HAWAIIAN ELECTRIC INDUSTRIES INC
Form 10-Q
August 03, 2017

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, 2017
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, 2017 |
|---|---|
| Hawaiian Electric Industries, Inc. (Without Par Value) | 108,785,486 Shares |
| Hawaiian Electric Company, Inc. ($6-2/3 Par Value) | 16,019,785 Shares (not publicly traded) |

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

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

Hawaiian Electric Industries, Inc. and Subsidiaries
Hawaiian Electric Company, Inc. and Subsidiaries
Form 10-Q—Quarter ended June 30, 2017

TABLE OF CONTENTS

Hawaiian Electric Industries, Inc. and Subsidiaries
Hawaiian Electric Company, Inc. and Subsidiaries
Form 10-Q—Quarter ended June 30, 2017
GLOSSARY OF TERMS

| Terms | Definitions |
|---|---|
| AES Hawaii | AES Hawaii, Inc. |
| AFUDC | Allowance for funds used during construction |
| AOCI | Accumulated other comprehensive income/(loss) |
| 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 |
| 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.; HEI Properties, Inc. (dissolved in 2015 and wound up in 2017); and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.). |
| 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 |
| DG | Distributed generation |
| Dodd-Frank Act | Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 |
| DOH | Department of Health of the State of Hawaii |
| DRIP | HEI Dividend Reinvestment and Stock Purchase Plan |
| DSM | Demand-side management |
| ECAC | Energy cost adjustment clause |
| 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. |
| HEP | Hamakua Energy Partners, L.P., 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) and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.) |
| 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) |
| LNG | Liquefied natural gas |
| LTIP | Long-term incentive plan |
| Maui Electric | Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc. |
| Merger | As provided in the Merger Agreement (see below), merger of NEE Acquisition Sub II, Inc. with and into HEI, with HEI surviving, and then merger of HEI with and into NEE Acquisition Sub I, LLC, with NEE Acquisition Sub I, LLC surviving as a wholly owned subsidiary of NextEra Energy, Inc. |
| Merger Agreement | Agreement and Plan of Merger by and among HEI, NextEra Energy, Inc., NEE Acquisition Sub II, Inc. and NEE Acquisition Sub I, LLC, dated December 3, 2014 and terminated July 16, 2016 |
| MPIR | Major Project Interim Recovery |
| MW | Megawatt/s (as applicable) |
| NEE | NextEra Energy, Inc. |
| 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 |
| 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 |

| | |
|---|---|
| Spin-Off | The previously planned distribution to HEI shareholders of all of the common stock of ASB Hawaii immediately prior to the Merger, which was terminated |
| 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; the effects of the United Kingdom’s referendum to withdraw from the European Union; 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 by ISIS or others; potential conflict or crisis with North Korea; and potential pandemics);
- the effects of future actions or inaction of the U.S. government or related agencies, including those related to the U.S. debt ceiling, monetary policy and 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, 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 impacts of the termination of the Merger with NextEra Energy, Inc. (NEE) and the resulting loss of NEE’s resources, expertise and support (e.g., financial and technological), including potentially higher costs and longer lead times to increase levels of renewable energy and to complete projects like Enterprise Resource Planning/Enterprise Asset Management (ERP/EAM) and smart grids, and a higher cost of capital;
- 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 in April 2014, its April 2014 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 (DSM), distributed generation (DG), combined heat and power or other firm capacity supply-side resources fall short of achieving their forecasted benefits or are otherwise insufficient to reduce or meet peak demand;
- fuel oil price changes, delivery of adequate fuel by suppliers and the continued availability to the electric utilities of their energy cost adjustment clauses (ECACs);
- the continued availability to the electric utilities or modifications of other cost recovery mechanisms, including the purchased power adjustment clauses (PPACs), rate adjustment mechanisms (RAMs) and pension and postretirement benefits other than pensions (OPEB) tracking mechanisms, and the continued decoupling of revenues from sales to mitigate the effects of declining kilowatthour sales;
- the impact of fuel price volatility on customer satisfaction and political and regulatory support for the Utilities;

- the risks associated with increasing reliance on renewable energy, including the availability and cost of non-fossil fuel supplies for renewable energy generation and the operational impacts of adding intermittent sources of renewable energy to the electric grid;
- the growing risk that energy production from renewable generating resources may be curtailed and the interconnection of additional resources will be constrained as more generating resources are added to the Utilities' electric systems and as customers reduce their energy usage;
- the ability of IPPs to deliver the firm capacity anticipated in their power purchase agreements (PPAs);
- the potential that, as IPP contracts near the end of their terms, there may be less economic incentive for the IPPs to make investments in their units to ensure the availability of their units;
- the ability of the Utilities to negotiate, periodically, favorable agreements for significant resources such as fuel supply contracts and collective bargaining agreements;
- new technological developments that could affect the operations and prospects of the Utilities and ASB or their competitors;
- new technological developments, such as the commercial development of energy storage and microgrids, that could affect the operations of the Utilities;
- cyber security risks and the potential for cyber incidents, including potential incidents at HEI, ASB and the Utilities (including at ASB branches and electric utility plants) and incidents at data processing centers they use, to the extent not prevented by intrusion detection and prevention systems, anti-virus software, firewalls and other general information technology controls;
- federal, state, county and international governmental and regulatory actions, such as existing, new and changes in laws, rules and regulations applicable to HEI, the Utilities and ASB (including changes in taxation, increases in capital requirements, regulatory policy changes, environmental laws and regulations (including resulting compliance costs and risks of fines and penalties and/or liabilities), the regulation of greenhouse gas 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, the Utilities and ASB, including the adoption of new U.S. accounting standards, the potential discontinuance of regulatory accounting and the effects of potentially required consolidation of variable interest entities (VIEs) or required capital lease accounting for PPAs with IPPs;

- changes by securities rating agencies in their ratings of the securities of HEI and Hawaiian Electric and the results of financing efforts;
- faster than expected loan prepayments that can cause an acceleration of the amortization of premiums on loans and investments and the impairment of mortgage-servicing assets of ASB;
- changes in ASB's loan portfolio credit profile and asset quality which may increase or decrease the required level of provision for loan losses, allowance for loan losses and charge-offs;
- changes in ASB's deposit cost or mix which may have an adverse impact on ASB's cost of funds;
- the final outcome of tax positions taken by HEI, the Utilities and ASB;
- the risks of suffering losses and incurring liabilities that are uninsured (e.g., damages to the Utilities' transmission and distribution system and losses from business interruption) or underinsured (e.g., losses not covered as a result of insurance deductibles or other exclusions or exceeding policy limits); and
- other risks or uncertainties described elsewhere in this report 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 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) | 2017 | 2016 | 2017 | 2016 |
| Revenues | | | | |
| Electric utility | $556,875 | $495,395 | $1,075,486 | $977,447 |
| Bank | 75,329 | 70,749 | 148,185 | 139,589 |
| Other | 77 | 100 | 172 | 168 |
| Total revenues | 632,281 | 566,244 | 1,223,843 | 1,117,204 |
| Expenses | | | | |
| Electric utility | 501,828 | 424,709 | 971,501 | 851,435 |
| Bank | 50,533 | 50,525 | 99,229 | 99,771 |
| Other | 4,024 | 5,555 | 9,355 | 11,692 |
| Total expenses | 556,385 | 480,789 | 1,080,085 | 962,898 |
| Operating income (loss) | | | | |
| Electric utility | 55,047 | 70,686 | 103,985 | 126,012 |
| Bank | 24,796 | 20,224 | 48,956 | 39,818 |
| Other | (3,947) | (5,455) | (9,183) | (11,524) |
| Total operating income | 75,896 | 85,455 | 143,758 | 154,306 |
| Interest expense, net—other than on deposit liabilities and other bank borrowings | (20,440) | (17,301) | (40,008) | (37,427) |
| Allowance for borrowed funds used during construction | 1,143 | 760 | 2,032 | 1,422 |
| Allowance for equity funds used during construction | 3,027 | 1,997 | 5,426 | 3,736 |
| Income before income taxes | 59,626 | 70,911 | 111,208 | 122,037 |
| Income taxes | 20,492 | 26,310 | 37,408 | 44,611 |
| Net income | 39,134 | 44,601 | 73,800 | 77,426 |
| Preferred stock dividends of subsidiaries | 473 | 473 | 946 | 946 |
| Net income for common stock | $38,661 | $44,128 | $72,854 | $76,480 |
| Basic earnings per common share | $0.36 | $0.41 | $0.67 | $0.71 |
| Diluted earnings per common share | $0.36 | $0.41 | $0.67 | $0.71 |
| Dividends declared per common share | $0.31 | $0.31 | $0.62 | $0.62 |
| Weighted-average number of common shares outstanding | 108,750 | 107,962 | 108,712 | 107,791 |
| Net effect of potentially dilutive shares | 47 | 171 | 157 | 187 |
| Weighted-average shares assuming dilution | 108,797 | 108,133 | 108,869 | 107,978 |

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

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) | 2017 | 2016 | 2017 | 2016 |
| Net income for common stock | $38,661 | $44,128 | $72,854 | $76,480 |
| Other comprehensive income (loss), net of taxes: | | | | |
| Net unrealized gains on available-for-sale investment securities: | | | | |
| Net unrealized gains on available-for-sale investment securities arising during the period, net of taxes of $1,334, $1,925, $1,482 and $6,830, respectively | 2,021 | 2,916 | 2,244 | 10,344 |
| Reclassification adjustment for net realized gains included in net income, net of taxes of nil, $238, nil and $238, respectively | — | (360) | — | (360) |
| Derivatives qualifying as cash flow hedges: | | | | |
| Effective portion of foreign currency hedge net unrealized gains (losses) arising during the period, net of (taxes) benefits of nil, $475, nil and ($163), respectively | — | (745) | — | 257 |
| Reclassification adjustment to net income, net of tax benefits of nil, nil, $289 and $35, respectively | — | — | 454 | 54 |
| 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 $2,508, $2,362, $5,010 and $4,619, respectively | 3,930 | 3,698 | 7,851 | 7,236 |
| Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $2,281, $2,166, $4,582 and $4,218, respectively | (3,581) | (3,401) | (7,194) | (6,623) |
| Other comprehensive income, net of taxes | 2,370 | 2,108 | 3,355 | 10,908 |
| Comprehensive income attributable to Hawaiian Electric Industries, Inc. | $41,031 | $46,236 | $76,209 | $87,388 |

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

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

| (dollars in thousands) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $210,381 | $278,452 |
| Accounts receivable and unbilled revenues, net | 249,539 | 237,950 |
| Available-for-sale investment securities, at fair value | 1,302,886 | 1,105,182 |
| Stock in Federal Home Loan Bank, at cost | 11,706 | 11,218 |
| Loans receivable held for investment, net | 4,688,278 | 4,683,160 |
| Loans held for sale, at lower of cost or fair value | 5,261 | 18,817 |
| Property, plant and equipment, net of accumulated depreciation of $2,508,291 and $2,444,348 at June 30, 2017 and December 31, 2016, respectively | 4,726,524 | 4,603,465 |
| Regulatory assets | 938,277 | 957,451 |
| Other | 478,763 | 447,621 |
| Goodwill | 82,190 | 82,190 |
| Total assets | $12,693,805 | $12,425,506 |
| Liabilities and shareholders’ equity | | |
| Liabilities | | |
| Accounts payable | $194,755 | $143,279 |
| Interest and dividends payable | 22,124 | 25,225 |
| Deposit liabilities | 5,724,386 | 5,548,929 |
| Short-term borrowings—other than bank | 49,789 | — |
| Other bank borrowings | 188,130 | 192,618 |
| Long-term debt, net—other than bank | 1,618,647 | 1,619,019 |
| Deferred income taxes | 750,413 | 728,806 |
| Regulatory liabilities | 431,630 | 410,693 |
| Contributions in aid of construction | 543,204 | 543,525 |
| Defined benefit pension and other postretirement benefit plans liability | 626,795 | 638,854 |
| Other | 434,610 | 473,512 |
| Total liabilities | 10,584,483 | 10,324,460 |
| 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: 108,785,486 shares and 108,583,413 shares at June 30, 2017 and December 31, 2016, respectively | 1,660,403 | 1,660,910 |
| Retained earnings | 444,400 | 438,972 |
| Accumulated other comprehensive loss, net of tax benefits | (29,774) | (33,129) |
| Total shareholders’ equity | 2,075,029 | 2,066,753 |
| Total liabilities and shareholders’ equity | $12,693,805 | $12,425,506 |

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

3

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, 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 |
| Balance, December 31, 2015 | 107,460 | $1,629,136 | $324,766 | $ (26,262) | $1,927,640 |
| Net income for common stock | — | — | 76,480 | — | 76,480 |
| Other comprehensive income, net of taxes | — | — | — | 10,908 | 10,908 |
| Issuance of common stock, net of expenses | 727 | 18,002 | — | — | 18,002 |
| Common stock dividends | — | — | (66,848) | — | (66,848) |
| Balance, June 30, 2016 | 108,187 | $1,647,138 | $334,398 | $ (15,354) | $1,966,182 |

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

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

| | Six months ended June 30 | |
|---|---|---|
| (in thousands) | 2017 | 2016 |
| Cash flows from operating activities | | |
| Net income | $73,800 | $77,426 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation of property, plant and equipment | 100,062 | 97,148 |
| Other amortization | 6,101 | 4,840 |
| Provision for loan losses | 6,741 | 9,519 |
| Loans receivable originated and purchased, held for sale | (69,595) | (98,004) |
| Proceeds from sale of loans receivable, held for sale | 79,944 | 98,457 |
| Deferred income taxes | 17,047 | 21,738 |
| Share-based compensation expense | 3,285 | 2,011 |
| Allowance for equity funds used during construction | (5,426) | (3,736) |
| Other | 246 | 2,982 |
| Changes in assets and liabilities | | |
| Decrease (increase) in accounts receivable and unbilled revenues, net | (12,394) | 12,894 |
| Decrease (increase) in fuel oil stock | (5,962) | 9,644 |
| Decrease (increase) in regulatory assets | 8,179 | (11,752) |
| Increase in accounts, interest and dividends payable | 55,451 | 20,837 |
| Change in prepaid and accrued income taxes, tax credits and utility revenue taxes | (37,954) | 622 |
| Increase in defined benefit pension and other postretirement benefit plans liability | 420 | 95 |
| Change in other assets and liabilities | (33,922) | (18,878) |
| Net cash provided by operating activities | 186,023 | 225,843 |
| Cash flows from investing activities | | |
| Available-for-sale investment securities purchased | (295,510) | (176,598) |
| Principal repayments on available-for-sale investment securities | 99,663 | 102,716 |
| Proceeds from sale of available-for-sale investment securities | — | 16,423 |
| Purchase of stock from Federal Home Loan Bank | (2,868) | (2,773) |
| Redemption of stock from Federal Home Loan Bank | 2,380 | 2,233 |
| Net increase in loans held for investment | (20,326) | (155,930) |
| Proceeds from sale of commercial loans | 13,493 | 14,105 |
| Proceeds from sale of real estate acquired in settlement of loans | 185 | 553 |
| Capital expenditures | (222,246) | (203,631) |
| Contributions in aid of construction | 17,571 | 16,810 |
| Other | 8,216 | 1,106 |
| Net cash used in investing activities | (399,442) | (384,986) |
| Cash flows from financing activities | | |
| Net increase in deposit liabilities | 175,457 | 206,949 |
| Net increase in short-term borrowings with original maturities of three months or less | 49,789 | 12,922 |
| Net increase (decrease) in retail repurchase agreements | 9,048 | (27,158) |
| Proceeds from other bank borrowings | 59,500 | 55,835 |
| Repayments of other bank borrowings | (73,034) | (84,369) |
| Proceeds from issuance of long-term debt | 265,000 | 75,000 |
| Repayment of long-term debt and funds transferred for redemption of special purpose revenue bonds | (265,000) | (75,000) |
| Withheld shares for employee taxes on vested share-based compensation | (3,787) | (2,345) |

| | | |
|---|---|---|
| Net proceeds from issuance of common stock | — | 7,668 |
| Common stock dividends | (67,426 ) | (55,591 ) |
| Preferred stock dividends of subsidiaries | (946 ) | (946 ) |
| Other | (3,253 ) | 2,908 |
| Net cash provided by financing activities | 145,348 | 115,873 |
| Net decrease in cash and cash equivalents | (68,071 ) | (43,270 ) |
| Cash and cash equivalents, beginning of period | 278,452 | 300,478 |
| Cash and cash equivalents, end of period | $210,381 | $257,208 |

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

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

| (in thousands) | Three months ended June 30 2017 | 2016 | Six months ended June 30 2017 | 2016 |
|---|---|---|---|---|
| Revenues | $556,875 | $495,395 | $1,075,486 | $977,447 |
| Expenses | | | | |
| Fuel oil | 141,259 | 91,899 | 285,529 | 205,639 |
| Purchased power | 153,067 | 139,058 | 280,191 | 254,917 |
| Other operation and maintenance | 106,374 | 99,563 | 206,614 | 203,471 |
| Depreciation | 48,156 | 46,760 | 96,372 | 93,541 |
| Taxes, other than income taxes | 52,972 | 47,429 | 102,795 | 93,867 |
| Total expenses | 501,828 | 424,709 | 971,501 | 851,435 |
| Operating income | 55,047 | 70,686 | 103,985 | 126,012 |
| Allowance for equity funds used during construction | 3,027 | 1,997 | 5,426 | 3,736 |
| Interest expense and other charges, net | (18,214) | (15,103) | (35,718) | (32,411) |
| Allowance for borrowed funds used during construction | 1,143 | 760 | 2,032 | 1,422 |
| Income before income taxes | 41,003 | 58,340 | 75,725 | 98,759 |
| Income taxes | 14,860 | 21,984 | 27,618 | 36,537 |
| Net income | 26,143 | 36,356 | 48,107 | 62,222 |
| Preferred stock dividends of subsidiaries | 229 | 229 | 458 | 458 |
| Net income attributable to Hawaiian Electric | 25,914 | 36,127 | 47,649 | 61,764 |
| Preferred stock dividends of Hawaiian Electric | 270 | 270 | 540 | 540 |
| Net income for common stock | $25,644 | $35,857 | $47,109 | $61,224 |

The accompanying notes are an integral part of these condensed consolidated financial statements.
HEI owns all of the common stock of Hawaiian Electric. Therefore, per share data with respect to shares of common stock of Hawaiian Electric are not meaningful.

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

| (in thousands) | Three months ended June 30 2017 | 2016 | Six months ended June 30 2017 | 2016 |
|---|---|---|---|---|
| Net income for common stock | $25,644 | $35,857 | $47,109 | $61,224 |
| Other comprehensive income (loss), net of taxes: | | | | |
| Derivatives qualifying as cash flow hedges: | | | | |
| Effective portion of foreign currency hedge net unrealized gains (losses) arising during the period, net of (taxes) benefits of nil, $475, nil and ($163), respectively | — | (745) | — | 257 |
| Reclassification adjustment to net income, net of tax benefits of nil, nil, $289 and nil, 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 $2,306, $2,160, $4,610 and $4,221, respectively | 3,621 | 3,391 | 7,239 | 6,627 |
| Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $2,281, $2,166, $4,582 and $4,218, respectively | (3,581) | (3,401) | (7,194) | (6,623) |
| Other comprehensive income (loss), net of taxes | 40 | (755) | 499 | 261 |
| Comprehensive income attributable to Hawaiian Electric Company, Inc. | $25,684 | $35,102 | $47,608 | $61,485 |

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

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

| (dollars in thousands, except par value) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Assets | | |
| Property, plant and equipment | | |
| Utility property, plant and equipment | | |
| Land | $53,178 | $53,153 |
| Plant and equipment | 6,711,418 | 6,605,732 |
| Less accumulated depreciation | (2,430,097) | (2,369,282) |
| Construction in progress | 272,438 | 211,742 |
| Utility property, plant and equipment, net | 4,606,937 | 4,501,345 |
| Nonutility property, plant and equipment, less accumulated depreciation of $1,233 as of June 30, 2017 and $1,232 as of December 31, 2016 | 7,410 | 7,407 |
| Total property, plant and equipment, net | 4,614,347 | 4,508,752 |
| Current assets | | |
| Cash and cash equivalents | 42,582 | 74,286 |
| Customer accounts receivable, net | 126,161 | 123,688 |
| Accrued unbilled revenues, net | 103,596 | 91,693 |
| Other accounts receivable, net | 3,684 | 5,233 |
| Fuel oil stock, at average cost | 72,392 | 66,430 |
| Materials and supplies, at average cost | 57,099 | 53,679 |
| Prepayments and other | 36,340 | 23,100 |
| Regulatory assets | 74,167 | 66,032 |
| Total current assets | 516,021 | 504,141 |
| Other long-term assets | | |
| Regulatory assets | 864,110 | 891,419 |
| Unamortized debt expense | 690 | 208 |
| Other | 75,987 | 70,908 |
| Total other long-term assets | 940,787 | 962,535 |
| Total assets | $6,071,155 | $5,975,428 |
| Capitalization and liabilities | | |
| Capitalization | | |
| Common stock ($6 2/3 par value, authorized 50,000,000 shares; outstanding 16,019,785 shares at June 30, 2017 and December 31, 2016) | $106,818 | $106,818 |
| Premium on capital stock | 601,486 | 601,491 |
| Retained earnings | 1,095,025 | 1,091,800 |
| Accumulated other comprehensive income (loss), net of taxes | 177 | (322) |
| Common stock equity | 1,803,506 | 1,799,787 |
| Cumulative preferred stock — not subject to mandatory redemption | 34,293 | 34,293 |
| Long-term debt, net | 1,318,845 | 1,319,260 |
| Total capitalization | 3,156,644 | 3,153,340 |
| Commitments and contingencies (Note 3) | | |
| Current liabilities | | |
| Short-term borrowings from non-affiliates | 43,990 | — |
| Accounts payable | 162,375 | 117,814 |
| Interest and preferred dividends payable | 19,497 | 22,838 |
| Taxes accrued | 142,263 | 172,730 |
| Regulatory liabilities | 2,883 | 3,762 |

| | | |
|---|---|---|
| Other | 53,140 | 55,221 |
| Total current liabilities | 424,148 | 372,365 |
| Deferred credits and other liabilities | | |
| Deferred income taxes | 759,972 | 733,659 |
| Regulatory liabilities | 428,747 | 406,931 |
| Unamortized tax credits | 91,386 | 88,961 |
| Defined benefit pension and other postretirement benefit plans liability | 587,718 | 599,726 |
| Other | 79,336 | 76,921 |
| Total deferred credits and other liabilities | 1,947,159 | 1,906,198 |
| Contributions in aid of construction | 543,204 | 543,525 |
| Total capitalization and liabilities | $6,071,155 | $5,975,428 |

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

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, 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 |
| Balance, December 31, 2015 | 15,805 | $105,388 | $578,930 | $1,043,082 | $ 925 | $1,728,325 |
| Net income for common stock | — | — | — | 61,224 | — | 61,224 |
| Other comprehensive income, net of taxes | — | — | — | — | 261 | 261 |
| Common stock dividends | — | — | — | (46,800) | — | (46,800) |
| Common stock issuance expenses | — | — | (4) | — | — | (4) |
| Balance, June 30, 2016 | 15,805 | $105,388 | $578,926 | $1,057,506 | $ 1,186 | $1,743,006 |

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

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

| | Six months ended June 30 | |
|---|---|---|
| (in thousands) | 2017 | 2016 |
| Cash flows from operating activities | | |
| Net income | $48,107 | $62,222 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation of property, plant and equipment | 96,372 | 93,541 |
| Other amortization | 4,262 | 3,793 |
| Deferred income taxes | 23,599 | 32,118 |
| Allowance for equity funds used during construction | (5,426) | (3,736) |
| Other | 1,615 | 2,982 |
| Changes in assets and liabilities | | |
| Decrease (increase) in accounts receivable | (1,729) | 16,682 |
| Increase in accrued unbilled revenues | (11,903) | (3,215) |
| Decrease (increase) in fuel oil stock | (5,962) | 9,644 |
| Increase in materials and supplies | (3,420) | (2,482) |
| Decrease (increase) in regulatory assets | 8,179 | (677) |
| Increase in accounts payable | 51,637 | 23,427 |
| Change in prepaid and accrued income taxes, tax credits and revenue taxes | (40,910) | (28,192) |
| Increase in defined benefit pension and other postretirement benefit plans liability | 302 | 237 |
| Change in other assets and liabilities | (14,047) | (12,220) |
| Net cash provided by operating activities | 150,676 | 194,124 |
| Cash flows from investing activities | | |
| Capital expenditures | (202,080) | (197,332) |
| Contributions in aid of construction | 17,571 | 16,810 |
| Other | 6,250 | 331 |
| Net cash used in investing activities | (178,259) | (180,191) |
| Cash flows from financing activities | | |
| Common stock dividends | (43,884) | (46,800) |
| Preferred stock dividends of Hawaiian Electric and subsidiaries | (998) | (998) |
| Proceeds from issuance of special purpose revenue bonds | 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 | 43,990 | 36,995 |
| Other | (3,229) | — |
| Net cash used in financing activities | (4,121) | (10,803) |
| Net increase (decrease) in cash and cash equivalents | (31,704) | 3,130 |
| Cash and cash equivalents, beginning of period | 74,286 | 24,449 |
| Cash and cash equivalents, end of period | $42,582 | $27,579 |

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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, 2016.

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, 2017 and December 31, 2016, the results of their operations for the three and six months ended June 30, 2017 and 2016 and their cash flows for the six months ended June 30, 2017 and 2016. 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. To achieve that core principle, an entity should: (1) identify the contract/s with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when, or as, the entity satisfies a performance obligation. ASU No. 2014-09 also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

As of June 30, 2017, the Company has identified its revenue streams from, and performance obligations related to, contracts with customers and has performed an analysis of these revenue streams for the impacts of Topic 606. The majority of the revenue subject to Topic 606 is the Utilities' electric sales revenue and the Company and Hawaiian Electric do not expect a material impact on the timing or pattern of revenue recognition upon adoption of ASU No. 2014-09. The Company and Hawaiian Electric expect changes to the presentation and disclosure of revenues. The Company plans to adopt ASU No. 2014-09 (and subsequently issued revenue-related ASUs, as applicable) in the first quarter of 2018 using the modified retrospective approach. The Company continues to monitor developments in industry-specific application guidance and evaluate further impacts of Topic 606.

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 plans to adopt ASU No. 2016-01 in the first quarter of 2018 and expects changes to disclosures, but otherwise believes the impact of adoption will not be material to the Company's and Hawaiian Electric'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 condensed consolidated 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 has not yet determined the method or impact of adoption.

Stock compensation. In March 2016, the FASB issued ASU No. 2016-09, “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which simplifies several aspects of the accounting for share-based payment transactions.

The Company adopted ASU No. 2016-09 in the first quarter of 2017. From January 1, 2017, all excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the income statement. From January 1, 2017, no excess tax benefits or deficiencies are included in determining the assumed proceeds under the treasury stock method of calculating diluted EPS. As of January 1, 2017, HEI adopted an accounting policy to account for forfeitures when they occur.

From January 1, 2017, HEI retrospectively applied the cashflow guidance for taxes paid (equivalent to the value of withheld shares for tax withholding purposes) and excess tax benefits. Excess tax benefits will be classified along with other income tax cash flows as an operating activity and the cash payments made to taxing authorities on the employees’ behalf for withheld shares are classified as financing activities on the HEI unaudited condensed consolidated statements of cash flows for all periods that are presented.

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 and has not yet determined the impact of adoption.

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 plans to adopt ASU No. 2016-15 in the first quarter of 2018 using a retrospective transition method and has not yet determined the impact of adoption.

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

Goodwill impairment. In January 2017, the FASB issued ASU No. 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." Prior to the adoption of ASU No. 2017-04, an entity was required to perform a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, an entity compared the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeded its fair value, the entity performed Step 2 and compared the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeded the implied fair value of that goodwill would then be recorded. ASU No. 2017-04 removes the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value. ASU No. 2017-04 does not amend the optional qualitative assessment of goodwill impairment.

The Company plans to adopt ASU No. 2017-04 prospectively in the fourth quarter of 2017 and believes the impact of adoption will not be 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 and net periodic postretirement benefit cost 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 plans to adopt ASU No. 2017-07 in the first quarter of 2018 and has not yet determined the impact of adoption.

2 · Segment financial information

| (in thousands) | Electric utility | Bank | Other | Total |
|---|---|---|---|---|
| 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 June 30, 2017) | $ 6,071,155 | $6,610,877 | $11,773 | $12,693,805 |
| Three months ended June 30, 2016 | | | | |
| Revenues from external customers | $ 495,349 | $70,749 | $146 | $566,244 |
| Intersegment revenues (eliminations) | 46 | — | (46) | — |
| Revenues | $ 495,395 | $70,749 | $100 | $566,244 |
| Income (loss) before income taxes | $ 58,340 | $20,224 | $(7,653) | $70,911 |
| Income taxes (benefit) | 21,984 | 6,939 | (2,613) | 26,310 |
| Net income (loss) | 36,356 | 13,285 | (5,040) | 44,601 |
| Preferred stock dividends of subsidiaries | 499 | — | (26) | 473 |
| Net income (loss) for common stock | $ 35,857 | $13,285 | $(5,014) | $44,128 |
| Six months ended June 30, 2016 | | | | |
| Revenues from external customers | $ 977,394 | $139,589 | $221 | $1,117,204 |
| Intersegment revenues (eliminations) | 53 | — | (53) | — |
| Revenues | $ 977,447 | $139,589 | $168 | $1,117,204 |
| Income (loss) before income taxes | $ 98,759 | $39,818 | $(16,540) | $122,037 |
| Income taxes (benefit) | 36,537 | 13,860 | (5,786) | 44,611 |
| Net income (loss) | 62,222 | 25,958 | (10,754) | 77,426 |
| Preferred stock dividends of subsidiaries | 998 | — | (52) | 946 |
| Net income (loss) for common stock | $ 61,224 | $25,958 | $(10,702) | $76,480 |
| Total assets (at December 31, 2016) | $ 5,975,428 | $6,421,357 | $28,721 | $12,425,506 |

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.

3 · Electric utility segment

Revenue taxes. The Utilities' revenues include amounts for the recovery of various Hawaii state revenue taxes. Revenue taxes are generally recorded as an expense in the period the related revenues are recognized. However, the Utilities' revenue tax payments to the taxing authorities in the period are based on the prior year's billed revenues (in the case of public service company taxes and PUC fees) or on the current year's cash collections from electric sales (in the case of franchise taxes). The Utilities included in the second quarters of 2017 and 2016 and six months ended June 30, 2017 and 2016 approximately $50 million, $44 million, $96 million and $87 million, respectively, of revenue taxes in "revenues" and in "taxes, other than income taxes" expense, in the unaudited condensed consolidated statements of income.

Unconsolidated variable interest entities.

HECO Capital Trust III. HECO Capital Trust III (Trust III) was created and exists for the exclusive purposes of (i) issuing in March 2004 2,000,000 6.50% Cumulative Quarterly Income Preferred Securities, Series 2004 (2004 Trust Preferred Securities) ($50 million aggregate liquidation preference) to the public and trust common securities ($1.5 million aggregate liquidation preference) to Hawaiian Electric, (ii) investing the proceeds of these trust securities in 2004 Debentures issued by Hawaiian Electric in the principal amount of $31.5 million and issued by Hawaii Electric Light and Maui Electric each in the principal amount of $10 million, (iii) making distributions on these trust securities and (iv) engaging in only those other activities necessary or incidental thereto. The 2004 Trust Preferred Securities are mandatorily redeemable at the maturity of the underlying debt on March 18, 2034, which maturity may be extended to no later than March 18, 2053; and are currently redeemable at the issuer's option without premium. The 2004 Debentures, together with the obligations of the Utilities under an expense agreement and Hawaiian Electric's obligations under its trust guarantee and its guarantee of the obligations of Hawaii Electric Light and Maui Electric under their respective debentures, are the sole assets of Trust III. Taken together, Hawaiian Electric's obligations under the Hawaiian Electric debentures, the Hawaiian Electric indenture, the subsidiary guarantees, the trust agreement, the expense agreement and trust guarantee provide, in the aggregate, a full, irrevocable and unconditional guarantee of payments of amounts due on the Trust Preferred Securities. 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 absorb the majority of the variability of 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, 2017 and December 31, 2016 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, 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. As long as the 2004 Trust Preferred Securities are outstanding, Hawaiian Electric is not entitled to receive any funds from Trust III other than pro-rata distributions, subject to certain subordination provisions, on the trust common securities. In the event of a default by Hawaiian Electric in the performance of its obligations under the 2004 Debentures or under its Guarantees, or in the event any of the Utilities elect to defer payment of interest on any of their respective 2004 Debentures, then Hawaiian Electric will be subject to a number of restrictions, including a prohibition on the payment of dividends on its common stock.

Power purchase agreements. As of June 30, 2017, the Utilities had five power purchase agreements (PPAs) for firm capacity and other PPAs with independent power producers (IPPs) and Schedule Q providers (e.g., customers with cogeneration and/or power production facilities who buy power from or sell power to the Utilities), none of which are currently required to be consolidated as VIEs.

Some of the IPPs provided sufficient information for Hawaiian Electric to determine that the IPP was not a VIE, or was either a "business" or "governmental organization," and thus excluded from the scope of accounting standards for VIEs. Other IPPs declined to provide the information necessary for Hawaiian Electric to determine the applicability of accounting standards for VIEs. Since 2004, Hawaiian Electric has continued its efforts to obtain from the other IPPs the information necessary to make the determinations required under accounting standards for VIEs. In each year from 2005 to 2016, the Utilities sent letters to the identified IPPs requesting the required information. All of these IPPs declined to provide the necessary information, except that Kalaeloa Partners, L.P. (Kalaeloa) later agreed to provide the information pursuant to the amendments to its PPA (see below). During the negotiations of an amendment to the PPA with AES Hawaii, Inc. (AES Hawaii), management determined that Hawaiian Electric was not the primary beneficiary of AES Hawaii under the existing PPA and consolidation was not required (see below). Management has concluded that the consolidation of two entities owning wind farms was not required as Hawaii Electric Light and Maui Electric do not have variable interests in the entities because the PPAs do not require them to absorb any variability of the entities. If the requested information is ultimately received from the remaining IPPs, a possible outcome of future analyses of such information is the consolidation of one or more 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.
Pursuant to the current accounting standards for VIEs, Hawaiian Electric is deemed to have a variable interest in Kalaeloa and AES Hawaii by reason of the provisions of Hawaiian Electric's PPA with Kalaeloa and AES Hawaii, respectively. However, management has concluded that Hawaiian Electric is not the primary beneficiary of Kalaeloa or AES Hawaii because Hawaiian Electric does not have the power to direct the activities that most significantly impact Kalaeloa's and AES Hawaii's economic performance nor the obligation to absorb Kalaeloa's or AES Hawaii's expected losses, if any, that could potentially be significant to Kalaeloa or AES Hawaii. Thus, Hawaiian Electric has not consolidated Kalaeloa or AES Hawaii in its unaudited condensed consolidated financial statements.
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. As of June 30, 2017, purchases from all IPPs were as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| (in millions) | 2017 | 2016 | 2017 | 2016 |
| Kalaeloa | $48 | $36 | $88 | $65 |
| AES Hawaii | 35 | 36 | 64 | 74 |
| HPOWER | 16 | 17 | 33 | 33 |
| Puna Geothermal Venture | 10 | 5 | 18 | 12 |
| HEP | 10 | 4 | 17 | 15 |
| Other IPPs [1] | 34 | 41 | 60 | 56 |
| Total IPPs | $153 | $139 | $280 | $255 |

[1] Includes wind power, solar power, feed-in tariff projects and other PPAs.
Kalaeloa Partners, L.P. In October 1988, Hawaiian Electric entered into a PPA with Kalaeloa, subsequently approved by the PUC, which provided that Hawaiian Electric would purchase 180 megawatts (MW) of firm capacity for a period of 25 years beginning in May 1991. In October 2004, Hawaiian Electric and Kalaeloa entered into amendments to the PPA, subsequently approved by the PUC, which together effectively increased the firm capacity from 180 MW to 208 MW. The energy payments that Hawaiian Electric makes to Kalaeloa include: (1) a fuel component, with a fuel price adjustment based on the cost of low sulfur fuel oil, (2) a fuel additives cost component and (3) a non-fuel component, with an adjustment based on changes in the Gross National Product Implicit Price Deflator. The capacity payments that Hawaiian Electric makes to Kalaeloa are fixed in accordance with the PPA. Kalaeloa also has a steam delivery cogeneration contract with another customer, the term of which coincides with the PPA. The facility has been certified by the Federal Energy Regulatory Commission as a Qualifying Facility under the Public Utility Regulatory Policies Act of 1978.
Hawaiian Electric and Kalaeloa are in negotiations to address the PPA term that ended on May 23, 2016. On August 1, 2016, Hawaiian Electric and Kalaeloa entered into an agreement that neither party will give written notice of termination of the Kalaeloa PPA prior to October 31, 2017. The PPA automatically extends on a month-to-month basis as long as the parties are still negotiating in good faith. The month-to-month term extensions shall end 60 days after either party notifies the other in writing that negotiations have terminated.
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 an 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 continue.

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. Per the terms of the PPA, the Hu Honua plant was scheduled to be in service in 2016. However, Hu Honua encountered construction delays, failed to meet its obligations under the PPA and failed to provide adequate assurances that it could perform or had the financial means to perform. Hawaii Electric Light terminated the PPA on March 1, 2016. On November 30, 2016, Hu Honua filed a civil complaint in the United States District Court for the District of Hawaii that included claims purportedly arising out of the termination of Hu Honua’s PPA. On May 26, 2017, Hawaii Electric Light and Hu Honua entered into a settlement agreement that will settle all claims related to the termination of the original PPA. The settlement agreement was contingent on the PUC’s approval of an amended and restated PPA between Hawaii Electric Light and Hu Honua dated May 5, 2017. In July 2017, the PUC approved the amended and restated PPA. 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. The Utilities submitted their Enterprise Information System Roadmap to the PUC in June 2014 and refiled an application for an ERP/EAM Implementation Project in July 2014 with an estimated cost of $82.4 million. In 2015, the PUC denied the request of the Utilities to defer the costs of the ERP software purchased in 2012 and these costs were written off in the third quarter of 2015.

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 savings associated with the system over its 12-year service life. The decision and order (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, the Utilities are required to file a bottom-up, low-level analysis of the project’s benefits; performance metrics and tracking mechanism for passing the project’s benefits on to customers by September 2017; and monthly reports on the status and costs of the project.

On March 31, 2017, the Utilities filed their proposed methods of passing on to customers the estimated monetary savings attributable to the project. These proposed methods continue to be reviewed by the PUC and Consumer Advocate. The ERP/EAM Implementation Project is on schedule. The project is expected to go live by October 1, 2018. As of June 30, 2017, the Project incurred costs of $14.0 million of which $2.5 million were charged to other operation and maintenance (O&M) expense, $1.1 million relate to capital costs and $10.4 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 has 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 is expected to be placed in service in the second quarter of 2018. Project costs incurred as of June 30, 2017 amounted to $87.8 million. The project costs have been included for recovery in the 2017 test year rate case.

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 in conjunction with the Department of the Navy at a Navy/Air Force joint base. 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. Project costs incurred as of June 30, 2017 amounted to $0.4 million.

In approving the project, the PUC agreed the project is eligible for recovery of costs offset by related net benefits under the Major Project Interim Recovery (MPIR) guidelines (see "Decoupling" section below for MPIR guidelines). The PUC established a procedural schedule for Hawaiian Electric to provide supplemental materials to support meeting the MPIR guidelines for recovery of costs accompanied by system performance guarantee and cost savings sharing mechanisms and for the Consumer Advocate to review and comment on the information filed. This is first instance in which the PUC is considering a request for recovery pursuant to the MPIR Guidelines.

Hamakua Energy Partners, L.P. (HEP) Asset Purchase Agreement. Hawaii Electric Light has been purchasing up to 60 MW (net) of firm capacity from HEP under a PPA that expires on December 30, 2030. The HEP plant currently contributes about 23% of the island of Hawaii's generating capacity. In December 2015, Hawaii Electric Light entered into an agreement, subject to PUC approval, to acquire the assets of HEP for approximately $84.5 million. On May 4, 2017, the PUC denied Hawaii Electric Light's application for approval of the Asset Purchase Agreement (APA) on the grounds that customer benefits were not sufficiently demonstrated to justify the purchase and in July 2017, Hawaii Electric Light and HEP terminated the APA.

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 has initiated a dispute resolution process to collect the unpaid amounts from Hawaiian Telcom as specified by the joint pole agreement. 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. Maui Electric has not yet commenced any legal action to recover the delinquent amounts. As of June 30, 2017, total receivables under the joint pole agreement, including interest, from Hawaiian Telcom are $22.1 million ($14.8 million at Hawaiian Electric, $6.0 million at Hawaii Electric Light, and $1.3 million at Maui Electric). Management expects to prevail on these claims but has reserved for the accrued interest of $4.9 million on the receivables.

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 into the environment 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 $3.5 million as of June 30, 2017, representing the probable and reasonably estimated cost to complete the additional investigation and estimated cleanup costs at the Site and the Adjacent Parcel; however, final costs of remediation will depend on the results of continued investigation.

Pearl Harbor sediment study. In July 2014, the U.S. Navy notified Hawaiian Electric of the Navy's determination that Hawaiian Electric is a Potentially Responsible Party responsible for cleanup of PCB contamination in sediment in the area offshore of the Waiau Power Plant as part of the Pearl Harbor Superfund Site. The Navy has also requested that Hawaiian Electric reimburse the costs incurred by the Navy to investigate the area. The Navy has completed a remedial investigation and a feasibility study (FS) for the remediation of contaminated sediment at several locations in Pearl Harbor and issued its Final

FS Report on June 29, 2015. On February 2, 2016, the Navy released the Proposed Plan for Pearl Harbor Sediment Remediation and Hawaiian Electric submitted comments. The extent of the contamination, the appropriate remedial measures to address it and Hawaiian Electric’s potential responsibility for any associated costs have not been determined.

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

As of June 30, 2017, the reserve account balance recorded by Hawaiian Electric to address the PCB contamination was $4.9 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 results of the onshore investigation and assessment of potential source control requirements, as well as the further investigation of contaminated sediment offshore from the Waiau Power Plant.

Regulatory proceedings

April 2014 regulatory orders. In April 2014, the PUC issued four orders that collectively address certain key policy, resource planning and operational issues for the Utilities. The Utilities addressed these orders as follows:

Integrated Resource Planning. The PUC did not accept the Utilities’ Integrated Resource Plan and Action Plans submission, and, in lieu of an approved plan, has commenced other initiatives to enable resource planning. The PUC directed each of Hawaiian Electric and Maui Electric to file their respective Power Supply Improvement Plans (PSIPs), which they did in August 2014. The PUC also provided its inclinations on the future of Hawaii’s electric utilities in an exhibit to the order. The exhibit provides the PUC’s perspectives on the vision, business strategies and regulatory policy changes required to align the Utilities' business model with customers’ interests and the state’s public policy goals.

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

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

Policy Statement and Order Regarding Demand Response Programs. The PUC provided guidance concerning the objectives and goals for demand response programs, and ordered the Utilities to develop an integrated Demand Response (DR) Portfolio Plan that will enhance system operations and reduce costs to customers. The Utilities’ Plan was filed in July 2014. Subsequently, the Utilities submitted status updates and an update and supplemental report to the Plan. In July 2015, the PUC issued an order appointing a special adviser to guide, monitor and review the Utility’s Plan design and implementation. In December 2015, the Utilities filed applications with the PUC (1) for approval of their proposed DR Portfolio Tariff Structure, Reporting Schedule and Cost Recovery of Program Costs and (2) for approval to defer and recover certain computer software and software development costs for a DR Management System through the Renewable Energy Infrastructure Program (REIP) Surcharge. The Utilities filed an updated DR Portfolio Plan in February 2017. In May 2017, the Utilities filed their reply to the statements of position submitted by the other parties and are awaiting a PUC decision.

In the DR Management System proceeding, the parties filed statements of position in December 2016 and are awaiting a PUC decision.

Review of PSIPs. Collectively, the PUC's April 2014 resource planning orders confirm the energy policy and operational priorities that will guide the Utilities' strategies and plans going forward.

In August 2014, the Utilities filed proposed PSIPs with the PUC, as required by the PUC orders issued in April 2014. Updated PSIPs were filed in April 2016, pursuant to an order issued by the PUC in November 2015 which included the PUC’s observations and concerns, and comments provided by parties and participants. The Updated PSIPs provided plans to achieve 100% renewable energy using a diverse mix of energy resources by 2045. Under these plans, the Utilities support sustainable growth of private rooftop solar, expand use of energy storage systems, empower customers by developing smart grids and offer new products and services to customers (e.g., community solar, microgrids and voluntary "demand response" programs). In December 2016, the Utilities filed a PSIP Update Report as ordered by the PUC. The updated plans describe greater and faster expansion of the Utilities' renewable energy portfolio than in the plans filed in April 2016, and emphasize work that is in progress or planned over the next five years on each of the five islands the Utilities serve. The plans include the continued growth of private rooftop solar and describe the grid and generation modernization work needed to reliably integrate an estimated total of 165,000 private systems by 2030, more than double today's total of 79,000, and additional grid-scale renewable energy resources.

On July 14, 2017, the PUC accepted the Utilities' PSIP December 2016 Update Report and closed the proceeding. In its order, the PUC provided guidance regarding the implementation of the Utilities' near-term action plan and future planning activities, requiring the Utilities to file a report that details an updated resource planning approach and schedule by March 1, 2018. The PUC order stated that it intends to use the PSIPs in conjunction with its evaluation of specific filings for approval of capital and other projects.

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

On June 29, 2015, the Utilities submitted their final Statement of Position in the DER proceeding, which included:

(1) new pricing provisions for future private rooftop photovoltaic (PV) systems,
(2) technical standards for advanced inverters,
(3) new options for customers including battery-equipped private rooftop PV systems,
(4) a pilot time-of-use rate,
(5) an improved method of calculating the amount of private rooftop PV that can be safely installed, and
(6) a streamlined and standardized PV application process.

On October 12, 2015, the PUC issued a D&O establishing DER reforms that: (1) promote rapid adoption of the next generation of solar PV and other distributed energy technologies; (2) encourage more competitive pricing of distributed energy resource systems; (3) lower overall energy supply costs for all customers; and (4) help to manage DER in terms of each island's limited grid capacity.

The D&O capped the Utilities Net Energy Metering (NEM) programs at "existing" levels (i.e., for existing NEM customers and customers who already applied and were waiting for approval), closed their NEM programs to new participants, and approved new options for customers to interconnect DER to their electric grids, including Self Supply and Grid Supply tariff options. The PUC placed caps on the availability of the Grid Supply program. The Self Supply Program is designed for customers who do not export to the grid.

In June 2016, the PUC approved the Utilities Advanced Inverter Test Plan and the Utilities submitted the results of the testing to the PUC.

Pursuant to a PUC order, in October 2016, the Utilities submitted tariffs for a Residential Interim Time of Use program, which is limited to 2 years and 5,000 customers. The primary objective is to encourage more efficient use of the electric system and enable more cost-effective integration of renewable energy by shifting customer load from the system's higher cost, peak demand period to the mid-day period when relatively inexpensive renewable resources are abundant.

The DER Phase 2 of this proceeding is focused on further developing competitive markets for distributed energy resources, including storage. On December 9, 2016, the PUC issued an order, establishing the statement of issues and procedural schedule to govern Phase 2 of this proceeding. Technical track issues, including DER integration analyses and revisions to interconnection standards, will be addressed before the end of 2017. More complex market issues will be addressed in late 2018.

Pursuant to PUC order, in January and February 2017, the Utilities and various DER parties submitted tariff proposals and stipulations to modify existing interim DER option and proposals, and interconnection standards to facilitate or enable interim DER options, as well as provided comments and reply comments on such tariff proposals.

In May 2017, the PUC issued a D&O that approved the parties' stipulations filed in January and February 2017. This D&O also instructed the development of smart export proposals and Customer Self-Supply revisions, directed working groups to collaborate to discuss Phase 2 issues, and modified the procedural schedule. In compliance with the D&O, the Utilities are meeting regularly with the DER parties in various working groups, and preparing for the next upcoming filing on technical track issues on August 7, 2017.

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 delinks revenues from sales and includes annual rate adjustments. The decoupling mechanism has three components: (1) a sales decoupling component via a revenue balancing account (RBA), (2) a revenue escalation component via a rate adjustment mechanism (RAM) and (3) 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. Decoupling provides for more timely cost recovery and earning on investments.

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 (current accrual method). 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.

2015 decoupling order. 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. The triennial rate case cycle required under the decoupling mechanism continues to serve as the maximum period between the filing of general rate cases.

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

- Hawaiian Electric's RAM revenues were limited to the RAM Cap in 2015, 2016 and 2017.
- Maui Electric's RAM revenues were limited to the RAM Cap in 2015 and 2016; however, the 2017 RAM revenues were below the RAM Cap.
- Hawaii Electric Light's RAM revenues were below the RAM Cap in 2015, 2016 and 2017.

2017 decoupling order. On April 27, 2017, the PUC issued an Order (the 2017 Decoupling Order) that requires the establishment of specific performance incentive mechanisms and provides guidelines for interim recovery of revenues to support major projects placed in service between general rate cases.

On May 30, 2017, the Utilities filed their proposed initial tariffs to implement conventional stand-alone performance incentive mechanisms. The performance incentive mechanisms to be established are:

- Service reliability performance standards to include: 1) System Average Interruption Duration Index based on the average customer interruption time and 2) System Average Interruption Frequency Index based on the average number of customer interruptions. Target performance for each is based on each utilities' historical 10 year average performance with a dead band of one standard deviation. The maximum penalty for each is 20 basis points applied to the common equity share of the rate base approved in the last rate case for each company. However, the maximum penalty for the initial implementation of the approved PIMs would be the 20 basis points applied to the common equity share of rate base used to determine the 2016 RAM Revenue Adjustment (or approximately $3 million for each of the standards in total for the three utilities). The maximum penalty will be updated upon issuance of an interim or final order in a rate case for each company and will remain constant in interim periods. These performance standards have penalties only.
- Call Center Performance based on utility call center 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 dead band of 3% above and below the target. The maximum penalty or incentive is 8 basis points applied to the common equity share of the rate base approved in the last rate case for each company, except for the initial implementation which will be 8 basis points applied to the common equity share of rate base used to determine the 2016 RAM Revenue Adjustment (or approximately $1.2 million penalty or incentive in total for the three utilities).

The 2017 Decoupling Order also established guidelines for MPIR. 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 net costs of approved 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 shall 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.

In the 2017 Decoupling Order, the PUC indicated that in pending and subsequent rate cases, the PUC intends to require all fuel expenses and purchased energy expenses be recovered through an appropriately modified energy cost adjustment mechanism rather than through base rates, and will consider adopting processes to periodically reset fuel efficiency measures embedded in the energy cost adjustment mechanism to account for changes in the generating system.

Annual decoupling filings. On March 31, 2017, the Utilities submitted to the PUC, their annual decoupling filings for tariffed rates that will be effective from June 1, 2017, through May 31, 2018. On May 22, 2017, Maui Electric amended its annual decoupling filing to update and revise certain cost information. The net annual incremental amounts proposed to be collected (refunded), as revised for Maui Electric, were as follows:

| ($ in millions) | Hawaiian Electric | Hawaii Electric Light | Maui Electric |
|---|---|---|---|
| 2017 Annual incremental RAM adjusted revenues | $ 12.7 | $ 3.2 | $ 1.6 |
| Annual change in accrued earnings sharing credits | $ — | $ — | $ — |
| Annual change in accrued RBA balance as of December 31, 2016 (and associated revenue taxes) (refunded) | $ (2.4 ) | $ (2.5 ) | $ (0.2 ) |
| Net annual incremental amount to be collected under the tariffs | $ 10.3 | $ 0.7 | $ 1.4 |
| Impact on typical residential customer monthly bill (in dollars) * | $ 0.60 | $ 0.15 | $ 0.79 |

* Based on a 500 kilowatthour (KWH) bill for Hawaiian Electric, Maui Electric, and Hawaii Electric Light. The bill impact for Lanai and Molokai customers is expected to be an increase of $0.63, based on a 400 KWH bill.

On May 31, 2017, the PUC approved the annual decoupling filings for Hawaiian Electric and Hawaii Electric Light, and as amended on May 22, 2017, for Maui Electric, which went into effect on June 1, 2017.

Hawaiian Electric consolidated 2014 test year abbreviated and 2017 test year rate cases. On December 23, 2016, the PUC issued an order consolidating the Hawaiian Electric filings for the 2014 test year abbreviated rate case and the 2017 test year rate case. The order also found and concluded that Hawaiian Electric's abbreviated 2014 rate case filing did not comply with: (1) the Mandatory Triennial Rate Case Cycle requirement in the decoupling order that Hawaiian Electric file an application for a general rate case every three years and (2) the requirement that Hawaiian Electric file its 2014 calendar test year rate case application by June 27, 2014. The order then stated that: “[T]he determination and disposition of any rates, accounts, adjustment mechanisms, and practices that would have been subject to review in the context of a 2014 test year rate case proceeding are subject to appropriate adjustment based on evidence and findings in the consolidated rate case proceeding.”

On January 4, 2017, Hawaiian Electric filed a motion for clarification and/or partial reconsideration of the PUC’s order. On March 14, 2017, the PUC issued an order to address Hawaiian Electric’s motion, stating that the PUC is not initiating an investigation/enforcement proceeding against Hawaiian Electric regarding its compliance with the decoupling order, and the transfer and consolidation of Hawaiian Electric’s 2014 abbreviated rate case with the 2017 rate case is intended to ensure that ratepayers receive the attendant benefits of Hawaiian Electric’s decision to voluntarily forgo a general rate increase in base rates for its mandated 2014 test year. As directed, on April 12, 2017, Hawaiian Electric filed a supplement to its 2017 rate case filing, addressing the items raised in the order and explaining why Hawaiian Electric’s forgoing of a general rate increase in the 2014 test year should not result in any further adjustments to Hawaiian Electric’s revenue requirement in the 2017 test year.

On April 26, 2017, the PUC issued an Order regarding the supplement to Hawaiian Electric’s 2017 rate case filing, requesting updated pension and OPEB regulatory asset and liability schedules, by May 12, 2017, to reflect the use of the 2014 net periodic pension cost (NPPC) and net periodic benefits costs (NPBC) for the pension and OPEB tracking mechanisms and with amortization of such regulatory assets and liabilities beginning May 1, 2015. On May 12, 2017, Hawaiian Electric filed these schedules and on May 31, 2017, supplemented its May 12, 2017 filing to show the cumulative impact of the 2015-2017 change in employee benefits transferred to capital as a result of the change in the amortization of the pension and OPEB regulatory assets and liabilities.

On June 28, 2017, the PUC issued an order designating the filing date of Hawaiian Electric’s completed rate case application to be May 31, 2017, rather than December 16, 2016, the date of the filing of Hawaiian Electric’s rate case

application. The revised date of the completed application coincided with the date that Hawaiian Electric filed supplemental pension-related information described above. On July 28, 2017, the PUC issued a procedural schedule with an interim D&O tentatively scheduled for December 15, 2017, and an evidentiary hearing in early March 2018.
Condensed consolidating financial information. Hawaiian Electric is not required to provide separate financial statements or other disclosures concerning Hawaii Electric Light and Maui Electric to holders of the 2004 Debentures issued by Hawaii Electric Light and Maui Electric to Trust III since all of their voting capital stock is owned, and their obligations with respect to these

securities have been fully and unconditionally guaranteed, on a subordinated basis, by Hawaiian Electric. Consolidating information is provided below for Hawaiian Electric and each of its subsidiaries for the periods ended and as of the dates indicated.

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

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Income (unaudited)
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 | 70,961 | 17,558 | 17,855 | — | — | 106,374 |
| Depreciation | 32,723 | 9,686 | 5,747 | — | — | 48,156 |
| Taxes, other than income taxes | 37,619 | 7,702 | 7,651 | — | — | 52,972 |
| Total expenses | 357,575 | 72,903 | 71,350 | — | — | 501,828 |
| Operating income | 36,839 | 8,807 | 9,415 | — | (14) | 55,047 |
| Allowance for equity funds used during construction | 2,659 | 134 | 234 | — | — | 3,027 |
| Equity in earnings of subsidiaries | 7,936 | — | — | — | (7,936) | — |
| 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 (unaudited)
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: | | | | | | |
| Derivatives qualified as cash flow hedges: | | | | | | |
| Reclassification adjustment to net income, net of tax benefits | — | — | — | — | — | — |
| 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 (loss), net of taxes | 40 | 1 | 1 | — | (2) | 40 |
| Comprehensive income attributable to common shareholder | $25,684 | 3,633 | 4,305 | — | (7,938) | $ 25,684 |

23

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Income (unaudited)
Three months ended June 30, 2016

| (in thousands) | Hawaiian Electric | Hawaii Electric Light | Maui Electric | Other subsidiaries | Consolidating adjustments | Hawaiian Electric Consolidated |
|---|---|---|---|---|---|---|
| Revenues | $347,010 | 73,652 | 74,758 | — | (25) | $ 495,395 |
| Expenses | | | | | | |
| Fuel oil | 62,234 | 11,748 | 17,917 | — | — | 91,899 |
| Purchased power | 103,062 | 19,360 | 16,636 | — | — | 139,058 |
| Other operation and maintenance | 68,197 | 15,116 | 16,250 | — | — | 99,563 |
| Depreciation | 31,522 | 9,449 | 5,789 | — | — | 46,760 |
| Taxes, other than income taxes | 33,414 | 6,905 | 7,110 | — | — | 47,429 |
| Total expenses | 298,429 | 62,578 | 63,702 | — | — | 424,709 |
| Operating income | 48,581 | 11,074 | 11,056 | — | (25) | 70,686 |
| Allowance for equity funds used during construction | 1,559 | 206 | 232 | — | — | 1,997 |
| Equity in earnings of subsidiaries | 10,883 | — | — | — | (10,883) | — |
| Interest expense and other charges, net | (10,345) | (2,669) | (2,114) | — | 25 | (15,103) |
| Allowance for borrowed funds used during construction | 587 | 79 | 94 | — | — | 760 |
| Income before income taxes | 51,265 | 8,690 | 9,268 | — | (10,883) | 58,340 |
| Income taxes | 15,138 | 3,337 | 3,509 | — | — | 21,984 |
| Net income | 36,127 | 5,353 | 5,759 | — | (10,883) | 36,356 |
| Preferred stock dividends of subsidiaries | — | 133 | 96 | — | — | 229 |
| Net income attributable to Hawaiian Electric | 36,127 | 5,220 | 5,663 | — | (10,883) | 36,127 |
| Preferred stock dividends of Hawaiian Electric | 270 | — | — | — | — | 270 |
| Net income for common stock | $35,857 | 5,220 | 5,663 | — | (10,883) | $ 35,857 |

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income (unaudited)
Three months ended June 30, 2016

| (in thousands) | Hawaiian Electric | Hawaii Electric Light | Maui Electric | Other subsidiaries | Consolidating adjustments | Hawaiian Electric Consolidated |
|---|---|---|---|---|---|---|
| Net income for common stock | $35,857 | 5,220 | 5,663 | — | (10,883) | $ 35,857 |
| Other comprehensive income (loss), net of taxes: | | | | | | |
| Derivatives qualified as cash flow hedges: | | | | | | |
| Effective portion of foreign currency hedge net unrealized loss, net of tax benefits | (745) | — | — | — | — | (745) |
| 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 | 3,391 | 401 | 357 | — | (758) | 3,391 |
| Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes | (3,401) | (402) | (359) | — | 761 | (3,401) |
| Other comprehensive income (loss), net of taxes | (755) | (1) | (2) | — | 3 | (755) |
| | $35,102 | 5,219 | 5,661 | — | (10,880) | $ 35,102 |

Comprehensive income attributable to common shareholder

24

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Income (unaudited)
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 | 138,239 | 33,074 | 35,301 | — | — | 206,614 |
| Depreciation | 65,445 | 19,371 | 11,556 | — | — | 96,372 |
| Taxes, other than income taxes | 72,659 | 15,152 | 14,984 | — | — | 102,795 |
| Total expenses | 690,763 | 141,400 | 139,338 | — | — | 971,501 |
| Operating income | 66,494 | 19,292 | 18,220 | — | (21) | 103,985 |
| Allowance for equity funds used during construction | 4,715 | 249 | 462 | — | — | 5,426 |
| Equity in earnings of subsidiaries | 16,539 | — | — | — | (16,539) | — |
| 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 (unaudited)
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 tax benefits | 454 | — | — | — | — | 454 |
| Retirement benefit plans: | | | | | | |
| Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits | 7,239 | 952 | 810 | — | (1,762) | 7,239 |
| Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes | (7,194) | (951) | (810) | — | 1,761 | (7,194) |
| Other comprehensive income (loss), net of taxes | 499 | 1 | — | — | (1) | 499 |
| Comprehensive income attributable to common shareholder | $47,608 | 8,217 | 8,323 | — | (16,540) | $ 47,608 |

25

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Income (unaudited)
Six months ended June 30, 2016

| (in thousands) | Hawaiian Electric | Hawaii Electric Light | Maui Electric | Other subsidiaries | Consolidating adjustments | Hawaiian Electric Consolidated |
|---|---|---|---|---|---|---|
| Revenues | $684,185 | 146,835 | 146,464 | — | (37) | $ 977,447 |
| Expenses | | | | | | |
| Fuel oil | 136,319 | 26,122 | 43,198 | — | — | 205,639 |
| Purchased power | 194,979 | 36,157 | 23,781 | — | — | 254,917 |
| Other operation and maintenance | 137,755 | 31,557 | 34,159 | — | — | 203,471 |
| Depreciation | 63,044 | 18,898 | 11,599 | — | — | 93,541 |
| Taxes, other than income taxes | 66,098 | 13,796 | 13,973 | — | — | 93,867 |
| Total expenses | 598,195 | 126,530 | 126,710 | — | — | 851,435 |
| Operating income | 85,990 | 20,305 | 19,754 | — | (37) | 126,012 |
| Allowance for equity funds used during construction | 2,965 | 333 | 438 | — | — | 3,736 |
| Equity in earnings of subsidiaries | 18,812 | — | — | — | (18,812) | — |
| Interest expense and other charges, net | (22,210) | (5,634) | (4,604) | — | 37 | (32,411) |
| Allowance for borrowed funds used during construction | 1,116 | 128 | 178 | — | — | 1,422 |
| Income before income taxes | 86,673 | 15,132 | 15,766 | — | (18,812) | 98,759 |
| Income taxes | 24,909 | 5,683 | 5,945 | — | — | 36,537 |
| Net income | 61,764 | 9,449 | 9,821 | — | (18,812) | 62,222 |
| Preferred stock dividends of subsidiaries | — | 267 | 191 | — | — | 458 |
| Net income attributable to Hawaiian Electric | 61,764 | 9,182 | 9,630 | — | (18,812) | 61,764 |
| Preferred stock dividends of Hawaiian Electric | 540 | — | — | — | — | 540 |
| Net income for common stock | $61,224 | 9,182 | 9,630 | — | (18,812) | $ 61,224 |

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Comprehensive Income (unaudited)
Six months ended June 30, 2016

| (in thousands) | Hawaiian Electric | Hawaii Electric Light | Maui Electric | Other subsidiaries | Consolidating adjustments | Hawaiian Electric Consolidated |
|---|---|---|---|---|---|---|
| Net income for common stock | $61,224 | 9,182 | 9,630 | — | (18,812) | $ 61,224 |
| Other comprehensive income, net of taxes: | | | | | | |
| Derivatives qualifying as cash flow hedges: | | | | | | |
| Effective portion of foreign currency hedge net unrealized gain, net of taxes | 257 | — | — | — | — | 257 |
| 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 | 6,627 | 859 | 775 | — | (1,634) | 6,627 |
| Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes | (6,623) | (860) | (777) | — | 1,637 | (6,623) |
| Other comprehensive income, net of taxes | 261 | (1) | (2) | — | 3 | 261 |
| Comprehensive income attributable to common shareholder | $61,485 | 9,181 | 9,628 | — | (18,809) | $ 61,485 |

26

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Balance Sheet (unaudited)
June 30, 2017

| (in thousands) | Hawaiian Electric | Hawaii Electric Light | Maui Electric | Other subsidiaries | Consoli-dating adjustments | Hawaiian Electric Consolidated |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Property, plant and equipment | | | | | | |
| Utility property, plant and equipment | | | | | | |
| Land | $43,971 | 6,191 | 3,016 | — | — | $53,178 |
| Plant and equipment | 4,318,460 | 1,267,529 | 1,125,429 | — | — | 6,711,418 |
| Less accumulated depreciation | (1,423,042 ) | (518,266 ) | (488,789 ) | — | — | (2,430,097 ) |
| Construction in progress | 232,965 | 16,734 | 22,739 | — | — | 272,438 |
| Utility property, plant and equipment, net | 3,172,354 | 772,188 | 662,395 | — | — | 4,606,937 |
| Nonutility property, plant and equipment, less accumulated depreciation | 5,763 | 115 | 1,532 | — | — | 7,410 |
| Total property, plant and equipment, net | 3,178,117 | 772,303 | 663,927 | — | — | 4,614,347 |
| Investment in wholly owned subsidiaries, at equity | 553,764 | — | — | — | (553,764 ) | — |
| Current assets | | | | | | |
| Cash and cash equivalents | 29,988 | 7,104 | 5,389 | 101 | — | 42,582 |
| Advances to affiliates | — | 4,100 | 1,000 | — | (5,100 ) | — |
| Customer accounts receivable, net | 88,614 | 18,847 | 18,700 | — | — | 126,161 |
| Accrued unbilled revenues, net | 74,640 | 14,166 | 14,790 | — | — | 103,596 |
| Other accounts receivable, net | 9,707 | 2,471 | 1,042 | — | (9,536 ) | 3,684 |
| Fuel oil stock, at average cost | 51,489 | 8,135 | 12,768 | — | — | 72,392 |
| Materials and supplies, at average cost | 30,716 | 8,852 | 17,531 | — | — | 57,099 |
| Prepayments and other | 25,695 | 7,294 | 3,602 | — | (251 ) | 36,340 |
| Regulatory assets | 65,891 | 3,981 | 4,295 | — | — | 74,167 |
| Total current assets | 376,740 | 74,950 | 79,117 | 101 | (14,887 ) | 516,021 |
| Other long-term assets | | | | | | |
| Regulatory assets | 638,480 | 119,108 | 106,522 | — | — | 864,110 |
| Unamortized debt expense | 497 | 84 | 109 | — | — | 690 |
| Other | 48,164 | 13,778 | 14,045 | — | — | 75,987 |
| Total other long-term assets | 687,141 | 132,970 | 120,676 | — | — | 940,787 |
| Total assets | $4,795,762 | 980,223 | 863,720 | 101 | (568,651 ) | $6,071,155 |
| Capitalization and liabilities | | | | | | |
| Capitalization | | | | | | |
| Common stock equity | $1,803,506 | 291,760 | 261,903 | 101 | (553,764 ) | $1,803,506 |
| Cumulative preferred stock—not subject to mandatory redemption | 22,293 | 7,000 | 5,000 | — | — | 34,293 |
| Long-term debt, net | 915,208 | 213,677 | 189,960 | — | — | 1,318,845 |
| Total capitalization | 2,741,007 | 512,437 | 456,863 | 101 | (553,764 ) | 3,156,644 |
| Current liabilities | | | | | | |
| Short-term borrowings from non-affiliates | 43,990 | — | — | — | — | 43,990 |
| Short-term borrowings from affiliate | 5,100 | — | — | — | (5,100 ) | — |
| Accounts payable | 123,986 | 19,796 | 18,593 | — | — | 162,375 |
| Interest and preferred dividends payable | 13,584 | 3,806 | 2,113 | — | (6 ) | 19,497 |
| Taxes accrued | 98,156 | 23,394 | 20,964 | — | (251 ) | 142,263 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Regulatory liabilities | 126 | 713 | 2,044 | — | — | 2,883 |
| Other | 38,964 | 8,920 | 14,786 | — | (9,530 ) | 53,140 |
| Total current liabilities | 323,906 | 56,629 | 58,500 | — | (14,887 ) | 424,148 |
| Deferred credits and other liabilities | | | | | | |
| Deferred income taxes | 542,109 | 111,616 | 106,023 | — | 224 | 759,972 |
| Regulatory liabilities | 297,006 | 98,844 | 32,897 | — | — | 428,747 |
| Unamortized tax credits | 59,537 | 16,246 | 15,603 | — | — | 91,386 |
| Defined benefit pension and other postretirement benefit plans liability | 435,614 | 73,246 | 78,858 | — | — | 587,718 |
| Other | 49,798 | 13,803 | 15,959 | — | (224 ) | 79,336 |
| Total deferred credits and other liabilities | 1,384,064 | 313,755 | 249,340 | — | — | 1,947,159 |
| Contributions in aid of construction | 346,785 | 97,402 | 99,017 | — | — | 543,204 |
| Total capitalization and liabilities | $4,795,762 | 980,223 | 863,720 | 101 | (568,651 ) | $6,071,155 |

27

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Balance Sheet (unaudited)
December 31, 2016

| (in thousands) | Hawaiian Electric | Hawaii Electric Light | Maui Electric | Other subsidiaries | Consoli-dating adjustments | Hawaiian Electric Consolidated |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Property, plant and equipment | | | | | | |
| Utility property, plant and equipment | | | | | | |
| Land | $43,956 | 6,181 | 3,016 | — | — | $53,153 |
| Plant and equipment | 4,241,060 | 1,255,185 | 1,109,487 | — | — | 6,605,732 |
| Less accumulated depreciation | (1,382,972) | (507,666) | (478,644) | — | — | (2,369,282) |
| Construction in progress | 180,194 | 12,510 | 19,038 | — | — | 211,742 |
| Utility property, plant and equipment, net | 3,082,238 | 766,210 | 652,897 | — | — | 4,501,345 |
| Nonutility property, plant and equipment, less accumulated depreciation | 5,760 | 115 | 1,532 | — | — | 7,407 |
| Total property, plant and equipment, net | 3,087,998 | 766,325 | 654,429 | — | — | 4,508,752 |
| Investment in wholly owned subsidiaries, at equity | 550,946 | — | — | — | (550,946) | — |
| Current assets | | | | | | |
| Cash and cash equivalents | 61,388 | 10,749 | 2,048 | 101 | — | 74,286 |
| Advances to affiliates | — | 3,500 | 10,000 | — | (13,500) | — |
| Customer accounts receivable, net | 86,373 | 20,055 | 17,260 | — | — | 123,688 |
| Accrued unbilled revenues, net | 65,821 | 13,564 | 12,308 | — | — | 91,693 |
| Other accounts receivable, net | 7,652 | 2,445 | 1,416 | — | (6,280) | 5,233 |
| Fuel oil stock, at average cost | 47,239 | 8,229 | 10,962 | — | — | 66,430 |
| Materials and supplies, at average cost | 29,928 | 7,380 | 16,371 | — | — | 53,679 |
| Prepayments and other | 16,502 | 5,352 | 2,179 | — | (933) | 23,100 |
| Regulatory assets | 60,185 | 3,483 | 2,364 | — | — | 66,032 |
| Total current assets | 375,088 | 74,757 | 74,908 | 101 | (20,713) | 504,141 |
| Other long-term assets | | | | | | |
| Regulatory assets | 662,232 | 120,863 | 108,324 | — | — | 891,419 |
| Unamortized debt expense | 151 | 23 | 34 | — | — | 208 |
| Other | 43,743 | 13,573 | 13,592 | — | — | 70,908 |
| Total other long-term assets | 706,126 | 134,459 | 121,950 | — | — | 962,535 |
| Total assets | $4,720,158 | 975,541 | 851,287 | 101 | (571,659) | $5,975,428 |
| Capitalization and liabilities | | | | | | |
| Capitalization | | | | | | |
| Common stock equity | $1,799,787 | 291,291 | 259,554 | 101 | (550,946) | $1,799,787 |
| Cumulative preferred stock—not subject to mandatory redemption | 22,293 | 7,000 | 5,000 | — | — | 34,293 |
| Long-term debt, net | 915,437 | 213,703 | 190,120 | — | — | 1,319,260 |
| Total capitalization | 2,737,517 | 511,994 | 454,674 | 101 | (550,946) | 3,153,340 |
| Current liabilities | | | | | | |
| Short-term borrowings from affiliate | 13,500 | — | — | — | (13,500) | — |
| Accounts payable | 86,369 | 18,126 | 13,319 | — | — | 117,814 |
| Interest and preferred dividends payable | 15,761 | 4,206 | 2,882 | — | (11) | 22,838 |
| Taxes accrued | 120,176 | 28,100 | 25,387 | — | (933) | 172,730 |
| Regulatory liabilities | — | 2,219 | 1,543 | — | — | 3,762 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other | 41,352 | 7,637 | 12,501 | — | (6,269 ) | 55,221 |
| Total current liabilities | 277,158 | 60,288 | 55,632 | — | (20,713 ) | 372,365 |
| Deferred credits and other liabilities | | | | | | |
| Deferred income taxes | 524,433 | 108,052 | 100,911 | — | 263 | 733,659 |
| Regulatory liabilities | 281,112 | 93,974 | 31,845 | — | — | 406,931 |
| Unamortized tax credits | 57,844 | 15,994 | 15,123 | — | — | 88,961 |
| Defined benefit pension and other postretirement benefit plans liability | 444,458 | 75,005 | 80,263 | — | — | 599,726 |
| Other | 49,191 | 13,024 | 14,969 | — | (263 ) | 76,921 |
| Total deferred credits and other liabilities | 1,357,038 | 306,049 | 243,111 | — | — | 1,906,198 |
| Contributions in aid of construction | 348,445 | 97,210 | 97,870 | — | — | 543,525 |
| Total capitalization and liabilities | $4,720,158 | 975,541 | 851,287 | 101 | (571,659 ) | $5,975,428 |

28

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

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

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Changes in Common Stock Equity (unaudited)
Six months ended June 30, 2016

| (in thousands) | Hawaiian Electric | Hawaii Electric Light | Maui Electric | Other subsidiaries | Consolidating adjustments | Hawaiian Electric Consolidated |
|---|---|---|---|---|---|---|
| Balance, December 31, 2015 | $1,728,325 | 292,702 | 263,725 | 101 | (556,528) | $1,728,325 |
| Net income for common stock | 61,224 | 9,182 | 9,630 | — | (18,812) | 61,224 |
| Other comprehensive income (loss), net of taxes | 261 | (1) | (2) | — | 3 | 261 |
| Common stock dividends | (46,800) | (6,604) | (6,530) | — | 13,134 | (46,800) |
| Common stock issuance expenses | (4) | (4) | — | — | 4 | (4) |
| Balance, June 30, 2016 | $1,743,006 | 295,275 | 266,823 | 101 | (562,199) | $1,743,006 |

29

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Cash Flows (unaudited)
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 | 39,954 | 3,291 | 8,392 | — | — | 51,637 |
| 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 | 114,158 | 27,582 | 23,161 | — | (14,225) | 150,676 |
| Cash flows from investing activities | | | | | | |
| Capital expenditures | (153,554) | (24,744) | (23,782) | — | — | (202,080) |
| Contributions in aid of construction | 14,078 | 1,870 | 1,623 | — | — | 17,571 |
| Other | 4,820 | 619 | 307 | — | 504 | 6,250 |
| Advances from affiliates | — | (600) | 9,000 | — | (8,400) | — |
| Net cash used in investing activities | (134,656) | (22,855) | (12,852) | — | (7,896) | (178,259) |
| Cash flows from financing activities | | | | | | |
| Common stock dividends | (43,884) | (7,748) | (5,973) | — | 13,721 | (43,884) |
| Preferred stock dividends of Hawaiian Electric and subsidiaries | (540) | (267) | (191) | — | — | (998) |
| Proceeds from issuance of special purpose revenue bonds | 162,000 | 28,000 | 75,000 | — | | 265,000 |
| Funds transferred for redemption of special purpose revenue bonds | (162,000) | (28,000) | (75,000) | — | — | (265,000) |
| Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less | 35,590 | — | — | — | 8,400 | 43,990 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other | (2,068 ) | (357 ) | (804 ) | — | — | (3,229 ) |
| Net cash used in financing activities | (10,902 ) | (8,372 ) | (6,968 ) | — | 22,121 | (4,121 ) |
| Net increase (decrease) in cash and cash equivalents | (31,400 ) | (3,645 ) | 3,341 | — | — | (31,704 ) |
| Cash and cash equivalents, beginning of period | 61,388 | 10,749 | 2,048 | 101 | — | 74,286 |
| Cash and cash equivalents, end of period | $29,988 | 7,104 | 5,389 | 101 | — | $ 42,582 |

Hawaiian Electric Company, Inc. and Subsidiaries
Condensed Consolidating Statement of Cash Flows (unaudited)
Six months ended June 30, 2016

| (in thousands) | Hawaiian Electric | Hawaii Electric Light | Maui Electric | Other subsidiaries | Consolidating adjustments | Hawaiian Electric Consolidated |
|---|---|---|---|---|---|---|
| Cash flows from operating activities | | | | | | |
| Net income | $61,764 | 9,449 | 9,821 | — | (18,812) | $ 62,222 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | |
| Equity in earnings of subsidiaries | (18,862) | — | — | — | 18,812 | (50) |
| Common stock dividends received from subsidiaries | 13,184 | — | — | — | (13,134) | 50 |
| Depreciation of property, plant and equipment | 63,044 | 18,898 | 11,599 | — | — | 93,541 |
| Other amortization | 1,919 | 911 | 963 | — | — | 3,793 |
| Deferred income taxes | 23,954 | 2,538 | 5,623 | — | 3 | 32,118 |
| Allowance for equity funds used during construction | (2,965) | (333) | (438) | — | — | (3,736) |
| Other | 1,383 | 1,611 | (12) | — | — | 2,982 |
| Changes in assets and liabilities: | | | | | | |
| Decrease in accounts receivable | 14,177 | 2,007 | 729 | — | (231) | 16,682 |
| Decrease (increase) in accrued unbilled revenues | (2,941) | 634 | (908) | — | — | (3,215) |
| Decrease in fuel oil stock | 6,015 | 924 | 2,705 | — | — | 9,644 |
| Increase in materials and supplies | (1,748) | (708) | (26) | — | — | (2,482) |
| Decrease (increase) in regulatory assets | (3,974) | 2,138 | 1,159 | — | — | (677) |
| Increase in accounts payable | 17,150 | 208 | 6,069 | — | — | 23,427 |
| Change in prepaid and accrued income taxes, tax credits and revenue taxes | (21,371) | (192) | (6,626) | — | (3) | (28,192) |
| Increase (decrease) in defined benefit pension and other postretirement benefit plans liability | 299 | 27 | (89) | — | — | 237 |
| Change in other assets and liabilities | (11,803) | 11 | (659) | — | 231 | (12,220) |
| Net cash provided by operating activities | 139,225 | 38,123 | 29,910 | — | (13,134) | 194,124 |
| Cash flows from investing activities | | | | | | |
| Capital expenditures | (152,283) | (27,436) | (17,613) | — | — | (197,332) |
| Contributions in aid of construction | 12,824 | 1,605 | 2,381 | — | — | 16,810 |
| Other | 132 | 169 | 30 | — | — | 331 |
| Advances from affiliates | — | (3,000) | (11,000) | — | 14,000 | — |
| Net cash used in investing activities | (139,327) | (28,662) | (26,202) | — | 14,000 | (180,191) |
| Cash flows from financing activities | | | | | | |
| Common stock dividends | (46,800) | (6,604) | (6,530) | — | 13,134 | (46,800) |
| Preferred stock dividends of Hawaiian Electric and subsidiaries | (540) | (267) | (191) | — | — | (998) |
| Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less | 50,995 | — | — | — | (14,000) | 36,995 |
| Other | 8 | (8) | — | — | — | — |
| Net cash provided by (used in) financing activities | 3,663 | (6,879) | (6,721) | — | (866) | (10,803) |
| Net increase (decrease) in cash and cash equivalents | 3,561 | 2,582 | (3,013) | — | — | 3,130 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cash and cash equivalents, beginning of period | 16,281 | 2,682 | 5,385 | 101 | — | 24,449 |
| Cash and cash equivalents, end of period | $19,842 | 5,264 | 2,372 | 101 | — | $ 27,579 |

4 · Bank segment
Selected financial information
American Savings Bank, F.S.B.
Statements of Income Data (unaudited)

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| (in thousands) | 2017 | 2016 | 2017 | 2016 |
| Interest and dividend income | | | | |
| Interest and fees on loans | $52,317 | $49,690 | $103,059 | $98,127 |
| Interest and dividends on investment securities | 6,763 | 4,443 | 13,743 | 9,460 |
| Total interest and dividend income | 59,080 | 54,133 | 116,802 | 107,587 |
| Interest expense | | | | |
| Interest on deposit liabilities | 2,311 | 1,691 | 4,414 | 3,283 |
| Interest on other borrowings | 824 | 1,467 | 1,640 | 2,952 |
| Total interest expense | 3,135 | 3,158 | 6,054 | 6,235 |
| Net interest income | 55,945 | 50,975 | 110,748 | 101,352 |
| Provision for loan losses | 2,834 | 4,753 | 6,741 | 9,519 |
| Net interest income after provision for loan losses | 53,111 | 46,222 | 104,007 | 91,833 |
| Noninterest income | | | | |
| Fees from other financial services | 5,810 | 5,701 | 11,420 | 11,200 |
| Fee income on deposit liabilities | 5,565 | 5,262 | 10,993 | 10,418 |
| Fee income on other financial products | 1,971 | 2,207 | 3,837 | 4,412 |
| Bank-owned life insurance | 1,925 | 1,006 | 2,908 | 2,004 |
| Mortgage banking income | 587 | 1,554 | 1,376 | 2,749 |
| Gains on sale of investment securities, net | — | 598 | — | 598 |
| Other income, net | 391 | 288 | 849 | 621 |
| Total noninterest income | 16,249 | 16,616 | 31,383 | 32,002 |
| Noninterest expense | | | | |
| Compensation and employee benefits | 24,742 | 21,919 | 47,979 | 44,353 |
| Occupancy | 4,185 | 4,115 | 8,339 | 8,253 |
| Data processing | 3,207 | 3,277 | 6,487 | 6,449 |
| Services | 2,766 | 2,755 | 5,126 | 5,666 |
| Equipment | 1,771 | 1,771 | 3,519 | 3,434 |
| Office supplies, printing and postage | 1,527 | 1,583 | 3,062 | 2,948 |
| Marketing | 839 | 899 | 1,356 | 1,760 |
| FDIC insurance | 822 | 913 | 1,550 | 1,797 |
| Other expense | 4,705 | 5,382 | 9,016 | 9,357 |
| Total noninterest expense | 44,564 | 42,614 | 86,434 | 84,017 |
| Income before income taxes | 24,796 | 20,224 | 48,956 | 39,818 |
| Income taxes | 8,063 | 6,939 | 16,410 | 13,860 |
| Net income | $16,733 | $13,285 | $32,546 | $25,958 |

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| (in thousands) | 2017 | 2016 | 2017 | 2016 |
| Net income | $16,733 | $13,285 | $32,546 | $25,958 |
| Other comprehensive income, net of taxes: | | | | |
| Net unrealized gains on available-for-sale investment securities: | | | | |
| Net unrealized gains on available-for-sale investment securities arising during the period, net of taxes of $1,334, $1,925, $1,482 and $6,830, respectively | 2,021 | 2,915 | 2,244 | 10,344 |
| Reclassification adjustment for net realized gains included in net income, net of taxes of nil, $238, nil and $238, respectively | — | (360) | — | (360) |
| 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, $140, $537 and $277, respectively | 202 | 211 | 814 | 419 |
| Other comprehensive income, net of taxes | 2,223 | 2,766 | 3,058 | 10,403 |
| Comprehensive income | $18,956 | $16,051 | $35,604 | $36,361 |

33

American Savings Bank, F.S.B.
Balance Sheets Data (unaudited)

| (in thousands) | June 30, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| Assets | | | | |
| Cash and due from banks | | $128,609 | | $137,083 |
| Interest-bearing deposits | | 37,049 | | 52,128 |
| Restricted cash | | — | | 1,764 |
| Available-for-sale investment securities, at fair value | | 1,302,886 | | 1,105,182 |
| Stock in Federal Home Loan Bank, at cost | | 11,706 | | 11,218 |
| Loans receivable held for investment | | 4,744,634 | | 4,738,693 |
| Allowance for loan losses | | (56,356) | | (55,533) |
| Net loans | | 4,688,278 | | 4,683,160 |
| Loans held for sale, at lower of cost or fair value | | 5,261 | | 18,817 |
| Other | | 354,898 | | 329,815 |
| Goodwill | | 82,190 | | 82,190 |
| Total assets | | $6,610,877 | | $6,421,357 |
| | | | | |
| Liabilities and shareholder’s equity | | | | |
| Deposit liabilities—noninterest-bearing | | $1,694,150 | | $1,639,051 |
| Deposit liabilities—interest-bearing | | 4,030,236 | | 3,909,878 |
| Other borrowings | | 188,130 | | 192,618 |
| Other | | 101,974 | | 101,635 |
| Total liabilities | | 6,014,490 | | 5,843,182 |
| Commitments and contingencies | | | | |
| Common stock | | 1 | | 1 |
| Additional paid in capital | | 344,062 | | 342,704 |
| Retained earnings | | 271,739 | | 257,943 |
| Accumulated other comprehensive loss, net of tax benefits | | | | |
| Net unrealized losses on securities | $(5,687) | | $(7,931) | |
| Retirement benefit plans | (13,728) | (19,415) | (14,542) | (22,473) |
| Total shareholder’s equity | | 596,387 | | 578,175 |
| Total liabilities and shareholder’s equity | | $6,610,877 | | $6,421,357 |
| | | | | |
| Other assets | | | | |
| Bank-owned life insurance | | $146,122 | | $143,197 |
| Premises and equipment, net | | 108,158 | | 90,570 |
| Prepaid expenses | | 4,632 | | 3,348 |
| Accrued interest receivable | | 16,949 | | 16,824 |
| Mortgage-servicing rights | | 9,181 | | 9,373 |
| Low-income housing equity investments | | 48,596 | | 47,081 |
| Real estate acquired in settlement of loans, net | | 1,554 | | 1,189 |
| Other | | 19,706 | | 18,233 |
| | | $354,898 | | $329,815 |
| Other liabilities | | | | |
| Accrued expenses | | $34,451 | | $36,754 |
| Federal and state income taxes payable | | 6,336 | | 4,728 |
| Cashier’s checks | | 24,191 | | 24,156 |
| Advance payments by borrowers | | 10,334 | | 10,335 |
| Other | | 26,662 | | 25,662 |

| | | |
|---|---|---|
| | $101,974 | $101,635 |

34

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 $88 million and $100 million, respectively, as of June 30, 2017 and $93 million and $100 million, respectively, as of December 31, 2016.

Available-for-sale 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, 2017 | | | | | | | | | | |
| Available-for-sale | | | | | | | | | | |
| U.S. Treasury and federal agency obligations | $187,289 | $ 947 | $(1,653 ) | $186,583 | 16 | $104,417 | $(1,532 ) | 1 | $3,186 | $(121 ) |
| Mortgage-related securities- FNMA, FHLMC and GNMA | 1,109,613 | 2,202 | (10,939 ) | 1,100,876 | 98 | 759,643 | (9,658 ) | 13 | 43,296 | (1,281 ) |
| Mortgage revenue bond | 15,427 | — | — | 15,427 | — | — | — | — | — | — |
| | $1,312,329 | $ 3,149 | $(12,592 ) | $1,302,886 | 114 | $864,060 | $(11,190) | 14 | $46,482 | $(1,402) |
| December 31, 2016 | | | | | | | | | | |
| Available-for-sale | | | | | | | | | | |
| U.S. Treasury and federal agency obligations | $193,515 | $ 920 | $(2,154 ) | $192,281 | 18 | $123,475 | $(2,010 ) | 1 | $3,485 | $(144 ) |
| Mortgage-related securities- FNMA, FHLMC and GNMA | 909,408 | 1,742 | (13,676 ) | 897,474 | 88 | 709,655 | (12,143 ) | 13 | 47,485 | (1,533 ) |
| Mortgage revenue bond | 15,427 | — | — | 15,427 | — | — | — | — | — | — |
| | $1,118,350 | $ 2,662 | $(15,830 ) | $1,105,182 | 106 | $833,130 | $(14,153) | 14 | $50,970 | $(1,677) |

ASB does not believe that the investment securities that were in an unrealized loss position at June 30, 2017, 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. 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 month periods ended June 30, 2017 and 2016.

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

The contractual maturities of available-for-sale investment securities were as follows:

| June 30, 2017<br>(in thousands) | Amortized cost | Fair value |
|---|---|---|

| | | |
|---|---|---|
| Due in one year or less | $ 9,992 | $9,993 |
| Due after one year through five years | 77,151 | 77,307 |
| Due after five years through ten years | 85,724 | 85,258 |
| Due after ten years | 29,849 | 29,452 |
| | 202,716 | 202,010 |
| Mortgage-related securities-FNMA, FHLMC and GNMA | 1,109,613 | 1,100,876 |
| Total available-for-sale securities | $ 1,312,329 | $1,302,886 |

Proceeds and gross realized gains from the sale of available-for-sale investment securities were $16.4 million and $0.6 million, respectively, for the three and six months ended June 30, 2016. Gross realized losses recognized during the three and

35

six months ended June 30, 2016 were not material. No available-for-sale investment securities were sold during the three and six month periods ended June 30, 2017.

Loans receivable. The components of loans receivable were summarized as follows:

| (in thousands) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Real estate: | | |
| Residential 1-4 family | $2,061,549 | $2,048,051 |
| Commercial real estate | 808,900 | 800,395 |
| Home equity line of credit | 883,135 | 863,163 |
| Residential land | 16,009 | 18,889 |
| Commercial construction | 116,548 | 126,768 |
| Residential construction | 10,759 | 16,080 |
| Total real estate | 3,896,900 | 3,873,346 |
| Commercial | 649,657 | 692,051 |
| Consumer | 201,199 | 178,222 |
| Total loans | 4,747,756 | 4,743,619 |
| Less: Deferred fees and discounts | (3,122) | (4,926) |
| Allowance for loan losses | (56,356) | (55,533) |
| Total loans, net | $4,688,278 | $4,683,160 |

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 insurance company cannot satisfy the bank's claim on policies.

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

| (in thousands) | Residential 1-4 family | Commercial real estate | Home equity line of credit | Residential land | Commercial construction | Residential construction | Commercial loans | Consumer loans | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 |
| Three months ended June 30, 2016 | | | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | | |
| Beginning balance | $4,593 | $11,806 | $7,172 | $1,740 | $6,164 | $12 | $16,991 | $3,848 | $— | $52,326 |
| Charge-offs | (15) | — | — | — | — | — | (962) | (1,528) | — | (2,505) |
| Recoveries | 35 | — | 16 | 16 | — | — | 425 | 265 | — | 757 |
| Provision | (229) | 1,755 | 648 | (67) | 829 | — | 631 | 1,186 | — | 4,753 |
| Ending balance | $4,384 | $13,561 | $7,836 | $1,689 | $6,993 | $12 | $17,085 | $3,771 | $— | $55,331 |
| 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 |
| June 30, 2017 | | | | | | | | | | |
| Ending balance: individually evaluated for impairment | $1,332 | $73 | $275 | $480 | $— | $— | $939 | $30 | | $3,129 |
| Ending balance: | $1,798 | $18,767 | $5,252 | $784 | $4,706 | $9 | $13,613 | $8,298 | $— | $53,227 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| collectively evaluated for impairment | | | | | | | | | | |
| Financing Receivables: | | | | | | | | | | |
| Ending balance | $2,061,549 | $808,900 | $883,135 | $16,009 | $116,548 | $10,759 | $649,657 | $201,199 | | $4,747,756 |
| Ending balance: individually evaluated for impairment | $19,188 | $1,289 | $6,684 | $2,589 | $— | $— | $4,283 | $68 | | $34,101 |
| Ending balance: collectively evaluated for impairment | $2,042,361 | $807,611 | $876,451 | $13,420 | $116,548 | $10,759 | $645,374 | $201,131 | | $4,713,655 |
| Six months ended June 30, 2016 | | | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | | |
| Beginning balance | $4,186 | $11,342 | $7,260 | $1,671 | $4,461 | $13 | $17,208 | $3,897 | $— | $50,038 |
| Charge-offs | (60) | — | — | — | — | — | (2,305) | (3,098) | — | (5,463) |
| Recoveries | 52 | — | 31 | 119 | — | — | 560 | 475 | — | 1,237 |
| Provision | 206 | 2,219 | 545 | (101) | 2,532 | (1) | 1,622 | 2,497 | — | 9,519 |
| Ending balance | $4,384 | $13,561 | $7,836 | $1,689 | $6,993 | $12 | $17,085 | $3,771 | $— | $55,331 |
| December 31, 2016 | | | | | | | | | | |
| Ending balance: individually evaluated for impairment | $1,352 | $80 | $215 | $789 | $— | $— | $1,641 | $6 | | $4,083 |
| Ending balance: collectively evaluated for impairment | $1,521 | $15,924 | $4,824 | $949 | $6,449 | $12 | $14,977 | $6,794 | $— | $51,450 |
| Financing Receivables: | | | | | | | | | | |
| Ending balance | $2,048,051 | $800,395 | $863,163 | $18,889 | $126,768 | $16,080 | $692,051 | $178,222 | | $4,743,619 |
| Ending balance: individually evaluated for impairment | $19,854 | $1,569 | $6,158 | $3,629 | $— | $— | $20,539 | $10 | | $51,759 |
| | $2,028,197 | $798,826 | $857,005 | $15,260 | $126,768 | $16,080 | $671,512 | $178,212 | | $4,691,860 |

Ending
balance:
collectively
evaluated for
impairment

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 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, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| (in thousands) | Commercial real estate | Commercial construction | Commercial | Commercial real estate | Commercial construction | Commercial |
| Grade: | | | | | | |
| Pass | $660,015 | $ 92,069 | $ 602,903 | $701,657 | $ 102,955 | $ 614,139 |
| Special mention | 95,656 | 22,500 | 19,429 | 65,541 | — | 25,229 |
| Substandard | 53,229 | 1,979 | 27,325 | 33,197 | 23,813 | 52,683 |
| Doubtful | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — |
| Total | $808,900 | $ 116,548 | $ 649,657 | $800,395 | $ 126,768 | $ 692,051 |

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, 2017 | | | | | | | |
| Real estate: | | | | | | | |
| Residential 1-4 family | $2,308 | $ 2,694 | $ 5,411 | $10,413 | $2,051,136 | $2,061,549 | $ — |
| Commercial real estate | — | — | — | — | 808,900 | 808,900 | — |
| Home equity line of credit | 502 | 494 | 1,516 | 2,512 | 880,623 | 883,135 | — |
| Residential land | — | — | 305 | 305 | 15,704 | 16,009 | — |
| Commercial construction | — | — | — | — | 116,548 | 116,548 | — |
| Residential construction | — | — | — | — | 10,759 | 10,759 | — |
| Commercial | 1,486 | 614 | 1,096 | 3,196 | 646,461 | 649,657 | — |
| Consumer | 2,266 | 1,305 | 863 | 4,434 | 196,765 | 201,199 | — |
| Total loans | $6,562 | $ 5,107 | $ 9,191 | $20,860 | $4,726,896 | $4,747,756 | $ — |
| December 31, 2016 | | | | | | | |
| Real estate: | | | | | | | |
| Residential 1-4 family | $5,467 | $ 2,338 | $ 3,505 | $11,310 | $2,036,741 | $2,048,051 | $ — |
| Commercial real estate | 2,416 | — | — | 2,416 | 797,979 | 800,395 | — |
| Home equity line of credit | 1,263 | 381 | 1,342 | 2,986 | 860,177 | 863,163 | — |
| Residential land | — | — | 255 | 255 | 18,634 | 18,889 | — |
| Commercial construction | — | — | — | — | 126,768 | 126,768 | — |
| Residential construction | — | — | — | — | 16,080 | 16,080 | — |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Commercial | 413 | 510 | 1,303 | 2,226 | 689,825 | 692,051 | — |
| Consumer | 1,945 | 1,001 | 963 | 3,909 | 174,313 | 178,222 | — |
| Total loans | $11,504 | $4,230 | $7,368 | $23,102 | $4,720,517 | $4,743,619 | $ — |

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

| (in thousands) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Real estate: | | |
| Residential 1-4 family | $12,270 | $ 11,154 |
| Commercial real estate | — | 223 |
| Home equity line of credit | 4,306 | 3,080 |
| Residential land | 915 | 878 |
| Commercial construction | — | — |
| Residential construction | — | — |
| Commercial | 1,972 | 6,708 |
| Consumer | 1,501 | 1,282 |
| Total nonaccrual loans | $20,964 | $ 23,325 |
| 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 | $13,112 | $ 14,450 |
| Commercial real estate | 1,289 | 1,346 |
| Home equity line of credit | 4,548 | 4,934 |
| Residential land | 1,674 | 2,751 |
| Commercial construction | — | — |
| Residential construction | — | — |
| Commercial | 2,692 | 14,146 |
| Consumer | 68 | 10 |
| Total troubled debt restructured loans not included above | $23,383 | $ 37,637 |

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

| | June 30, 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 | $9,364 | $9,963 | $ — | $9,304 | $ 76 | $9,429 | $ 160 |
| Commercial real estate | — | — | — | 143 | 11 | 182 | 11 |
| Home equity line of credit | 2,287 | 2,707 | — | 2,401 | 51 | 2,203 | 65 |
| Residential land | 1,249 | 1,788 | — | 1,075 | 8 | 1,016 | 34 |
| Commercial construction | — | — | — | — | — | — | — |
| Residential construction | — | — | — | — | — | — | — |
| Commercial | 1,592 | 4,267 | — | 1,949 | 2 | 3,428 | 8 |
| Consumer | — | — | — | 1 | — | — | — |
| | $14,492 | $18,725 | $ — | $14,873 | $ 148 | $16,258 | $ 278 |
| With an allowance recorded | | | | | | | |
| Real estate: | | | | | | | |
| Residential 1-4 family | $9,824 | $10,027 | $ 1,332 | $10,054 | $ 117 | $10,051 | $ 236 |
| Commercial real estate | 1,289 | 1,289 | 73 | 1,292 | 14 | 1,296 | 28 |
| Home equity line of credit | 4,397 | 4,425 | 275 | 4,372 | 47 | 4,467 | 96 |
| Residential land | 1,340 | 1,340 | 480 | 1,532 | 24 | 1,804 | 61 |
| Commercial construction | — | — | — | — | — | — | — |
| Residential construction | — | — | — | — | — | — | — |
| Commercial | 2,691 | 2,691 | 939 | 2,562 | 68 | 4,915 | 469 |
| Consumer | 68 | 68 | 30 | 68 | 1 | 49 | 1 |
| | $19,609 | $19,840 | $ 3,129 | $19,880 | $ 271 | $22,582 | $ 891 |
| Total | | | | | | | |
| Real estate: | | | | | | | |
| Residential 1-4 family | $19,188 | $19,990 | $ 1,332 | $19,358 | $ 193 | $19,480 | $ 396 |
| Commercial real estate | 1,289 | 1,289 | 73 | 1,435 | 25 | 1,478 | 39 |
| Home equity line of credit | 6,684 | 7,132 | 275 | 6,773 | 98 | 6,670 | 161 |
| Residential land | 2,589 | 3,128 | 480 | 2,607 | 32 | 2,820 | 95 |
| Commercial construction | — | — | — | — | — | — | — |
| Residential construction | — | — | — | — | — | — | — |
| Commercial | 4,283 | 6,958 | 939 | 4,511 | 70 | 8,343 | 477 |
| Consumer | 68 | 68 | 30 | 69 | 1 | 49 | 1 |
| | $34,101 | $38,565 | $ 3,129 | $34,753 | $ 419 | $38,840 | $ 1,169 |

| (in thousands) | December 31, 2016 | | | Three months ended June 30, 2016 | | Six months ended June 30, 2016 | |
|---|---|---|---|---|---|---|---|
| | 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 | $9,571 | $10,400 | $ — | $10,672 | $ 152 | $10,532 | $ 203 |
| Commercial real estate | 223 | 228 | — | 1,152 | — | 1,163 | — |
| Home equity line of credit | 1,500 | 1,900 | — | 1,038 | 9 | 943 | 9 |
| Residential land | 1,218 | 1,803 | — | 1,484 | 15 | 1,537 | 31 |
| Commercial construction | — | — | — | — | — | — | — |
| Residential construction | — | — | — | — | — | — | — |
| Commercial | 6,299 | 8,869 | — | 8,369 | 7 | 5,818 | 13 |
| Consumer | — | — | — | — | — | — | — |
| | $18,811 | $23,200 | $ — | $22,715 | $ 183 | $19,993 | $ 256 |
| With an allowance recorded | | | | | | | |
| Real estate: | | | | | | | |
| Residential 1-4 family | $10,283 | $10,486 | $ 1,352 | $11,982 | $ 115 | $12,000 | $ 237 |
| Commercial real estate | 1,346 | 1,346 | 80 | 2,519 | — | 1,686 | — |
| Home equity line of credit | 4,658 | 4,712 | 215 | 3,299 | 28 | 3,122 | 55 |
| Residential land | 2,411 | 2,411 | 789 | 2,977 | 54 | 3,177 | 121 |
| Commercial construction | — | — | — | — | — | — | — |
| Residential construction | — | — | — | — | — | — | — |
| Commercial | 14,240 | 14,240 | 1,641 | 16,821 | 180 | 16,896 | 210 |
| Consumer | 10 | 10 | 6 | 12 | — | 12 | — |
| | $32,948 | $33,205 | $ 4,083 | $37,610 | $ 377 | $36,893 | $ 623 |
| Total | | | | | | | |
| Real estate: | | | | | | | |
| Residential 1-4 family | $19,854 | $20,886 | $ 1,352 | $22,654 | $ 267 | $22,532 | $ 440 |
| Commercial real estate | 1,569 | 1,574 | 80 | 3,671 | — | 2,849 | — |
| Home equity line of credit | 6,158 | 6,612 | 215 | 4,337 | 37 | 4,065 | 64 |
| Residential land | 3,629 | 4,214 | 789 | 4,461 | 69 | 4,714 | 152 |
| Commercial construction | — | — | — | — | — | — | — |
| Residential construction | — | — | — | — | — | — | — |
| Commercial | 20,539 | 23,109 | 1,641 | 25,190 | 187 | 22,714 | 223 |
| Consumer | 10 | 10 | 6 | 12 | — | 12 | — |
| | $51,759 | $56,405 | $ 4,083 | $60,325 | $ 560 | $56,886 | $ 879 |

* Since loan was classified as impaired.

Troubled debt restructurings. A loan modification is deemed to be a troubled debt restructuring (TDR) when ASB grants a concession it would not otherwise consider were it not for the borrower’s financial difficulty. 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 collectibility of the loan and maximize the likelihood of full repayment. At times, ASB may modify or restructure a loan to help a distressed borrower improve its financial position to eventually be able to fully repay the loan, provided the borrower has demonstrated both the willingness and the ability to fulfill the modified terms. TDR loans are considered an alternative to foreclosure or liquidation with the goal of minimizing losses to ASB and maximizing recovery.

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

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

Loan modifications that occurred during the second quarters and first six months of 2017 and 2016 and the impact on the allowance for loan losses were as follows:

| | 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 |

| | Three months ended June 30, 2016 | | | | Six months ended June 30, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 5 | $ 891 | $ 885 | $ 98 | 9 | $ 1,988 | $ 2,100 | $ 259 |
| Commercial real estate | — | — | — | — | — | — | — | — |
| Home equity line of credit | 8 | 768 | 768 | 181 | 18 | 1,437 | 1,437 | 255 |
| Residential land | 1 | 120 | 121 | — | 1 | 120 | 121 | — |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Commercial construction | — | — | — | — | — | — | — | — |
| Residential construction | — | — | — | — | — | — | — | — |
| Commercial | 5 | 457 | 457 | 145 | 8 | 16,657 | 16,657 | 670 |
| Consumer | — | — | — | — | — | — | — | — |
| | 19 | $ 2,236 | $ 2,231 | $ 424 | 36 | $ 20,202 | $ 20,315 | $ 1,184 |

[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.

42

Loans modified in TDRs that experienced a payment default of 90 days or more during the second quarters and first six months of 2017 and 2016, and for which the payment of default occurred within one year of the modification, were as follows:

| | 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 |

| | Three months ended June 30, 2016 | | Six months ended June 30, 2016 | |
|---|---|---|---|---|
| (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 | $ 488 |
| Commercial real estate | — | — | — | — |
| Home equity line of credit | — | — | — | — |
| Residential land | — | — | — | — |
| Commercial construction | — | — | — | — |
| Residential construction | — | — | — | — |
| Commercial | 1 | 26 | 1 | 26 |