017	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	66,791	$ 38.84	36,971	$ 39.51	32,904	$ 39.51	83,106	$ 22.95
Granted	1,315	38.20	233	39.51	36,941	38.21	37,204	39.51
Vested (issued or unissued and cancelled)	—	—	—	—	—	—	(83,106)	22.95
Forfeited	(1,929)	38.85	(3,434)	39.51	(3,668)	38.84	(3,434)	39.51
Outstanding, end of period	66,177	$ 38.82	33,770	$ 39.51	66,177	$ 38.82	33,770	$ 39.51
Total weighted-average grant-date fair value of shares granted (in millions)	$ 0.1		$ —		$ 1.4		$ 1.5	

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

The grant date fair values of the shares were determined using a Monte Carlo simulation model utilizing actual information for the common shares of HEI and its peers for the period from the beginning of the performance period to the grant date and estimated future stock volatility and dividends of HEI and its peers over the remaining three-year performance period. The expected stock volatility assumptions for HEI and its peer group were based on the three-year historic stock volatility, and the annual dividend yield assumptions were based on dividend yields calculated on the basis of daily stock prices over the same three-year historical period.

The following table summarizes the assumptions used to determine the fair value of the LTIP awards linked to TSR and the resulting fair value of LTIP awards granted:

	2018	2017
Risk-free interest rate	2.29%	1.46%
Expected life in years	3	3
Expected volatility	17.0%	20.1%
Range of expected volatility for Peer Group	15.1% to 26.2%	15.4% to 26.0%
Grant date fair value (per share)	$38.20	$39.51

For the six months ended June 30, 2017, total vested LTIP awards linked to TSR and related dividends had a fair value of $1.9 million and the related tax benefits were $0.7 million.

As of June 30, 2018, there was $1.7 million of total unrecognized compensation cost related to the nonvested performance awards payable in shares linked to TSR. The cost is expected to be recognized over a weighted-average period of 2.0 years.

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

	Three months ended June 30				Six months ended June 30			
	2018		2017		2018		2017	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	267,167	$ 33.80	147,888	$ 33.48	131,616	$ 33.47	109,816	$ 25.18
Granted	5,257	33.52	930	32.58	147,766	34.08	148,818	33.47
Vested	—	—	—	—	—	—	(109,816)	25.18
Forfeited	(7,717)	33.80	(13,740)	33.48	(14,675)	33.80	(13,740)	33.48
Outstanding, end of period	264,707	$ 33.79	135,078	$ 33.47	264,707	$ 33.79	135,078	$ 33.47
Total weighted-average grant-date fair value of shares granted (at target performance levels) (in millions)	$ 0.2		$ —		$ 5.0		$ 5.0	

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

For the six months ended June 30, 2017, total vested LTIP awards linked to other performance conditions and related dividends had a fair value of $4.2 million and the related tax benefits were $1.6 million.

As of June 30, 2018, there was $6.0 million of total unrecognized compensation cost related to the nonvested shares linked to performance conditions other than TSR. The cost is expected to be recognized over a weighted-average period of 2.0 years.

Note 10 · Income taxes

Staff Accounting Bulletin No. 118 (SAB No. 118). On December 22, 2017, the SEC staff issued SAB No. 118 to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. In 2017, the Company calculated its best estimate, primarily related to the bonus depreciation rule changes, in accordance with its understanding of the law and available guidance. As of June 30, 2018, there were no adjustments made to provisional tax impacts previously recognized in the Company's and Utilities financial statements. The provisional impacts will be updated as additional information is received as a result of changes in the Company and Utilities interpretations and assumptions, the issuance of Internal Revenue Service and Joint Committee on Taxation guidance, and actions the Company and Utilities may take as a result of the Tax Act. The provisional tax impacts will be finalized by the end of 2018.

Note 11 · Cash flows

Six months ended June 30	2018	2017
(in millions)		
Supplemental disclosures of cash flow information		
HEI consolidated		
Interest paid to non-affiliates	$ 45	$ 46
Income taxes paid (including refundable credits)	36	21
Hawaiian Electric consolidated		
Interest paid to non-affiliates	32	36
Income taxes paid (including refundable credits)	35	8
Supplemental disclosures of noncash activities		
HEI consolidated		
Property, plant and equipment		
Estimated fair value of noncash contributions in aid of construction (investing)	5	2
Unpaid invoices and accruals for capital expenditures, balance, end of period (investing)	42	38
Loans transferred from held for investment to held for sale (investing)	1	9
Common stock issued (gross) for director and executive/management compensation (financing)[1]	4	11
Obligations to fund low income housing investments (investing)	6	—
Transfer of retail repurchase agreements to deposit liabilities (financing)	102	—
Unsettled trades to purchase investment securities (investing)	10	—
Hawaiian Electric consolidated		
Electric utility property, plant and equipment		
Estimated fair value of noncash contributions in aid of construction (investing)	5	2
Unpaid invoices and accruals for capital expenditures, balance, end of period (investing)	28	36

[1] The amounts shown represent the market value of common stock issued for director and executive/management compensation and withheld to satisfy statutory tax liabilities.

Note 12 · Fair value measurements

Fair value measurement and disclosure valuation methodology. The following are descriptions of the valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not carried at fair value:

Short-term borrowings—other than bank. The carrying amount of short-term borrowings approximated fair value because of the short maturity of these instruments.

Investment securities. The fair value of ASB’s investment securities is determined quarterly through pricing obtained from independent third-party pricing services or from brokers not affiliated with the trade. Non-binding broker quotes are infrequent and generally occur for new securities that are settled close to the month-end pricing date. The third-party pricing vendors ASB uses for pricing its securities are reputable firms that provide pricing services on a global basis and have processes in place to ensure quality and control. The third-party pricing services use a variety of methods to determine the fair value of securities that fall under Level 2 of ASB’s fair value measurement hierarchy. Among the considerations are quoted prices for similar securities in an active market, yield spreads for similar trades, adjustments for liquidity, size, collateral characteristics, historic and generic prepayment speeds, and other observable market factors.

To enhance the robustness of the pricing process, ASB will on a quarterly basis compare its standard third-party vendor’s price with that of another third-party vendor. If the prices are within an acceptable tolerance range, the price of the standard vendor will be accepted. If the variance is beyond the tolerance range, an evaluation will be conducted by ASB and a challenge to the price may be made. Fair value in such cases will be based on the value that best reflects the data and observable characteristics of the security. In all cases, the fair value used will have been independently determined by a third-party pricing vendor or non-affiliated broker.

The fair value of the mortgage revenue bond is estimated using a discounted cash flow model to calculate the present value of future principal and interest payments and, therefore is classified within Level 3 of the valuation hierarchy.

Loans held for sale. Residential and commercial loans are carried at the lower of cost or market and are valued using market observable pricing inputs, which are derived from third party loan sales and, therefore, are classified within Level 2 of the valuation hierarchy.

Loans held for investment. Fair value of loans held for investment is derived using a discounted cash flow approach which includes an evaluation of the underlying loan characteristics. The valuation model uses loan characteristics which includes product type, maturity dates and the underlying interest rate of the portfolio. This information is input into the valuation models along with various forecast valuation assumptions including prepayment forecasts, to determine the discount rate. These assumptions are derived from internal and third party sources. Since the valuation is derived from model-based techniques, ASB includes loans held for investment within Level 3 of the valuation hierarchy.

Impaired loans. At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Fair value is determined primarily by using an income, cost or market approach and is normally provided through appraisals. Impaired loans carried at fair value generally receive specific allocations within the allowance for loan losses. For collateral-dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower’s financial statements, or aging reports, adjusted or discounted based on management’s historical knowledge, changes in market conditions from the time of the valuation and management’s expertise and knowledge of the client and client’s business, resulting in a Level 3 fair value classification. Generally, impaired loans are evaluated quarterly for additional impairment and adjusted accordingly.

Real estate acquired in settlement of loans. Foreclosed assets are carried at fair value (less estimated costs to sell) and are generally based upon appraisals or independent market prices that are periodically updated subsequent to classification as real estate owned. Such adjustments typically result in a Level 3 classification of the inputs for determining fair value. ASB estimates the fair value of collateral-dependent loans and real estate owned using the sales comparison approach.

Mortgage servicing rights. Mortgage servicing rights (MSRs) are capitalized at fair value based on market data at the time of sale and accounted for in subsequent periods at the lower of amortized cost or fair value. Mortgage servicing rights are evaluated for impairment at each reporting date. ASB's MSRs are stratified based on predominant risk characteristics of the underlying loans including loan type and note rate. For each stratum, fair value is calculated by discounting expected net income streams using discount rates that reflect industry pricing for similar assets. Expected net income streams are estimated based on industry assumptions regarding prepayment expectations and income and expenses associated with servicing residential mortgage loans for others. Impairment is recognized through a valuation allowance for each stratum when the carrying amount exceeds fair value, with any associated provision recorded as a component of loan servicing fees included in "Revenues - bank" in the consolidated statements of income. A direct write-down is recorded when the recoverability of the valuation allowance is deemed to be unrecoverable. ASB compares the fair value of MSRs to an estimated value calculated by an independent third-party. The third-party relies on both published and unpublished sources of market related assumptions and their own experience and expertise to arrive at a value. ASB uses the third-party value only to assess the reasonableness of its own estimate.

Deposit liabilities. Includes only fixed-maturity certificates of deposit beginning in 2018. The fair value of fixed-maturity certificates of deposit was estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Other borrowings. For fixed-rate advances and repurchase agreements, fair value is estimated using quantitative discounted cash flow models that require the use of interest rate inputs that are currently offered for advances and repurchase agreements of similar remaining maturities. The majority of market inputs are actively quoted and can be validated through external sources, including broker market transactions and third party pricing services.

Long-term debt—other than bank. Fair value of long-term debt of HEI and the Utilities was obtained from third-party financial services providers based on the current rates offered for debt of the same or similar remaining maturities and from discounting the future cash flows using the current rates offered for debt of the same or similar risks, terms, and remaining maturities.

Interest rate lock commitments (IRLCs). The estimated fair value of commitments to originate residential mortgage loans for sale is based on quoted prices for similar loans in active markets. IRLCs are classified as Level 2 measurements.

Forward sales commitments. To be announced (TBA) mortgage-backed securities forward commitments are classified as Level 1, and consist of publicly-traded debt securities for which identical fair values can be obtained through quoted market prices in active exchange markets. The fair values of ASB’s best efforts and mandatory delivery loan sale commitments are determined using quoted prices in the market place that are observable and are classified as Level 2 measurements.

Window forward contracts. The estimated fair value of the Utilities’ window forward contracts was obtained from a third-party financial services provider based on the effective exchange rate offered for the foreign currency denominated transaction. Window forward contracts are classified as Level 2 measurements.

The following table presents the carrying or notional amount, fair value and placement in the fair value hierarchy of the Company’s financial instruments. For stock in Federal Home Loan Bank, the carrying amount is a reasonable estimate of fair value because it can only be redeemed at par. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings and money market deposits, the carrying amount is a reasonable estimate of fair value as these liabilities have no stated maturity.

		Estimated fair value			
(in thousands)	Carrying or notional amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
June 30, 2018					
Financial assets					
HEI consolidated					
Available-for-sale investment securities	$ 1,409,528	$ —	$ 1,394,101	$ 15,427	$ 1,409,528
Held-to-maturity investment securities	62,630	—	61,444	—	61,444
Stock in Federal Home Loan Bank	10,158	—	10,158	—	10,158
Loans, net	4,727,189	—	5,250	4,774,079	4,779,329
Mortgage servicing rights	8,509	—	—	13,423	13,423
Derivative assets	24,537	—	250	—	250
Financial liabilities					
HEI consolidated					
Deposit liabilities[1]	757,265	—	745,295	—	745,295
Short-term borrowings—other than bank	202,857	—	202,857	—	202,857
Other bank borrowings	126,930	—	126,904	—	126,904
Long-term debt, net—other than bank	1,783,009	—	1,816,310	—	1,816,310
Derivative liabilities	25,445	56	114	—	170
Hawaiian Electric consolidated					
Short-term borrowings	91,880	—	91,880	—	91,880
Long-term debt, net	1,468,457	—	1,511,103	—	1,511,103
Derivative liabilities-window forward contracts	3,117	—	106	—	106
December 31, 2017					
Financial assets					
HEI consolidated					
Available-for-sale investment securities	1,401,198	—	1,385,771	15,427	1,401,198
Held-to-maturity investment securities	44,515	—	44,412	—	44,412
Stock in Federal Home Loan Bank	9,706	—	9,706	—	9,706
Loans, net	4,628,381	—	11,254	4,770,497	4,781,751
Mortgage servicing rights	8,639	—	—	12,052	12,052
Derivative assets	17,812	—	393	—	393
Hawaiian Electric consolidated					
Derivative assets-window forward contracts	3,240	—	256	—	256
Financial liabilities					
HEI consolidated					
Deposit liabilities[1]	5,890,597	—	5,884,071	—	5,884,071
Short-term borrowings—other than bank	117,945	—	117,945	—	117,945
Other bank borrowings	190,859	—	190,829	—	190,829
Long-term debt, net—other than bank	1,683,797	—	1,813,295	—	1,813,295
Derivative liabilities	13,562	20	10	—	30
Hawaiian Electric consolidated					
Short-term borrowings	4,999	—	4,999	—	4,999
Long-term debt, net	1,368,479	—	1,497,079	—	1,497,079

[1] Deposit liabilities as of December 31, 2017 include noninterest-bearing demand, interest-bearing demand, and savings and money market deposits, for which the carrying amount represents a reasonable estimate of fair value, as such liabilities have no stated maturity. The fair value of such financial liabilities are not included as of June 30, 2018 as a result of the Company’s adoption of ASU No. 2016-01.

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

	June 30, 2018			December 31, 2017		
	Fair value measurements using			Fair value measurements using		
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale investment securities (bank segment)						
Mortgage-related securities-FNMA, FHLMC and GNMA	$ —	$ 1,177,832	$ —	$ —	$ 1,201,473	$ —
U.S. Treasury and federal agency obligations	—	175,933	—	—	184,298	—
Corporate bonds	—	40,336	—	—	—	—
Mortgage revenue bond	—	—	15,427	—	—	15,427
	$ —	$ 1,394,101	$ 15,427	$ —	$ 1,385,771	$ 15,427
Derivative assets						
Interest rate lock commitments (bank segment) [1]	$ —	$ 248	$ —	$ —	$ 133	$ —
Forward commitments (bank segment) [1]	—	2	—	—	4	—
Window forward contracts (electric utility segment) [2]	—	—	—	—	256	—
	$ —	$ 250	$ —	$ —	$ 393	$ —
Derivative liabilities						
Interest rate lock commitments (bank segment) [1]	$ —	$ —	$ —	$ —	$ 2	$ —
Forward commitments (bank segment) [1]	56	8	—	20	8	—
Window forward contracts (electric utility segment) [2]	—	106	—	—	—	—
	$ 56	$ 114	$ —	$ 20	$ 10	$ —

[1] Derivatives are carried at fair value with changes in value reflected in the balance sheet in other assets or other liabilities and included in mortgage banking income.

[2] Derivatives are included in regulatory assets and/or liabilities in the balance sheets.

There were no transfers of financial assets and liabilities between Level 1 and Level 2 of the fair value hierarchy during the six months ended June 30, 2018.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis were as follows:

	Three months ended June 30		Six months ended June 30	
Mortgage revenue bond	**2018**	**2017**	**2018**	**2017**
(in thousands)				
Beginning balance	$ 15,427	$ 15,427	$ 15,427	$ 15,427
Principal payments received	—	—	—	—
Purchases	—	—	—	—
Unrealized gain (loss) included in other comprehensive income	—	—	—	—
Ending balance	$ 15,427	$ 15,427	$ 15,427	$ 15,427

ASB holds one mortgage revenue bond issued by the Department of Budget and Finance of the State of Hawaii. The Company estimates the fair value by using a discounted cash flow model to calculate the present value of estimated future principal and interest payments. The unobservable input used in the fair value measurement is the weighted average discount rate. As of June 30, 2018, the weighted average discount rate was 3.40% which was derived by incorporating a credit spread over the one month LIBOR rate. Significant increases (decreases) in the weighted average discount rate could result in a significantly lower (higher) fair value measurement.

Fair value measurements on a nonrecurring basis. Certain assets and liabilities are measured at fair value on a nonrecurring basis and therefore are not included in the tables above. These measurements primarily result from assets carried at the lower of cost or fair value or from impairment of individual assets. The carrying value of assets measured at fair value on a nonrecurring basis were as follows:

		Fair value measurements		
(in thousands)	Balance	Level 1	Level 2	Level 3
June 30, 2018				
Loans	$ 232	$ —	$ —	$ 232
December 31, 2017				
Loans	2,621	—	—	2,621

For six months ended June 30, 2018 and 2017, there were no adjustments to fair value for ASB's loans held for sale.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis:

				Significant unobservable input value (1)	
($ in thousands)	Fair value	Valuation technique	Significant unobservable input	Range	Weighted Average
June 30, 2018					
Residential loans	$ 232	Fair value of collateral	Appraised value less 7% selling cost	62-69%	68%
Total loans	$ 232				
December 31, 2017					
Residential loans	$ 613	Fair value of collateral	Appraised value less 7% selling cost	71-92%	84%
Commercial loans	2,008	Fair value of collateral	Appraised value	71-76%	75%
Total loans	$ 2,621				

(1) Represent percent of outstanding principal balance.

Significant increases (decreases) in any of those inputs in isolation would result in significantly higher (lower) fair value measurements.

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

The following discussion updates "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in HEI's and Hawaiian Electric's 2017 Form 10-K and should be read in conjunction with such discussion and the 2017 annual consolidated financial statements of HEI and Hawaiian Electric and notes thereto included in HEI's and Hawaiian Electric's 2017 Form 10-K, as well as the quarterly (as of and for the three and six months ended June 30, 2018) condensed consolidated financial statements and notes thereto included in this Form 10-Q.

HEI consolidated

RESULTS OF OPERATIONS

(in thousands, except per share amounts)	Three months ended June 30		%	
	2018	2017	change	Primary reason(s)*
Revenues	$ 685,277	$ 632,281	8	Increases for the electric utility and bank segments
Operating income	78,799	77,802	1	Increase for the bank segment and lower operating losses for the "other" segment, partly offset by slight decrease for the electric utility segment
Net income for common stock	46,054	38,661	19	Higher net income at the electric utility and bank segments, partly offset by higher net losses at the "other" segment. See below for effective tax rate explanation.
Basic earnings per common share	$ 0.42	$ 0.36	17	Higher net income
Weighted-average number of common shares outstanding	108,842	108,750	—	Issuances of shares under compensation and director stock plans.

(in thousands, except per share amounts)	Six months ended June 30		%	
	2018	2017	change	Primary reason(s)*
Revenues	$ 1,331,151	$ 1,223,843	9	Increases for the electric utility and bank segments
Operating income	150,688	147,540	2	Increase for the bank segment and lower operating losses for the "other" segment, partly offset by slight decrease for the electric utility segment
Net income for common stock	86,301	72,854	18	Higher net income at the electric utility and bank segments, partly offset by higher net losses at the "other" segment. See below for effective tax rate explanation.
Basic earnings per common share	$ 0.79	$ 0.67	18	Higher net income
Weighted-average number of common shares outstanding	108,830	108,712	—	Issuances of shares under compensation and director stock plans.

* Also, see segment discussions which follow.

The Company's effective tax rates (combined federal and state income tax rates) for the second quarters of 2018 and 2017 were 22% and 34%, respectively. The Company's effective tax rates for the first six months of 2018 and 2017 were 23% and 34%, respectively. The effective tax rates were lower for the three and six months ended June 30, 2018 compared to the same periods in 2017 due primarily to the provision in the Tax Act that lowered the federal income tax rate from 35% to 21%. The lower tax rate was partially offset by lower excess tax benefits associated with share-based awards in the first six months of 2018 as compared to the same period of 2017 and other Tax Act changes (the non-deductibility of excess executive compensation and various fringe benefit costs and loss of the domestic production activities deduction). Note that although the Utilities' effective income tax rate decreased, the net benefits of the Tax Act, including the lower effective tax rate, are being returned to customers through rates.

HEI's consolidated ROACE was 8.6% for the twelve months ended June 30, 2018 and 12.1% for the twelve months ended June 30, 2017. The lower ROACE for the twelve months ended June 30, 2018 compared to the twelve months ended June 30, 2017 was primarily due to the merger termination fee received in July 2016 when HEI's planned merger with NextEra Energy was terminated.

Dividends. The payout ratios for the first six months of 2018 and full year 2017 were 78% and 82%, respectively. HEI currently expects to maintain its dividend at its present level; however, the HEI Board of Directors evaluates the dividend quarterly and considers many factors in the evaluation including, but not limited to, the Company's results of operations, the long-term prospects for the Company and current and expected future economic conditions.

Economic conditions.

Note: The statistical data in this section is from public third-party sources 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).

Through the first half of 2018, Hawaii's tourism industry, a significant driver of Hawaii's economy, continued to grow in both visitor spending and arrivals. Visitor expenditures increased 10.8% and arrivals increased 8.2% compared to the same period in 2017. Looking ahead, the Hawaii Tourism Authority expects scheduled nonstop seats to Hawaii to increase as the year progresses, driven primarily by an increase in seats from West Coast, East Coast and Asia.

Hawaii's unemployment rate remained steady at 2.1% for June 2018, which was lower than the 2.4% rate for the same period a year ago and lower than the national unemployment rate of 4.0%. It is also the lowest unemployment rate in the nation.

Hawaii real estate activity, as indicated by the home resale market, experienced a decline in median sales prices for single family homes and growth in median sales prices for condominiums so far in 2018. Median sales prices for single family residential homes on Oahu through June 2018 were higher by 3.9% and for condominiums were higher by 6.5%, over the same time period in 2017. The number of closed sales for single family residential homes was down by 1.6% and for condominiums was up 1.3% through June of 2018 compared to same time period of 2017.

Hawaii's petroleum product prices reflect supply and demand in the Asia-Pacific region and the price of crude oil in international markets. Although the price of crude oil fluctuates month to month, the general trend has been an increasing one over the last 2.5 years.

At its June 2018 meeting, the Federal Open Market Committee (FOMC) decided to raise the target range for the federal funds rate from "1.75% to 2%" in view of realized and expected labor market conditions and inflation. The FOMC will continue to assess economic conditions relative to its objectives of maximum employment and 2% inflation in determining the size and timing of future adjustments to the target range.

Hawaii's economic expansion continues with strong visitor arrivals and spending. The construction industry is more volatile, with expected slowing as major projects in the resort, retail and multifamily residential sectors are scheduled for completion in the next few years. Record low unemployment rates are likely to support stronger gains in income. Potential risks include infrastructure constraints, tight labor markets and high housing costs creating inflationary pressures, uncertainty in the national economic outlook due to potential trade wars and natural disasters.

"Other" segment.

	Three months ended June 30		Six months ended June 30		
(in thousands)	**2018**	**2017**	**2018**	**2017**	**Primary reason(s)**
Revenues	$ 47	$ 77	$ 75	$ 172	
Operating loss	(3,262)	(3,677)	(7,629)	(8,655)	Second quarter and first six months of 2018 includes $1.3 million and $2.3 million, respectively, of operating income from Pacific Current, LLC[1]. Second quarter and first six months of 2018 corporate expense was slightly higher than same periods in 2017.
Net loss	(5,676)	(3,716)	(11,864)	(6,801)	Second quarter and first six months of 2018 includes higher interest expense (due to higher interest rates and balances at corporate and new debt at Pacific Current, LLC related to Hamakua Energy's acquisition of a power plant) and lower tax benefits on expenses as a result of tax reform in second quarter and first six months of 2018 as compared to the same periods in 2017.

[1] Hamakua Energy's sales to Hawaii Electric Light (a regulated affiliate) are eliminated in consolidation, but Hamakua Energy's profit on electricity sales to Hawaii Electric Light is not required to be eliminated because the PPA was approved by the PUC and it is probable that, through the ratemaking process, future revenue from Hawaii Electric Light's sale of the electricity will approximate its purchase price from Hamakua Energy under the PPA.

The “other” business segment (loss)/income includes results of the stand-alone corporate operations of HEI and ASB Hawaii, Inc. (ASBH), as well as the results of Pacific Current, LLC, a newly created direct subsidiary of HEI focused on investing in clean energy and sustainability projects; Pacific Current’s indirect subsidiary, Hamakua Energy, LLC, which owns a 60-MW combined cycle power plant, formerly owned by Hamakua Energy Partners, L.P.; Pacific Current’s indirect subsidiary, Mauo, LLC (Mauo), which is currently constructing a solar-plus-storage project; 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 2015 and final winding up in June 2017); and The Old Oahu Tug Service, Inc., a maritime freight transportation company that ceased operations in 1999, but has remaining employee benefit payments obligations; as well as eliminations of intercompany transactions.

Acquisition of a Solar + Storage Power Purchase Agreement (PPA). On February 2, 2018, Mauo executed definitive agreements to acquire a solar-plus-storage PPA for a multi-site, commercial-scale project that will provide 8.6 MW of solar capacity and 42.3 MWH of storage capacity on the islands of Maui and Oahu. The PPA has a 15-year term with an option for the customer to extend for an additional five years. The system will be constructed by a third-party contractor under an Engineering, Procurement and Construction (EPC) contract that was contemporaneously negotiated and executed by Mauo. The EPC contract provides a fixed price for the construction of the system, a project completion schedule and performance obligations designed to match the requirements of the PPA. Mauo plans to fund the construction of the project with a construction loan facility that will be repaid at the commercial operation date (ultimately with cash from investment tax credits, state renewable tax credits and non-recourse project debt). The facilities are expected to be operational in 2019.

FINANCIAL CONDITION

Liquidity and capital resources. As a result of the Tax Cut and Jobs Act, utility property is no longer eligible for bonus depreciation, but further guidance is required in order to finally determine the timing of the application of the new law. However, note that recent clarification in the tax law indicates that certain assets with longer construction periods that were placed in service after the effective date may be grandfathered and qualify for the old 50% bonus depreciation if subject to binding contracts entered into before such effective date. The Utilities are currently evaluating its larger projects placed into service after September 27, 2017 for applicability. Nevertheless, the initial cash requirement for future utility capital projects will generally increase because of the loss of the immediate tax benefit from bonus depreciation. The Company believes that its ability to generate cash, both internally from electric utility and banking operations and externally from issuances of equity and debt securities, commercial paper and bank borrowings, is adequate to maintain sufficient liquidity to fund its contractual obligations and commercial commitments, its forecasted capital expenditures and investments, its expected retirement benefit plan contributions and other cash requirements for the foreseeable future.

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

(dollars in millions)	June 30, 2018		December 31, 2017	
Short-term borrowings—other than bank	$ 203	5%	$ 118	3%
Long-term debt, net—other than bank	1,783	43	1,684	43
Preferred stock of subsidiaries	34	1	34	1
Common stock equity	2,103	51	2,097	53
	$ 4,123	100%	$ 3,933	100%

HEI’s commercial paper borrowings and line of credit facility were as follows:

	Average balance	Balance	
(in millions)	Six months ended June 30, 2018	June 30, 2018	December 31, 2017
Commercial paper	$ 49	$ 61	$ 63
Line of credit draws	—	—	—
Undrawn capacity under HEI’s line of credit facility		150	150

Note: 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.” The maximum amount of HEI’s external short-term borrowings during the first six months of 2018 was $68 million.

HEI has a $150 million line of credit facility with no amounts outstanding at June 30, 2018. See Note 5 of the Condensed Consolidated Financial Statements.

The Company has the ability to satisfy the share purchase requirements for the HEI Dividend Reinvestment and Stock Purchase Plan (DRIP), HEIRSP and ASB 401(k) Plan either through the issuance of new shares, which provides new capital, or through open market purchases of its common stock. From December 7, 2016 to date, HEI satisfied the share purchase requirements for these plans through open market purchases of its common stock rather than through new issuances.

For the first six months of 2018, net cash provided by operating activities of HEI consolidated was $108 million. Net cash used by investing activities for the same period was $391 million, primarily due to Hawaiian Electric's consolidated capital expenditures and ASB's net increase in loans held for investment and purchases of investment securities, partly offset by ASB's receipt of repayments from investment securities and Hawaiian Electric's receipt of contributions in aid of construction. Net cash provided by financing activities during this period was $276 million as a result of several factors, including increases in short-term borrowings and ASB's deposit liabilities, proceeds from other bank borrowings and long-term debt and net increases in ASB's retail purchase agreements, partly offset by the payment of common stock dividends and repayments of other bank borrowings. 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 the first six months of 2018, Hawaiian Electric and ASB (through ASB Hawaii) paid cash dividends to HEI of $52 million and $22 million, respectively.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION

The Company's results of operations and financial condition can be affected by numerous factors, many of which are beyond the Company's control and could cause future results of operations to differ materially from historical results. For information about certain of these factors, see pages 49, 63 to 65, and 75 to 77 of HEI's MD&A included in Part II, Item 7 of HEI's 2017 Form 10-K.

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

MATERIAL ESTIMATES AND CRITICAL ACCOUNTING POLICIES

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

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

For information about these material estimates and critical accounting policies, see pages 50 to 51, 65, and 77 to 80 of HEI's MD&A included in Part II, Item 7 of HEI's 2017 Form 10-K.

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

Electric utility

RESULTS OF OPERATIONS

Three months ended June 30 2018	2017	Increase (decrease)		(dollars in millions, except per barrel amounts)
$ 608	$ 557	$ 51		**Revenues.** Net increase largely due to:
			$ 27	higher fuel oil prices[1]
			19	higher purchased power energy costs[2]
			12	higher RAM revenue
			10	higher rate relief
			8	higher KWH generated
			(3)	lower PPAC revenues
			(8)	lower KWH purchased
			(13)	Tax reform adjustment
172	141	31		**Fuel oil expense.** Increase due to higher fuel oil prices and higher KWH generated
161	153	8		**Purchased power expense.** Increase due to higher fuel oil prices
			18	higher purchased power energy price
			(1)	lower AES Hawaii capacity charges
			(1)	lower PGV capacity charges
			(7)	lower KWH purchased
113	105	8		**Operation and maintenance expenses**. Net increase due to:
			7	reset of pension costs as part of rate case interim decisions
			1	Big Island lava eruption response costs
			1	higher vegetation management costs
			(2)	higher overhaul costs related to Waiau and Kahe plants in 2017
108	101	7		**Other expenses.** Increase due to higher revenue taxes from higher revenue, coupled with higher depreciation expense for plant investments in 2017
55	56	(1)		**Operating income.** Decrease due to higher operation and maintenance and other expenses offset by higher revenue
31	26	5		**Net income for common stock.** Increase due to higher RAM and rate relief, offset by higher expenses
2,128	2,150	(22)		Kilowatthour sales (millions)[3]
$ 81.84	$ 69.86	$ 11.98		Average fuel oil cost per barrel[1]

Six months ended June 30		Increase		
2018	2017	(decrease)		(dollars in millions, except per barrel amounts)
$ 1,179	$ 1,075	$ 104		**Revenues.** Net increase largely due to:
			$ 61	higher fuel oil prices[1]
			28	higher RAM revenues
			23	higher purchased power energy costs[2]
			17	higher rate relief
			(3)	lower KWH generated
			(21)	Tax reform adjustment
339	286	53		**Fuel oil expense.** Increase due to higher fuel oil prices, partially offset by lower KWH generated
301	280	21		**Purchased power expense.** Increase due to higher fuel oil prices
			21	higher purchased power energy price
			2	higher AES Hawaii capacity charges
			(3)	lower KWH purchased
220	204	16		**Operation and maintenance expenses**. Net increase due to:
			10	reset of pension costs as part of rate case interim decisions
			2	write-off of smart grid costs
			1	higher ERP costs related to outside consultants
			1	one-time rent expense adjustment for existing substation land
			1	Big Island lava eruption response costs
			1	higher vegetation management costs
212	199	13		**Other expenses.** Increase due to higher revenue taxes from higher revenue, coupled with higher depreciation expense for plant investments in 2017
107	107	—		**Operating income.** Higher revenue from RAM and rate relief offset by higher operation and maintenance and other expenses
59	47	12		**Net income for common stock.** Increase due to higher RAM and rate relief, offset by higher expenses
4,140	4,188	(48)		Kilowatthour sales (millions)[3]
$ 81.26	$ 67.78	$ 13.48		Average fuel oil cost per barrel[1]
462,547	460,858	1,689		Customer accounts (end of period)

1 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.

2 The rate schedules of the electric utilities currently contain purchase power adjustment clauses (PPACs) through which changes in purchase power expenses (except purchased energy costs) are passed on to customers.

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

The Utilities’ effective tax rates for the second quarters of 2018 and 2017 were 22% and 36%, respectively. The Utilities’ effective tax rates for the first six months of 2018 and 2017 were 23% and 36%, respectively. The effective tax rates were lower in the three and six months ended June 30, 2018 compared to the same periods in 2017 due primarily to the provision in the Tax Act that lowered the federal income tax rate from 35% to 21%. The lower tax rate was partially offset by other Tax Act changes (the non-deductibility of excess executive compensation and various fringe benefit costs). Although the Utilities’ effective income tax rate decreased, the net benefits of the Tax Act, including the lower effective tax rate, are being returned to customers through rates.

Hawaiian Electric’s consolidated ROACE was 7.2% for the twelve months ended June 30, 2018, and 7.2% for the twelve months ended June 30, 2017.

The Utilities’ consolidated KWH sales have declined each year since 2007. Based on expectations of additional customer renewable self-generation and energy-efficiency installations, the Utilities’ full year 2018 KWH sales are expected to be below the 2017 level. However, due to the decoupling model implemented in 2011, revenues are not tied to KWH sales and include annual rate adjustments to revenues. See “Decoupling” in the “Regulatory proceedings” section of Note 3 of the condensed consolidated financial statements for additional information.

The net book value (cost less accumulated depreciation) of utility property, plant and equipment (PPE) as of June 30, 2018 amounted to $4 billion, of which approximately 30% related to generation PPE, 61% related to transmission and distribution PPE, and 9% related to other PPE. Approximately 10% of the total net book value relates to generation PPE that has been deactivated or that the Utilities plan to deactivate or decommission. See “Adequacy of supply” below.

See “Economic conditions” in the “HEI Consolidated” section above.

Executive overview and strategy. The Utilities provide electricity on all the principal islands in the state, other than Kauai, and operate five separate grids. The Utilities’ mission is to provide innovative energy leadership for Hawaii, to meet the needs and expectations of customers and communities, and to empower them with affordable, reliable and clean energy. The goal is to create a modern, flexible and dynamic electric grid that enables an optimal mix of distributed energy resources (such as private rooftop solar), demand response and grid-scale resources to achieve the statutory goal of 100% renewable energy by 2045.

Transition to renewable energy. The Utilities are committed to partnering with the State of Hawaii in achieving its Renewable Portfolio Standard goal of 100% renewable energy by 2045. Hawaii’s RPS law requires electric utilities to meet an RPS of 15%, 30%, 40%, 70% and 100% by December 31, 2015, 2020, 2030, 2040 and 2045, respectively. The Utilities have been successful in adding significant amounts of renewable energy resources to their electric systems and exceeded the 2015 RPS goal. The Utilities' RPS for 2017 was about 27% and on its way to achieving the 2020 RPS goal of 30%. (See "Developments in renewable energy efforts” below).

In April 2014, the PUC issued orders that collectively address certain key policy, resource planning and operational issues for the Utilities. The April 2014 regulatory orders were to address: (1) Integrated Resource Planning and Power Supply Improvement Plans (PSIPs), (2) Reliability Standards Working Group, and (3) Policy Statement and Order Regarding Demand Response Programs, which are described below. The PUC also provided its inclinations on the future of Hawaii’s electric utilities in one of the orders. The PUC provided its perspectives on the vision, business strategies and regulatory policy changes required to align the Utilities' business model with customers’ interests and the state’s public policy goals.

Integrated Resource Planning and Power Supply Improvement Plans. In August 2014, the Utilities filed proposed Power Supply Improvement Plans (PSIPs) with the PUC , and subsequently filed updated PSIPs in April 2016 and December 2016 in response to PUC orders.

In the December 2016 PSIP Update Report, the updated plans describe greater and faster expansion of the Utilities’ renewable energy portfolio than in the plans filed in April 2016. The plans include the continued growth of private rooftop solar and describe the grid and generation modernization work needed to reliably integrate an estimated total of 165,000 private systems by 2030, and additional grid-scale renewable energy resources. The Utilities already have the highest percentage of customers using private rooftop solar of any utility in the U.S. and customer-sited resources are seen as a key contributor to the growth of the renewable portfolio on every island. In addition, the plans forecast the addition of 360 MW of grid-scale solar and 157 MW of grid-scale wind, with 8 MW derived from the first phase of the community-based renewable energy (CBRE) program. The plans also include 115 MW from Demand Response (DR) programs, which can shift customer use of electricity to times when more renewable energy is available, potentially making room to add even more renewable resources. The Utilities’ priority is to continue replacing fossil fuel generation with renewables over the next few years as federal tax incentives for renewables begin to phase out. The December 2016 Update Report emphasizes work that is in progress or planned through 2021 on each of the five islands the Utilities serve.

On July 14, 2017, the PUC accepted the Utilities’ PSIP December 2016 Update Report and closed the proceeding. In its order, the PUC provided guidance regarding the implementation of the Utilities’ near-term action plan and future planning activities, and required the Utilities to file a report that details an updated resource planning approach and schedule.

On March 1, 2018, the Utilities filed its Integrated Grid Planning (IGP) Report that provides an innovative systems approach to energy planning intended to yield the most cost-effective renewable energy pathways that are rooted in customer and stakeholder input. The Utilities’ IGP fully integrates resource, transmission, and distribution planning and incorporates solutions sourcing into the planning process. This will enable optimization and coordination of the solutions, thereby resulting in actionable near-term plans that maximize value to customers.

Reliability standards working group. In April 2014, the PUC ordered the Utilities to take timely actions intended to lower energy costs, improve system reliability and address emerging challenges to integrate additional renewable energy. In addition to the PSIPs mentioned above, the PUC ordered certain filing requirements, including a Distributed Generation Interconnection Plan, which the Utilities filed in August 2014.

The PUC also stated it would be opening new dockets to address (1) reliability standards, (2) the technical, economic and policy issues associated with distributed energy resources (DER) and (3) the Hawaii electricity reliability administrator, which is a third-party position that the legislature has authorized the PUC to create by contract to provide support for the PUC in developing and periodically updating local grid reliability standards and procedures and interconnection requirements and overseeing grid access and operation. The PUC has not yet opened new dockets to address the first and third topics above. To address DER, the second topic, the PUC opened an investigative proceeding on August 21, 2014 (see "DER investigative proceeding" below).

Policy statement and order regarding demand response programs. The PUC provided guidance concerning the objectives and goals for DR programs, and ordered the Utilities to develop an integrated DR Portfolio Plan that will enhance system operations and reduce costs to customers. The Utilities' DR Portfolio will create the economic and technical means by which customers can use their own equipment and behavior to have a role in the management of the electricity grid. Participating customers will be empowered with increasing opportunities to simultaneously install DER enabling active participation in the grid and its associated economics. These opportunities will take the form of either rates and incentive-based programs that will compensate customers for their participation, or by way of engagements with turnkey service providers that contract with the Utilities to aggregate and deliver various grid services on behalf of participating customers and their distributed assets.

The Utilities filed their DR Portfolio Plan in July 2014 and an updated Plan in February 2017. In July 2015, the PUC issued an order appointing a special adviser to guide, monitor and review the Utilities' Plan design and implementation. In December 2015, the Utilities filed an application with the PUC for approval of their proposed DR Portfolio Tariff Structure, Reporting Schedule and Cost Recovery of Program Costs. On January 25, 2018, the PUC approved the Utilities' revised DR Portfolio tariff structure. The PUC supported the approach of working with aggregators to implement the DR portfolio, and ordered the Utilities to complete contracting by June 2018 and initiate first implementation by the third quarter of 2018. The Companies have selected the aggregators and commenced negotiations in July 2018 with a target to meet the goal of initiating implementation by the third quarter of 2018.

In October 2017, the PUC approved the Utilities request made in December 2015 to defer and recover certain computer software and software development costs for a DR Management System in an amount not to exceed $3.9 million, exclusive of AFUDC, through the Renewable Energy Infrastructure Program Surcharge. The Utilities completed the first milestone of Blueprinting and will move onto the realization phase in the third quarter of 2018. The Utilities are still on schedule for the DR Management System to be in service by first quarter of 2019.

DER investigative proceeding. In March 2015, the PUC issued an order to address DER issues.

In June 2015, the Utilities submitted their final Statement of Position in the DER proceeding, which included new pricing provisions for future private rooftop PV systems, technical standards for advanced inverters, new options for customers including battery-equipped private rooftop PV systems, a pilot time-of-use rate, an improved method of calculating the amount of private rooftop PV that can be safely installed, and a streamlined and standardized PV application process.

In October 2015, the PUC issued a D&O establishing DER reforms that: (1) promote rapid adoption of the next generation of solar PV and other distributed energy technologies; (2) encourage more competitive pricing of distributed energy resource systems; (3) lower overall energy supply costs for all customers; and (4) help to manage DER in terms of each island's limited grid capacity. The D&O capped the Utilities' Net Energy Metering (NEM) programs at "existing" levels (i.e., for existing NEM customers and customers who already applied and were waiting for approval), closed the NEM programs to new participants, and approved new interim options for customers to interconnect DER to the utility electric grids, including Self Supply and Grid Supply tariff options and modified interconnection standards. The PUC placed caps on the availability of the Grid Supply program. The Self Supply Program is designed for customers who do not export to the grid.

In October 2017, the PUC issued a D&O which further revises interconnection requirements, creates a Smart Export program, modifies the customer-grid supply program (Controllable Customer Grid Supply), clarifies that non-export customer systems can be added to the existing NEM program, and provides guidance and reporting requirements regarding hosting capacity analyses. The Smart Export program is designed for PV systems with battery storage and features zero compensation during mid-day, but enhanced compensation at other times of the day to reflect the value of the energy to the grid at different times of the day. The Controllable Customer Grid Supply program allows PV systems without battery storage to deliver energy to the grid on an as-available basis except when system-wide technical conditions require reduction of output. The D&O specified island-specific pricing and program caps for the Smart Export and Controllable Customer Grid Supply programs. Customers currently under the customer-grid supply program are grandfathered under existing rates for the next five years. The

D&O also authorizes activation of new advanced inverter functions in PV and storage systems, which will provide support to the electric grid during different types of grid disturbances.

In February 2018, the PUC issued an order which approved, with certain modifications, new tariffs proposed by the Utilities, which will implement the Smart Export and Controllable Customer Grid Supply programs in manners consistent with the PUC's October 2017 D&O, and approved, with certain modifications, revisions to existing tariffs also proposed by the Utilities. The February 2018 order denied the Utilities' proposal to allow NEM customers to add non-export energy storage systems, but on June 29, 2018, the PUC issued an order which approved, with certain modifications, the Utilities' revised proposal to allow NEM customers to add non-export energy storage systems.

Grid modernization. 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 enabled, 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.

In March 2016, the Utilities sought PUC approval to commit funds for an expansion of the smart grid project. The proposed smart grid project was estimated to cost $340 million and to be implemented over 5 years. On January 4, 2017, the PUC issued an order dismissing the application without prejudice and directing the Utilities to submit a Grid Modernization Strategy.

The PUC indicated that the overall goal of the Grid Modernization Strategy is to deploy modern grid investments at an appropriate priority, sequence and pace to cost-effectively maximize flexibility, minimize the risk of redundancy and obsolescence, deliver customer benefits and enable greater DER and renewable energy integration. On June 30, 2017, the Utilities filed an initial draft of the Grid Modernization Strategy describing how new technology will help triple private rooftop solar and make use of rapidly evolving products including storage and advanced inverters. The cost of the first segment of the modernization is estimated at about $205 million over six years. The Utilities filed their final Grid Modernization Strategy on August 29, 2017. On February 7, 2018, the PUC issued an order setting forth next steps and directives for the Utilities to implement the Grid Modernization Strategy. The Utilities have begun work to implement the Grid Modernization Strategy by issuing solicitations for advanced meters, a meter data management system, and a communications network. Also, the Utilities have filed their first application with the PUC on June 21, 2018, for the first implementation phase. Additional applications will be filed later to implement subsequent phases of the strategy.

Community-Based Renewable Energy. On October 1, 2015, the Utilities filed a proposed CBRE program and tariff with the PUC that would allow customers who cannot, or chose not to, take advantage of private rooftop solar to receive the benefits of renewable energy to help offset their monthly electric bills and support clean energy for Hawaii. In December 2017, the PUC adopted a CBRE program framework, the Utilities provided comments and filed relevant materials for review and on June 29, 2018, the PUC issued an order approving the Utilities' tariffs. The tariffs became effective on July 11, 2018 for each island and phase 1 of the CBRE program commenced.

The first phase will total 8 MW of solar PV only with one credit rate for each island. The Utilities' role will be limited to administrative only during the first phase. The second phase will commence after review of the first full year of the first phase. The second phase is contemplated to be a larger capacity and include multiple credit rates (e.g., time of day) and various technologies. The Utilities will have the opportunity to develop self-build projects; however 50% of utility capacity will be reserved for low to moderate income customers.

Microgrid services tariff proceeding. On July 10, 2018, the PUC issued an order instituting a proceeding to investigate establishment of a microgrid services tariff, pursuant to Act 200 (July 10, 2018 Act). The PUC will issue subsequent order(s) establishing a statement of issues to be addressed in the order, and issue a procedural schedule to govern this proceeding, after the deadline for the filing of motions to intervene or participate.

Decoupling. See "Decoupling" in Note 3 of the Condensed Consolidated Financial Statements for a discussion of decoupling.

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. Earnings sharing credits are included in the annual decoupling filing for the following year. Results for 2017, 2016 and 2015 did not trigger the earnings sharing mechanism for the Utilities.

Regulated returns. Actual and PUC-allowed (as of June 30, 2018) returns were as follows:

%	Rate-making Return on rate base (RORB)*			ROACE**			Rate-making ROACE***		
Twelve months ended June 30, 2018	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Hawaiian Electric	Hawaii Electric Light	Maui Electric
Utility returns	6.32	6.92	5.96	7.21	7.51	6.78	7.65	8.18	6.96
PUC-allowed returns	7.57	7.80	7.34	9.50	9.50	9.00	9.50	9.50	9.00
Difference	(1.25)	(0.88)	(1.38)	(2.29)	(1.99)	(2.22)	(1.85)	(1.32)	(2.04)

* 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.

The gap between PUC-allowed ROACEs and the ROACEs actually achieved is primarily due to: the consistent exclusion of certain expenses from rates (for example, incentive compensation and charitable contributions), the recognition of annual RAM revenues on June 1 annually rather than on January 1, the low RBA interest rate (currently a short-term debt rate rather than the actual cost of capital), O&M increases and return on capital additions since the last rate case in excess of indexed escalations, and the portion of the pension regulatory asset not earning a return due to pension contributions and pension costs in excess of the pension amount in rates. In 2017, the utility ROACEs actually achieved reflect negative impacts of the Tax Act on deferred tax assets.

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 and integrate more renewable energy. 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 effects of the Tax Act on Utilities' regulated operations accrued to the benefit of customers from the effective date of January 1, 2018. Generally, the lower corporate income tax rate lowers the Utilities' revenue requirements through lower income tax expense and through the amortization of a regulatory liability for excess accumulated deferred income taxes (ADIT) resulting from the recording of ADIT in prior years at the higher income tax rate. The revenues collected in the first and a portion of the second quarters reflected income taxes at the old 35% rate and consequently, the Utilities reduced revenues to the extent the income taxes collected in 2018 revenue exceeded the taxes accrued at the new 21% rate. This reduction was recorded to a regulatory liability and electric rates have been adjusted in the second quarter to initiate the pass back of the 2018 excess to customers over various amortization periods. In addition, rates have been adjusted to begin passing back the excess ADIT that was accumulated as of December 31, 2017. The Tax Act also excludes essentially all of the Utilities' plant from qualifying for bonus depreciation, which will partially offset the aforementioned impacts by lowering ADIT and thereby increasing rate base and the associated revenue requirement for new plant going forward.

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										
2017 [1]										
Request	12/16/16	$	106.4	6.9	10.60	8.28	$	2,002	57.36	Yes
Interim increase	2/16/18		36.0	2.3	9.50	7.57		1,980	57.10	
Interim increase with Tax Act	4/13/18		(0.6)	—	9.50	7.57		1,993	57.10	
Final increase			(0.6)	—	9.50	7.57		1,993	57.10	
Hawaii Electric Light										
2016 [2]										
Request	9/19/16	$	19.3	6.5	10.60	8.44	$	479	57.12	Yes
Interim increase	8/31/17		9.9	3.4	9.50	7.80		482	56.69	
Interim increase with Tax Act	5/1/18		1.5	0.5	9.50	7.80		481	56.69	
Final increase			—	—	9.50	7.80		481	56.69	
Maui Electric										
2018										
Request	10/12/17	$	30.1	9.3	10.60	8.05	$	473	56.94	Yes
Joint Statement of Probable Entitlement (which will be superceded by any PUC interim D&O)										
At old depreciation rates	7/6/18		6.4	1.95	9.50	7.43		465	57.02	
At new depreciation rates	7/6/18		12.5	3.82	9.50	7.43		462	57.02	

Note: The "Request date" reflects the application filing date for the rate proceeding. The "Interim increase" date reflects the effective date of the revised schedules and tariffs as a result of the PUC-approved increase.

1 On June 22, 2018, the PUC issued a final decision and order approving the final increase amounts in the table above for Hawaiian Electric. The effective date of this final increase is subject to PUC-approval of Hawaiian Electric's revised rate schedules and tariffs.

2 On June 29, 2018, the PUC issued a final decision and order approving the final increase amounts in the table above for Hawaii Electric Light. The effective date of this final increase is subject to PUC-approval of Hawaii Electric Light's revised rate schedules and tariffs.

See "Most recent rate proceedings" in Note 3 of the Condensed Consolidated Financial Statements.

Performance-based regulation. See "Performance incentive mechanisms" and "Performance-based regulation proceeding" in Note 3 of the Condensed Consolidated Financial Statements.

Depreciation docket. In December 2016, the Utilities filed an application with the PUC for approval of changes in the depreciation and amortization rates and amortization period for CIAC, based on a 2015 Book Depreciation Study. In July 2018, the PUC approved the stipulated agreement between the Utilities and the Consumer Advocate, which among other things:

- Authorized the use of consolidated depreciation and amortization rates rather than separate depreciation and amortization rates for the three utilities
- Established revised depreciation and amortization rates for the three utilities
- Approved the implementation of the new depreciation and amortization rates and other changes to coincide with the effective date of the interim or final base rates approved in the subsequent rate case for each utility, beginning with Maui Electric's ongoing 2018 test year

Developments in renewable energy efforts. Developments in the Utilities' efforts to further their renewable energy strategy include renewable energy projects discussed in Note 3 of the Condensed Consolidated Financial Statements and the following:

New renewable PPAs.

- In July 2015, Maui Electric signed two PPAs, with Kuia Solar and South Maui Renewable Resources (which subsequently assigned its PPA to SSA Solar of HI 2, LLC and SSA Solar of HI 3, LLC, respectively), each for a 2.87-MW solar facility. In February 2016, the PUC approved both PPAs, subject to certain conditions and modifications. The guaranteed commercial operations date for the facilities was December 31, 2016, however both projects experienced delays. South Maui Renewable Resources reached commercial operations on May 5, 2018, and Kuia Solar is now expected to be in commercial operations by the end of the third quarter of 2018.

- In December 2014, the PUC approved a PPA for Renewable As-Available Energy dated October 3, 2013 between Hawaiian Electric and Na Pua Makani Power Partners, LLC (NPM) for a proposed 24-MW wind farm on Oahu. The NPM wind farm is expected to be placed into service by August 31, 2019.
- Hawaiian Electric terminated PPAs to purchase solar energy with three affiliates of SunEdison, which affiliates were acquired by an affiliate of NRG Energy, Inc. (NRG) during SunEdison's Chapter 11 bankruptcy proceedings. Hawaiian Electric then negotiated with NRG and its newly acquired affiliates and entered into amended and restated PPAs for solar energy on Oahu with Waipio PV, LLC for 45.9 MW, Lanikuhana Solar, LLC for 14.7 MW and Kawailoa Solar, LLC for 49.0 MW. In July 2017, the PUC approved the three NRG PPAs, subject to modifications and conditions. The three projects are expected to be in service by the end of 2019.

  In February 2018, NRG and GIP III Zephyr Acquisition Partners, a subsidiary of Global Infrastructure Partners (GIP), entered into an agreement where GIP has agreed to purchase substantially all of NRG's renewable platform, including NRG's renewable operations, maintenance and development businesses. Kawailoa Solar, LLC, Lanikuhana Solar, LLC, and Waipio PV, LLC, along with NRG Renew LLC, are included in the sale transaction. NRG Renew has confirmed that this transaction will not in any way affect the completion or success of the three PV Projects.
- In July 2018, the PUC approved the Maui Electric's PPA with Molokai New Energy Partners to purchase solar energy from a PV plus battery storage project. The 4.9 MW project will deliver no more than 2.64 MW at any time to the Molokai system and is expected to be in service by end of 2019.

Tariffed renewable resources.

- As of June 30, 2018, there were approximately 449 MW, 91 MW and 101 MW of installed distributed renewable energy technologies (mainly PV) at Hawaiian Electric, Hawaii Electric Light and Maui Electric, respectively, for tariff-based private customer generation programs, namely Standard Interconnection Agreement (SIA), NEM, Customer Grid Supply, Customer Self Supply, Grid Supply Plus and Smart Export. As of June 30, 2018, an estimated 28% of single family homes on the islands of Oahu, Hawaii and Maui have installed private rooftop solar systems, and approximately 17% of the Utilities' total customers have solar systems.
- The Utilities began accepting energy from feed-in tariff projects in 2011. As of June 30, 2018, there were 31 MW, 3 MW and 5 MW of installed feed-in tariff capacity from renewable energy technologies at Hawaiian Electric, Hawaii Electric Light and Maui Electric, respectively.

Biofuel sources.

- In September 2015, the PUC approved Hawaiian Electric's 2-year biodiesel supply contract with Pacific Biodiesel Technologies, LLC (PBT) to supply 2 million to 3 million gallons of biodiesel at Campbell Industrial Park combustion turbine No. 1 (CIP CT-1) and the Honolulu International Airport Emergency Power Facility beginning in November 2015. The PBT contract is set to expire on November 2, 2018. PBT also has a spot buy contract with Hawaiian Electric to purchase additional quantities of biodiesel at or below the price of diesel. Some purchases of "at parity" biodiesel have been made under the spot purchase contract, which was recently extended through June 2019. REG Marketing & Logistics Group, LLC has a contingency supply contract with Hawaiian Electric to also supply biodiesel to CIP CT-1 in the event PBT is not able to supply necessary quantities. This contingency contract has been extended to November 2019, and will continue with no volume purchase requirements.
- On October 27, 2017, Hawaiian Electric entered into a new biodiesel supply contract with PBT, subject to PUC approval, to supply 2 million to 4 million gallons of biodiesel per year for three years. The new PBT contract is expected to commence as early as November 2018 to be used as fuel for power generation at Hawaiian Electric's Schofield Generating Station, the Honolulu International Airport Emergency Power Facility and any other generating unit on Oahu, as necessary.

Requests for renewable proposals, expressions of interest, and information.

- In response to requests filed by the Utilities, on October 6, 2017, the PUC opened a docket to receive filings, review approval requests, and resolve disputes, if necessary, related to the Utilities' plan to proceed with a competitive bidding process for dispatchable firm renewable generation and variable renewable generation. On October 23, 2017, the Utilities filed draft requests for proposals for 220 MW of renewable generation on Oahu (Oahu Variable RFP), 50 MW of renewable generation on Hawaii Island (Hawaii Variable RFP), and 100 MW of renewable generation on Maui, including 40 MW of firm renewable generation, comprising the Maui Variable RFP and Maui Firm RFP (all resources to be in service by the end of 2022). With this filing, the Utilities also filed proposed model power purchase agreements and timelines for each proposed procurement. In January 2018, the PUC issued an order appointing Independent Observers for the RFPs and directed the Utilities to move forward with the three Variable RFPs. On February 20, 2018, the PUC approved, with minor modification, the proposed Variable RFPs and directed the Utilities to issue the RFPs, as modified. On February 27, 2018, the Utilities opened the RFPs to receive proposals, with an April

30, 2018 deadline for such proposals. The Utilities are currently evaluating responses to the RFPs and plan to select a final award group by September 17, 2018 and file PPAs with the selected projects by the end of 2018. The Utilities are currently working with the independent observer for the Maui Firm RFP to update and revise the draft Maui Firm RFP for filing with the PUC for approval.

- On January 5, 2017, Hawaiian Electric issued requests for Onshore Wind Expression of Interest to developers that are capable of developing utility scale onshore wind projects that are eligible to capture the federal Investment Tax Credit for Large Wind on the island of Oahu. Hawaiian Electric is in non-binding confidential negotiations with a developer that responded.
- On December 12, 2016, the Utilities issued a request for information asking interested landowners to provide information about properties available for utility-scale renewable energy projects or for growing biofuel feedstock on the islands of Oahu, Hawaii, Maui, Molokai and Lanai. Responses have been made available to developers interested in developing renewable energy projects on these five islands.

Adequacy of supply.

Hawaiian Electric. In January 2018, Hawaiian Electric filed its 2018 Adequacy of Supply (AOS) letter, which indicated that based on its June 2017 sales and peak forecast for the 2018 - 2023 time period, Hawaiian Electric's generation capacity will be sufficient to meet reasonably expected demands for service and provide reasonable reserves for emergencies through 2021, but may have shortfalls in meeting the Utilities' generating system reliability guideline. The calculated reliability guideline shortfalls are relatively small and Hawaiian Electric can implement mitigation measures.

In accordance with its planning criteria, Hawaiian Electric deactivated two fossil fuel generating units from active service at its Honolulu Power Plant in January 2014. Hawaiian Electric acquired new firm capacity of 8 MW with the commissioning of the State of Hawaii Department of Transportation's emergency power facility in June 2017. Hawaiian Electric is continuing negotiations with firm capacity IPPs on Oahu. On August 31, 2017, Hawaiian Electric and Kalaeloa entered into an agreement that neither party will give written notice of termination of the Kalaeloa PPA prior to October 31, 2018. The PPA with AES Hawaii is scheduled to expire in 2022. On June 7, 2018, Hawaiian Electric's Schofield Generating Station was placed into service, providing approximately 50 MW of additional generating capability on Oahu.

Hawaii Electric Light. In January 2018, Hawaii Electric Light filed its 2018 AOS letter, which indicated that Hawaii Electric Light's generation capacity through 2020 is sufficient to meet reasonably expected demands for service and provide for reasonable reserves for emergencies. Hawaii Electric Light is anticipating the addition of the firm dispatchable Hu Honua facility to be online by the end of 2018. Since May 2018, the Puna Geothermal Venture facility has been offline due to the ongoing lava flow on Hawaii Island. Hawaii Electric Light expects to have sufficient generation capacity despite the shutdown of Puna Geothermal Venture.

Maui Electric. In January 2018, Maui Electric filed its 2018 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 2018 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 reserve capacity shortfall from 2018 to 2020 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 the Kahului Power Plant.

In May 2016, Maui Electric requested that the PUC open a new docket for Maui Electric's competitive bidding process for additional firm capacity resources. In October 2017, Maui Electric filed a draft RFP and supporting documents as requested by the PUC. In January 2018, the PUC issued an order appointing an Independent Observer of the RFP process that reports to the PUC for Maui Firm RFP. However, the PUC stated Maui Electric should focus on its variable RFP and noted that it would provide further guidance on the Firm RFP.

In September 2016, Maui Electric submitted an application to purchase and install three temporary mobile distributed generation diesel engines to address increasing reserve capacity shortfalls on the island of Maui; Maui Electric has since requested the PUC to suspend the proceeding to evaluate contingency measures and permanent solutions to minimize or eliminate the risk of near-term capacity shortfalls on the island of Maui.

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 3 of the Condensed Consolidated Financial Statements.

Clean Water Act Section 316(b). On August 14, 2014, the EPA published in the Federal Register the final regulations required by section 316(b) of the CWA designed to protect aquatic organisms from adverse impacts associated with existing power plant cooling water intake structures. The regulations were effective October 14, 2014 and apply to the cooling water systems for the steam generating units at three of Hawaiian Electric's power plants on the island of Oahu. The regulations prescribe a process, including a number of required site-specific studies, for states to develop facility-specific entrainment and impingement controls to be incorporated in each facility's National Pollutant Discharge Elimination System permit. Hawaiian Electric submitted the final site specific studies to the DOH in December 2016 for the Honolulu and Waiau power plants and in September 2017 for the Kahe power plant. Hawaiian Electric will work with the DOH to identify the appropriate compliance methods for the 316(b) rule.

Performance-based ratemaking legislation. See "Performance incentive mechanisms" and "Performance-based regulation proceeding" in Note 3 of the Condensed Consolidated Financial Statements.

Potential impact of lava flows. In May 2018, a lava eruption occurred within the Leilani Estates subdivision, located along the lower East Rift Zone of Kilauea Volcano in the Puna district on the island of Hawaii. Since the time of the initial event, over 20 fissures have erupted lava and gas in the area covering approximately 12.8 square miles or 8,000 acres of land. Approximately 3,000 of the 86,000 Hawaii Electric Light customers reside in that area and over 1,000 customers have evacuated their homes, some permanently. The lava flow is currently concentrated to fissure #8, located within Leilani Estates, which is active and feeding a perched lava channel leading northeastward from the vent toward the Kapoho region. The flow has damaged some of Hawaii Electric Light's property in the affected area and has also resulted in the shutdown of independent power producer PGV's facilities. PGV has retained all of its employees despite the current shutdown and will evaluate the future availability of that plant. Hawaii Electric Light continues to serve the load of Hawaii Island without capacity from PGV, and the Utilities expect to meet its 2020 RPS goals without the return of PGV to service. Although the lava eruption continues and is unpredictable, the financial impact to Hawaii Electric Light to date has not been material.

PUC Commissioner. Jennifer Potter began her term as PUC Commissioner, effective July 1, 2018, replacing outgoing commissioner Lorraine Akiba, whose term expired on June 30, 2018. Ms. Potter was an assistant specialist at Hawaii Natural Energy Institute, and previously worked at Lawrence Berkley National Lab as a senior scientific engineering associate, as well as at the Sacramento Municipal Utility District in various positions.

FINANCIAL CONDITION

Liquidity and capital resources. As a result of the Tax Cut and Jobs Act, utility property is no longer eligible for bonus depreciation, but further guidance is required in order to finally determine the timing of the application of the new law. However, note that recent clarification in the tax law indicates that certain assets with longer construction periods that were placed in service after the effective date may be grandfathered and qualify for the old 50% bonus depreciation if subject to binding contracts entered into before such effective date. The Utilities are currently evaluating its larger projects placed into service after September 27, 2017 for applicability. Nevertheless, the initial cash requirement for future capital projects will generally increase because of the loss of the immediate tax benefit from bonus depreciation. 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, investments, debt repayments, retirement benefit plan contributions and other cash requirements in the foreseeable future.

Hawaiian Electric's consolidated capital structure was as follows:

(dollars in millions)	June 30, 2018		December 31, 2017	
Short-term borrowings	$ 92	3%	$ 5	—%
Long-term debt, net	1,468	42	1,369	42
Preferred stock	34	1	34	1
Common stock equity	1,852	54	1,845	57
	$ 3,446	100%	$ 3,253	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:

	Average balance	Balance	
(in millions)	Six months ended June 30, 2018	June 30, 2018	December 31, 2017
Short-term borrowings [1]			
Commercial paper	$ 88	$ 92	$ 5
Line of credit draws	—	—	—
Borrowings from HEI	—	—	—
Undrawn capacity under line of credit facility	—	200	200

[1] The maximum amount of external short-term borrowings by Hawaiian Electric during the first six months of 2018 was $157 million. As of June 30, 2018, Hawaiian Electric had short-term borrowings from Hawaii Electric Light of $1 million and Maui Electric had short-term borrowings from Hawaiian Electric of $5.6 million.

Hawaiian Electric has a $200 million line of credit facility with no amounts outstanding at June 30, 2018. See Note 5 of the Condensed Consolidated Financial Statements.

Upon PUC approval received in April 2018 (April 2018 Approval), on May 30, 2018, Hawaiian Electric, Hawaii Electric Light and Maui Electric issued through a private placement, $75 million, $15 million and $10 million, respectively, of unsecured senior notes bearing taxable interest. The April 2018 Approval also authorized the use of the expedited approval procedure to request for the remaining additional taxable debt to be issued during 2019 through 2021, with certain conditions, for up to $205 million and $15 million for Hawaiian Electric and Hawaii Electric Light, respectively. Maui Electric does not have authorization to issue additional taxable debt beyond 2018. See Note 5 of the Condensed Consolidated Financial Statements.

On July 12, 2018, the Utilities requested PUC approval to issue the remaining authorized amounts under the April 2018 Approval in 2019 through 2020 (Hawaiian Electric up to $205 million and Hawaii Electric Light up to $15 million of taxable debt), as well as a supplemental increase to authorize the issuance of additional taxable debt to finance capital expenditures, repay long-term and/or short term debt used to finance or refinance capital expenditures, and/or to reimburse funds used for payment of capital expenditures, and to refinance the Utilities' 2004 junior subordinated deferrable interest debentures prior to maturity. In addition, the Utilities requested approval to extend the period to issue additional taxable debt from December 31, 2021 to December 31, 2022. The new total "up to" amounts of taxable debt authorized to be issued through December 31, 2022 are $410 million, $150 million and $130 million for Hawaiian Electric, Hawaii Electric Light and Maui Electric, respectively.

Cash flows. The following table reflects the changes in cash flows for the six months ended June 30, 2018 compared to the six months ended June 30, 2017:

	Six months ended June 30,		
(in thousands)	2018	2017	Change
Net cash provided by operating activities	$ 69,836	$ 138,755	$ (68,919)
Net cash used in investing activities	(195,346)	(166,338)	(29,008)
Net cash provided by (used in) financing activities	133,853	(4,121)	137,974

Net cash provided by operating activities. 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. The decrease in net cash provided by operating activities was primarily driven by lower cash from an increase in accounts receivable due to timing and increase in customer bills as a result of higher fuel prices and purchased power costs included in rates, and a decrease in accounts payable due to timing on payments of invoices related to fuel and capital projects, partially offset by lower income taxes paid due to the lower federal income tax rate from the Tax Act.

Net cash used in investing activities. The increase in net cash used in investing activities was primarily driven by an increase in capital expenditures related to construction activities, and a decrease in contributions received in aid of construction.

Net cash provided by financing activities. Financing activities provide supplemental cash for both day-to-day operations and capital requirements as needed. The increase in net cash provided by financing activities primarily reflected higher proceeds from long-term and short-term borrowings.

Forecast capital expenditures. For the five-year period 2018 through 2022, the Utilities forecast up to $2.2 billion of net capital expenditures, 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 funds needed for the net capital expenditures, to pay down commercial paper or other short-term borrowings, as well as to fund any unanticipated expenditures not included in the 2018 to 2022 forecast (such as increases in the costs or acceleration of capital projects or unanticipated capital expenditures that may be required by new environmental laws and regulations).

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.

Bank

(in millions)	Three months ended June 30 2018	2017	Increase (decrease)	Primary reason(s)
Interest income	$ 63	$ 59	$ 4	The increase in interest income was the result of increases in balances and yields on earning assets. ASB’s average investment securities portfolio balance for the three months ended June 30, 2018 increased by $218 million compared to the same period in 2017 as ASB used excess liquidity to purchase investments. The yield on the investment securities portfolio increased by 15 basis points as new investment purchase yields were higher due to the rising interest rate environment. ASB’s average loan portfolio balance for the three months ended June 30, 2018 increased by $28 million compared to the same period in 2017 as the average residential, home equity line of credit and consumer loan portfolios for the three months ended June 30, 2018 increased by $49 million, $55 million and $31 million, respectively, compared to the same period in 2017. The growth in these loan portfolios aligned with ASB’s portfolio mix target and loan growth strategy. The average commercial and commercial real estate balances decreased by $70 million and $37 million, respectively. The decrease in these loan portfolios was reflective of ASB’s strategic decision to reduce the balances in certain commercial and national loan portfolios to improve the credit quality of those portfolios. The yield on loans benefited from the rising interest rate environment, which resulted in an increase in yield of 17 basis points.
Noninterest income	14	16	(2)	Noninterest income decreased for the three months ended June 30, 2018 compared to noninterest income for the three months ended June 30, 2017 primarily due to lower fees from other financial services in 2018 as a result of debit card interchange expenses being netted against income beginning in 2018. Prior year’s debit card interchange expenses were recorded in other noninterest expense. This change was in accordance with the new revenue recognition accounting standard. See Note 7 of the Condensed Consolidated Financial Statements for additional information on the new revenue recognition standard.
Revenues	77	75	2	
Interest expense	3	3	—	Interest expense was flat for the three months ended June 30, 2018 compared to the same period in 2017 as higher interest expense from the growth in time certificates was partly offset by lower interest expense on other borrowings as a result of lower FHLB advances. Average deposit balances for the three months ended June 30, 2018 increased by $363 million compared to the same period in 2017 due to an increase in core deposits and time certificates of $277 million and $86 million, respectively. Average other borrowings for the three months ended June 30, 2018 decreased by $69 million compared to the same period in 2017 due to a decrease in the average FHLB advances and repurchase agreements of $49 million and $20 million, respectively. The interest-bearing liability rate for the three months ended June 30, 2018 increased by 4 basis points compared to the same period in 2017.
Provision for loan losses	3	3	—	The provision for loan losses was flat for the three months ended June 30, 2018 compared to the provision for loan losses for the three months ended June 30, 2017. The provision for loan losses for 2018 was primarily due to increased reserves for growth in the loan portfolio and additional loan loss reserves for the consumer and residential loan portfolios, partly offset by the release of reserves for the home equity line of credit, commercial and commercial real estate loan portfolios as result of improved credit quality in those loan portfolios. The provision for loan losses for 2017 was primarily due to increased loan loss reserves for the consumer loan portfolio. Delinquency rates have increased from 0.44% at June 30, 2017 to 0.54% at June 30, 2018. The annualized net charge-off ratio for the three months ended June 30, 2018 was 0.32% compared to an annualized net charge-off ratio of 0.21% for the same period in 2017.
Noninterest expense	44	45	(1)	The decrease in noninterest expense for the three months ended June 30, 2018 compared to the same period in 2017 was primarily due to the reclassification of debit card interchange expenses to noninterest income in accordance with the new revenue recognition accounting standard that became effective on January 1, 2018.
Expenses	50	51	(1)	
Operating income	27	24	3	The increase in operating income for the three months ended June 30, 2018 compared to the same period in 2017 was primarily due to higher interest income and lower noninterest expense, partly offset by lower noninterest income.
Net income	21	17	4	The increase in net income for the three months ended June 30, 2018 compared to the same period in 2017 was primarily due to higher operating income and lower income tax expense as a result of the lower corporate rate from the Tax Act.

(in millions)	Six months ended June 30 2018	2017	Increase (decrease)	Primary reason(s)
Interest income	$ 125	$ 117	$ 8	The increase in interest income was primarily the result of an increase in yields on earning assets and higher investment securities portfolio balances. ASB's average investment securities portfolio balance for the six months ended June 30, 2018 increased by $271 million compared to the same period in 2017 as ASB used excess liquidity to purchase investments. The yield on the investment securities portfolio increased by 12 basis points as new investment purchase yields were higher due to the rising interest rate environment. ASB's average loan portfolio balance for the six months ended June 30, 2018 increased by $6 million compared to the same period in 2017 as increases in the average residential, home equity line of credit and consumer loan portfolios for the six months ended June 30, 2018 of $52 million, $54 million and $37 million, respectively, were largely offset by decreases in the the average commercial and commercial real estate balances of $90 million and $47 million, respectively. The growth in residential, home equity line of credit and consumer loan portfolios aligned with ASB's portfolio mix target and loan growth strategy. The decrease in commercial and commercial real estate loan portfolios was reflective of ASB's strategic decision to reduce the balances in certain commercial and national loan portfolios to improve the credit quality of those portfolios. The yield on loans benefited from the rising interest rate environment, which resulted in an increase in yields of 18 basis points.
Noninterest income	27	31	(4)	Noninterest income decreased for the six months ended June 30, 2018 compared to noninterest income for the six months ended June 30, 2017 primarily due to lower fees from other financial services in 2018 as a result of debit card interchange expenses being netted against income beginning in 2018. Prior year's debit card interchange expenses were recorded in other noninterest expense. This change was in accordance with the new revenue recognition accounting standard. See Note 7 of the Condensed Consolidated Financial Statements for additional information on the new revenue recognition standard.
Revenues	152	148	4	
Interest expense	7	6	1	Interest expense increased slightly for the six months ended June 30, 2018 compared to the same period in 2017 due to higher interest expense from the growth in time certificates, but was partially offset by lower interest expense on other borrowings as a result of lower FHLB advances. Average deposit balances for the six months ended June 30, 2018 increased by $331 million compared to the same period in 2017 due to an increase in core deposits and time certificates of $222 million and $109 million, respectively. Average other borrowings for the six months ended June 30, 2018 decreased by $29 million compared to the same period in 2017 due to a decrease in FHLB advances, partly offset by an increase in repurchase agreements. The interest-bearing liability rate for the six months ended June 30, 2018 increased by 4 basis points compared to the same period in 2017.
Provision for loan losses	6	7	(1)	The provision for loan losses decreased slightly for the six months ended June 30, 2018 compared to the provision for loan losses for the six months ended June 30, 2017. The provision for loan losses for 2018 was primarily due to increased reserves for growth in the loan portfolio and additional loan loss reserves for the consumer loan portfolio, partly offset by the release of reserves for the commercial loan portfolio due to a recovery on a previously charged-off commercial loan and improved credit quality of the commercial loan portfolio. The provision for loan losses for 2017 was primarily due to increased loan loss reserves for the consumer loan portfolio and additional loan loss reserves for the commercial real estate loan portfolio due to the downgrade of a specific commercial real estate relationship. Delinquency rates have increased from 0.44% at June 30, 2017 to 0.54% at June 30, 2018. The annualized net charge-off ratio for the six months ended June 30, 2018 was 0.30% compared to an annualized net charge-off ratio of 0.25% for the same period in 2017.
Noninterest expense	87	86	1	The increase in noninterest expense for the six months ended June 30, 2018 compared to the same period in 2017 was primarily due to higher compensation and employee benefits expenses as a result of an increase in the minimum pay rate for employees, higher performance-based incentives and annual merit increases, and higher service expenses, partly offset by the reclassification of debit card interchange expenses in accordance with the new revenue recognition accounting standard.
Expenses	100	99	1	
Operating income	52	49	3	The increase in operating income for the six months ended June 30, 2018 compared to the same period in 2017 was primarily due to higher interest income, partly offset by lower noninterest income and higher noninterest expenses.
Net income	40	33	7	The increase in net income for the six months ended June 30, 2018 compared to the same period in 2017 was primarily due to higher operating income and lower income tax expense as a result of the lower corporate rate from the Tax Act.

See Note 4 of the Condensed Consolidated Financial Statements and "Economic conditions" in the "HEI Consolidated" section above.

ASB continues to maintain its low-risk profile, strong balance sheet and straightforward community banking business model.

ASB's return on average assets, return on average equity and net interest margin were as follows:

	Three months ended June 30		Six months ended June 30	
(%)	**2018**	**2017**	**2018**	**2017**
Return on average assets	1.20	1.02	1.16	1.00
Return on average equity	13.56	11.25	13.07	11.04
Net interest margin	3.76	3.68	3.76	3.68

	Three months ended June 30					
	2018			2017		
(dollars in thousands)	**Average balance**	**Interest[1] income/ expense**	**Yield/ rate (%)**	**Average balance**	**Interest[1] income/ expense**	**Yield/ rate (%)**
Assets:						
Interest-earning deposits	$ 53,677	$ 240	1.77	$ 46,507	$ 121	1.03
FHLB stock	10,245	77	2.99	11,759	57	1.96
Investment securities						
Taxable	1,485,780	8,182	2.20	1,267,945	6,481	2.04
Non-taxable	15,427	162	4.16	15,427	160	4.11
Total investment securities	1,501,207	8,344	2.22	1,283,372	6,641	2.07
Loans						
Residential 1-4 family	2,119,594	21,581	4.07	2,070,450	22,163	4.28
Commercial real estate	879,748	9,959	4.49	917,019	9,722	4.21
Home equity line of credit	932,828	8,354	3.59	877,462	7,248	3.31
Residential land	16,525	223	5.41	16,111	217	5.38
Commercial	592,780	6,814	4.59	663,200	7,090	4.27
Consumer	234,178	7,702	13.19	202,914	5,877	11.62
Total loans [2,3]	4,775,653	54,633	4.57	4,747,156	52,317	4.40
Total interest-earning assets [2]	6,340,782	63,294	3.99	6,088,794	59,136	3.88
Allowance for loan losses	(54,191)			(56,715)		
Non-interest-earning assets	590,493			534,581		
Total assets	$ 6,877,084			$ 6,566,660		
Liabilities and shareholder's equity:						
Savings	$ 2,343,928	$ 411	0.07	$ 2,274,832	$ 386	0.07
Interest-bearing checking	1,030,309	208	0.08	908,864	59	0.03
Money market	125,961	73	0.23	146,962	45	0.12
Time certificates	766,148	2,592	1.36	679,866	1,821	1.07
Total interest-bearing deposits	4,266,346	3,284	0.31	4,010,524	2,311	0.23
Advances from Federal Home Loan Bank	52,176	254	1.95	101,335	788	3.08
Securities sold under agreements to repurchase	75,687	139	0.74	95,740	36	0.15
Total interest-bearing liabilities	4,394,209	3,677	0.34	4,207,599	3,135	0.30
Non-interest bearing liabilities:						
Deposits	1,772,173			1,664,592		
Other	103,991			99,710		
Shareholder's equity	606,711			594,759		
Total liabilities and shareholder's equity	$ 6,877,084			$ 6,566,660		
Net interest income		$ 59,617			$ 56,001	
Net interest margin (%) [4]			3.76			3.68

(dollars in thousands)	Six months ended June 30					
	2018			2017		
	Average balance	Interest[1] income/ expense	Yield/ rate (%)	Average balance	Interest[1] income/ expense	Yield/ rate (%)
Assets:						
Interest-earning deposits	$ 55,078	$ 456	1.65	$ 69,421	$ 307	0.88
FHLB stock	10,009	154	3.09	11,498	105	1.85
Investment securities						
Taxable	1,477,468	16,973	2.30	1,206,272	13,130	2.18
Non-taxable	15,427	312	4.02	15,427	310	4.00
Total investment securities	1,492,895	17,285	2.32	1,221,699	13,440	2.20
Loans						
Residential 1-4 family	2,124,429	43,428	4.09	2,071,931	43,789	4.23
Commercial real estate	866,689	19,210	4.42	913,940	19,134	4.18
Home equity line of credit	926,951	16,342	3.56	872,973	14,364	3.32
Residential land	16,485	446	5.41	17,057	495	5.80
Commercial	576,743	12,993	4.53	666,741	14,245	4.30
Consumer	232,519	15,014	13.02	195,158	11,032	11.40
Total loans [2,3]	4,743,816	107,433	4.54	4,737,800	103,059	4.36
Total interest-earning assets [2]	6,301,798	125,328	3.99	6,040,418	116,911	3.88
Allowance for loan losses	(53,881)			(56,477)		
Non-interest-earning assets	582,346			527,302		
Total assets	$ 6,830,263			$ 6,511,243		
Liabilities and shareholder’s equity:						
Savings	$ 2,327,596	$ 812	0.07	$ 2,261,549	$ 760	0.07
Interest-bearing checking	982,096	282	0.06	897,346	114	0.03
Money market	119,830	99	0.17	151,293	92	0.12
Time certificates	779,796	5,048	1.31	670,717	3,448	1.04
Total interest-bearing deposits	4,209,318	6,241	0.30	3,980,905	4,414	0.22
Advances from Federal Home Loan Bank	51,647	499	1.95	100,671	1,563	3.09
Securities sold under agreements to repurchase	114,997	390	0.68	94,713	77	0.16
Total interest-bearing liabilities	4,375,962	7,130	0.33	4,176,289	6,054	0.29
Non-interest bearing liabilities:						
Deposits	1,748,695			1,646,275		
Other	100,892			98,875		
Shareholder’s equity	604,714			589,804		
Total liabilities and shareholder’s equity	$ 6,830,263			$ 6,511,243		
Net interest income		$ 118,198			$110,857	
Net interest margin (%) [4]			3.76			3.68

1 Interest income includes taxable equivalent basis adjustments, based upon a federal statutory tax rate of 21% and 35%, of $0.03 million and $0.06 million for the three months ended June 30, 2018 and 2017, respectively and $0.07 million and $0.1 million for the six months ended June 30, 2018 and 2017, respectively.

2 Includes loans held for sale, at lower of cost or fair value.

3 Includes recognition of net deferred loan fees of $0.1 million and $0.6 million for the three months ended June 30, 2018 and 2017 and $0.1 million and $1.1 million for the six months ended June 30, 2018 and 2017, respectively, together with interest accrued prior to suspension of interest accrual on nonaccrual loans.

4 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. These conditions have begun to moderate with the interest rate increases in the past year, resulting in an increase in ASB’s net interest income and 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 4 of the Condensed Consolidated Financial Statements for the composition of ASB's loans.

Home equity — key credit statistics. Attention has been given by regulators and rating agencies to the potential for increased exposure to credit losses associated with home equity lines of credit (HELOC) that were originated during the period of rapid home price appreciation between 2003 and 2007 as they have reached the end of their 10-year, interest only payment periods. Once the interest only payment period has ended, payments are reset to include principal repayments along with interest. ASB does not have a large exposure to HELOCs originated between 2003 and 2007. Nearly all of ASB's HELOC originations prior to 2008 consisted of amortizing equity lines that have structured principal payments during the draw period. These older equity lines represent 1% of the HELOC portfolio and are included in the amortizing balances identified in the loan portfolio table below.

	June 30, 2018	December 31, 2017
Outstanding balance of home equity loans (in thousands)	$ 938,902	$ 913,052
Percent of portfolio in first lien position	48.4%	48.0 %
Annualized net charge-off (recovery) ratio	0.03%	(0.03)%
Delinquency ratio	0.52%	0.28 %

			End of draw period – interest only			Current
June 30, 2018	Total	Interest only	2018-2019	2020-2022	Thereafter	amortizing
Outstanding balance (in thousands)	$ 938,902	$ 720,008	$ 39,223	$ 105,070	$ 575,715	$ 218,894
% of total	100%	77%	4%	11%	62%	23%

The HELOC portfolio makes up 20% 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 78% of the total HELOC portfolio and is the current product offering. 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 June 30, 2018, approximately 21% of the portfolio balances were amortizing loans under the Fixed Rate Loan Option.

Loan portfolio risk elements. See Note 4 of the Condensed Consolidated Financial Statements.

Investment securities. ASB's investment portfolio was comprised as follows:

	June 30, 2018		December 31, 2017	
(dollars in thousands)	Balance	% of total	Balance	% of total
U.S. Treasury and federal agency obligations	$ 175,933	12%	$ 184,298	13%
Mortgage-related securities — FNMA, FHLMC and GNMA	1,240,462	84	1,245,988	86
Corporate bonds	40,336	3	—	—
Mortgage revenue bond	15,427	1	15,427	1
Total investment securities	$ 1,472,158	100%	$ 1,445,713	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.

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 June 30, 2018, ASB's costing liabilities consisted of 98% deposits and 2% other borrowings compared to 97% deposits and 3% other borrowings as of December 31, 2017. During the first six months of 2018, ASB developed new deposit products that enabled approximately $102 million of retail repurchase agreements to be transferred to deposits. The weighted average cost of deposits for the first six months of 2018 and 2017 was 0.21% and 0.16%, respectively.

Federal Home Loan Bank of Des Moines. As of June 30, 2018 and December 31, 2017, ASB had $50 million of advances outstanding at the FHLB of Des Moines. As of June 30, 2018, the unused borrowing capacity with the FHLB of Des Moines was $2.0 billion. The FHLB of Des Moines continues to be an important source of liquidity for ASB.

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 the investment securities, respectively. In addition, changes in credit spreads also impact the fair values of the investment securities.

As of June 30, 2018, ASB had an unrealized loss, net of taxes, on available-for-sale investment securities (including securities pledged for repurchase agreements) in AOCI of $32.6 million compared to an unrealized loss, net of taxes, of $15.0 million as of December 31, 2017. See "Item 3. Quantitative and qualitative disclosures about market risk" for a discussion of ASB's interest rate risk sensitivity.

During the first six months of 2018, ASB recorded a provision for loan losses of $6.3 million primarily due to increased reserves for growth in the loan portfolio and additional loan loss reserves for the consumer loan portfolio, partly offset by the release of reserves for the commercial loan portfolio due to a recovery on a previously charged-off commercial loan and improved credit quality. During the first six months of 2017, ASB recorded a provision for loan losses of $6.7 million primarily due to increased loss reserves for the consumer loan portfolio and additional loss reserves for the commercial real estate loan portfolio due to the downgrade of a commercial real estate relationship. Financial stress on ASB's customers may result in higher levels of delinquencies and losses.

	Six months ended June 30		Year ended December 31,
(in thousands)	**2018**	**2017**	**2017**
Allowance for loan losses, January 1	$ 53,637	$ 55,533	$ 55,533
Provision for loan losses	6,304	6,741	10,901
Less: net charge-offs	7,138	5,918	12,797
Allowance for loan losses, end of period	$ 52,803	$ 56,356	$ 53,637
Ratio of net charge-offs during the period to average loans outstanding (annualized)	0.30%	0.25%	0.27%

ASB maintains a reserve for credit losses that consists of two components, the allowance for loan losses and a reserve for unfunded loan commitments (unfunded reserve). The level of the reserve for unfunded loan commitments is adjusted by recording an expense or recovery in other noninterest expense. As of June 30, 2018 and December 31, 2017, the reserve for unfunded loan commitments was $1.7 million.

Legislation and regulation. ASB is subject to extensive regulation, principally by the OCC and the FDIC. Depending on ASB's level of regulatory capital and other considerations, these regulations could restrict the ability of ASB to compete with other institutions and to pay dividends to its shareholder. See the discussion below under "Liquidity and capital resources."

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 addresses 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%
Tier-1 capital ratio + conservation buffer	6.00%	6.625%	7.25%	7.875%	8.50%
Total capital ratio + conservation buffer	8.00%	8.625%	9.25%	9.875%	10.50%
Tier-1 leverage ratio	4.00%	4.00%	4.00%	4.00%	4.00%
Countercyclical capital buffer — not applicable to ASB		0.625%	1.25%	1.875%	2.50%

The final rule was effective January 1, 2015 for ASB and as of June 30, 2018, ASB met the new capital requirements (see "Financial Condition" for a summary of ASB's capital ratios).

Subject to the timing and final outcome of the FRB's SLHC intermediate holding company proposal, HEI anticipates that the capital requirements in the final rule will eventually be effective for HEI or ASB Hawaii as well. If the fully phased-in capital requirements were currently applicable to HEI, management believes HEI would satisfy the capital requirements, including the fully phased-in capital conservation buffer. Management cannot predict what final rule the FRB may adopt concerning intermediate holding companies or their impact on ASB Hawaii, if any.

Overtime Rules. The Secretary of Labor updated the overtime regulations of the Fair Labor Standards Act to simplify and modernize them. The Department of Labor issued final rules that will raise the salary threshold indicating eligibility from $455/week to $913/week ($47,476 per year), and update automatically the salary threshold every three years, based on wage growth over time, increasing predictability. The final rule was to become effective on December 1, 2016. In late-November 2016 however, the U.S. District Court in the Eastern District of Texas granted a nationwide preliminary injunction that blocked the final rule, saying the Department of Labor's rule exceeds the authority the agency was delegated by Congress. Despite this block, ASB modified its salaries in the fourth quarter of 2016 such that it is in voluntary compliance with the final rule. On July 26, 2017, the Department of Labor published a Request for Information Defining and Delimiting the Exemptions for Executive, Administrative, Professional, Outside Sales and Computer Employees. On August 31, 2017, U.S. District Court in the Eastern District of Texas granted summary judgment against the Department of Labor in consolidated cases challenging the final rule published on May 23, 2016. The court held that the final rule's salary level exceeded the Department of Labor's authority and concluded that the final rule was invalid. The Department of Labor is undertaking rulemaking to revise the regulation.

Arbitration Agreements. Pursuant to section 1028(b) of the Dodd-Frank Act, on July 19, 2017, the Bureau issued a final rule to regulate arbitration agreements in contracts for specified consumer financial product and services. First, the final rule prohibits covered providers of certain consumer financial products and services from using an agreement with a consumer that provides for arbitration of any future dispute between the parties to bar the consumer from filing or participating in a class action concerning the covered consumer financial product or service. Second, the final rule requires covered providers that are involved in arbitration pursuant to a pre-dispute arbitration agreement to submit specified arbitral records to the Bureau and also to submit specified court records. The compliance date for this regulation was March 19, 2018. Under the Congressional Review Act, the U.S. House of Representatives voted to overturn the final rule on July 25, 2017, and the U.S. Senate did the same on October 24, 2017. On November 1, 2017, the President signed the repeal of the final rule. In light of these developments, ASB did not modify its existing agreements.

Expedited Funds Availability Act of 1987 (EFA Act) and the Check Clearing for the 21st Century Act of 2003 (Check 21 Act). The Board of Governors of the Federal Reserve System amended Regulation CC, Availability of Funds and Collection of Checks, which implements EFA Act and Check 21 Act effective July 1, 2018. The Board of Governors modified the current check collection and returns requirement to reflect the virtually all-electronic check collection and return environment and to encourage all depository banks to receive, and paying banks to send, returned checks electronically. The Board of Governors applied Regulation CC's existing check warranties to checks that are collected electronically, and adopted new warranties and indemnities related to checks collected and returned electronically and to electronically-created items.

Potential impact of lava flows. In May 2018, a lava eruption occurred within the Leilani Estates subdivision, located along the lower East Rift Zone of Kilauea Volcano in the Puna district on the island of Hawaii. ASB has been monitoring its loan exposure on properties most likely to be impacted by the path of the lava flow. None of the bank's branches have been damaged by the lava flow and the bank has limited exposure to residential loan losses due to its decision in 2014 to cease originations in the designated lava zone areas. The bank has one commercial real estate loan and four commercial loans with businesses located in Pahoa, near the Puna district, but outside of the current risk area. Although the lava eruption continues and is unpredictable, the financial impact to the bank, to date, has not been material.

FINANCIAL CONDITION

Liquidity and capital resources.

(dollars in millions)	June 30, 2018	December 31, 2017	% change
Total assets	$ 6,984	$ 6,799	3
Investment securities	1,416	1,446	(2)
Loans held for investment, net	4,722	4,617	2
Deposit liabilities	6,116	5,891	4
Other bank borrowings	127	191	(34)

As of June 30, 2018, ASB was one of Hawaii's largest financial institutions based on assets of $7.0 billion and deposits of $6.1 billion.

As of June 30, 2018, ASB's unused FHLB borrowing capacity was approximately $2.0 billion. As of June 30, 2018, ASB had commitments to borrowers for loans and unused lines and letters of credit of $1.8 billion, of which commitments to borrowers whose loan terms have been modified in troubled debt restructurings were $0.01 million. Management believes ASB's current sources of funds will enable it to meet these obligations while maintaining liquidity at satisfactory levels.

For the six months ended June 30, 2018, net cash provided by ASB's operating activities was $45 million. Net cash used during the same period by ASB's investing activities was $190 million, primarily due to purchases of available-for-sale investment securities of $134 million, a net increase in loans of $112 million, additions to premises and equipment of $40 million, and purchases of held-to-maturity investment securities of $20 million, partly offset by receipt of repayments from available-for-sale investment securities of $108 million, and proceeds from the sale of commercial loans of $7 million. Net cash provided by financing activities during this period was $140 million, primarily due to increases in deposit liabilities of $123 million, proceeds from FHLB advances of $177 million, and a net increase in retail repurchase agreements of $38 million, partly offset by principal payments on FHLB advances of $177 million, and $22 million in common stock dividends to HEI (through ASB Hawaii).

For the six months ended June 30, 2017, net cash provided by ASB's operating activities was $46 million. Net cash used during the same period by ASB's investing activities was $221 million, primarily due to purchases of investment securities of $296 million, a net increase in loans receivable of $20 million and additions to premises and equipment of $20 million, partly offset by receipt of repayments from investment securities of $100 million, proceeds from the sale of commercial loans of $13 million and a decrease in restricted cash of $2 million. Net cash provided by financing activities during this period was $152 million, primarily due to increases in deposit liabilities of $175 million and a net increase in retail repurchase agreements of $9 million, partly offset by repayments of securities sold under agreements to repurchase of $14 million and $19 million in common stock dividends to HEI (through ASB Hawaii).

ASB believes that maintaining a satisfactory regulatory capital position provides a basis for public confidence, affords protection to depositors, helps to ensure continued access to capital markets on favorable terms and provides a foundation for growth. FDIC regulations restrict the ability of financial institutions that are not well-capitalized to compete on the same terms as well-capitalized institutions, such as by offering interest rates on deposits that are significantly higher than the rates offered by competing institutions. As of June 30, 2018, ASB was well-capitalized (minimum ratio requirements noted in parentheses) with a Common equity Tier-1 ratio of 12.7% (6.5%), a Tier-1 capital ratio of 12.7% (8.0%), a Total capital ratio of 13.9% (10.0%) and a Tier-1 leverage ratio of 8.6% (5.0%). As of December 31, 2017, ASB was well-capitalized with a common equity Tier-1 ratio of 13.0%, Tier-1 capital ratio of 13.0%, a Total capital ratio of 14.2% and a Tier-1 leverage ratio of 8.6%. All dividends are subject to review by the OCC and FRB and receipt of a letter from the FRB communicating the agencies' non-objection to the payment of any dividend ASB proposes to declare and pay to HEI (through ASB Hawaii).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company considers interest-rate risk (a non-trading market risk) to be a very significant market risk for ASB as it could potentially have a significant effect on the Company's results of operations, financial condition and liquidity. For additional quantitative and qualitative information about the Company's market risks, see HEI's and Hawaiian Electric's Quantitative and Qualitative Disclosures About Market Risk in Part II, Item 7A of HEI's 2017 Form 10-K (pages 80 to 82).

ASB's interest-rate risk sensitivity measures as of June 30, 2018 and December 31, 2017 constitute "forward-looking statements" and were as follows:

Change in interest rates	Change in NII (gradual change in interest rates)		Change in EVE (instantaneous change in interest rates)	
(basis points)	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
+300	2.2%	3.0%	(8.9)%	(8.0)%
+200	1.7	2.4	(5.3)	(4.0)
+100	1.1	1.6	(1.9)	(0.6)
-100	(2.6)	(2.7)	(2.5)	(6.0)

The NII profile under the rising interest rate risk scenarios was less asset sensitive for all rate increases as of June 30, 2018 compared to December 31, 2017. NII asset sensitivity has been slowly decreasing as rising rates have slowed prepayment expectations, reducing the amount of the fixed-rate mortgage and mortgage-backed investment portfolios available to reprice in the rising rate scenarios. In addition, the fixed-rate portion of the HELOC portfolio grew, further reducing the amount available to reprice in rising rate scenarios.

ASB's base EVE increased to $1.22 billion as of June 30, 2018, compared to $1.18 billion as of December 31, 2017, due to the growth and mix of the balance sheet. The growth of the investment and loan portfolios were funded with the increase in core deposits.

EVE sensitivity to rising rates increased as of June 30, 2018 compared to December 31, 2017. During the first six months of the year, market rates increased, slowing prepayments and extending duration in the residential loan and mortgage-backed investment portfolios.

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

Item 4. Controls and Procedures

HEI:

Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Exchange Act. Management, including the Company's Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal control over financial reporting during the second quarter of 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Hawaiian Electric:

Disclosure Controls and Procedures

Hawaiian Electric maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed by Hawaiian Electric in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC's rules and forms, and that such information is accumulated and communicated to Hawaiian Electric's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

An evaluation was performed under the supervision and with the participation of Hawaiian Electric's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Hawaiian Electric's disclosure controls and procedures, as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Exchange Act. Management, including Hawaiian Electric's Chief Executive Officer and Chief Financial Officer, concluded that Hawaiian Electric's disclosure controls and procedures were effective, as of the end of the period covered by this report, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal control over financial reporting during the second quarter of 2018 that have materially affected, or are reasonably likely to materially affect, Hawaiian Electric's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The descriptions of legal proceedings (including judicial proceedings and proceedings before the PUC and environmental and other administrative agencies) in HEI's and Hawaiian Electric's 2017 Form 10-K (see "Part I. Item 3. Legal Proceedings" and proceedings referred to therein) and this Form 10-Q (see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 3 and 4 of the Condensed Consolidated Financial Statements) are incorporated by reference in this Item 1. With regard to any pending legal proceeding, alternative dispute resolution, such as mediation or settlement, may be pursued where appropriate, with such efforts typically maintained in confidence unless and until a resolution is achieved. Certain HEI subsidiaries (including Hawaiian Electric and its subsidiaries, ASB and Pacific Current and its subsidiaries) may also be involved in ordinary routine PUC proceedings, environmental proceedings and litigation incidental to their respective businesses.

Item 1A. Risk Factors

For information about Risk Factors, see pages 26 to 37 of HEI's and Hawaiian Electric's 2017 Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative

Disclosures about Market Risk” and the Condensed Consolidated Financial Statements herein. Also, see “Cautionary Note Regarding Forward-Looking Statements” on pages iv and v herein.

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

(c) Purchases of HEI common shares were made on the open market during the second quarter of 2018 to satisfy the requirements of certain plans as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period*	Total Number of Shares Purchased **	Average Price Paid per Share **	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 to 30, 2018	25,870	$34.64	—	NA
May 1 to 31, 2018	28,287	$33.91	—	NA
June 1 to 30, 2018	198,215	$33.01	—	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 “Total number of shares purchased,” all of the 25,870 shares, 24,187 of the 28,287 shares and 171,915 of the 198,215 shares were purchased for the DRIP; none of the 25,870 shares, 4,100 of the 28,287 shares and 23,100 of the 198,215 shares were purchased for the HEIRSP; and the remainder was 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.

Item 5. Other Information

A. Ratio of earnings to fixed charges.

	Six months ended June 30		Years ended December 31				
	2018	2017	2017	2016	2015	2014	2013
HEI and Subsidiaries							
Excluding interest on ASB deposits	3.18	3.31	3.93	5.05	3.68	3.80	3.55
Including interest on ASB deposits	2.94	3.11	3.65	4.75	3.54	3.65	3.42
Hawaiian Electric and Subsidiaries	2.88	2.90	3.64	4.11	3.97	4.04	3.72

See HEI Exhibit 12.1 and Hawaiian Electric Exhibit 12.2.

Item 6. Exhibits

HEI Exhibit 4	Third Amendment effective July 1, 2018 to Master Trust Agreement (dated September 4, 2012) between HEI and ASB and Fidelity Management Trust Company.
HEI Exhibit 10	Amended and Restated Severance Pay Plan for Management Employees of Hawaiian Electric Industries, Inc. and Executive Employees of Affiliates, effective as of April 2, 2018.
HEI Exhibit 12.1	Hawaiian Electric Industries, Inc. and Subsidiaries Computation of ratio of earnings to fixed charges, six months ended June 30, 2018 and 2017 and years ended December 31, 2017, 2016, 2015, 2014 and 2013
HEI Exhibit 31.1	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Constance H. Lau (HEI Chief Executive Officer)
HEI Exhibit 31.2	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Gregory C. Hazelton (HEI Chief Financial Officer)
HEI Exhibit 32.1	HEI Certification Pursuant to 18 U.S.C. Section 1350
HEI Exhibit 101.INS	XBRL Instance Document
HEI Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
HEI Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
HEI Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
HEI Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
HEI Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Hawaiian Electric Exhibit 12.2	Hawaiian Electric Company, Inc. and Subsidiaries Computation of ratio of earnings to fixed charges, six months ended June 30, 2018 and 2017 and years ended December 31, 2017, 2016, 2015, 2014 and 2013
Hawaiian Electric Exhibit 31.3	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Alan M. Oshima (Hawaiian Electric Chief Executive Officer)
Hawaiian Electric Exhibit 31.4	Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Tayne S. Y. Sekimura (Hawaiian Electric Chief Financial Officer)
Hawaiian Electric Exhibit 32.2	Hawaiian Electric Certification Pursuant to 18 U.S.C. Section 1350

SIGNATURES

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

HAWAIIAN ELECTRIC INDUSTRIES, INC.
(Registrant)

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

By /s/ Gregory C. Hazelton
Gregory C. Hazelton
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer of HEI)

Date: August 3, 2018

HAWAIIAN ELECTRIC COMPANY, INC.
(Registrant)

By /s/ Alan M. Oshima
Alan M. Oshima
President and Chief Executive Officer
(Principal Executive Officer of Hawaiian Electric)

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

Date: August 3, 2018

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Section 2: EX-4 (EXHIBIT 4)

HEI Exhibit 4

THIRD AMENDMENT TO MASTER TRUST AGREEMENT BETWEEN HAWAIIAN ELECTRIC INDUSTRIES, INC. AND AMERICAN SAVINGS BANK, F.S.B. AND FIDELITY MANAGEMENT TRUST COMPANY

THIS third AMENDMENT TO THE MASTER TRUST AGREEMENT is made and entered into effective July 1, 2018, unless otherwise stated herein, by and between Hawaiian Electric Industries, Inc. and American Savings Bank, F.S.B. (collectively and individually, the "Sponsor") and Fidelity Management Trust Company (the "Trustee");

WITNESSETH:

WHEREAS, the Trustee and the Sponsor heretofore entered into a master trust agreement for the Hawaiian Electric Industries Retirement Savings Plan and the American Savings Bank 401(k) Plan (collectively and individually, the "Plan"), dated as of September 4, 2012, and amended by a First Amendment, effective March 1, 2015, by a Second Amendment, effective January 1, 2018, and further amended by letters of direction that were executed by the Sponsor and the Trustee and that specifically state that both parties intend and agree that each such letter of direction shall constitute an amendment (the "Master Trust Agreement"); and

WHEREAS, the Trustee and the Sponsor now desire to amend said Master Trust Agreement as provided for in Section 13 thereof;

NOW THEREFORE, in consideration of the above premises, the Trustee and the Sponsor hereby amend the Master Trust Agreement by:

(1) Amending the definition of "Administrator" in Section 1(a), in its entirety, as follows:
"Administrator" means HEI with respect to the HEIRS Plan and ASB with respect to the ASB 401(k) Plan, or such other committee, individual or entity that is so designated by the terms of the Plan. The Sponsor shall notify the Trustee in writing of any change in the Administrator.

(2) Amending Schedule B, Fee Schedule, to restate the "Core Fees" section, in its entirety, as follows:

Core Fees	**Fixed Basis Points Fee**
Annual Administration Fee for Core Services	5.5 basis points on total Plan assets determined based upon average quarterly assets, multiplied by one-quarter (1/4), billed and payable quarterly, subject to the offsets listed below.
Standard Administrative Forms, Confirmations, and Standard Legal Notices with print or email distribution.	Included

(3) Amending Schedule B, Fee Schedule, to restate the "Live Plan Specific Web Workshop Sessions" and the "Online, On Demand, Plan Specific Recordings using Brainshark Technology" sections, in their entirety, as follows:

Live Plan Specific Web Workshop Sessions Note: Subject to the cancellation and minimum attendance policy.	$200 per session
Online, On Demand, Plan Specific Recordings using Brainshark Technology	$200 each - Unlimited viewings

(4) Amending Schedule B, Fee Schedule, to restate the "Offsets" section, in its entirety, as follows:

Offsets

The Annual Administration Fee for Core Services, billed and payable quarterly, will be subject to the following offsets:

A. Offsets attributable to Fidelity investment products:

Average quarterly balances held in the Plan of Fidelity investment products multiplied by one-quarter (1/4) of the following rates respectively:

(a) Actively managed (non-Class K) Fidelity equity Mutual Funds: 35 basis points per annum;

(b) Actively managed (non-Class K) Fidelity Freedom® Funds: 35 basis points per annum;

(c) Actively managed (Class K) Fidelity equity Mutual Funds: 20 basis points per annum;

(d) Fidelity Freedom K® Funds: 20 basis points per annum;

(e) Fidelity Enhanced Equity Index Funds: 10 basis points per annum;

(f) Actively managed Fidelity fixed income and money market Mutual Funds, except for certain Fidelity institutional money market Mutual Funds (e.g. FIMM Funds): 20 basis points per annum;

(g) Actively managed Fidelity Institutional Asset Management (FIAM) Service Series commingled pools: 10 basis points per annum;

(h) Managed Income Portfolio I: 20 basis points per annum.

B. Offsets attributable to Non-Fidelity investment products:

Average quarterly balances held in the Plan of non-Fidelity investment products multiplied by the quarterly rate that the non-Fidelity vendor has agreed to use to determine payments to FIIOC.

C. Offsets attributable to net float earnings:

Net float earnings attributable to the Plan for each quarter.

D. Offsets attributable to BrokerageLink®:

No offsets are available for assets held in BrokerageLink®.

Any remaining balance after the application of the offsets described above to the Annual Administration Fee for Core Services shall be due and payable to the Trustee. To the extent the offsets exceed the Annual Administration Fee for Core Services, the difference (a "Revenue Credit") will be credited in accordance with the Revenue Credit section below.

(5) Amending Schedule B, Fee Schedule, to restate the "Revenue Credit" section, in its entirety, as follows:

REVENUE CREDIT

The Trustee shall make a payment in the amount of the Revenue Credit calculated for each quarter by Plan to a suspense account in each Plan (the "Revenue Credit Account") subject to the following terms:

A. Commencement. Commencing with the quarter beginning July 1, 2018, the Trustee shall calculate Revenue Credits on a quarterly basis, and the Trustee shall commence paying Revenue Credits as set forth in the Section titled "Funding" below.

B. Funding. The Trustee shall pay quarterly in arrears the calculated Revenue Credit for such quarter as soon as administratively feasible (generally within 15 Business Days) after a quarterly invoice reflecting such Revenue Credit has been issued and sent. In the event an invoice is issued and sent with respect to a portion of a quarter, the amount of the Revenue Credit for such quarter shall be pro rated accordingly.

C. Investment. Deposits in the Revenue Credit Account will be invested in the first available source in the Plan's source hierarchy, which can be viewed on Fidelity Plan Sponsor Webstation®. (Please note that the source used will not impact testing and reporting.) The Revenue Credit Account shall be invested in the fund specified for such purpose on Schedule C.

D. Application of Account to Pay Expenses. The Administrator or Named Fiduciary may direct the Trustee through the Trustee's internet application for Sponsors to use amounts held in the Revenue Credit Account to reimburse the Sponsor for fees and expenses associated with services provided to the Plan, or to pay vendors, including the Trustee or third parties, directly. Notwithstanding the foregoing, the Revenue Credit Account may not be used to offset, reimburse or pay: (a) expenses that have been deducted from Participant accounts or (b) expenses that are accrued in the net asset value or mil rate of an investment option. Upon receipt of payment instructions In Good Order, the Trustee shall redeem shares or units of investment options held in the Revenue Credit Account necessary to make such payments and shall issue payment as soon as administratively feasible thereafter (typically within 5 Business Days). The Trustee shall not be liable for, nor shall it be responsible for separately including in any payment, any late charges, interest or penalties that may accrue owing to untimely submission to the Trustee of directions In Good Order or the Trustee's processing of any payment instructions in accordance herewith. A direction from the Administrator or Named Fiduciary to pay expenses shall constitute a representation to the Trustee that the Administrator or Named Fiduciary, as appropriate, has concluded that the payments are permissible under the Plan and meet the requirements of applicable laws, including ERISA and the Code.

E. Allocation to Participant Accounts

(a) General. Effective July 1, 2018, the Administrator or Named Fiduciary may direct the Trustee to allocate amounts in the Revenue Credit Account to Eligible Participant accounts, provided that any such direction may be provided no more frequently than once per calendar quarter, unless such direction is with respect to a final allocation to be made in the last month of the plan year. Directions shall be submitted through a service request through the Trustee's internet application for Sponsors and shall include the dollar amount to be allocated from the Revenue Credit Account, provided that if such amount exceeds the balance held in the Revenue Credit Account on the date on which the allocation is to be performed (the "Crediting Date"), such amount shall be deemed to be the total balance of the Revenue Credit Account on the Crediting Date. The applicable Crediting Date shall occur as soon as administratively feasible (and in no event later than 15 calendar days) following receipt of a direction In Good Order.

(b) Method of Allocation. The dollar amount directed to be allocated from the Revenue Credit Account shall be divided among Eligible Participant accounts pro rata based on Eligible Participant account balances, exclusive of outstanding loan balances.

(c) Eligible Participants. Solely for purposes of allocations pursuant to this section, "Eligible Participant" means any Participant or beneficiary with a balance greater than zero.

(d) Investment of Allocations. Amounts allocated to Eligible Participant accounts from the Revenue Credit Account shall be invested in accordance with Eligible Participants' elections for future contributions, or if no such election is on file, in the Plan's designated default investment pro rata across existing sources.

(e) <u>Directions</u>. A direction from the Administrator or Named Fiduciary to allocate amounts to participant accounts shall constitute a representation to the Trustee that the Administrator or Named Fiduciary, as appropriate, has concluded that the allocations are permissible under the Plan and meet the requirements of applicable laws, including ERISA and the Code. Without limiting the foregoing, the Administrator or Named Fiduciary, as appropriate, directs that allocations of amounts from the Revenue Credit Account to Eligible Participants' Accounts shall not be included as contributions or annual additions for any testing or reporting purposes. The Trustee shall be responsible for implementing the directions of the Administrator or Named Fiduciary, as appropriate, but subject to its responsibilities under ERISA has no responsibility for the legality or appropriateness of such directions. The Administrator or Named Fiduciary may alter its directions at any time with reasonable advance notice and after consultation concerning the administrative feasibility of alternative directions.

F. <u>12b-1 Payments</u>. To the extent any Revenue Credits are deemed to be attributable to investments in Fidelity Mutual Funds that have adopted a plan pursuant to Rule 12b-1 under the Investment Company Act of 1940 ("1940 Act") at the time such Revenue Credits are made, such Revenue Credits shall be made available pursuant to such plan ("12b-1 Payments"), and the following conditions shall apply:

(a) The obligation to make 12b-1 Payments shall continue in effect for one year from the Effective Date of this amendment, and shall continue for successive annual periods only upon at least annual approval by a vote of the majority of the trustees for each of those Fidelity Mutual Funds that have adopted such plans, including a majority of those trustees that are not "interested persons" (as defined in the 1940 Act) of such Mutual Funds and who have no direct or indirect financial interest in the operation of the plan or any agreement related thereto ("Qualified Trustees").

(b) Notwithstanding any provision hereof to the contrary, the obligation to make these 12b-1 Payments with respect to any plan may be terminated without penalty at any time, upon either a vote of a majority of the Qualified Trustees, or upon a vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the applicable Fidelity Mutual Fund to terminate or not continue the plan for the applicable Fidelity Mutual Fund.

(c) Upon assignment of this Agreement (as defined under the 1940 Act), the obligation to make 12b-1 Payments shall automatically terminate.

(6) Deleting Schedule B-1, <u>Procedures Governing Revenue Credit Account</u>, in its entirety.

IN WITNESS WHEREOF, the Trustee and the Sponsor have caused this Third Amendment to be executed by their duly authorized officers effective as of the day and year first above written. By signing below, the undersigned represent that they are authorized to execute this document on behalf of the respective parties. Notwithstanding any contradictory provision of the Master Trust Agreement, each party may rely without duty of inquiry on the foregoing representation. The Sponsor acknowledges that this Third Amendment may contain service and/or compensation information intended by the Trustee to satisfy the disclosure requirements of Department of Labor regulation Section 2550.408b-2(c)(1).

HAWAIIAN ELECTRIC INDUSTRIES, INC. AND AMERICAN SAVINGS BANK, F.S.B BY: HAWAIIAN ELECTRIC INDUSTRIES, INC. PENSION INVESTMENT COMMITTEE

By: /s/ Kurt Murao 6/21/2018
Authorized Signatory Date

Name: Kurt Murao

Title: Secretary

By: /s/ Greg C. Hazelton 06/21/2018
Authorized Signatory Date

Name: Greg C. Hazelton

Title: EVP and Chief Financial Officer

FIDELITY MANAGEMENT TRUST COMPANY

By: /s/ Mary Beth Paris 6/26/2018
FMTC Authorized Signatory Date

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Section 3: EX-10 (EXHIBIT 10)

HEI Exhibit 10

Hawaiian Electric Industries, Inc.

SPD and Plan Document of the

Amended and Restated

Severance Pay Plan for Management Employees of

Hawaiian Electric Industries, Inc. and Executive Employees of Affiliates

Plan Name:	Severance Pay Plan for Management Employees of Hawaiian Electric Industries, Inc., and Executive Employees of Affiliates
Plan Sponsor:	Hawaiian Electric Industries, Inc. (“HEI”)

	900 Richards Street Honolulu, Hawaii 96813
Employer Identification Number:	99-0208097
Plan Number:	517
Plan Administrator:	Hawaiian Electric Industries, Inc. c/o Director of Benefits Hawaiian Electric Company, Inc. (“HECO”) 220 S. King Street, Suite 1700 Honolulu, HI 96813 (808) 543-4677
Participating Companies:	Participating companies include: Hawaiian Electric Industries, Inc. Hawaiian Electric Company, Inc. Hawaii Electric Light Company, Inc. (“HELCO”) Maui Electric Company, Ltd. (“MECO”)
Agent for Service of Legal Process:	Service of process may be made upon the Plan Administrator at the above address.
Type of Plan:	This plan is an unfunded welfare benefits plan providing severance pay to eligible management employees upon a qualifying severance of employment.
Type of Administration:	This plan is employer administered.
Plan Year:	January 1 through December 31

Contact Information:	For further information, employees should contact Human Resources at their respective companies: HEI / HECO- HR Service Center at 543-4848 HELCO - Human Resources Dept. at 969-0281 MECO - Human Resources Dept. at 871-2389

1. What is this document?

This is the summary plan description ("SPD") and plan document for the Severance Pay Plan for Management Employees of Hawaiian Electric Industries, Inc., and Executive Employees of Affiliates ("Plan"). The purpose of the Plan is to provide benefits to eligible employees upon the occurrence of qualifying terminations. These benefits will be called, "Severance Benefits." HEI established the Plan on September 14, 1998, and the Plan was adopted by certain companies affiliated with HEI. The Plan was restated January 1, 2009 and January 1, 2012. This Amended and Restated Plan completely supersedes the prior HEI plan, as amended and restated, for eligible Management Employees of HEI and eligible Executive Employees of its Affiliates, as such terms are defined in Q&A 3. The Amended and Restated Plan is effective April 2, 2018.

2. Who are the "Employers"?

The Employers participating in the Plan are HEI (with respect to all of its eligible Employees) and HECO, HELCO, and MECO (with respect to their eligible Executive Employees). Although these Employers expect to participate in this Plan for the foreseeable future, HEI may terminate this Plan at any time, without notice, for any reason, and each of HECO, HELCO, and MECO may terminate this Plan as to its own eligible Executive Employees at any time, without notice, for any reason. Therefore, you should not assume that your Employer will always pay Severance Benefits. An updated list of participating Employers and their addresses is available upon written request to the HR Service Center at HECO.

3. Who is eligible to participate in this Plan?

The **only** Employees eligible to participate in this Plan are Regular Management Employees of HEI and Executive Employees of HECO, HELCO, and MECO. A "Regular Management Employee" of HEI is an Employee whose employment is not collectively bargained, who is treated as a common law employee on HEI's payroll records, and who is hired by HEI for an indefinite term and not for a specific project or undertaking or for a specific or limited duration. An "Executive Employee" of HECO, HELCO, or MECO is an Employee of those Affiliates whose rank is Vice President or higher. The Regular Management Employees of HEI and the Executive Employees of HECO, HELCO, and MECO will be referred to collectively as "Eligible Employees."

“Eligible Employees” do not include Bargaining Unit Employees. A “Bargaining Unit Employee” is an employee who is a member of a union and/or whose terms of employment are collectively bargained.

“Eligible Employees” also do not include Leased Employees or independent contractors. A Leased Employee is not carried on the Employer’s payroll as an employee but performs services through an agreement with a third party. An independent contractor is not under the direction and control of an Employer. Bargaining Unit Employees, Leased Employees, and independent contractors are not Eligible Employees under this Plan.

Further, not all Management Employees of HEI are necessarily “Regular Management Employees.” Some Management Employees may be hired for particular projects or undertakings. Such employees, who are sometimes referred to as “Contract Employees”, are not Eligible Employees. Some Management Employees of HEI may also be hired with the understanding that their term of employment will be for a limited duration only. Such employees, who are sometimes referred to as “Casual Hire” or “Temporary Hire Employees”, are also not Eligible Employees.

You are eligible to participate in this Plan only if you are and remain an Eligible Employee as defined above and you otherwise meet the requirements for eligibility and participation. This is true even if your status is reclassified as a “Regular Management Employee” of HEI or as an “Executive Employee” of HECO, HELCO, or MECO by an authority such as a court or governmental agency. Any such re-classified “employee” is not eligible for benefits under this Plan.

Eligibility commences as of date of hire. If you have any questions about whether you are an Eligible Employee, please contact a representative of your Human Resources Department.

4. Who is entitled to receive benefits under this Plan?

You are entitled to receive benefits under this Plan only if you are an Eligible Employee who has experienced a Qualifying Termination and has timely signed and filed a Separation Agreement, Release and Waiver.

5. What is a Qualifying Termination?

A “Qualifying Termination” is a termination of employment which is involuntary, is not due to any fault or action of yours, but instead occurs at the discretion of your Employer on account of a business improvement strategy such as restructuring, reengineering, or new technology.

6. What are some examples of Terminations which are NOT Qualifying Terminations?

Terminations of employment resulting from something you have done are not Qualifying Terminations. The following are examples of terminations which are **not** Qualifying Terminations (but do not exhaust such terminations):

(1) An Eligible Employee's voluntary resignation;
(2) An Eligible Employee's termination for cause;[1]
(3) An Eligible Employee's termination on account of his or her death, disability, or retirement;
(4) An Eligible Employee's change of status from a Regular Management Employee of HEI to that of an independent contractor, a Bargaining Unit employee, or other non-Regular Management Employee;
(5) An Eligible Employee's change of status from Executive to non-Executive at HECO, HELCO, or MECO;
(6) A non-Eligible Employee's termination for any reason;
(7) An Eligible Employee's transfer from one entity to another within the group of HEI and its affiliates, whether such transfer is voluntary or involuntary, unless the transfer is an inter-island transfer and such employee determines to resign instead of accepting such inter-island transfer;
(8) An Employer's being succeeded by another company, in whole or in part, whether through purchase, merger, reorganization, or other transaction; such as stock sale or an asset sale and
(9) Any combination of non-Qualifying Terminations.

Not all involuntary terminations are Qualifying Terminations. For example, your transfer from your Employer to another Employer or to another company within the group of HEI and its subsidiaries or your change in status from an eligible to a non-eligible status is not a Qualifying Termination, regardless of whether your transfer or such change is voluntary or involuntary and regardless of whether your new Employer participates in this Plan. It is also not a Qualifying Termination if your Employer is succeeded by another company, in whole or in part, whether by purchase, merger, reorganization, or other transaction. For example, it is not a Qualifying Termination if your company or the department or division in your company in which you work is sold to another company through a stock sale or an asset sale, regardless of whether the buying company offers you continued employment or not.

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[1] A "termination for cause" is an Employee's discharge on account of any act or omission by the Employee which violates or fails to meet the standards of job performance applicable to the Employee's position or the Employer's Code of Conduct, employee handbook or employment rules or policies or violates the Employee's contract, and the sanction for which may be discharge for cause.

It is possible for you to lose eligibility to participate in the Plan by being terminated in a nonqualifying termination **after** you have received notice that you will be subject to a Qualifying Termination but **before** the date of that Qualifying Termination. For example, you might be discharged for cause or quit voluntarily **before** the date that you separate from service pursuant to a Qualifying Termination (hereafter, your "Termination Date").

If that happens, your termination will no longer be a Qualifying Termination, and you will not be entitled to receive benefits under the Plan. **The only exception to this is if you make a decision to retire after you receive notice that you will have a Qualifying Termination but before your Termination Date. In this case, you will still be eligible for Severance Benefits.**

The Plan Administrator has sole authority to determine whether a termination is a Qualifying Termination.

7. Suppose that I have a Qualifying Termination. Is there anything that I must do in order to receive benefits under this Plan?

Yes; to receive benefits under this Plan, **you must sign and date an agreement called a Separation Agreement, Release, and Waiver ("Separation Agreement") and return it to your Employer's Human Resources Department, without changes, by a certain deadline.**

Before the date of your Qualifying Termination, you will be given a termination packet. This packet will give you notice that you are being terminated, tell you your Termination Date, and inform you that your termination is a Qualifying Termination for purposes of this Plan. The packet will also include the Separation Agreement. In addition, if your termination is part of an exit incentive or other employment termination program offered to a group or class of employees, the packet will include a notice required by the Older Workers Benefit Protection Act ("OWBPA"). This notice is called, OWBPA Notice for Classes or Groups of Employees.

8. What is the deadline for returning the Separation Agreement?

Your deadline for returning the Separation Agreement to your Employer's Human Resources Department is the **last day of the Consideration Period**. The Consideration Period is a time period that you have for considering the Separation Agreement. If you are terminated as an individual (or otherwise not as part of an employment termination program offered to a group or class of employees), then your Consideration Period is the period of **21 calendar days** beginning on the day after your Termination Date. If you are being terminated in connection with an exit incentive or other employment termination program offered to a group or class of employees, then your Consideration Period is the period of **45 calendar days** beginning on the day after your Termination Date. If the 21st or 45th calendar day after your Termination Date, as applicable, is a weekend day or holiday, then the Consideration Period ends on the next workday.

The purpose of the Consideration Period is to give you time to decide whether to accept Severance Benefits in return for waiving all of your employment related claims against your Employer and Related Companies and persons. This is an important decision, and, as required by law, your Employer advises you to seek the advice of a lawyer in making this decision.

If you do decide to accept Severance Benefits, then you must sign and deliver or mail the Separation Agreement to your Employer's Human Resources Department no later than the last day of the Consideration Period.

After returning the Separation Agreement, you will have a period of 7 calendar days in which you may revoke it. You may revoke your Separation Agreement by delivering or mailing a letter of revocation to your Employer's Human Resources Department no later than the 7^{th} calendar day after you delivered or mailed your Separation Agreement. **If you do not revoke your Separation Agreement within that 7 calendar day time period, then it becomes effective and is irrevocable.** If the 7th day of the revocation period is a weekend day or holiday, then the revocation period ends on the next workday.

If you revoke your Separation Agreement or do not sign and return it within the Consideration Period, then you will lose your eligibility to receive Severance Benefits under the Plan, and you will not be given another opportunity.

9. What is the Separation Agreement?

The Separation Agreement is a contract under which you agree to give up all claims that you may have against your Employer (and certain related persons) arising in any way from your employment or the termination of your employment. Such claims include, but are not limited to, any and all claims relating to discrimination based on race, age, religion, color, ancestry, disability, marital status, arrest and court record, sexual or gender orientation, the Age Discrimination in Employment Act (except for claims arising after the date of execution of the Separation Agreement), the Employee Retirement Income Security Act (except for your accrued retirement benefits and any health care benefits to which you may be entitled), the Americans with Disabilities Act, Title VII of the Civil Rights Act of 1964, and any other causes or actions relating to employment.

In addition to your Employer, the related persons that you release under the Separation Agreement are the other Employers, any and all Related Companies, any successors to the Employers or Related Companies, and all directors, officers, managers, employees, agents, and representatives of the Employers or Related Companies. "Related Companies" means companies that have a relationship of ownership with your Employer, direct or indirect, including HEI, HECO, HELCO, MECO, and any companies related by ownership to those companies.

If you break your promise not to make claims against your Employer and other released persons, or otherwise violate the Separation Agreement, then you must pay back the Severance Benefits that you have received under the Plan. You will also be required to compensate your Employer and other released persons for any expenses incurred by them on account of your violation of the Separation Agreement, including attorney's fees and costs.

10. What are my Severance Benefits?

Your Severance Benefits consist of Severance Pay and may also include a Health Benefits Payment. You will receive a Health Benefits Payment only if you are receiving health benefits under your Employer's group health plan when you receive notice that a Qualifying Termination will occur. You will be paid your Severance Benefits net of any applicable Federal or State taxes and tax withholdings.

11. What is my Severance Pay?

Your Severance Pay is a lump sum payment equal to your final basic rate of pay per week times your Weeks of Severance Pay.

12. What is my "final basic rate of pay"?

Your "final basic rate of pay" is your final hourly, monthly, or other rate of compensation, converted to a weekly rate. It does not include "variable compensation", overtime, incentive awards, or any other addition to your final rate of pay.

13. How many Weeks of Severance Pay am I entitled to?

The number of Weeks of Severance Pay to which you are entitled is based on your years of **continuous** service with your Employer and any other Employer participating in this Plan. The Severance Pay Table attached as Exhibit A to this SPD and Plan Document specifies the number of Weeks of Severance Pay you will receive for your number of years of continuous service. The Severance Pay Table is subject to change at any time. Employers may have different Severance Pay Tables. The table at Exhibit A is the default table.

In determining years of continuous service, your Employer will count back from your Termination Date to your first break in service, if any, and round to the nearest year. For example, if you worked for your Employer for 20 years, 5 months, and 23 days without any break in service, then you would be credited with 20 years of service for Severance Pay purposes. But if you worked for 10 years, had a break in service, and then returned to work for 5 years, 6 months, and 10 days, the 10 years of service before the break in service would be disregarded. In this second example, you would be credited with 6 years of service.

14. What is a "break in service"?

A "break in service" is the most recent date on which you were not being paid wages or salary by an Employer participating in this Plan and no such Employer had an obligation to restore you to your job or to rehire you. For example, a break in service happens if you quit your Employer to work for a company that is not an Employer. A break in service also happens if you quit your Employer to take care of personal matters unless you have taken leave pursuant to the Family and Medical Leave Act or some other federal or State law requires your Employer to restore you to work or to rehire you at the end of such leave. A "break in service" can be of any duration.

15. Suppose I go on active military duty. Will my military service be treated as continuous with my Employer?

Under a law called the Uniformed Services Employment and Reemployment Rights Act ("USERRA"), your active military service will count as continuous service with your Employer for purposes of determining benefits under the Plan **if** you were an Eligible Employee before your period of active military service, you gave prior notice to your Employer of your active military service, your period of active military service was no more than 5 years, and you returned to duty as an Eligible Employee by a certain deadline. Your deadline for returning to service with your Employer depends upon the length of your active military service. For service of less than 31 days, you must return to work at the beginning of the next regularly scheduled work period on the first full day after your release from active military service, taking into account safe travel home plus an eight-hour rest period. For service of more than 30 days but less than 181 days, you must submit an application for reemployment within 14 days of your release from active military service. For service of more than 180 days, an application for reemployment must be submitted within 90 days of your release from active military service.

If you believe that USERRA may benefit you under this Plan or if you have questions about USERRA, please contact your Human Resources Department or the HR Service Center at HECO.

16. What is the Health Benefits Payment?

You will receive a Health Benefits Payment only if you are receiving health benefits under your Employer's group health plan when you receive notice that a Qualifying Termination will occur. In addition, you will receive a full Health Benefits Payment only if you are not eligible for coverage under a group health plan of your Employer or a Related Company after your Termination Date, except on a COBRA basis. If you are entitled to a Health Benefits Payment, it will be paid to you in a lump sum payment, reduced by any applicable taxes and tax withholdings, at the same time that your Severance Pay is paid to you.

The amount of the Health Benefits Payment is the difference, per week, between COBRA continuation coverage premiums for yourself and your covered dependents and the amount you paid as an employee per week for health benefits coverage for yourself and your covered dependents, multiplied by your number of Weeks of Severance Pay. For example, if you were contributing $50 per month for medical coverage for yourself and your dependents prior to your Termination Date and your cost for COBRA continuation coverage is $400 per month, then the difference between the cost of your COBRA continuation coverage and your cost for coverage as an employee is $350 per month, or $80.77 per week ($350/mo. x 12 mos. = $4,200 per yr.; $4,200 per yr./52 wks. = $80.77 per wk). If you had 30 Weeks of Severance Pay, then your Health Benefits Payment in this example would be 30 wks. x $80.77 per wk.= $2,423.10.

You are not eligible for a full Health Benefits Payment if you are eligible for coverage under a group health plan of your Employer or a Related Company after your Termination Date. For example, you are not eligible for the Health Benefits Payment if you are eligible for coverage under the Postretirement Welfare Benefits Plan for Employees of Hawaiian Electric Company, Inc. and Participating Employers. However, you will still be eligible for a partial Health Benefits Payment if the successor group health plan coverage for which you are eligible after your Termination Date does not include all of the benefit coverages which you received under your Employer's group health plan or if not all of the dependents who were covered under your Employer's group health plan are eligible for coverage under the successor group health plan. In such a case, the Health Benefits Payment will be calculated on the basis of the cost of coverages that are not included in the successor plan or the cost of covering dependents on a COBRA basis who are not eligible for coverage under the successor plan.

You may use your Health Benefits Payment in whatever way you choose. In other words, you do not have to use your Health Benefits Payment to help pay for COBRA continuation coverage. If you do decide to cover yourself and eligible dependents, if any, on a COBRA continuation coverage basis, then you must apply for and pay for such coverage yourself. It will not be provided to you automatically.

17. When will I receive my Severance Benefits?

Provided that you timely execute your Separation Agreement, your Severance Benefits will be paid to you as soon as administratively feasible after your Termination Date, but no more than 70 days after such date.

18. Are there circumstances under which I might be required to repay my Severance Benefits?

Yes. As noted above, you will be required to repay your Severance Benefits if you break the promises in your Agreement.

You will also have to pay back part of your Severance Benefits if you become employed or reemployed by your Employer, a Related Company, and the number of weeks of Severance Pay to which you were entitled is greater than your period of unemployment. The portion you will be required to repay is equal to one minus a fraction, the numerator of which is the number of days between your Termination Date and your date of rehire (but not including either of those days) and the denominator of which your number of weeks of Severance Pay multiplied by seven. For example, if you are terminated on September 30th, are rehired on November 1st and were entitled to six weeks of Severance Pay, then you will be required to repay a portion of your Severance Pay equal to 1 - 31/(6*7) = 1 - .738 = 26.2%.

19. Is the Plan funded?

No. Your Employer has not set aside monies for payment of Severance Benefits. Instead, your Employer will pay Severance Benefits out of general funds.

20. Can the Plan be amended or terminated?

Yes. The Employers intend to continue this Plan indefinitely; however, HEI reserves the right to amend the Plan or terminate it at any time, without notice, for any reason. Each Employer has the right to change the Severance Pay Table applicable to its Employees and also reserves the right to terminate its participation in the Plan, both at any time, without notice, for any reason. This means that at some future date an Employer may terminate this Plan as to its own Employees without notice to you, and you will no longer receive any Benefits under this Plan even if you do experience a Qualifying Termination. It also means that your Employer may change the Severance Pay Table that is attached to this SPD and provide for payment of either more or fewer Weeks of Severance Pay.

21. Can I lose, forfeit, or become ineligible for Benefits?

Yes. You will not be eligible for Severance Benefits or will forfeit such Benefits if:

(1) you are not an Eligible Employee or cease to be an Eligible Employee

(for example, by becoming a Bargaining Unit Employee or by being transferred to a non-Executive position at HECO, HELCO, or MECO);

(2) you do not experience a Qualifying Termination;

(3) you experience a nonqualifying termination before your Termination Date (except in the case of retirement after your receive notice of a Qualifying Termination);

(4) you fail to sign and deliver or mail the Separation Agreement by the last day of the Consideration Period or revoke the Separation Agreement; or

(5) you start a legal action with respect to a claim released or waived under the Separation Agreement against a person released by that agreement or otherwise break the promises that you make in the Separation Agreement.

As stated above, you will have to repay your Severance Benefits if you break the promises in your Separation Agreement. You will also have to repay a pro rata portion of your Severance Pay if you are employed or reemployed by an Employer, Related Company, or successor, and your number of weeks of Severance Pay is greater than your period of unemployment. In addition, you will be eligible for a Health Benefits Payment only if you were receiving health benefits under your Employer's group health plan when you received notice of a Qualifying Event. See the answers to Questions 16 and 18 for more information about these matters.

22. What are the claims procedures for the Plan?

To make a claim for Severance Benefits, you must first submit your claim in writing to the Plan Administrator (c/o the Human Resources Department at HECO) within two years of the date of the claim. You may mail your claim or deliver it in person. Within 90 days, the Plan Administrator will give you written notice of whether your claim has been granted or denied, in whole or in part. If special circumstances require additional time, the Plan Administrator may take up to another 90 days to make a decision on your claim, so long as you are given written notice of such special circumstances before the expiration of the original 90 day period.

If your claim is denied, in whole or in part, the notice denying your claim will set forth the specific reason or reasons for the denial; specific reference to pertinent Plan provisions on which the denial is based; a description of any additional material or information necessary for you to perfect your claim and an explanation of why such material or information is necessary; and an explanation of the Plan's appeal procedure.

Within 60 days after you receive written notice denying your claim, you or your authorized representative may make a written appeal to the Plan Administrator. In connection with your appeal, you may review pertinent documents; request copies of such documents free of charge; and may submit issues, comments, documents, records, and other pertinent information.

Within a reasonable period of time but not later than 60 days after the Plan receives your appeal, the Plan Administrator will give you written notice of the action on your appeal. If special circumstances require additional time, the Plan Administrator may take up to another 60 days to make a decision on your appeal, so long as you are given written notice of such special circumstances before the expiration of the original 60 day period. If your appeal is denied, the Plan Administrator will give you a written notice setting forth the specific reason or reasons for the denial; the specific plan provisions on which the denial is based; a statement that you are entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to your claim for benefits; a statement describing any voluntary appeal procedures offered by the plan and your right to obtain the information about such procedures; and a statement of your right to bring a court action under Section 502(a) of the Employee Retirement Income Security Act ("ERISA").

The above claims procedures are applicable to all claims relating to the Plan, including claims that are not benefits claims, such as claims regarding whether you are an Eligible Employee.

23. How is the Plan administered?

Each Employer adopting this Plan has appointed HEI as the Plan Administrator responsible for the operation and administration of the Plan. If any questions arise under the Plan, the interpretations and rulings of the Plan Administrator are conclusive and final. The Plan Administrator retains exclusive and full discretion to interpret the terms of this Plan and to decide all questions of eligibility and benefits.

24. Does the Plan entitle me to remain employed by my Employer?

No; this Plan is not an employment contract. Nothing in this Plan is intended to or shall limit the power and authority of your Employer to terminate your employment.

25. May I assign (transfer) my benefits under this Plan?

No, you may not assign (transfer) your benefits under this Plan to any other person, including a family member or a creditor, and no creditor or other person may make a claim against the Plan or your Employer with respect to your benefits under this Plan. Any attempt to assign your benefits will be treated as void and of no legal effect.

26. What if I become disabled or die while entitled to benefits?

If you become disabled or die, but are entitled to benefits under this Plan, your benefits shall be paid to the person legally entitled to receive your benefits, such as your guardian, conservator, or personal representative. The Plan Administrator's responsibility with respect to your benefits shall cease upon the payment of your benefits to such person.

27. Do my benefits under this Plan include any consideration for taxes?

No. You will be paid your benefits net of any applicable Federal or State taxes and tax withholdings, and your benefits will not include any additional consideration to pay for your taxes or tax withholdings.

28. Do I have to make contributions to the Plan?

No, the Plan is funded entirely by your Employer.

29. Will I still be entitled to unemployment compensation?

Yes, you will still be entitled to unemployment compensation from the State of Hawai'i. However, if you retire at the time you are terminated, your unemployment compensation benefits may be reduced by the amount of your retirement benefits.

30. Does the Plan provide for deferred compensation within the meaning of Section 409A of the Internal Revenue Code?

No, the Plan does not provide for deferred compensation and is not subject to Section 409A of the Internal Revenue Code ("Code"). In compliance with Section 1.409A-1(b)(9)(iii) of the Treasury Regulations, in no event shall the amount of Severance Pay paid under this Plan exceed twice an Eligible Employee's annual compensation during the year immediately prior to the Qualifying Termination or, if less, twice the maximum amount that may be taken into account under Section 401(a)(17) of the Code in the year of such termination, and all payments of Severance Pay shall be completed no later than the last day of the second calendar year after the year of such termination.

31. What are your rights as a participant in the Plan under the Employee Retirement Income Security Act of 1974? (Statement of ERISA Rights)

As a participant in the Plan, you are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). ERISA provides that all Plan participants shall be entitled to:

* Examine without charge at the Plan Administrator's office (c/o the Human Resources Department at HECO) and at other specified locations (including the Human Resources Departments of HELCO and MECO) all Plan documents, including this SPD and Plan Document, and copies of any documents filed by HEI with the U.S. Department of Labor.

* Obtain copies of all Plan documents and other Plan information upon written request to the Plan Administrator. The Plan Administrator may make a reasonable charge for any copies.

In addition to creating rights for Plan participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to act prudently and in the interest of you and other Plan participants.

No one, including your Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit under this Plan or from exercising your rights under ERISA.

If your claim for a benefit under this Plan is denied in whole or in part, you must receive a written explanation of the reason for the denial. You have the right to have the Plan Administrator review and reconsider your claim. Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials from the Plan Administrator and do not receive them within thirty days, the participant may file a suit in federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay you up to $110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or federal court. If it should happen that Plan fiduciaries misuse the Plan's money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if the court finds your claim is frivolous.

If you have any questions about your Plan, you should contact your Plan Administrator. If you have any questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory, or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C.20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

IN WITNESS WHEREOF, HAWAIIAN ELECTRIC INDUSTRIES, INC. has caused this amended and restated plan document for the Severance Pay Plan for Management Employees of Hawaiian Electric Industries, Inc. and Executive Employees of Affiliates to be executed, effective as of April 2, 2018.

HAWAIIAN ELECTRIC INDUSTRIES, INC.

By: /s/ Kurt Murao

Title: VP - Legal & Administration and
Corporate Secretary

Date: July 23, 2018

EXHIBIT A

SEVERANCE PAY TABLE

Years of Service	# of Severance Weeks		Years of Service	# of Severance Weeks
0	4		26	37
1	4		27	39
2	6		28	41
3	6		29	43
4	6		30	45
5	6		31	47
6	7		32	49
7	8		33	51
8	9		34	52
9	10		35	52
10	11		36	52
11	12		37	52
12	13		38	52
13	14		39	52
14	15		40	52
15	16		41	52
16	17		42	52
17	19		43	52
18	21		44	52
19	23		45	52
20	25		46	52
21	27		47	52
22	29		48	52
23	31		49	52
24	33		50	52
25	35			

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Section 4: EX-12.1 (EXHIBIT 12.1)

HEI Exhibit 12.1 (page 1 of 2)

Hawaiian Electric Industries, Inc. and Subsidiaries
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(unaudited)

Six months ended June 30	2018 (1)	2018 (2)	2017 (1)	2017 (2)
(dollars in thousands)				
Fixed charges				
Total interest charges	$ 44,907	$ 51,148	$ 41,939	$ 46,353

Interest component of rentals		3,658		3,658		3,263		3,263
Pretax preferred stock dividend requirements of subsidiaries		1,224		1,224		1,426		1,426
Total fixed charges	$	49,789	$	56,030	$	46,628	$	51,042
Earnings								
Pretax income from continuing operations	$	111,912	$	111,912	$	110,262	$	110,262
Fixed charges, as shown		49,789		56,030		46,628		51,042
Interest capitalized		(3,308)		(3,308)		(2,323)		(2,323)
Earnings available for fixed charges	$	158,393	$	164,634	$	154,567	$	158,981
Ratio of earnings to fixed charges		3.18		2.94		3.31		3.11

Years ended December 31		**2017 (1)**		**2017 (2)**		**2016 (1)**		**2016 (2)**		**2015 (1)**		**2015 (2)**
(dollars in thousands)												
Fixed charges												
Total interest charges	$	82,065	$	91,725	$	81,974	$	89,141	$	83,936	$	89,284
Interest component of rentals		6,607		6,607		6,200		6,200		6,065		6,065
Pretax preferred stock dividend requirements of subsidiaries		3,127		3,127		2,825		2,825		2,977		2,977
Total fixed charges	$	91,799	$	101,459	$	90,999	$	98,166	$	92,978	$	98,326
Earnings												
Pretax income from continuing operations	$	274,690	$	274,690	$	371,951	$	371,951	$	252,898	$	252,898
Fixed charges, as shown		91,799		101,459		90,999		98,166		92,978		98,326
Interest capitalized		(5,375)		(5,375)		(3,727)		(3,727)		(3,265)		(3,265)
Earnings available for fixed charges	$	361,114	$	370,774	$	459,223	$	466,390	$	342,611	$	347,959
Ratio of earnings to fixed charges		3.93		3.65		5.05		4.75		3.68		3.54

See notes on page 2 of 2.

Hawaiian Electric Industries, Inc. and Subsidiaries
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(unaudited)

(continued)

Years ended December 31	**2014 (1)**	**2014 (2)**	**2013 (1)**	**2013 (2)**
(dollars in thousands)				
Fixed charges				
Total interest charges	$ 83,458	$ 88,535	$ 85,315	$ 90,407
Interest component of rentals	6,366	6,366	6,345	6,345
Pretax preferred stock dividend requirements of subsidiaries	2,952	2,952	2,886	2,886
Total fixed charges	$ 92,776	$ 97,853	$ 94,546	$ 99,638
Earnings				
Pretax income from continuing operations	$ 263,708	$ 263,708	$ 247,946	$ 247,946
Fixed charges, as shown	92,776	97,853	94,546	99,638
Interest capitalized	(3,954)	(3,954)	(7,097)	(7,097)
Earnings available for fixed charges	$ 352,530	$ 357,607	$ 335,395	$ 340,487
Ratio of earnings to fixed charges	3.80	3.65	3.55	3.42

(1) Excluding interest on ASB deposits.

(2) Including interest on ASB deposits.

For purposes of calculating the ratio of earnings to fixed charges, “earnings” represent the sum of (i) pretax income from continuing operations (before adjustment for undistributed income or loss from equity investees) and (ii) fixed charges (as hereinafter defined, but excluding capitalized interest). “Fixed charges” are calculated both excluding and including interest on ASB’s deposits during the applicable periods and represent the sum of (i) interest, whether capitalized or expensed, (ii) amortization of debt expense and discount or premium related to any indebtedness, whether capitalized or expensed, (iii) the estimate of the interest within rental expense and (iv) the non-intercompany preferred stock dividend requirements of HEI’s subsidiaries, increased to an amount representing the pretax earnings required to cover such dividend requirements.

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Section 5: EX-12.2 (EXHIBIT 12.2)

Hawaiian Electric Exhibit 12.2

Hawaiian Electric Company, Inc. and Subsidiaries
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(unaudited)

	Six months ended June 30		**Years ended December 31**				
(dollars in thousands)	**2018**	**2017**	**2017**	**2016**	**2015**	**2014**	**2013**
Fixed charges							
Total interest charges	$ 36,353	$ 36,010	$ 70,234	$ 67,407	$ 67,178	$ 66,132	$ 64,130
Interest component of rentals	2,185	1,752	3,618	3,249	3,060	3,244	2,793
Pretax preferred stock dividend requirements of subsidiaries	594	720	1,539	1,453	1,443	1,444	1,421
Total fixed charges	$ 39,132	$ 38,482	$ 75,391	$ 72,109	$ 71,681	$ 70,820	$ 68,344
Earnings							
Net income attributable to Hawaiian Electric	$ 59,184	$ 47,649	$ 121,031	$ 143,397	$ 136,794	$ 138,721	$ 124,009
Fixed charges, as shown	39,132	38,482	75,391	72,109	71,681	70,820	68,344

Income taxes		17,851		27,618		83,199		84,801		79,422		80,725		69,117
Interest capitalized		(3,308)		(2,323)		(5,375)		(3,727)		(3,265)		(3,954)		(7,097)
Earnings available for fixed charges	$	112,859	$	111,426	$	274,246	$	296,580	$	284,632	$	286,312	$	254,373
Ratio of earnings to fixed charges		2.88		2.90		3.64		4.11		3.97		4.04		3.72

For purposes of calculating the ratio of earnings to fixed charges, "earnings" represent the sum of (i) pretax income before preferred stock dividends of Hawaiian Electric and before adjustment for undistributed income or loss from equity investees and (ii) fixed charges (as hereinafter defined, but excluding interest capitalized). "Fixed charges" represent the sum of (i) interest, whether capitalized or expensed, (ii) amortization of debt expense and discount or premium related to any indebtedness, whether capitalized or expensed, (iii) the estimate of the interest within rental expense and (iv) the preferred stock dividend requirements of Hawaii Electric Light and Maui Electric, increased to an amount representing the pretax earnings required to cover such dividend requirements.

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Section 6: EX-31.1 (EXHIBIT 31.1)

HEI Exhibit 31.1

Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Constance H. Lau (HEI Chief Executive Officer)

I, Constance H. Lau, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended June 30, 2018 of Hawaiian Electric Industries, Inc. ("registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2018

/s/ Constance H. Lau

Constance H. Lau

President and Chief Executive Officer

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Section 7: EX-31.2 (EXHIBIT 31.2)

HEI Exhibit 31.2

Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Gregory C. Hazelton (HEI Chief Financial Officer)

I, Gregory C. Hazelton, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended June 30, 2018 of Hawaiian Electric Industries, Inc. (“registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 3, 2018

/s/ Gregory C. Hazelton

Gregory C. Hazelton
Executive Vice President and Chief Financial Officer

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Section 8: EX-31.3 (EXHIBIT 31.3)

Hawaiian Electric Exhibit 31.3

Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Alan M. Oshima (Hawaiian Electric Chief Executive Officer)

I, Alan M. Oshima, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended June 30, 2018 of Hawaiian Electric Company, Inc. (“registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 3, 2018

/s/ Alan M. Oshima
Alan M. Oshima
President and Chief Executive Officer

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Section 9: EX-31.4 (EXHIBIT 31.4)

Hawaiian Electric Exhibit 31.4

Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Tayne S. Y. Sekimura (Hawaiian Electric Chief Financial Officer)

I, Tayne S. Y. Sekimura, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended June 30, 2018 of Hawaiian Electric Company, Inc. (“registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2018

/s/ Tayne S. Y. Sekimura

Tayne S. Y. Sekimura
Senior Vice President and Chief Financial Officer

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Section 10: EX-32.1 (EXHIBIT 32.1)

HEI Exhibit 32.1

Hawaiian Electric Industries, Inc.

Certification Pursuant to
18 U.S.C. Section 1350

In connection with the Quarterly Report of Hawaiian Electric Industries, Inc. (HEI) on Form 10-Q for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the Report), we, Constance H. Lau and Gregory C. Hazelton, Chief Executive Officer and Chief Financial Officer, respectively, of HEI, certify, pursuant to 18 U.S.C. Section 1350, that to the best of our knowledge:

(1) The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HEI and its subsidiaries as of, and for, the periods presented in this report.

Date: August 3, 2018

/s/ Constance H. Lau

Constance H. Lau
President and Chief Executive Officer

/s/ Gregory C. Hazelton

Gregory C. Hazelton
Executive Vice President and Chief Financial Officer

A signed original of this written statement has been provided to HEI and will be retained by HEI and furnished to the Securities and Exchange Commission or its staff upon request.

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Section 11: EX-32.2 (EXHIBIT 32.2)

Hawaiian Electric Exhibit 32.2

Hawaiian Electric Company, Inc.

**Certification Pursuant to
18 U.S.C. Section 1350**

In connection with the Quarterly Report of Hawaiian Electric Company, Inc. (Hawaiian Electric) on Form 10-Q for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the Hawaiian Electric Report), we, Alan M. Oshima and Tayne S. Y. Sekimura, Chief Executive Officer and Chief Financial Officer, respectively, of Hawaiian Electric, certify, pursuant to 18 U.S.C. Section 1350, that to the best of our knowledge:

(1) The Hawaiian Electric Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, as amended; and

(2) The Hawaiian Electric information contained in the Hawaiian Electric Report fairly presents, in all material respects, the financial condition and results of operations of Hawaiian Electric and its subsidiaries as of, and for, the periods presented in this report.

Date: August 3, 2018

/s/ Alan M. Oshima

Alan M. Oshima
President and Chief Executive Officer

/s/ Tayne S. Y. Sekimura

Tayne S. Y. Sekimura
Senior Vice President and Chief Financial Officer

A signed original of this written statement has been provided to Hawaiian Electric and will be retained by Hawaiian Electric and furnished to the Securities and Exchange Commission or its staff upon request.

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