HAWAIIAN ELECTRIC INDUSTRIES INC
Form 10-Q
August 03, 2018

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

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

Exact Name of Registrant as Specified in Its Charter	Commission File Number	I.R.S. Employer Identification No.
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 x No o Hawaiian Electric Company, Inc. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Hawaiian Electric Industries, Inc. Yes x No o Hawaiian Electric Company, Inc. Yes x No o
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 x	Hawaiian Electric Company, Inc.	Large accelerated filer o
	Accelerated filer o		Accelerated filer o
	Non-accelerated filer o		Non-accelerated filer x

(Do not check if a smaller reporting company)	(Do not check if a smaller reporting company)
Smaller reporting company o	Smaller reporting company o
Emerging growth company o	Emerging growth company o

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. o   Hawaiian Electric Company, Inc. o

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 o No x   Hawaiian Electric Company, Inc. Yes o No x

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
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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

GLOSSARY OF TERMS, continued

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 additio 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;
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- 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)

	Three months ended June 30		Six months ended June 30	
(in thousands)	2018	2017	2018	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)

	Common stock		Retained	Accumulated other comprehensive	
(in thousands)	Shares	Amount	Earnings	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)

(in thousands)	Six months ended June 30 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
	(878)	(265,000)

Repayment of long-term debt and funds transferred for redemption of special purpose revenue bonds		
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)

	Three months ended June 30		Six months ended June 30	
(in thousands)	2018	2017	2018	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)

	Three months ended June 30		Six months ended June 30	
(in thousands)	2018	2017	2018	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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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:

	Three months ended June 30, 2017			Six months ended June 30, 2017		
(in thousands)	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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

(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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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,

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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
	$31,195	3,764	5,317	—	(9,081)	$ 31,195

Comprehensive income attributable to common shareholder

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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
	$25,684	3,633	4,305	—	(7,938)	$ 25,684

Comprehensive income attributable to common shareholder

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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
	$58,701	9,865	8,541	—	(18,406)	$ 58,701

Comprehensive income attributable to common shareholder

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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
	(7,194)	(951)	(810)	—	1,761	(7,194)

Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes						
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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating 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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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)
	35,590	—	—	—	8,400	43,990

Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less						
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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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	$44,515	$1	$(104)	$44,412	2	$35,744	$(104)	—	$—	$—

GNMA	$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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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	Unallocated	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
	$1,912	$15,245	$6,173	$635	$4,616	$4	$9,564	$11,806	$—	$49,955

Ending balance: collectively evaluated for impairment										
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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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	$ —

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

	December 31, 2017			Three months ended June 30, 2017		Six months ended June 30, 2017	
(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	$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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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:

	Three months ended June 30, 2018				Six months ended June 30, 2018			
	Number of contracts	Outstanding recorded investment[1]		Net increase in allowance (as of period end)	Number of contracts	Outstanding recorded investment[1]		Net increase in allowance (as of period end)
(dollars in thousands)		Pre-modification	Post-modification			Pre-modification	Post-modification	
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			
	Number of contracts	Outstanding recorded investment[1]		Net increase in allowance (as of period end)	Number of contracts	Outstanding recorded investment[1]		Net increase in allowance (as of period end)
(dollars in thousands)		Pre-modification	Post-modification			Pre-modification	Post-modification	
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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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:

(in thousands)	Three months ended June 30 2018	2017	Six months ended June 30 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 %

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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			
(in thousands)	Electric utility	Bank	Other	Total	Electric utility	Bank	Other	Total
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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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				