

HAWAIIAN ELECTRIC INDUSTRIES INC  
Form 10-Q  
November 07, 2018

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

✓ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

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

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

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

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

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

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

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

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date.

| Class of Common Stock | Outstanding October 27, 2018 |
|-----------------------|------------------------------|
|-----------------------|------------------------------|

|  |                    |
|--|--------------------|
| Hawaiian Electric Industries, Inc. (Without Par Value) | 108,879,245 Shares |
|--|--------------------|

|   |   |
|---|---|
| Hawaiian Electric Company, Inc. (\$6-2/3 Par Value) | 16,142,216 Shares (not publicly traded) |
|---|---|

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

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

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

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Hawaiian Electric Industries, Inc. and Subsidiaries  
 Hawaiian Electric Company, Inc. and Subsidiaries  
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GLOSSARY OF TERMS

| Terms             | Definitions   |
|-------------------|---|
| ADIT              | Accumulated deferred income tax balances  |
| AES Hawaii        | AES Hawaii, Inc.  |
| AFUDC             | Allowance for funds used during construction  |
| AOCI              | Accumulated other comprehensive income/(loss)   |
| ASC               | Accounting Standards Codification   |
| ASB               | American Savings Bank, F.S.B., a wholly-owned subsidiary of ASB Hawaii, Inc.  |
| ASB Hawaii        | ASB Hawaii, Inc. (formerly American Savings Holdings, Inc.), a wholly owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.  |
| ASU               | Accounting Standards Update   |
| CIAC              | Contributions in aid of construction  |
| CIP CT-1          | Campbell Industrial Park 110 MW combustion turbine No. 1  |
| Company           | Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation, Hawaiian Electric Company, Inc. and its subsidiaries (listed under Hawaiian Electric); ASB Hawaii, Inc. and its subsidiary, American Savings Bank, F.S.B.; Pacific Current, LLC and its subsidiaries, Hamakua Holdings, LLC (and its subsidiary, Hamakua Energy, LLC) and Mauo Holdings, LLC (and its subsidiary, Mauo, LLC); The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.); and HEI Properties, Inc. (dissolved in 2015 and wound up in 2017) |
| Consumer Advocate | Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii   |
| CBRE              | Community-based renewable energy  |
| DER               | Distributed energy resources  |
| D&O               | Decision and order from the PUC   |
| Dodd-Frank Act    | Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010   |
| DOH               | Department of Health of the State of Hawaii   |
| DRIP              | HEI Dividend Reinvestment and Stock Purchase Plan   |
| ECAC              | Energy cost adjustment clause   |
| ECRC              | Energy cost recovery clause   |
| EIP               | 2010 Equity and Incentive Plan, as amended and restated   |
| EPA               | Environmental Protection Agency — federal   |
| EPS               | Earnings per share  |
| ERP/EAM           | Enterprise Resource Planning/Enterprise Asset Management  |
| EVE               | Economic value of equity  |
| Exchange Act      | Securities Exchange Act of 1934   |
| FASB              | Financial Accounting Standards Board  |
| FDIC              | Federal Deposit Insurance Corporation   |
| federal           | U.S. Government   |
| FHLB              | Federal Home Loan Bank  |
| FHLMC             | Federal Home Loan Mortgage Corporation  |
| FNMA              | Federal National Mortgage Association   |
| FRB               | Federal Reserve Board   |
| GAAP              | Accounting principles generally accepted in the United States of America  |



## GLOSSARY OF TERMS, continued

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

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|           |   |
|-----------|---|
| Tax Act   | 2017 Tax Cuts and Jobs Act (H.R. 1, An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018) |
| TDR       | Troubled debt restructuring   |
| Trust III | HECO Capital Trust III  |
| Utilities | Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited   |
| VIE       | Variable interest entity  |



## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- international, national and local economic and political conditions--including the state of the Hawaii tourism, defense and construction industries; the strength or weakness of the Hawaii and continental U.S. real estate markets (including the fair value and/or the actual performance of collateral underlying loans held by ASB, which could result in higher loan loss provisions and write-offs); decisions concerning the extent of the presence of the federal government and military in Hawaii; the implications and potential impacts of U.S. and foreign capital and credit market conditions and federal, state and international responses to those conditions; and the potential impacts of global developments (including global economic conditions and uncertainties; unrest; the conflict in Syria; the effects of changes that have or may occur in U.S. policy, such as with respect to immigration and trade; terrorist acts; potential conflict or crisis with North Korea; and potential pandemics);
- the effects of future actions or inaction of the U.S. government or related agencies, including those related to the U.S. debt ceiling, monetary policy, trade policy and tariffs, and other policy and regulation changes advanced or proposed by President Trump and his administration;
- weather and natural disasters (e.g., hurricanes, earthquakes, tsunamis, lightning strikes, lava flows and the potential effects of climate change, such as more severe storms and rising sea levels), including their impact on the Company's and Utilities' operations and the economy;
- the timing and extent of changes in interest rates and the shape of the yield curve;
- the ability of the Company and the Utilities to access the credit and capital markets (e.g., to obtain commercial paper and other short-term and long-term debt financing, including lines of credit, and, in the case of HEI, to issue common stock) under volatile and challenging market conditions, and the cost of such financings, if available;
- the risks inherent in changes in the value of the Company's pension and other retirement plan assets and ASB's securities available for sale;
- changes in laws, regulations (including tax regulations), market conditions and other factors that result in changes in assumptions used to calculate retirement benefits costs and funding requirements;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and of the rules and regulations that the Dodd-Frank Act requires to be promulgated;
- increasing competition in the banking industry (e.g., increased price competition for deposits, or an outflow of deposits to alternative investments, which may have an adverse impact on ASB's cost of funds);
- the potential delay by the Public Utilities Commission of the State of Hawaii (PUC) in considering (and potential disapproval of actual or proposed) renewable energy proposals and related costs; reliance by the Utilities on outside parties such as the state, independent power producers (IPPs) and developers; and uncertainties surrounding technologies, solar power, wind power, biofuels, environmental assessments required to meet renewable portfolio standards (RPS) goals and the impacts of implementation of the renewable energy proposals on future costs of electricity;
- the ability of the Utilities to develop, implement and recover the costs of implementing the Utilities' action plans included in their updated Power Supply Improvement Plans (PSIPs), Demand Response Portfolio Plan, Distributed Generation Interconnection Plan, Grid Modernization Plans, and business model changes, which have been and are

continuing to be developed and updated in response to the orders issued by the PUC, the PUC's April 2014 statement of its inclinations on the future of Hawaii's electric utilities and the vision, business strategies and regulatory policy changes required to align the Utilities' business model with customer interests and the state's public policy goals, and subsequent orders of the PUC;

capacity and supply constraints or difficulties, especially if generating units (utility-owned or IPP-owned) fail or measures such as demand-side management, distributed generation, combined heat and power or other firm capacity supply-side resources fall short of achieving their forecasted benefits or are otherwise insufficient to reduce or meet peak demand;

fuel oil price changes, delivery of adequate fuel by suppliers and the continued availability to the electric utilities of their energy cost adjustment clauses (ECACs);

the continued availability to the electric utilities or modifications of other cost recovery mechanisms, including the purchased power adjustment clauses (PPACs), rate adjustment mechanisms (RAMs) and pension and postretirement benefits other than pensions (OPEB) tracking mechanisms, and the continued decoupling of revenues from sales to mitigate the effects of declining kilowatthour sales;

the ability of the Utilities to achieve performance incentive mechanisms currently in place;

the impact from the PUC's implementation of performance-based ratemaking for the Utilities pursuant to Senate Bill No. 2939 SD2, including the potential addition of new performance incentive mechanisms, third party proposals adopted by the PUC in its implementation of PBR, and the implications of not achieving performance incentive goals;

the impact of fuel price volatility on customer satisfaction and political and regulatory support for the Utilities;

the risks associated with increasing reliance on renewable energy, including the availability and cost of non-fossil fuel supplies for renewable energy generation and the operational impacts of adding intermittent sources of renewable energy to the electric grid;

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

changes by securities rating agencies in their ratings of the securities of HEI and Hawaiian Electric and the results of financing efforts;

faster than expected loan prepayments that can cause an acceleration of the amortization of premiums on loans and investments and the impairment of mortgage-servicing assets of ASB;

changes in ASB's loan portfolio credit profile and asset quality which may increase or decrease the required level of provision for loan losses, allowance for loan losses and charge-offs;

changes in ASB's deposit cost or mix which may have an adverse impact on ASB's cost of funds;

the final outcome of tax positions taken by HEI and its subsidiaries;

the risks of suffering losses and incurring liabilities that are uninsured (e.g., damages to the Utilities' transmission and distribution system and losses from business interruption) or underinsured (e.g., losses not covered as a result of insurance deductibles or other exclusions or exceeding policy limits);

the ability of the Company's non-regulated subsidiary, Pacific Current, LLC, to achieve its performance and growth objectives, which in turn could affect its ability to service its non-recourse debt;

the Company's reliance on third parties and the risk of their non-performance; and

other risks or uncertainties described elsewhere in this report and in other reports (e.g., "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K) previously and subsequently filed by HEI and/or Hawaiian Electric with the Securities and Exchange Commission (SEC).

Forward-looking statements speak only as of the date of the report, presentation or filing in which they are made.

Except to the extent required by the federal securities laws, HEI, Hawaiian Electric, ASB, Pacific Current and their subsidiaries undertake no obligation to publicly update or revise any forward-looking statements, whether written or oral and whether as a result of new information, future events or otherwise.

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

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

| (in thousands, except per share amounts)  | Three months ended   |                      | Nine months ended    |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | September 30<br>2018 | September 30<br>2017 | September 30<br>2018 | September 30<br>2017 |
| Revenues  |                      |                      |                      |                      |
| Electric utility  | \$687,409            | \$598,769            | \$1,865,962          | \$1,674,255          |
| Bank  | 80,496               | 74,289               | 233,019              | 222,474              |
| Other   | 143                  | 127                  | 218                  | 299                  |
| Total revenues  | 768,048              | 673,185              | 2,099,199            | 1,897,028            |
| Expenses  |                      |                      |                      |                      |
| Electric utility  | 613,373              | 510,272              | 1,685,413            | 1,478,915            |
| Bank  | 53,232               | 47,313               | 153,951              | 146,146              |
| Other   | 3,379                | 4,127                | 11,083               | 12,954               |
| Total expenses  | 669,984              | 561,712              | 1,850,447            | 1,638,015            |
| Operating income (loss)   |                      |                      |                      |                      |
| Electric utility  | 74,036               | 88,497               | 180,549              | 195,340              |
| Bank  | 27,264               | 26,976               | 79,068               | 76,328               |
| Other   | (3,236 )             | (4,000 )             | (10,865 )            | (12,655 )            |
| Total operating income  | 98,064               | 111,473              | 248,752              | 259,013              |
| Retirement defined benefits expense—other than service costs                      | (1,276 )             | (1,928 )             | (4,673 )             | (5,710 )             |
| Interest expense, net—other than on deposit liabilities and other bank borrowings | (22,523 )            | (19,227 )            | (66,042 )            | (59,235 )            |
| Allowance for borrowed funds used during construction                             | 1,006                | 1,339                | 3,815                | 3,371                |
| Allowance for equity funds used during construction                               | 1,962                | 3,482                | 8,239                | 8,908                |
| Income before income taxes  | 77,233               | 95,139               | 190,091              | 206,347              |
| Income taxes  | 10,862               | 34,595               | 36,473               | 72,003               |
| Net income  | 66,371               | 60,544               | 153,618              | 134,344              |
| Preferred stock dividends of subsidiaries   | 471                  | 471                  | 1,417                | 1,417                |
| Net income for common stock   | \$65,900             | \$60,073             | \$152,201            | \$132,927            |
| Basic earnings per common share   | \$0.61               | \$0.55               | \$1.40               | \$1.22               |
| Diluted earnings per common share   | \$0.60               | \$0.55               | \$1.40               | \$1.22               |
| Weighted-average number of common shares outstanding                              | 108,879              | 108,786              | 108,847              | 108,737              |
| Net effect of potentially dilutive shares   | 176                  | 79                   | 243                  | 172                  |
| Weighted-average shares assuming dilution   | 109,055              | 108,865              | 109,090              | 108,909              |

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

Hawaiian Electric Industries, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (unaudited)

| (in thousands)   | Three months<br>ended September<br>30 |          | Nine months ended<br>September 30 |           |
|--|---------------------------------------|----------|-----------------------------------|-----------|
|  | 2018                                  | 2017     | 2018                              | 2017      |
| Net income for common stock  | \$65,900                              | \$60,073 | \$152,201                         | \$132,927 |
| Other comprehensive income (loss), net of taxes:   |                                       |          |                                   |           |
| Net unrealized gains (losses) on available-for-sale investment securities:   |                                       |          |                                   |           |
| Net unrealized gains (losses) on available-for-sale investment securities arising during the period, net of tax benefits (taxes) of \$1,876, \$(137), \$8,335 and \$(1,619), respectively                | (5,123 )                              | 208      | (22,768 )                         | 2,452     |
| Derivatives qualifying as cash flow hedges:  |                                       |          |                                   |           |
| Reclassification adjustment to net income, net of tax benefits of nil, nil, nil and \$289, respectively  | —                                     | —        | —                                 | 454       |
| Retirement benefit plans:  |                                       |          |                                   |           |
| Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of \$1,832, \$2,516, \$5,486 and \$7,526, respectively | 5,259                                 | 3,942    | 15,755                            | 11,793    |
| Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of \$1,639, \$2,290, \$4,916 and \$6,872, respectively   | (4,725 )                              | (3,596 ) | (14,174 )                         | (10,790 ) |
| Other comprehensive income (loss), net of taxes  | (4,589 )                              | 554      | (21,187 )                         | 3,909     |
| Comprehensive income attributable to Hawaiian Electric Industries, Inc.  | \$61,311                              | \$60,627 | \$131,014                         | \$136,836 |

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

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

| (dollars in thousands)   | September<br>30, 2018 | December<br>31, 2017 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Cash and cash equivalents  | \$ 172,054            | \$ 261,881           |
| Accounts receivable and unbilled revenues, net   | 336,309               | 263,209              |
| Available-for-sale investment securities, at fair value  | 1,387,571             | 1,401,198            |
| Held-to-maturity investment securities, at amortized cost  | 102,498               | 44,515               |
| Stock in Federal Home Loan Bank, at cost   | 8,158                 | 9,706                |
| Loans held for investment, net   | 4,700,232             | 4,617,131            |
| Loans held for sale, at lower of cost or fair value  | 1,036                 | 11,250               |
| Property, plant and equipment, net of accumulated depreciation of \$2,651,109 and \$2,553,295 at September 30, 2018 and December 31, 2017, respectively                                | 4,694,101             | 4,460,248            |
| Regulatory assets  | 830,924               | 869,297              |
| Other  | 596,481               | 513,535              |
| Goodwill   | 82,190                | 82,190               |
| Total assets   | \$ 12,911,554         | \$ 12,534,160        |
| Liabilities and shareholders' equity   |                       |                      |
| Liabilities  |                       |                      |
| Accounts payable   | \$ 167,192            | \$ 193,714           |
| Interest and dividends payable   | 30,280                | 25,837               |
| Deposit liabilities  | 6,130,415             | 5,890,597            |
| Short-term borrowings—other than bank  | 203,359               | 117,945              |
| Other bank borrowings  | 71,110                | 190,859              |
| Long-term debt, net—other than bank  | 1,782,242             | 1,683,797            |
| Deferred income taxes  | 385,651               | 388,430              |
| Regulatory liabilities   | 932,352               | 880,770              |
| Defined benefit pension and other postretirement benefit plans liability   | 496,753               | 509,514              |
| Other  | 545,862               | 521,018              |
| Total liabilities  | 10,745,216            | 10,402,481           |
| Preferred stock of subsidiaries - not subject to mandatory redemption  | 34,293                | 34,293               |
| Commitments and contingencies (Notes 3 and 4)  |                       |                      |
| Shareholders' equity   |                       |                      |
| Preferred stock, no par value, authorized 10,000,000 shares; issued: none  | —                     | —                    |
| Common stock, no par value, authorized 200,000,000 shares; issued and outstanding: 108,879,245 shares and 108,787,807 shares at September 30, 2018 and December 31, 2017, respectively | 1,667,371             | 1,662,491            |
| Retained earnings  | 527,802               | 476,836              |
| Accumulated other comprehensive loss, net of tax benefits  | (63,128               | ) (41,941 )          |
| Total shareholders' equity   | 2,132,045             | 2,097,386            |
| Total liabilities and shareholders' equity   | \$ 12,911,554         | \$ 12,534,160        |

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

## Hawaiian Electric Industries, Inc. and Subsidiaries

## Condensed Consolidated Statements of Changes in Shareholders' Equity (unaudited)

| (in thousands)                                | Common stock |             | Retained   | Accumulated<br>other<br>comprehensive | Total       |
|---|--------------|-------------|------------|---------------------------------------|-------------|
|   | Shares       | Amount      | Earnings   | income (loss)                         |             |
| Balance, December 31, 2017                    | 108,788      | \$1,662,491 | \$476,836  | \$ (41,941 )                          | \$2,097,386 |
| Net income for common stock                   | —            | —           | 152,201    | —                                     | 152,201     |
| Other comprehensive loss, net of tax benefits | —            | —           | —          | (21,187 )                             | (21,187 )   |
| Issuance of common stock, net of expenses     | 91           | 4,880       | —          | —                                     | 4,880       |
| Common stock dividends (93¢ per share)        | —            | —           | (101,235 ) | —                                     | (101,235 )  |
| Balance, September 30, 2018                   | 108,879      | \$1,667,371 | \$527,802  | \$ (63,128 )                          | \$2,132,045 |
| Balance, December 31, 2016                    | 108,583      | \$1,660,910 | \$438,972  | \$ (33,129 )                          | \$2,066,753 |
| Net income for common stock                   | —            | —           | 132,927    | —                                     | 132,927     |
| Other comprehensive income, net of taxes      | —            | —           | —          | 3,909                                 | 3,909       |
| Issuance of common stock, net of expenses     | 203          | 582         | —          | —                                     | 582         |
| Common stock dividends (93¢ per share)        | —            | —           | (101,149 ) | —                                     | (101,149 )  |
| Balance, September 30, 2017                   | 108,786      | \$1,661,492 | \$470,750  | \$ (29,220 )                          | \$2,103,022 |

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



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

| (in thousands)   | Nine months ended<br>September 30 |            |
|--|-----------------------------------|------------|
|  | 2018                              | 2017       |
| Cash flows from operating activities   |                                   |            |
| Net income   | \$ 153,618                        | \$ 134,344 |
| Adjustments to reconcile net income to net cash provided by operating activities       |                                   |            |
| Depreciation of property, plant and equipment  | 159,646                           | 150,123    |
| Other amortization   | 31,473                            | 15,362     |
| Provision for loan losses  | 12,337                            | 7,231      |
| Loans originated and purchased, held for sale  | (105,956 )                        | (105,816 ) |
| Proceeds from sale of loans, held for sale   | 109,335                           | 119,731    |
| Deferred income taxes  | 10,823                            | 21,397     |
| Share-based compensation expense   | 5,891                             | 4,383      |
| Allowance for equity funds used during construction                                    | (8,239 )                          | (8,908 )   |
| Other  | (4,524 )                          | (1,350 )   |
| Changes in assets and liabilities  |                                   |            |
| Increase in accounts receivable and unbilled revenues, net                             | (79,128 )                         | (26,250 )  |
| Decrease (increase) in fuel oil stock  | (5,060 )                          | 6,177      |
| Decrease (increase) in regulatory assets   | (6,474 )                          | 3,922      |
| Increase (decrease) in accounts, interest and dividends payable                        | (7,122 )                          | 18,581     |
| Change in prepaid and accrued income taxes, tax credits and utility revenue taxes      | (32,006 )                         | 2,828      |
| Increase in defined benefit pension and other postretirement benefit plans liability   | 7,517                             | 670        |
| Change in other assets and liabilities   | 15,548                            | (22,311 )  |
| Net cash provided by operating activities  | 257,679                           | 320,114    |
| Cash flows from investing activities   |                                   |            |
| Available-for-sale investment securities purchased                                     | (190,411 )                        | (369,467 ) |
| Principal repayments on available-for-sale investment securities                       | 168,334                           | 155,026    |
| Purchases of held-to-maturity investment securities                                    | (62,096 )                         | —          |
| Principal repayments of held-to-maturity investment securities                         | 4,007                             | —          |
| Purchase of stock from Federal Home Loan Bank  | (9,933 )                          | (2,868 )   |
| Redemption of stock from Federal Home Loan Bank  | 11,480                            | 4,380      |
| Net decrease (increase) in loans held for investment                                   | (96,212 )                         | 13,188     |
| Proceeds from sale of commercial loans   | 7,149                             | 31,427     |
| Proceeds from sale of real estate acquired in settlement of loans                      | 589                               | 411        |
| Capital expenditures   | (404,984 )                        | (343,375 ) |
| Contributions in aid of construction   | 24,361                            | 40,603     |
| Contributions to low income housing investments  | (7,714 )                          | —          |
| Other  | 13,669                            | 1,345      |
| Net cash used in investing activities  | (541,761 )                        | (469,330 ) |
| Cash flows from financing activities   |                                   |            |
| Net increase in deposit liabilities  | 137,443                           | 203,397    |
| Net increase in short-term borrowings with original maturities of three months or less | 85,369                            | 24,498     |
| Net increase in retail repurchase agreements   | 32,626                            | 24,469     |
| Proceeds from other bank borrowings  | 237,000                           | 59,500     |
| Repayments of other bank borrowings  | (287,000 )                        | (123,034 ) |
| Proceeds from issuance of long-term debt   | 100,000                           | 265,000    |
|  | (1,867 )                          | (265,000 ) |

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|   |            |            |
|---|------------|------------|
| Repayment of long-term debt and funds transferred for redemption of special purpose revenue bonds |            |            |
| Withheld shares for employee taxes on vested share-based compensation                             | (996 )     | (3,796 )   |
| Common stock dividends  | (101,235 ) | (101,149 ) |
| Preferred stock dividends of subsidiaries   | (1,417 )   | (1,417 )   |
| Other   | (5,668 )   | (9,531 )   |
| Net cash provided by financing activities   | 194,255    | 72,937     |
| Net decrease in cash and cash equivalents   | (89,827 )  | (76,279 )  |
| Cash and cash equivalents, beginning of period  | 261,881    | 278,452    |
| Cash and cash equivalents, end of period  | \$172,054  | \$202,173  |

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

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

| (in thousands)   | Three months ended |           | Nine months ended |             |
|--|--------------------|-----------|-------------------|-------------|
|  | September 30       |           | September 30      |             |
|  | 2018               | 2017      | 2018              | 2017        |
| Revenues   | \$687,409          | \$598,769 | \$1,865,962       | \$1,674,255 |
| Expenses   |                    |           |                   |             |
| Fuel oil   | 206,551            | 146,258   | 545,236           | 431,787     |
| Purchased power  | 177,590            | 160,347   | 478,238           | 440,538     |
| Other operation and maintenance                              | 113,553            | 98,681    | 333,805           | 302,437     |
| Depreciation   | 50,983             | 48,206    | 151,810           | 144,578     |
| Taxes, other than income taxes                               | 64,696             | 56,780    | 176,324           | 159,575     |
| Total expenses   | 613,373            | 510,272   | 1,685,413         | 1,478,915   |
| Operating income   | 74,036             | 88,497    | 180,549           | 195,340     |
| Allowance for equity funds used during construction          | 1,962              | 3,482     | 8,239             | 8,908       |
| Retirement defined benefits expense—other than service costs | (682 )             | (1,421 )  | (2,934 )          | (4,279 )    |
| Interest expense and other charges, net                      | (18,968 )          | (16,907 ) | (54,822 )         | (52,625 )   |
| Allowance for borrowed funds used during construction        | 1,006              | 1,339     | 3,815             | 3,371       |
| Income before income taxes                                   | 57,354             | 74,990    | 134,847           | 150,715     |
| Income taxes   | 7,144              | 27,005    | 24,995            | 54,623      |
| Net income   | 50,210             | 47,985    | 109,852           | 96,092      |
| Preferred stock dividends of subsidiaries                    | 228                | 228       | 686               | 686         |
| Net income attributable to Hawaiian Electric                 | 49,982             | 47,757    | 109,166           | 95,406      |
| Preferred stock dividends of Hawaiian Electric               | 270                | 270       | 810               | 810         |
| Net income for common stock                                  | \$49,712           | \$47,487  | \$108,356         | \$94,596    |

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

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

Hawaiian Electric Company, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (unaudited)

| (in thousands)   | Three months ended |          | Nine months ended |           |
|--|--------------------|----------|-------------------|-----------|
|  | September 30       |          | September 30      |           |
|  | 2018               | 2017     | 2018              | 2017      |
| Net income for common stock  | \$49,712           | \$47,487 | \$108,356         | \$94,596  |
| Other comprehensive income (loss), net of taxes:   |                    |          |                   |           |
| Derivatives qualifying as cash flow hedges:  |                    |          |                   |           |
| Reclassification adjustment to net income, net of tax benefits of nil, nil, nil and \$289, respectively  | —                  | —        | —                 | 454       |
| Retirement benefit plans:  |                    |          |                   |           |
| Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of \$1,648, \$2,306, \$4,945 and \$6,916, respectively | 4,753              | 3,618    | 14,259            | 10,857    |
| Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of \$1,639, \$2,290, \$4,916 and \$6,872, respectively   | (4,725 )           | (3,596 ) | (14,174 )         | (10,790 ) |
| Other comprehensive income, net of taxes   | 28                 | 22       | 85                | 521       |
| Comprehensive income attributable to Hawaiian Electric Company, Inc.   | \$49,740           | \$47,509 | \$108,441         | \$95,117  |

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

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

| (dollars in thousands, except par value)  | September 30,<br>2018 | December 31,<br>2017 |
|---|-----------------------|----------------------|
| Assets  |                       |                      |
| Property, plant and equipment   |                       |                      |
| Utility property, plant and equipment   |                       |                      |
| Land  | \$ 53,515             | \$ 53,177            |
| Plant and equipment   | 6,720,046             | 6,401,040            |
| Less accumulated depreciation   | (2,567,708 )          | (2,476,352 )         |
| Construction in progress  | 193,086               | 263,094              |
| Utility property, plant and equipment, net  | 4,398,939             | 4,240,959            |
| Nonutility property, plant and equipment, less accumulated depreciation of \$1,254 as of September 30, 2018 and \$1,251 as of December 31, 2017 | 7,580                 | 7,580                |
| Total property, plant and equipment, net  | 4,406,519             | 4,248,539            |
| Current assets  |                       |                      |
| Cash and cash equivalents   | 7,224                 | 12,517               |
| Customer accounts receivable, net   | 178,785               | 127,889              |
| Accrued unbilled revenues, net  | 127,702               | 107,054              |
| Other accounts receivable, net  | 3,378                 | 7,163                |
| Fuel oil stock, at average cost   | 91,822                | 86,873               |
| Materials and supplies, at average cost   | 58,507                | 54,397               |
| Prepayments and other   | 60,732                | 25,355               |
| Regulatory assets   | 89,430                | 88,390               |
| Total current assets  | 617,580               | 509,638              |
| Other long-term assets  |                       |                      |
| Regulatory assets   | 741,494               | 780,907              |
| Other   | 116,534               | 91,529               |
| Total other long-term assets  | 858,028               | 872,436              |
| Total assets  | \$ 5,882,127          | \$ 5,630,613         |
| Capitalization and liabilities  |                       |                      |
| Capitalization  |                       |                      |
| Common stock (\$6 2/3 par value, authorized 50,000,000 shares; outstanding 16,142,216 shares at September 30, 2018 and December 31, 2017)       | \$ 107,634            | \$ 107,634           |
| Premium on capital stock  | 614,667               | 614,675              |
| Retained earnings   | 1,155,070             | 1,124,193            |
| Accumulated other comprehensive loss, net of tax benefits   | (1,134 )              | (1,219 )             |
| Common stock equity   | 1,876,237             | 1,845,283            |
| Cumulative preferred stock — not subject to mandatory redemption  | 34,293                | 34,293               |
| Long-term debt, net   | 1,418,631             | 1,318,516            |
| Total capitalization  | 3,329,161             | 3,198,092            |
| Commitments and contingencies (Note 3)  |                       |                      |
| Current liabilities   |                       |                      |
| Current portion of long-term debt   | 49,993                | 49,963               |
| Short-term borrowings from non-affiliates   | 85,913                | 4,999                |
| Accounts payable  | 122,932               | 159,610              |
| Interest and preferred dividends payable  | 28,258                | 22,575               |
| Taxes accrued, including revenue taxes  | 195,776               | 199,101              |
| Regulatory liabilities  | 10,159                | 3,401                |

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|  |              |              |
|--|--------------|--------------|
| Other  | 81,054       | 59,456       |
| Total current liabilities  | 574,085      | 499,105      |
| Deferred credits and other liabilities                                   |              |              |
| Deferred income taxes  | 401,069      | 394,041      |
| Regulatory liabilities   | 922,193      | 877,369      |
| Unamortized tax credits  | 93,073       | 90,369       |
| Defined benefit pension and other postretirement benefit plans liability | 460,279      | 472,948      |
| Other  | 102,267      | 98,689       |
| Total deferred credits and other liabilities                             | 1,978,881    | 1,933,416    |
| Total capitalization and liabilities                                     | \$ 5,882,127 | \$ 5,630,613 |

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

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## Hawaiian Electric Company, Inc. and Subsidiaries

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

|  | Common stock |           | Premium<br>on<br>capital<br>stock | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Total       |
|--|--------------|-----------|-----------------------------------|----------------------|--|-------------|
| (in thousands)                           | Shares       | Amount    |                                   |                      |  |             |
| Balance, December 31, 2017               | 16,142       | \$107,634 | \$614,675                         | \$1,124,193          | \$ (1,219 )  | \$1,845,283 |
| Net income for common stock              | —            | —         | —                                 | 108,356              | —  | 108,356     |
| Other comprehensive income, net of taxes | —            | —         | —                                 | —                    | 85   | 85          |
| Common stock dividends                   | —            | —         | —                                 | (77,479 )            | —  | (77,479 )   |
| Common stock issuance expenses           | —            | —         | (8 )                              | —                    | —  | (8 )        |
| Balance, September 30, 2018              | 16,142       | \$107,634 | \$614,667                         | \$1,155,070          | \$ (1,134 )  | \$1,876,237 |
| Balance, December 31, 2016               | 16,020       | \$106,818 | \$601,491                         | \$1,091,800          | \$ (322 )  | \$1,799,787 |
| Net income for common stock              | —            | —         | —                                 | 94,596               | —  | 94,596      |
| Other comprehensive income, net of taxes | —            | —         | —                                 | —                    | 521  | 521         |
| Common stock dividends                   | —            | —         | —                                 | (65,825 )            | —  | (65,825 )   |
| Common stock issuance expenses           | —            | —         | (4 )                              | —                    | —  | (4 )        |
| Balance, September 30, 2017              | 16,020       | \$106,818 | \$601,487                         | \$1,120,571          | \$ 199   | \$1,829,075 |

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

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

|  | Nine months ended<br>September 30 |           |
|--|-----------------------------------|-----------|
| (in thousands)   | 2018                              | 2017      |
| Cash flows from operating activities   |                                   |           |
| Net income   | \$ 109,852                        | \$ 96,092 |
| Adjustments to reconcile net income to net cash provided by operating activities   |                                   |           |
| Depreciation of property, plant and equipment  | 151,810                           | 144,578   |
| Other amortization   | 19,823                            | 6,118     |
| Deferred income taxes  | 12,835                            | 29,537    |
| Allowance for equity funds used during construction  | (8,239 )                          | (8,908 )  |
| Other  | (1,952 )                          | 526       |
| Changes in assets and liabilities  |                                   |           |
| Increase in accounts receivable  | (53,139 )                         | (8,087 )  |
| Increase in accrued unbilled revenues  | (20,648 )                         | (18,014 ) |
| Decrease (increase) in fuel oil stock  | (4,949 )                          | 6,177     |
| Increase in materials and supplies   | (4,110 )                          | (2,280 )  |
| Decrease (increase) in regulatory assets   | (6,474 )                          | 3,922     |
| Increase (decrease) in accounts payable  | (8,712 )                          | 6,130     |
| Change in prepaid and accrued income taxes, tax credits and revenue taxes  | (37,137 )                         | 5,291     |
| Increase in defined benefit pension and other postretirement benefit plans liability                                     | 5,888                             | 453       |
| Change in other assets and liabilities   | 38,874                            | (2,662 )  |
| Net cash provided by operating activities  | 193,722                           | 258,873   |
| Cash flows from investing activities   |                                   |           |
| Capital expenditures   | (334,730 )                        | (306,975) |
| Contributions in aid of construction   | 24,361                            | 40,603    |
| Other  | 9,811                             | 8,114     |
| Net cash used in investing activities  | (300,558 )                        | (258,258) |
| Cash flows from financing activities   |                                   |           |
| Common stock dividends   | (77,479 )                         | (65,825 ) |
| Preferred stock dividends of Hawaiian Electric and subsidiaries  | (1,496 )                          | (1,496 )  |
| Proceeds from issuance of long-term debt   | 100,000                           | 265,000   |
| Funds transferred for redemption of special purpose revenue bonds  | —                                 | (265,000) |
| Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less | 80,914                            | 6,000     |
| Other  | (396 )                            | (3,593 )  |
| Net cash provided by (used in) financing activities  | 101,543                           | (64,914 ) |
| Net decrease in cash and cash equivalents  | (5,293 )                          | (64,299 ) |
| Cash and cash equivalents, beginning of period   | 12,517                            | 74,286    |
| Cash and cash equivalents, end of period   | \$ 7,224                          | \$ 9,987  |

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



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 · Basis of presentation

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

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

Recent accounting pronouncements.

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

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

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

- Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.

- Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.

- Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables).

- Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost.

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

Cash flows. In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which provides guidance on eight specific cash flow issues - debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims,

proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies), distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

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

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

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

Additionally, only the service cost component is eligible for capitalization under GAAP, when applicable.

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

The PUC approved in the Utilities' rate cases, stipulated agreements to defer non-service cost components of NPPC and NPBC, which would have been capitalized prior to ASU No. 2017-07, as part of each utility's pension tracking mechanisms. Such treatment is effective starting in 2018 and continues until each utility's next rate case. In each utility's next rate case, rates established would include recovery of the deferred non-service cost components and each utility plans to seek to capitalize only the service components of NPPC and NPBC going forward, which reflects the requirements of ASU No. 2017-07.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)  | Three months ended<br>September 30, 2017 |  |                             | Nine months ended<br>September 30, 2017 |  |                          |
|---|--|--|-----------------------------|---|--|--------------------------|
|   | As<br>previously<br>filed                | Adjustment<br>from<br>adoption<br>of ASU<br>No.<br>2017-07 | As<br>currently<br>reported | As<br>previously<br>filed               | Adjustment<br>from<br>adoption<br>of ASU<br>No.<br>2017-07 | As currently<br>reported |
| <b>HEI Condensed Consolidated Income Statement</b>                            |  |  |                             |   |  |                          |
| <b>Expenses</b>   |  |  |                             |   |  |                          |
| Electric utility  | \$511,693                                | \$ (1,421 )  | \$510,272                   | \$1,483,194                             | \$ (4,279 )  | \$1,478,915              |
| Bank  | 47,525                                   | (212 )   | 47,313                      | 146,754                                 | (608 )   | 146,146                  |
| Other   | 4,422                                    | (295 )   | 4,127                       | 13,777                                  | (823 )   | 12,954                   |
| Total expenses  | 563,640                                  | (1,928 )   | 561,712                     | 1,643,725                               | (5,710 )   | 1,638,015                |
| <b>Operating income</b>   |  |  |                             |   |  |                          |
| Electric utility  | 87,076                                   | 1,421  | 88,497                      | 191,061                                 | 4,279  | 195,340                  |
| Bank  | 26,764                                   | 212  | 26,976                      | 75,720                                  | 608  | 76,328                   |
| Other   | (4,295 )                                 | 295  | (4,000 )                    | (13,478 )                               | 823  | (12,655 )                |
| Total operating income  | 109,545                                  | 1,928  | 111,473                     | 253,303                                 | 5,710  | 259,013                  |
| Retirement defined benefits expense--other than service costs                 | —  | (1,928 )   | (1,928 )                    | —                                       | (5,710 )   | (5,710 )                 |
| <b>Hawaiian Electric Condensed Consolidated Income Statement</b>              |  |  |                             |   |  |                          |
| Other operation and maintenance   | 100,102                                  | (1,421 )   | 98,681                      | 306,716                                 | (4,279 )   | 302,437                  |
| Total expense   | 511,693                                  | (1,421 )   | 510,272                     | 1,483,194                               | (4,279 )   | 1,478,915                |
| Operating income  | 87,076                                   | 1,421  | 88,497                      | 191,061                                 | 4,279  | 195,340                  |
| Retirement defined benefits expense--other than service costs                 | —  | (1,421 )   | (1,421 )                    | —                                       | (4,279 )   | (4,279 )                 |
| <b>Hawaiian Electric Condensed Consolidating Income Statement (in Note 3)</b> |  |  |                             |   |  |                          |
| <b>Hawaiian Electric (parent only)</b>  |  |  |                             |   |  |                          |
| Other operation and maintenance   | 66,221                                   | (1,225 )   | 64,996                      | 204,460                                 | (3,812 )   | 200,648                  |
| Total expense   | 367,619                                  | (1,225 )   | 366,394                     | 1,058,382                               | (3,812 )   | 1,054,570                |
| Operating income  | 61,648                                   | 1,225  | 62,873                      | 128,142                                 | 3,812  | 131,954                  |
| Retirement defined benefits expense--other than service costs                 | —  | (1,225 )   | (1,225 )                    | —                                       | (3,812 )   | (3,812 )                 |
| <b>Hawaii Electric Light</b>  |  |  |                             |   |  |                          |
| Other operation and maintenance   | 16,593                                   | 15   | 16,608                      | 49,667                                  | 183  | 49,850                   |
| Total expense   | 71,292                                   | 15   | 71,307                      | 212,692                                 | 183  | 212,875                  |
| Operating income  | 13,042                                   | (15 )  | 13,027                      | 32,334                                  | (183 )   | 32,151                   |
| Retirement defined benefits expense--other than service costs                 | —  | 15   | 15                          | —                                       | 183  | 183                      |
| <b>Maui Electric</b>  |  |  |                             |   |  |                          |
| Other operation and maintenance   | 17,288                                   | (211 )   | 17,077                      | 52,589                                  | (650 )   | 51,939                   |
| Total expense   | 72,782                                   | (211 )   | 72,571                      | 212,120                                 | (650 )   | 211,470                  |
| Operating income  | 12,416                                   | 211  | 12,627                      | 30,636                                  | 650  | 31,286                   |

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|   |        |      |          |        |      |          |   |
|---|--------|------|----------|--------|------|----------|---|
| Retirement defined benefits expense--other than service costs | —      | (211 | ) (211   | ) —    | (650 | ) (650   | ) |
| ASB Statements of Income Data (in Note 4)                     |        |      |          |        |      |          |   |
| Compensation and employee benefits                            | 23,724 | (212 | ) 23,512 | 71,703 | (608 | ) 71,095 |   |
| Other expense   | 5,050  | 212  | 5,262    | 14,066 | 608  | 14,674   |   |

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

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

The Company plans to adopt ASU No. 2016-02 in the first quarter of 2019 and is currently analyzing the potential impact of adoption. The Company plans to elect the practical expedient package provided by the new standard under which the Company will not have to reassess whether any expired or existing contracts are or contain leases, whether there is a change in lease classification for any expired or existing leases under the new standard, or whether there were initial direct costs for any existing leases that would be treated differently under the new standard. The Company also plans to elect the additional adoption method to initially apply the new requirements as of the effective date, i.e., January 1, 2019, by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Additionally, the Company will continue to report comparative periods presented in the financial statements in the period of adoption under ASC 840, including the required disclosures under ASC 840.

The Company is in the process of analyzing the measurement provisions of the new standard and their impact on its existing lease arrangements that fall within the scope of ASU No. 2016-02.

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Compensation-defined benefit plans. In August 2018, the FASB issued ASU 2018-14, “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans,” that makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. The new guidance eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new ones that the FASB considers pertinent. ASU No. 2018-14 is effective for fiscal years ending after December 15, 2020. The Company is evaluating the impact of the adoption of ASU No. 2018-14 on its financial statement disclosures, but does not expect it to have a material impact.

Cloud computing implementation costs. In August 2018, the FASB issued ASU 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,” which requires a customer in a cloud computing arrangement that is a service contract to follow the internal use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets. Capitalized implementation costs related to a hosting arrangement that is a service contract will be amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. ASU No. 2018-15 is effective for fiscal years beginning after December 15, 2019. The Company is evaluating the impact of the adoption of ASU No. 2018-15 on its consolidated financial statements.

Condensed Consolidated Statements of Cash Flows error. Subsequent to the issuance of interim Condensed Consolidated Financial Statements (unaudited) for the quarter ended September 30, 2017, the Company and the Utilities identified an error within their previously reported interim Condensed Consolidated Statements of Cash Flows (unaudited). The timing of certain capital expenditure payments, including those that had retainage balances or were related to certain capitalized amounts were not reflected timely. The Company and the Utilities have evaluated the effect of the error, both qualitatively and quantitatively, and concluded that it is immaterial to their respective previously issued condensed consolidated financial statements. For the nine months ended September 30, 2017, the correction of this error resulted in increases in Net Cash Provided by Operating Activities (impacting the change in Accounts, Interest and Dividends Payable for the Company and Accounts Payable for the Utilities) and Net Cash Used in Investing Activities (impacting the Capital Expenditures for the Company and the Utilities) of \$29 million. Reclassifications. Reclassifications made to prior year-end financial statements to conform to 2018 presentation include a reclassification of contributions in aid of construction (CIAC) balances to “Property, plant and equipment, net” and “Total property, plant and equipment, net” for the Company and Hawaiian Electric, respectively, which reduced the amounts of the respective balances.



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

## Note 2 - Segment financial information

| (in thousands)                            | Electric utility | Bank         | Other      | Total         |
|---|------------------|--------------|------------|---------------|
| Three months ended September 30, 2018     |                  |              |            |               |
| Revenues from external customers          | \$ 687,396       | \$ 80,496    | \$ 156     | \$ 768,048    |
| Intersegment revenues (eliminations)      | 13               | —            | (13)       | ) —           |
| Revenues                                  | \$ 687,409       | \$ 80,496    | \$ 143     | \$ 768,048    |
| Income (loss) before income taxes         | \$ 57,354        | \$ 26,831    | \$(6,952)  | ) \$ 77,233   |
| Income taxes (benefit)                    | 7,144            | 5,610        | (1,892)    | ) 10,862      |
| Net income (loss)                         | 50,210           | 21,221       | (5,060)    | ) 66,371      |
| Preferred stock dividends of subsidiaries | 498              | —            | (27)       | ) 471         |
| Net income (loss) for common stock        | \$ 49,712        | \$ 21,221    | \$(5,033)  | ) \$ 65,900   |
| Nine months ended September 30, 2018      |                  |              |            |               |
| Revenues from external customers          | \$ 1,865,922     | \$ 233,019   | \$ 258     | \$ 2,099,199  |
| Intersegment revenues (eliminations)      | 40               | —            | (40)       | ) —           |
| Revenues                                  | \$ 1,865,962     | \$ 233,019   | \$ 218     | \$ 2,099,199  |
| Income (loss) before income taxes         | \$ 134,847       | \$ 77,845    | \$(22,601) | ) \$ 190,091  |
| Income taxes (benefit)                    | 24,995           | 17,103       | (5,625)    | ) 36,473      |
| Net income (loss)                         | 109,852          | 60,742       | (16,976)   | ) 153,618     |
| Preferred stock dividends of subsidiaries | 1,496            | —            | (79)       | ) 1,417       |
| Net income (loss) for common stock        | \$ 108,356       | \$ 60,742    | \$(16,897) | ) \$ 152,201  |
| Total assets (at September 30, 2018)      | \$ 5,882,127     | \$ 6,929,456 | \$ 99,971  | \$ 12,911,554 |
| Three months ended September 30, 2017     |                  |              |            |               |
| Revenues from external customers          | \$ 598,756       | \$ 74,289    | \$ 140     | \$ 673,185    |
| Intersegment revenues (eliminations)      | 13               | —            | (13)       | ) —           |
| Revenues                                  | \$ 598,769       | \$ 74,289    | \$ 127     | \$ 673,185    |
| Income (loss) before income taxes         | \$ 74,990        | \$ 26,764    | \$(6,615)  | ) \$ 95,139   |
| Income taxes (benefit)                    | 27,005           | 9,172        | (1,582)    | ) 34,595      |
| Net income (loss)                         | 47,985           | 17,592       | (5,033)    | ) 60,544      |
| Preferred stock dividends of subsidiaries | 498              | —            | (27)       | ) 471         |
| Net income (loss) for common stock        | \$ 47,487        | \$ 17,592    | \$(5,006)  | ) \$ 60,073   |
| Nine months ended September 30, 2017      |                  |              |            |               |
| Revenues from external customers          | \$ 1,674,158     | \$ 222,474   | \$ 396     | \$ 1,897,028  |
| Intersegment revenues (eliminations)      | 97               | —            | (97)       | ) —           |
| Revenues                                  | \$ 1,674,255     | \$ 222,474   | \$ 299     | \$ 1,897,028  |
| Income (loss) before income taxes         | \$ 150,715       | \$ 75,720    | \$(20,088) | ) \$ 206,347  |
| Income taxes (benefit)                    | 54,623           | 25,582       | (8,202)    | ) 72,003      |
| Net income (loss)                         | 96,092           | 50,138       | (11,886)   | ) 134,344     |
| Preferred stock dividends of subsidiaries | 1,496            | —            | (79)       | ) 1,417       |
| Net income (loss) for common stock        | \$ 94,596        | \$ 50,138    | \$(11,807) | ) \$ 132,927  |
| Total assets (at December 31, 2017)       | \$ 5,630,613     | \$ 6,798,659 | \$ 104,888 | \$ 12,534,160 |

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

Bank fees that ASB charges the Utilities and “other” segments are not eliminated because those segments would pay fees to another financial institution if they were to bank with another institution and the profit on such fees is nominal. Hamakua Energy’s sales to Hawaii Electric Light (a regulated affiliate) are eliminated in consolidation.

Note 3 · Electric utility segment

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Revenue taxes. The Utilities' revenues include amounts for recovery of various Hawaii state revenue taxes. Revenue taxes are generally recorded as an expense in the period the related revenues are recognized. For the third quarters of 2018 and 2017 and the nine months ended September 30, 2018 and 2017, the Utilities' revenues include recovery of revenue taxes of approximately \$61 million, \$54 million, \$166 million and \$150 million, respectively, which amounts are included in "Taxes, other than income taxes" expense, in the unaudited condensed consolidated statements of income. However, the Utilities pay revenue taxes to the taxing authorities in the period based on (1) the prior year's billed revenues (in the case of public service company taxes and PUC fees) in the current year or (2) the current year's cash collections from electric sales (in the case of franchise taxes) after year-end.

HECO Capital Trust III. Trust III, a statutory trust, which was formed to effect the issuance of \$50 million of cumulative quarterly income preferred securities in 2004, has at all times been an unconsolidated subsidiary of Hawaiian Electric. Trust III's balance sheets as of September 30, 2018 and December 31, 2017 each consisted of \$51.5 million of 2004 Debentures; \$50 million of 2004 Trust Preferred Securities; and \$1.5 million of trust common securities. Trust III's income statements for the nine months ended September 30, 2018 and 2017 consisted of \$2.5 million of interest income received from the 2004 Debentures; \$2.4 million of distributions to holders of the Trust Preferred Securities; and \$75,000 of common dividends on the trust common securities to Hawaiian Electric.

Unconsolidated variable interest entities.

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Commitments and contingencies.

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

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

|                         | Three<br>months<br>ended<br>September<br>30 |       | Nine<br>months<br>ended<br>September<br>30 |       |
|-------------------------|---|-------|--|-------|
| (in millions)           | 2018  | 2017  | 2018                                       | 2017  |
| Kalaeloa                | \$62  | \$48  | \$154                                      | \$136 |
| AES Hawaii              | 38  | 39    | 107  | 103   |
| HPOWER                  | 19  | 18    | 51   | 51    |
| Puna Geothermal Venture | —   | 10    | 15   | 28    |
| Hamakua Energy          | 17  | 8     | 39   | 25    |
| Other IPPs <sup>1</sup> | 41  | 38    | 112  | 98    |
| Total IPPs              | \$177                                       | \$161 | \$478                                      | \$441 |

<sup>1</sup> Includes wind power, solar power, feed-in tariff projects and other PPAs.

Kalaeloa Partners, L.P. Under a 1988 PPA, as amended, Hawaiian Electric is committed to purchase 208 MW of firm capacity from Kalaeloa. Hawaiian Electric and Kalaeloa are currently in negotiations to address the PPA term that ended on May 23, 2016. The PPA automatically extends on a month-to-month basis as long as the parties are still negotiating in good faith, but would end 60 days after either party notifies the other in writing that negotiations have terminated. Hawaiian Electric and Kalaeloa have agreed that neither party will terminate the PPA prior to October 31, 2019. This agreement contemplates continued negotiations between the parties and accounts for time needed for PUC approval of a negotiated resolution.

AES Hawaii, Inc. Under a PPA entered into in March 1988, as amended (through Amendment No. 2) for a period of 30 years beginning September 1992, Hawaiian Electric agreed to purchase 180 MW of firm capacity from AES Hawaii. In August 2012, Hawaiian Electric filed an application with the PUC seeking an exemption from the PUC's Competitive Bidding Framework to negotiate an amendment to the PPA to purchase 186 MW of firm capacity, and amend the energy pricing formula in the PPA. The PUC approved the exemption in April 2013, but Hawaiian Electric and AES Hawaii were not able to reach agreement on the amendment. In June 2015, AES Hawaii filed an arbitration demand regarding a dispute about whether Hawaiian Electric was obligated to buy up to 9 MW of additional capacity based on a 1992 letter. Hawaiian Electric responded to the arbitration demand and in October 2015, AES Hawaii and Hawaiian Electric entered into a settlement agreement to stay the arbitration proceeding. The settlement agreement included certain conditions precedent which, if satisfied, would have released the parties from the claims under the arbitration proceeding. Among the conditions precedent was the successful negotiation and PUC approval of an amendment to the existing PPA.

In November 2015, Hawaiian Electric entered into Amendment No. 3 for which PUC approval was requested and subsequently denied in January 2017. Approval of Amendment No. 3 would have satisfied the final condition for effectiveness of the settlement agreement and resolved AES Hawaii's claims. Following the PUC's decision, the parties agreed to extend the stay of the arbitration proceeding, while settlement discussions continued. In February 2018, Hawaiian Electric reached agreement with AES Hawaii on Amendment No. 4, which was submitted to the PUC for approval in April 2018. Amendment No. 4, among other things, provides (1) that AES Hawaii will make certain

operational commitments to improve reliability, (2) for inclusion of AES Hawaii in the Utilities' greenhouse gas partnership, (3) provisions to allow AES Hawaii to reduce coal combustion by modifying its fuel consumption to include biomass upon approval by Hawaiian Electric, and (4) for release of an option agreement by Hawaiian Electric for land owned by AES Hawaii. Amendment No. 4 includes a stay of the arbitration proceeding pending review by the PUC. If approved by the PUC, Amendment No. 4 will resolve AES Hawaii's claims. In June 2018, the PUC issued an order suspending the Amendment No. 4 docket pending a DOH decision on AES' request for approval of its Emission Reduction Plan and partnership with Hawaiian Electric.

Hu Honua Bioenergy, LLC. In May 2012, Hawaii Electric Light signed a PPA, which the PUC approved in December 2013, with Hu Honua Bioenergy, LLC (Hu Honua) for 21.5 MW of renewable, dispatchable firm capacity fueled by locally grown biomass from a facility on the island of Hawaii. Under the terms of the PPA, the Hu Honua plant was scheduled to be in service in 2016. However, Hu Honua encountered construction delays, failed to meet its obligations under the PPA and failed to provide adequate assurances that it could perform or had the financial means to perform. Hawaii Electric Light terminated the PPA on March 1, 2016. On November 30, 2016, Hu Honua filed a civil complaint in the United States District Court for the District of Hawaii that included claims purportedly arising out of the termination of Hu Honua's PPA. On May 26, 2017,

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Hawaii Electric Light and Hu Honua entered into a settlement agreement that will settle all claims related to the termination of the original PPA. The settlement agreement was contingent on the PUC's approval of an amended and restated PPA between Hawaii Electric Light and Hu Honua dated May 5, 2017. In July 2017, the PUC approved the amended and restated PPA. On August 25, 2017, the PUC's approval was appealed by a third party. The appeal is still pending. Hu Honua is expected to be on-line by the end of 2018.

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

Enterprise Resource Planning/Enterprise Asset Management (ERP/EAM) implementation project. On August 11, 2016, the PUC approved the Utilities' request to commence the ERP/EAM implementation project, subject to certain conditions, including a \$77.6 million cap on cost recovery as well as a requirement that the Utilities pass onto customers a minimum of \$244 million in benefits associated with the system over its 12-year service life. The D&O approved the deferral of certain project costs and allowed the accrual of allowance for funds used during construction (AFUDC), but limited the AFUDC rate to 1.75%. Pursuant to the D&O and subsequent orders, in 2017 and 2018, the Utilities filed project justification, status and cost reports; bottom-up, low-level analyses of the project's benefits; and proposed performance metrics and tracking mechanism for passing the project's benefits on to customers.

Over the past years, the Utilities collaborated with the Consumer Advocate to reach substantive agreement regarding the approach for delivering the \$244 million in system benefits to customers. On September 17, 2018, Utilities provided the Consumer Advocate with their final drafts of the rate case-centric benefit delivery mechanism and ERP/EAM annual enterprise systems benefits report for its review. The parties will file these documents with the PUC upon final agreement.

Monthly reports on the status and costs of the project continue to be filed. The ERP/EAM Implementation Project went live in October 2018. In the Hawaiian Electric 2017 rate case, a settlement agreement approved by the PUC included authorization for the deferred project costs to accrue a return at 1.75% after the project goes into service and until the deferred project costs are included in rate base, and for amortization of the deferred costs to not begin until the amortization expense is incorporated in rates and the unamortized deferred project costs are included in rate base. As of September 30, 2018, the Project incurred costs of \$73.3 million of which \$12.9 million were charged to other operation and maintenance (O&M) expense, \$2.6 million relate to capital costs and \$57.8 million are deferred costs. Schofield Generating Station Project. In June 2018, Hawaiian Electric placed into service a 50 MW utility owned and operated firm, renewable and dispatchable generation facility at Schofield Barracks. The project is located on land leased from the U.S. Army under a 35-year lease. PUC orders resulted in a project cost cap of \$157.3 million of which capital costs up to \$141.6 million (90% of the cost cap) are recoverable through the Major Project Interim Recovery (MPIR) adjustment mechanism. Recovery of capital costs under the MPIR adjustment mechanism was approved by the PUC on June 27, 2018. (See "Decoupling" section below for MPIR guidelines and capital cost recovery discussion.) A decision on recovery of related incremental operation and maintenance expense (approximately \$1.8 million annualized) during the interim period (i.e., between the in-service date and the next rate case) is pending. Project costs incurred as of September 30, 2018 amounted to \$142.5 million. Cost recovery of capital costs in excess of \$141.6 million is to be addressed in the next general 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 on property owned by the Department of the Navy. In June 2017, the PUC approved the expenditure of funds for the project, including Hawaiian Electric's proposed project cost cap of \$67 million and a performance guarantee to provide energy at 9.56 cents/KWH or less to the system.

In approving the project, the PUC agreed that the project is eligible for recovery of costs offset by related net benefits under the newly-established MPIR adjustment mechanism. (See "Decoupling" section below for MPIR guidelines and

capital cost recovery discussion.) Hawaiian Electric has provided supplemental materials, as requested by the PUC, to support meeting the MPIR guidelines, accompanied by system performance guarantee and cost savings sharing mechanisms. A decision on these matters is pending.

Hawaiian Electric executed a fixed-price Engineering, Procurement, and Construction (EPC) contract for the project on December 6, 2017. The EPC contract includes the cost of the solar panels for the project, which is not subject to modification due to any tariffs that may be imposed under the current photovoltaic (PV) cell and module import tariffs. Construction of the facility began in the second quarter of 2018, and the facility is expected to be placed in service in the second quarter of 2019. Project costs incurred as of September 30, 2018 amounted to \$28.6 million.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Hawaiian Telcom. The Utilities each had 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 allowed 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 maintained, replaced and installed the majority of the jointly-owned poles in each of the respective service territories, and billed the other joint pole owners for their respective share of the costs. The counties and the State had been reimbursing the Utilities for their share of the costs. However, Hawaiian Telcom had been delinquent in reimbursing the Utilities for its share of the costs.

Hawaiian Telcom's delinquency will be resolved by new agreements with Hawaiian Telcom approved by the PUC in October 2018. These new agreements provide for the purchase by the Utilities of Hawaiian Telcom's interest in all the joint poles, and licensing and operating agreements between the Utilities and Hawaiian Telcom subsequent to the transfer of the joint pole interest to the Utilities. The Utilities' consideration of approximately \$48 million for acquiring Hawaiian Telcom's interest in the poles will be offset in part by the receivables owed by Hawaiian Telcom to the Utilities. As of September 30, 2018, receivables from Hawaiian Telcom under the joint pole agreement, net of a reserve for a portion of the interest, were \$17.4 million (\$11.6 million at Hawaiian Electric, \$4.7 million at Hawaii Electric Light, and \$1.1 million at Maui Electric). The remaining consideration for acquiring Hawaiian Telcom's interest in the joint poles will be settled through the set-off of current and future license fees due from Hawaiian Telcom, after which Hawaiian Telcom would make cash payments for license fees under the agreement.

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

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

Former Molokai Electric Company generation site. In 1989, Maui Electric acquired by merger Molokai Electric Company. Molokai Electric Company had sold its former generation site (Site) in 1983, but continued to operate at the Site under a lease until 1985. The Environmental Protection Agency (EPA) has since identified environmental impacts in the subsurface soil at the Site. Although Maui Electric never operated at the Site or owned the Site property, after discussions with the EPA and the Hawaii Department of Health (DOH), Maui Electric agreed to undertake additional investigations at the Site and an adjacent parcel that Molokai Electric Company had used for equipment storage (the Adjacent Parcel) to determine the extent of environmental contamination. A 2011 assessment by a Maui Electric contractor of the Adjacent Parcel identified environmental impacts, including elevated polychlorinated biphenyls (PCBs) in the subsurface soils. In cooperation with the DOH and EPA, Maui Electric is further investigating the Site and the Adjacent Parcel to determine the extent of impacts of PCBs, residual fuel oils and other subsurface contaminants. Maui Electric has a reserve balance of \$2.7 million as of September 30, 2018, representing the probable and reasonably estimable 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 Waiiau 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 Waiiau Power Plant. Hawaiian Electric submitted a sampling and analysis (SAP) work plan to the EPA and the DOH. Onshore sampling at the Waiiau Power Plant was completed in two phases in December 2015 and June 2016. Appropriate remedial measures are being developed to address the extent of the onshore contamination, and any associated costs have not yet been determined.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

As of September 30, 2018, the reserve account balance recorded by Hawaiian Electric to address the PCB contamination was \$4.6 million. The reserve represents the probable and reasonably estimable cost to complete the onshore and offshore investigations and the remediation of PCB contamination in the offshore sediment. The final remediation costs will depend on the assessment of potential source control requirements, as well as the further investigation of contaminated sediment offshore from the Waiiau Power Plant by the Navy.

## Regulatory proceedings

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

**Rate adjustment mechanism.** The RAM is based on the lesser of: a) an inflationary adjustment for certain O&M expenses and return on investment for certain rate base changes, or b) cumulative annual compounded increase in Gross Domestic Product Price Index applied to annualized target revenues (the RAM Cap). Annualized target revenues reset upon the issuance of an interim or final D&O in a rate case.

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

✶Hawaiian Electric's RAM revenues were limited to the RAM Cap in 2017 and 2018.

✶Maui Electric's RAM revenues in 2017 and 2018 were below the RAM Cap.

✶Hawaii Electric Light's RAM revenues in 2017 and 2018 were below the RAM Cap.

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

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

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

The PUC has approved recovery of capital costs under the MPIR for Schofield generation station, which would adjust revenues in July through December 2018 by \$3.4 million and be collected in customer bills beginning in June 2019. A decision on recovery of related incremental O&M expenses is pending. In February 2019, Hawaiian Electric will file an MPIR for 2019 (which will accrue effective January 1, 2019) which will include the 2019 return on project amount (up to the capped amount) in rate base, depreciation and incremental O&M expenses (if approved for recovery by the PUC), for collection from June 2020 through May 2021.

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

• Service Quality performance incentives are measured on a calendar-year basis beginning in 2018.

• Service Reliability Performance measured by System Average Interruption Duration and Frequency Indexes (penalties only). Target performance is based on each utility's historical 10-year average performance with a

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

deadband of one standard deviation. The maximum penalty for each performance index is 20 basis points applied to the common equity share of each respective utility's approved rate base (or maximum penalties of approximately \$6.7 million - for both indices in total for the three utilities).

Call Center Performance measured by the percentage of calls answered within 30 seconds. Target performance is based on the annual average performance for each utility for the most recent 8 quarters with a deadband of 3% above and below the target. The maximum penalty or incentive is 8 basis points applied to the common equity share of each respective utility's approved rate base (or maximum penalties or incentives of approximately \$1.3 million - in total for the three utilities).

Demand Response measured by the demand response resources acquired in 2018. The award is up to 5% of the aggregate annual contract value for cost-effective demand response capability contracted with aggregators by December 31, 2018. The maximum award is \$0.5 million for the three utilities in total and there are no penalties. This incentive applies to one-time performance in 2018 only.

Procurement of low-cost variable renewable resources through the request for proposal process in 2018 measured by comparison of the procurement price to target prices. The incentive is a percentage of the savings determined by comparing procured price to a target of 11.5 cents per kilowatt-hour for renewable projects with storage capability and 9.5 cents per kilowatt-hour for energy-only renewable projects. There are two phases to this incentive. Phase 1 has an incentive of 20% of the savings for purchased power agreements filed by December 31, 2018 and subsequently approved by the PUC, with a cap of \$3.5 million for the three utilities in total. Phase 2 has scaled incentives of 15%, 10% and 5% of the savings for purchased power agreements filed in January, February and March 2019, respectively, and subsequently approved by the PUC, with a cap of \$3 million for the three utilities in total. There are no penalties. Annual decoupling filings. The net annual incremental amounts to be collected (refunded) from June 1, 2018 through May 31, 2019 are as follows:

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

\* The 2018 annual RAM adjusted revenues for Maui Electric terminated on August 23, 2018, the effective date of interim increase tariff rates that were implemented pursuant to the Interim D&O issued in the Maui Electric consolidated 2015 and 2018 rate case.

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

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

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

• Greater cost control and reduced rate volatility;

• Efficient investment and allocation of resources regardless of classification as capital or operating expense;

• Fair distribution of risks between utilities and customers; and

• Fulfillment of State policy goals.

Through this investigation, the PUC intends to: (1) identify specific areas of utility performance that should be improved; (2) determine appropriate metrics for measuring successful outcomes in those areas; and (3) establish reasonable financial rewards and/or penalties that are sufficient to incent the utility to achieve those outcomes. The proceeding has two phases. Phase 1 examines the current regulatory framework and identifies those areas of utility performance that are deserving of further focus in Phase 2. The PUC provided staff reports to the parties, held technical workshops and the parties filed briefs on: 1) goals and outcomes and 2) assessment of the existing regulatory framework. Metrics will be discussed in late 2018, to be followed by a PUC staff proposal, parties' statements of position, and a PUC order related to Phase 1, which is expected after March 2019. Phase 2 will address design and implementation of performance incentive mechanisms, revenue adjustment mechanisms and other regulatory reforms.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

Most recent rate proceedings.

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

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

Maui Electric consolidated 2015 and 2018 test year rate cases. In December 2014, Maui Electric submitted its 2015 test year rate case filing, proposing no change to its base rates. In August 2017, the PUC issued an order consolidating the Maui Electric filings for the 2015 and 2018 test year rate cases. In October 2017, Maui Electric filed its 2018 test year rate case application and in February 2018, Maui Electric filed revised schedules to reflect the adjustments resulting from the Tax Act.

On August 9, 2018, the PUC approved an interim rate increase based on a stipulated settlement between Maui Electric and the Consumer Advocate of \$12.5 million over revenues at current effective rates based on 7.43% rate of return (which incorporates a ROACE of 9.5% and a capital structure that includes a 57% common equity capitalization) on a \$462 million rate base, with the depreciation rates approved in July 2018. Interim rates were effective on August 23, 2018.

Hawaii Electric Light 2016 and 2019 test year rate cases. In September 2016, Hawaii Electric Light filed an application with the PUC for a general rate increase.

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

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

On October 5, 2018, Hawaii Electric Light filed a notice that it intends to file an application for a general rate increase on or after December 5, 2018 but before January 1, 2019.

Tax Cuts and Jobs Act impact on utility rates. The Utilities began tracking the impact of the Tax Cuts and Jobs Act of 2017 (Tax Act) as of January 1, 2018. Each Utility accrued regulatory liabilities for estimated tax savings from January 1 to the date incorporated in rates:

• Hawaiian Electric incorporated the Tax Act reductions in rates (based on the 2017 test year rate case) effective April 13, 2018.

• Hawaiian Electric Light incorporated the Tax Act reductions (based on the 2016 test year rate case) effective May 1, 2018.

• Maui Electric’s rates were adjusted for the Tax Act as follows:

adjustments for the period January 1, 2018 through May 31, 2018 are in the annual Revenue Balancing Account adjustment, which became effective on June 1, 2018,

adjustments for the period June 1, 2018 through August 22, 2018 are embedded in the Revenue Balancing Account, which will be incorporated in rates on June 1, 2019, and adjustments from August 23, 2018 and thereafter are incorporated in interim rates as a result of the 2018 test year rate case.

See discussion in “Decoupling” section above.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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, which was issued by Hawaii Electric Light and Maui Electric to Trust III, since all of their voting capital stock is owned, and their obligations with respect to these securities have been fully and unconditionally guaranteed, on a subordinated basis, by Hawaiian Electric. Consolidating information is provided below for Hawaiian Electric and each of its subsidiaries for the periods ended and as of the dates indicated.

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



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)   | Hawaiian<br>Electric | Hawaii<br>Electric<br>Light | Maui<br>Electric | Other<br>subsidiaries | Consolidating<br>adjustments | Hawaiian<br>Electric<br>Consolidated |
|--|----------------------|-----------------------------|------------------|-----------------------|------------------------------|--------------------------------------|
| Revenues   | \$488,210            | 98,981                      | 100,273          | —                     | (55 )                        | \$ 687,409                           |
| Expenses   |                      |                             |                  |                       |                              |                                      |
| Fuel oil   | 141,357              | 26,429                      | 38,765           | —                     | —                            | 206,551                              |
| Purchased power  | 138,135              | 24,091                      | 15,364           | —                     | —                            | 177,590                              |
| Other operation and maintenance                              | 78,988               | 15,253                      | 19,312           | —                     | —                            | 113,553                              |
| Depreciation   | 34,282               | 10,072                      | 6,629            | —                     | —                            | 50,983                               |
| Taxes, other than income taxes                               | 46,096               | 9,215                       | 9,385            | —                     | —                            | 64,696                               |
| Total expenses   | 438,858              | 85,060                      | 89,455           | —                     | —                            | 613,373                              |
| Operating income   | 49,352               | 13,921                      | 10,818           | —                     | (55 )                        | 74,036                               |
| Allowance for equity funds used during construction          | 1,648                | 39                          | 275              | —                     | —                            | 1,962                                |
| Equity in earnings of subsidiaries                           | 16,636               | —                           | —                | —                     | (16,636 )                    | —                                    |
| Retirement defined benefits expense—other than service costs | (475 )               | (104 )                      | (103 )           | —                     | —                            | (682 )                               |
| Interest expense and other charges, net                      | (13,542 )            | (3,026 )                    | (2,455 )         | —                     | 55                           | (18,968 )                            |
| Allowance for borrowed funds used during construction        | 810                  | 49                          | 147              | —                     | —                            | 1,006                                |
| Income before income taxes                                   | 54,429               | 10,879                      | 8,682            | —                     | (16,636 )                    | 57,354                               |
| Income taxes   | 4,447                | 1,571                       | 1,126            | —                     | —                            | 7,144                                |
| Net income   | 49,982               | 9,308                       | 7,556            | —                     | (16,636 )                    | 50,210                               |
| Preferred stock dividends of subsidiaries                    | —                    | 133                         | 95               | —                     | —                            | 228                                  |
| Net income attributable to Hawaiian Electric                 | 49,982               | 9,175                       | 7,461            | —                     | (16,636 )                    | 49,982                               |
| Preferred stock dividends of Hawaiian Electric               | 270                  | —                           | —                | —                     | —                            | 270                                  |
| Net income for common stock                                  | \$49,712             | 9,175                       | 7,461            | —                     | (16,636 )                    | \$ 49,712                            |

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

| (in thousands)  | Hawaiian<br>Electric | Hawaii<br>Electric<br>Light | Maui<br>Electric | Other<br>subsidiaries | Consolidating<br>adjustments | Hawaiian<br>Electric<br>Consolidated |
|---|----------------------|-----------------------------|------------------|-----------------------|------------------------------|--------------------------------------|
| Net income for common stock   | \$49,712             | 9,175                       | 7,461            | —                     | (16,636 )                    | \$ 49,712                            |
| Other comprehensive income (loss), net of taxes:  |                      |                             |                  |                       |                              |                                      |
| Retirement benefit plans:   |                      |                             |                  |                       |                              |                                      |
| Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits | 4,753                | 705                         | 606              | —                     | (1,311 )                     | 4,753                                |
| Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes   | (4,725 )             | (705 )                      | (606 )           | —                     | 1,311                        | (4,725 )                             |
| Other comprehensive income, net of taxes  | 28                   | —                           | —                | —                     | —                            | 28                                   |
|   | \$49,740             | 9,175                       | 7,461            | —                     | (16,636 )                    | \$ 49,740                            |

Comprehensive income attributable to common  
shareholder

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)   | Hawaiian<br>Electric | Hawaii<br>Electric<br>Light | Maui<br>Electric | Other<br>subsidiaries | Consolidating<br>adjustments | Hawaiian<br>Electric<br>Consolidated |
|--|----------------------|-----------------------------|------------------|-----------------------|------------------------------|--------------------------------------|
| Revenues   | \$429,267            | 84,334                      | 85,198           | —                     | (30 )                        | \$ 598,769                           |
| Expenses   |                      |                             |                  |                       |                              |                                      |
| Fuel oil   | 103,959              | 15,754                      | 26,545           | —                     | —                            | 146,258                              |
| Purchased power  | 123,893              | 21,332                      | 15,122           | —                     | —                            | 160,347                              |
| Other operation and maintenance                              | 64,996               | 16,608                      | 17,077           | —                     | —                            | 98,681                               |
| Depreciation   | 32,722               | 9,685                       | 5,799            | —                     | —                            | 48,206                               |
| Taxes, other than income taxes                               | 40,824               | 7,928                       | 8,028            | —                     | —                            | 56,780                               |
| Total expenses   | 366,394              | 71,307                      | 72,571           | —                     | —                            | 510,272                              |
| Operating income   | 62,873               | 13,027                      | 12,627           | —                     | (30 )                        | 88,497                               |
| Allowance for equity funds used during construction          | 3,108                | 167                         | 207              | —                     | —                            | 3,482                                |
| Equity in earnings of subsidiaries                           | 12,767               | —                           | —                | —                     | (12,767 )                    | —                                    |
| Retirement defined benefits expense—other than service costs | (1,225 )             | 15                          | (211 )           | —                     | —                            | (1,421 )                             |
| Interest expense and other charges, net                      | (11,786 )            | (2,899 )                    | (2,252 )         | —                     | 30                           | (16,907 )                            |
| Allowance for borrowed funds used during construction        | 1,173                | 72                          | 94               | —                     | —                            | 1,339                                |
| Income before income taxes                                   | 66,910               | 10,382                      | 10,465           | —                     | (12,767 )                    | 74,990                               |
| Income taxes   | 19,153               | 3,815                       | 4,037            | —                     | —                            | 27,005                               |
| Net income   | 47,757               | 6,567                       | 6,428            | —                     | (12,767 )                    | 47,985                               |
| Preferred stock dividends of subsidiaries                    | —                    | 133                         | 95               | —                     | —                            | 228                                  |
| Net income attributable to Hawaiian Electric                 | 47,757               | 6,434                       | 6,333            | —                     | (12,767 )                    | 47,757                               |
| Preferred stock dividends of Hawaiian Electric               | 270                  | —                           | —                | —                     | —                            | 270                                  |
| Net income for common stock                                  | \$47,487             | 6,434                       | 6,333            | —                     | (12,767 )                    | \$ 47,487                            |

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

| (in thousands)  | Hawaiian<br>Electric | Hawaii<br>Electric<br>Light | Maui<br>Electric | Other<br>subsidiaries | Consolidating<br>adjustments | Hawaiian<br>Electric<br>Consolidated |
|---|----------------------|-----------------------------|------------------|-----------------------|------------------------------|--------------------------------------|
| Net income for common stock   | \$47,487             | 6,434                       | 6,333            | —                     | (12,767 )                    | \$ 47,487                            |
| Other comprehensive income (loss), net of taxes:  |                      |                             |                  |                       |                              |                                      |
| Retirement benefit plans:   |                      |                             |                  |                       |                              |                                      |
| Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits | 3,618                | 476                         | 404              | —                     | (880 )                       | 3,618                                |
| Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes   | (3,596 )             | (476 )                      | (404 )           | —                     | 880                          | (3,596 )                             |
| Other comprehensive income, net of taxes  | 22                   | —                           | —                | —                     | —                            | 22                                   |
|   | \$47,509             | 6,434                       | 6,333            | —                     | (12,767 )                    | \$ 47,509                            |

Comprehensive income attributable to common  
shareholder

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)   | Hawaiian<br>Electric | Hawaii<br>Electric<br>Light | Maui<br>Electric | Other<br>subsidiaries | Consolidating<br>adjustments | Hawaiian<br>Electric<br>Consolidated |
|--|----------------------|-----------------------------|------------------|-----------------------|------------------------------|--------------------------------------|
| Revenues   | \$ 1,321,089         | 276,462                     | 268,567          | —                     | (156 )                       | \$ 1,865,962                         |
| Expenses   |                      |                             |                  |                       |                              |                                      |
| Fuel oil   | 375,862              | 64,348                      | 105,026          | —                     | —                            | 545,236                              |
| Purchased power  | 367,317              | 72,589                      | 38,332           | —                     | —                            | 478,238                              |
| Other operation and maintenance                              | 228,773              | 50,366                      | 54,666           | —                     | —                            | 333,805                              |
| Depreciation   | 103,112              | 30,165                      | 18,533           | —                     | —                            | 151,810                              |
| Taxes, other than income taxes                               | 125,214              | 25,835                      | 25,275           | —                     | —                            | 176,324                              |
| Total expenses   | 1,200,278            | 243,303                     | 241,832          | —                     | —                            | 1,685,413                            |
| Operating income   | 120,811              | 33,159                      | 26,735           | —                     | (156 )                       | 180,549                              |
| Allowance for equity funds used during construction          | 7,123                | 274                         | 842              | —                     | —                            | 8,239                                |
| Equity in earnings of subsidiaries                           | 35,041               | —                           | —                | —                     | (35,041 )                    | —                                    |
| Retirement defined benefits expense—other than service costs | (2,091 )             | (312 )                      | (531 )           | —                     | —                            | (2,934 )                             |
| Interest expense and other charges, net                      | (38,967 )            | (8,855 )                    | (7,156 )         | —                     | 156                          | (54,822 )                            |
| Allowance for borrowed funds used during construction        | 3,198                | 190                         | 427              | —                     | —                            | 3,815                                |
| Income before income taxes                                   | 125,115              | 24,456                      | 20,317           | —                     | (35,041 )                    | 134,847                              |
| Income taxes   | 15,949               | 5,017                       | 4,029            | —                     | —                            | 24,995                               |
| Net income   | 109,166              | 19,439                      | 16,288           | —                     | (35,041 )                    | 109,852                              |
| Preferred stock dividends of subsidiaries                    | —                    | 400                         | 286              | —                     | —                            | 686                                  |
| Net income attributable to Hawaiian Electric                 | 109,166              | 19,039                      | 16,002           | —                     | (35,041 )                    | 109,166                              |
| Preferred stock dividends of Hawaiian Electric               | 810                  | —                           | —                | —                     | —                            | 810                                  |
| Net income for common stock                                  | \$ 108,356           | 19,039                      | 16,002           | —                     | (35,041 )                    | \$ 108,356                           |

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

| (in thousands)  | Hawaiian<br>Electric | Hawaii<br>Electric<br>Light | Maui<br>Electric | Other<br>subsidiaries | Consolidating<br>adjustments | Hawaiian<br>Electric<br>Consolidated |
|---|----------------------|-----------------------------|------------------|-----------------------|------------------------------|--------------------------------------|
| Net income for common stock   | \$ 108,356           | 19,039                      | 16,002           | —                     | (35,041 )                    | \$ 108,356                           |
| Other comprehensive income (loss), net of taxes:  |                      |                             |                  |                       |                              |                                      |
| Retirement benefit plans:   |                      |                             |                  |                       |                              |                                      |
| Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits | 14,259               | 2,114                       | 1,817            | —                     | (3,931 )                     | 14,259                               |
| Reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes   | (14,174 )            | (2,113 )                    | (1,817 )         | —                     | 3,930                        | (14,174 )                            |
| Other comprehensive income, net of taxes  | 85                   | 1                           | —                | —                     | (1 )                         | 85                                   |
|   | \$ 108,441           | 19,040                      | 16,002           | —                     | (35,042 )                    | \$ 108,441                           |

Comprehensive income attributable to common  
shareholder

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)   | Hawaiian<br>Electric | Hawaii<br>Electric<br>Light | Maui<br>Electric | Other<br>subsidiaries | Consolidating<br>adjustments | Hawaiian<br>Electric<br>Consolidated |
|--|----------------------|-----------------------------|------------------|-----------------------|------------------------------|--------------------------------------|
| Revenues   | \$ 1,186,524         | 245,026                     | 242,756          | —                     | (51 )                        | \$ 1,674,255                         |
| Expenses   |                      |                             |                  |                       |                              |                                      |
| Fuel oil   | 301,774              | 47,486                      | 82,527           | —                     | —                            | 431,787                              |
| Purchased power  | 340,498              | 63,403                      | 36,637           | —                     | —                            | 440,538                              |
| Other operation and maintenance                              | 200,648              | 49,850                      | 51,939           | —                     | —                            | 302,437                              |
| Depreciation   | 98,167               | 29,056                      | 17,355           | —                     | —                            | 144,578                              |
| Taxes, other than income taxes                               | 113,483              | 23,080                      | 23,012           | —                     | —                            | 159,575                              |
| Total expenses   | 1,054,570            | 212,875                     | 211,470          | —                     | —                            | 1,478,915                            |
| Operating income   | 131,954              | 32,151                      | 31,286           | —                     | (51 )                        | 195,340                              |
| Allowance for equity funds used during construction          | 7,823                | 416                         | 669              | —                     | —                            | 8,908                                |
| Equity in earnings of subsidiaries                           | 29,306               | —                           | —                | —                     | (29,306 )                    | —                                    |
| Retirement defined benefits expense—other than service costs | (3,812 )             | 183                         | (650 )           | —                     | —                            | (4,279 )                             |
| Interest expense and other charges, net                      | (36,405 )            | (8,899 )                    | (7,372 )         | —                     | 51                           | (52,625 )                            |
| Allowance for borrowed funds used during construction        | 2,910                | 172                         | 289              | —                     | —                            | 3,371                                |
| Income before income taxes                                   | 131,776              | 24,023                      | 24,222           | —                     | (29,306 )                    | 150,715                              |
| Income taxes   | 36,370               | 8,973                       | 9,280            | —                     | —                            | 54,623                               |
| Net income   | 95,406               | 15,050                      | 14,942           | —                     | (29,306 )                    | 96,092                               |
| Preferred stock dividends of subsidiaries                    | —                    | 400                         | 286              | —                     | —                            | 686                                  |
| Net income attributable to Hawaiian Electric                 | 95,406               | 14,650                      | 14,656           | —                     | (29,306 )                    | 95,406                               |
| Preferred stock dividends of Hawaiian Electric               | 810                  | —                           | —                | —                     | —                            | 810                                  |
| Net income for common stock                                  | \$94,596             | 14,650                      | 14,656           | —                     | (29,306 )                    | \$94,596                             |

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

| (in thousands)  | Hawaiian<br>Electric | Hawaii<br>Electric<br>Light | Maui<br>Electric | Other<br>subsidiaries | Consolidating<br>adjustments | Hawaiian<br>Electric<br>Consolidated |
|---|----------------------|-----------------------------|------------------|-----------------------|------------------------------|--------------------------------------|
| Net income for common stock   | \$94,596             | 14,650                      | 14,656           | —                     | (29,306 )                    | \$ 94,596                            |
| Other comprehensive income (loss), net of taxes:  |                      |                             |                  |                       |                              |                                      |
| Derivatives qualifying as cash flow hedges:   |                      |                             |                  |                       |                              |                                      |
| Reclassification adjustment to net income, net of taxes   | 454                  | —                           | —                | —                     | —                            | 454                                  |
| Retirement benefit plans:   |                      |                             |                  |                       |                              |                                      |
| Adjustment for amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits | 10,857               | 1,428                       | 1,214            | —                     | (2,642 )                     | 10,857                               |
|   | (10,790 )            | (1,427 )                    | (1,214 )         | —                     | 2,641                        | (10,790 )                            |

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

|  |          |        |        |   |         |   |           |
|--|----------|--------|--------|---|---------|---|-----------|
| Other comprehensive income, net of taxes                   | 521      | 1      | —      | — | (1      | ) | 521       |
| Comprehensive income attributable to common<br>shareholder | \$95,117 | 14,651 | 14,656 | — | (29,307 | ) | \$ 95,117 |

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)   | Hawaiian<br>Electric | Hawaii<br>Electric<br>Light | Maui<br>Electric | Other<br>subsidiaries | Consoli-<br>dating<br>adjustments | Hawaiian<br>Electric<br>Consolidated |
|--|----------------------|-----------------------------|------------------|-----------------------|-----------------------------------|--------------------------------------|
| <b>Assets</b>  |                      |                             |                  |                       |                                   |                                      |
| <b>Property, plant and equipment</b>                                       |                      |                             |                  |                       |                                   |                                      |
| <b>Utility property, plant and equipment</b>                               |                      |                             |                  |                       |                                   |                                      |
| Land   | \$44,030             | 5,873                       | 3,612            | —                     | —                                 | \$53,515                             |
| Plant and equipment  | 4,404,946            | 1,227,530                   | 1,087,570        | —                     | —                                 | 6,720,046                            |
| Less accumulated depreciation  | (1,513,351 )         | (541,451 )                  | (512,906 )       | —                     | —                                 | (2,567,708 )                         |
| Construction in progress   | 154,566              | 11,060                      | 27,460           | —                     | —                                 | 193,086                              |
| Utility property, plant and equipment, net                                 | 3,090,191            | 703,012                     | 605,736          | —                     | —                                 | 4,398,939                            |
| Nonutility property, plant and equipment,<br>less accumulated depreciation | 5,933                | 115                         | 1,532            | —                     | —                                 | 7,580                                |
| Total property, plant and equipment, net                                   | 3,096,124            | 703,127                     | 607,268          | —                     | —                                 | 4,406,519                            |
| Investment in wholly owned subsidiaries,<br>at equity                      | 571,574              | —                           | —                | —                     | (571,574 )                        | —                                    |
| <b>Current assets</b>  |                      |                             |                  |                       |                                   |                                      |
| Cash and cash equivalents  | 3,867                | 3,027                       | 229              | 101                   | —                                 | 7,224                                |
| Advances to affiliates   | 2,000                | —                           | —                | —                     | (2,000 )                          | —                                    |
| Customer accounts receivable, net  | 124,792              | 29,364                      | 24,629           | —                     | —                                 | 178,785                              |
| Accrued unbilled revenues, net   | 94,956               | 15,810                      | 16,936           | —                     | —                                 | 127,702                              |
| Other accounts receivable, net   | 10,312               | 1,352                       | 1,069            | —                     | (9,355 )                          | 3,378                                |
| Fuel oil stock, at average cost  | 61,110               | 11,483                      | 19,229           | —                     | —                                 | 91,822                               |
| Materials and supplies, at average cost                                    | 32,407               | 7,840                       | 18,260           | —                     | —                                 | 58,507                               |
| Prepayments and other  | 44,458               | 8,604                       | 7,670            | —                     | —                                 | 60,732                               |
| Regulatory assets  | 75,541               | 6,217                       | 7,672            | —                     | —                                 | 89,430                               |
| Total current assets   | 449,443              | 83,697                      | 95,694           | 101                   | (11,355 )                         | 617,580                              |
| <b>Other long-term assets</b>  |                      |                             |                  |                       |                                   |                                      |
| Regulatory assets  | 527,650              | 115,114                     | 98,730           | —                     | —                                 | 741,494                              |
| Other  | 77,899               | 20,363                      | 18,272           | —                     | —                                 | 116,534                              |
| Total other long-term assets   | 605,549              | 135,477                     | 117,002          | —                     | —                                 | 858,028                              |
| Total assets   | \$4,722,690          | 922,301                     | 819,964          | 101                   | (582,929 )                        | \$5,882,127                          |
| <b>Capitalization and liabilities</b>                                      |                      |                             |                  |                       |                                   |                                      |
| <b>Capitalization</b>  |                      |                             |                  |                       |                                   |                                      |
| Common stock equity  | \$1,876,237          | 294,220                     | 277,253          | 101                   | (571,574 )                        | \$1,876,237                          |
| Cumulative preferred stock—not subject to<br>mandatory redemption          | 22,293               | 7,000                       | 5,000            | —                     | —                                 | 34,293                               |
| Long-term debt, net  | 1,000,020            | 217,724                     | 200,887          | —                     | —                                 | 1,418,631                            |
| Total capitalization   | 2,898,550            | 518,944                     | 483,140          | 101                   | (571,574 )                        | 3,329,161                            |
| <b>Current liabilities</b>   |                      |                             |                  |                       |                                   |                                      |
| Current portion of long-term debt  | 29,996               | 10,998                      | 8,999            | —                     | —                                 | 49,993                               |
| Short-term borrowings from non-affiliates                                  | 85,913               | —                           | —                | —                     | —                                 | 85,913                               |
| Short-term borrowings from affiliate                                       | —                    | —                           | 2,000            | —                     | (2,000 )                          | —                                    |
| Accounts payable   | 90,937               | 12,289                      | 19,706           | —                     | —                                 | 122,932                              |

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|   |             |         |         |     |          |               |
|---|-------------|---------|---------|-----|----------|---------------|
| Interest and preferred dividends payable                                    | 19,994      | 4,243   | 4,030   | —   | (9       | ) 28,258      |
| Taxes accrued   | 136,485     | 30,829  | 28,462  | —   | —        | 195,776       |
| Regulatory liabilities  | 3,124       | 2,850   | 4,185   | —   | —        | 10,159        |
| Other   | 64,697      | 9,594   | 16,109  | —   | (9,346   | ) 81,054      |
| Total current liabilities   | 431,146     | 70,803  | 83,491  | —   | (11,355  | ) 574,085     |
| Deferred credits and other liabilities                                      |             |         |         |     |          |               |
| Deferred income taxes   | 285,789     | 56,417  | 58,863  | —   | —        | 401,069       |
| Regulatory liabilities  | 649,761     | 174,739 | 97,693  | —   | —        | 922,193       |
| Unamortized tax credits   | 61,299      | 16,271  | 15,503  | —   | —        | 93,073        |
| Defined benefit pension and other<br>postretirement benefit plans liability | 332,743     | 64,026  | 63,510  | —   | —        | 460,279       |
| Other   | 63,402      | 21,101  | 17,764  | —   | —        | 102,267       |
| Total deferred credits and other liabilities                                | 1,392,994   | 332,554 | 253,333 | —   | —        | 1,978,881     |
| Total capitalization and liabilities  | \$4,722,690 | 922,301 | 819,964 | 101 | (582,929 | ) \$5,882,127 |

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

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

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|   |             |         |         |     |          |               |
|---|-------------|---------|---------|-----|----------|---------------|
| Interest and preferred dividends payable                                    | 15,677      | 4,174   | 2,735   | —   | (11      | ) 22,575      |
| Taxes accrued   | 133,839     | 34,950  | 30,312  | —   | —        | 199,101       |
| Regulatory liabilities  | 607         | 1,245   | 1,549   | —   | —        | 3,401         |
| Other   | 43,121      | 9,818   | 14,197  | —   | (7,680   | ) 59,456      |
| Total current liabilities   | 361,549     | 79,034  | 78,213  | —   | (19,691  | ) 499,105     |
| Deferred credits and other liabilities                                      |             |         |         |     |          |               |
| Deferred income taxes   | 281,223     | 56,955  | 55,863  | —   | —        | 394,041       |
| Regulatory liabilities  | 613,329     | 169,139 | 94,901  | —   | —        | 877,369       |
| Unamortized tax credits   | 59,039      | 16,167  | 15,163  | —   | —        | 90,369        |
| Defined benefit pension and other<br>postretirement benefit plans liability | 340,983     | 66,447  | 65,518  | —   | —        | 472,948       |
| Other   | 61,738      | 19,276  | 17,675  | —   | —        | 98,689        |
| Total deferred credits and other liabilities                                | 1,356,312   | 327,984 | 249,120 | —   | —        | 1,933,416     |
| Total capitalization and liabilities  | \$4,510,416 | 903,366 | 793,434 | 101 | (576,704 | ) \$5,630,613 |

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)                           | Hawaiian<br>Electric | Hawaii<br>Electric<br>Light | Maui<br>Electric | Other<br>subsidiaries | Consolidating<br>adjustments | Hawaiian<br>Electric<br>Consolidated |
|--|----------------------|-----------------------------|------------------|-----------------------|------------------------------|--------------------------------------|
| Balance, December 31, 2017               | \$1,845,283          | 286,647                     | 270,265          | 101                   | (557,013 )                   | \$1,845,283                          |
| Net income for common stock              | 108,356              | 19,039                      | 16,002           | —                     | (35,041 )                    | 108,356                              |
| Other comprehensive income, net of taxes | 85                   | 1                           | —                | —                     | (1 )                         | 85                                   |
| Common stock dividends                   | (77,479 )            | (11,467 )                   | (9,014 )         | —                     | 20,481                       | (77,479 )                            |
| Common stock issuance expenses           | (8 )                 | —                           | —                | —                     | —                            | (8 )                                 |
| Balance, September 30, 2018              | \$1,876,237          | 294,220                     | 277,253          | 101                   | (571,574 )                   | \$1,876,237                          |

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

| (in thousands)                           | Hawaiian<br>Electric | Hawaii<br>Electric<br>Light | Maui<br>Electric | Other<br>subsidiaries | Consolidating<br>adjustments | Hawaiian<br>Electric<br>Consolidated |
|--|----------------------|-----------------------------|------------------|-----------------------|------------------------------|--------------------------------------|
| Balance, December 31, 2016               | \$1,799,787          | 291,291                     | 259,554          | 101                   | (550,946 )                   | \$1,799,787                          |
| Net income for common stock              | 94,596               | 14,650                      | 14,656           | —                     | (29,306 )                    | 94,596                               |
| Other comprehensive income, net of taxes | 521                  | 1                           | —                | —                     | (1 )                         | 521                                  |
| Common stock dividends                   | (65,825 )            | (11,622 )                   | (8,959 )         | —                     | 20,581                       | (65,825 )                            |
| Common stock issuance expenses           | (4 )                 | (1 )                        | —                | —                     | 1                            | (4 )                                 |
| Balance, September 30, 2017              | \$1,829,075          | 294,319                     | 265,251          | 101                   | (559,671 )                   | \$1,829,075                          |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)   | Hawaiian<br>Electric | Hawaii<br>Electric<br>Light | Maui<br>Electric | Other<br>subsidiaries | Consolidating<br>adjustments | Hawaiian<br>Electric<br>Consolidated |
|--|----------------------|-----------------------------|------------------|-----------------------|------------------------------|--------------------------------------|
| Cash flows from operating activities   |                      |                             |                  |                       |                              |                                      |
| Net income   | \$ 109,166           | 19,439                      | 16,288           | —                     | (35,041 )                    | \$ 109,852                           |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                      |                             |                  |                       |                              |                                      |
| Equity in earnings of subsidiaries   | (35,116 )            | —                           | —                | —                     | 35,041                       | (75 )                                |
| Common stock dividends received from subsidiaries  | 20,531               | —                           | —                | —                     | (20,481 )                    | 50                                   |
| Depreciation of property, plant and equipment  | 103,112              | 30,165                      | 18,533           | —                     | —                            | 151,810                              |
| Other amortization   | 15,159               | 3,992                       | 672              | —                     | —                            | 19,823                               |
| Deferred income taxes  | 7,182                | 1,195                       | 4,458            | —                     | —                            | 12,835                               |
| Allowance for equity funds used during construction  | (7,123 )             | (274 )                      | (842 )           | —                     | —                            | (8,239 )                             |
| Other  | (1,227 )             | (315 )                      | (410 )           | —                     | —                            | (1,952 )                             |
| Changes in assets and liabilities:   |                      |                             |                  |                       |                              |                                      |
| Increase in accounts receivable  | (41,566 )            | (6,738 )                    | (6,499 )         | —                     | 1,664                        | (53,139 )                            |
| Decrease (increase) in accrued unbilled revenues   | (17,780 )            | 130                         | (2,998 )         | —                     | —                            | (20,648 )                            |
| Decrease (increase) in fuel oil stock  | 3,862                | (2,785 )                    | (6,026 )         | —                     | —                            | (4,949 )                             |
| Decrease (increase) in materials and supplies  | (4,082 )             | 201                         | (229 )           | —                     | —                            | (4,110 )                             |
| Increase in regulatory assets  | (1,704 )             | (2,245 )                    | (2,525 )         | —                     | —                            | (6,474 )                             |
| Increase (decrease) in accounts payable  | (10,541 )            | 234                         | 1,595            | —                     | —                            | (8,712 )                             |
| Change in prepaid and accrued income taxes, tax credits and revenue taxes  | (20,949 )            | (9,828 )                    | (6,029 )         | —                     | (331 )                       | (37,137 )                            |
| Increase (decrease) in defined benefit pension and other postretirement benefit plans liability                          | 6,018                | (570 )                      | 440              | —                     | —                            | 5,888                                |
| Change in other assets and liabilities   | 34,934               | 2,602                       | 3,027            | —                     | (1,664 )                     | 38,899                               |
| Net cash provided by operating activities  | 159,876              | 35,203                      | 19,455           | —                     | (20,812 )                    | 193,722                              |
| Cash flows from investing activities   |                      |                             |                  |                       |                              |                                      |
| Capital expenditures   | (245,393 )           | (43,417 )                   | (45,920 )        | —                     | —                            | (334,730 )                           |
| Contributions in aid of construction   | 19,486               | 2,960                       | 1,915            | —                     | —                            | 24,361                               |
| Other  | 4,518                | 1,177                       | 3,785            | —                     | 331                          | 9,811                                |
| Advances (to) from affiliates  | (2,000 )             | —                           | 12,000           | —                     | (10,000 )                    | —                                    |
| Net cash used in investing activities  | (223,389 )           | (39,280 )                   | (28,220 )        | —                     | (9,669 )                     | (300,558 )                           |
| Cash flows from financing activities   |                      |                             |                  |                       |                              |                                      |
| Common stock dividends   | (77,479 )            | (11,467 )                   | (9,014 )         | —                     | 20,481                       | (77,479 )                            |
| Preferred stock dividends of Hawaiian Electric and subsidiaries  | (810 )               | (400 )                      | (286 )           | —                     | —                            | (1,496 )                             |
| Proceeds from issuance of long-term debt   | 75,000               | 15,000                      | 10,000           | —                     | —                            | 100,000                              |
| Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less | 68,914               | —                           | 2,000            | —                     | 10,000                       | 80,914                               |
| Other  | (304 )               | (54 )                       | (38 )            | —                     | —                            | (396 )                               |

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|  |         |        |          |     |        |          |
|--|---------|--------|----------|-----|--------|----------|
| Net cash provided by financing activities            | 65,321  | 3,079  | 2,662    | —   | 30,481 | 101,543  |
| Net increase (decrease) in cash and cash equivalents | 1,808   | (998 ) | (6,103 ) | —   | —      | (5,293 ) |
| Cash and cash equivalents, beginning of period       | 2,059   | 4,025  | 6,332    | 101 | —      | 12,517   |
| Cash and cash equivalents, end of period             | \$3,867 | 3,027  | 229      | 101 | —      | \$7,224  |

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)  | Hawaiian<br>Electric | Hawaii<br>Electric<br>Light | Maui<br>Electric | Other<br>subsidiaries | Consolidating<br>adjustments | Hawaiian<br>Electric<br>Consolidated |
|---|----------------------|-----------------------------|------------------|-----------------------|------------------------------|--------------------------------------|
| Cash flows from operating activities  |                      |                             |                  |                       |                              |                                      |
| Net income  | \$95,406             | 15,050                      | 14,942           | —                     | (29,306 )                    | \$ 96,092                            |
| Adjustments to reconcile net income to net cash provided by operating activities:               |                      |                             |                  |                       |                              |                                      |
| Equity in earnings of subsidiaries  | (29,381 )            | —                           | —                | —                     | 29,306                       | (75 )                                |
| Common stock dividends received from subsidiaries   | 20,656               | —                           | —                | —                     | (20,581 )                    | 75                                   |
| Depreciation of property, plant and equipment   | 98,167               | 29,056                      | 17,355           | —                     | —                            | 144,578                              |
| Other amortization  | 2,168                | 1,718                       | 2,232            | —                     | —                            | 6,118                                |
| Deferred income taxes   | 12,166               | 5,237                       | 7,493            | —                     | 4,641                        | 29,537                               |
| Allowance for equity funds used during construction   | (7,823 )             | (416 )                      | (669 )           | —                     | —                            | (8,908 )                             |
| Other   | 216                  | 566                         | (256 )           | —                     | —                            | 526                                  |
| Changes in assets and liabilities:  |                      |                             |                  |                       |                              |                                      |
| Increase in accounts receivable   | (6,114 )             | (1,127 )                    | (1,912 )         | —                     | 1,066                        | (8,087 )                             |
| Increase in accrued unbilled revenues   | (14,823 )            | (1,581 )                    | (1,610 )         | —                     | —                            | (18,014 )                            |
| Decrease (increase) in fuel oil stock   | 6,779                | 195                         | (797 )           | —                     | —                            | 6,177                                |
| Decrease (increase) in materials and supplies   | 1,063                | (1,580 )                    | (1,763 )         | —                     | —                            | (2,280 )                             |
| Decrease (increase) in regulatory assets  | 9,471                | (2,935 )                    | (2,614 )         | —                     | —                            | 3,922                                |
| Increase (decrease) in accounts payable   | 7,010                | (2,660 )                    | 1,780            | —                     | —                            | 6,130                                |
| Change in prepaid and accrued income taxes, tax credits and revenue taxes                       | 10,920               | (758 )                      | 210              | —                     | (5,081 )                     | 5,291                                |
| Increase (decrease) in defined benefit pension and other postretirement benefit plans liability | 532                  | 39                          | (118 )           | —                     | —                            | 453                                  |
| Change in other assets and liabilities  | (2,709 )             | 1,059                       | 54               | —                     | (1,066 )                     | (2,662 )                             |
| Net cash provided by operating activities   | 203,704              | 41,863                      | 34,327           | —                     | (21,021 )                    | 258,873                              |
| Cash flows from investing activities  |                      |                             |                  |                       |                              |                                      |
| Capital expenditures  | (236,727)            | (36,700)                    | (33,548)         | —                     | —                            | (306,975 )                           |
| Contributions in aid of construction  | 34,787               | 3,460                       | 2,356            | —                     | —                            | 40,603                               |
| Other   | 6,089                | 871                         | 714              | —                     | 440                          | 8,114                                |
| Advances (to) from affiliates   | —                    | (3,100 )                    | 6,000            | —                     | (2,900 )                     | —                                    |
| Net cash used in investing activities   | (195,851)            | (35,469)                    | (24,478)         | —                     | (2,460 )                     | (258,258 )                           |
| Cash flows from financing activities  |                      |                             |                  |                       |                              |                                      |
| Common stock dividends  | (65,825 )            | (11,622)                    | (8,959 )         | —                     | 20,581                       | (65,825 )                            |
| Preferred stock dividends of Hawaiian Electric and subsidiaries                                 | (810 )               | (400 )                      | (286 )           | —                     | —                            | (1,496 )                             |
| 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 )                           |
|   | 3,100                | —                           | —                | —                     | 2,900                        | 6,000                                |



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

|  |           |           |           |     |        |           |
|--|-----------|-----------|-----------|-----|--------|-----------|
| Other  | (2,252 )  | (407 )    | (934 )    | —   | —      | (3,593 )  |
| Net cash used in financing activities          | (65,787 ) | (12,429 ) | (10,179 ) | —   | 23,481 | (64,914 ) |
| Net decrease in cash and cash equivalents      | (57,934 ) | (6,035 )  | (330 )    | —   | —      | (64,299 ) |
| Cash and cash equivalents, beginning of period | 61,388    | 10,749    | 2,048     | 101 | —      | 74,286    |
| Cash and cash equivalents, end of period       | \$3,454   | 4,714     | 1,718     | 101 | —      | \$ 9,987  |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)                                      | Three months<br>ended September<br>30 |          | Nine months ended<br>September 30 |           |
|---|---------------------------------------|----------|-----------------------------------|-----------|
|   | 2018                                  | 2017     | 2018                              | 2017      |
| Interest and dividend income                        |                                       |          |                                   |           |
| Interest and fees on loans                          | \$55,885                              | \$52,210 | \$163,318                         | \$155,269 |
| Interest and dividends on investment securities     | 9,300                                 | 6,850    | 27,130                            | 20,593    |
| Total interest and dividend income                  | 65,185                                | 59,060   | 190,448                           | 175,862   |
| Interest expense                                    |                                       |          |                                   |           |
| Interest on deposit liabilities                     | 3,635                                 | 2,444    | 9,876                             | 6,858     |
| Interest on other borrowings                        | 404                                   | 470      | 1,293                             | 2,110     |
| Total interest expense                              | 4,039                                 | 2,914    | 11,169                            | 8,968     |
| Net interest income                                 | 61,146                                | 56,146   | 179,279                           | 166,894   |
| Provision for loan losses                           | 6,033                                 | 490      | 12,337                            | 7,231     |
| Net interest income after provision for loan losses | 55,113                                | 55,656   | 166,942                           | 159,663   |
| Noninterest income                                  |                                       |          |                                   |           |
| Fees from other financial services                  | 4,543                                 | 5,635    | 13,941                            | 17,055    |
| Fee income on deposit liabilities                   | 5,454                                 | 5,533    | 15,781                            | 16,526    |
| Fee income on other financial products              | 1,746                                 | 1,904    | 5,075                             | 5,741     |
| Bank-owned life insurance                           | 2,663                                 | 1,257    | 4,667                             | 4,165     |
| Mortgage banking income                             | 169                                   | 520      | 1,399                             | 1,896     |
| Other income, net                                   | 736                                   | 380      | 1,708                             | 1,229     |
| Total noninterest income                            | 15,311                                | 15,229   | 42,571                            | 46,612    |
| Noninterest expense                                 |                                       |          |                                   |           |
| Compensation and employee benefits                  | 23,952                                | 23,512   | 72,047                            | 71,095    |
| Occupancy   | 4,363                                 | 4,284    | 12,837                            | 12,623    |
| Data processing                                     | 3,583                                 | 3,262    | 10,587                            | 9,749     |
| Services  | 2,485                                 | 2,863    | 8,560                             | 7,989     |
| Equipment   | 1,783                                 | 1,814    | 5,385                             | 5,333     |
| Office supplies, printing and postage               | 1,556                                 | 1,444    | 4,554                             | 4,506     |
| Marketing   | 993                                   | 934      | 2,723                             | 2,290     |
| FDIC insurance                                      | 638                                   | 746      | 2,078                             | 2,296     |
| Other expense                                       | 4,240                                 | 5,262    | 12,897                            | 14,674    |
| Total noninterest expense                           | 43,593                                | 44,121   | 131,668                           | 130,555   |
| Income before income taxes                          | 26,831                                | 26,764   | 77,845                            | 75,720    |
| Income taxes  | 5,610                                 | 9,172    | 17,103                            | 25,582    |
| Net income  | \$21,221                              | \$17,592 | \$60,742                          | \$50,138  |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)   | Three months<br>ended September<br>30 |          | Nine months ended<br>September 30 |           |
|--|---------------------------------------|----------|-----------------------------------|-----------|
|  | 2018                                  | 2017     | 2018                              | 2017      |
| Interest and dividend income   | 65,185                                | 59,060   | \$190,448                         | \$175,862 |
| Noninterest income   | 15,311                                | 15,229   | 42,571                            | 46,612    |
| *Revenues-Bank   | 80,496                                | 74,289   | 233,019                           | 222,474   |
| Total interest expense   | 4,039                                 | 2,914    | 11,169                            | 8,968     |
| Provision for loan losses  | 6,033                                 | 490      | 12,337                            | 7,231     |
| Noninterest expense  | 43,593                                | 44,121   | 131,668                           | 130,555   |
| Less: Retirement defined benefits expense—other than service costs     | (433 )                                | (212 )   | (1,223 )                          | (608 )    |
| *Expenses-Bank   | 53,232                                | 47,313   | 153,951                           | 146,146   |
| *Operating income-Bank   | 27,264                                | 26,976   | 79,068                            | 76,328    |
| Add back: Retirement defined benefits expense—other than service costs | 433                                   | 212      | 1,223                             | 608       |
| Income before income taxes   | \$26,831                              | \$26,764 | \$77,845                          | \$75,720  |

## American Savings Bank, F.S.B.

## Statements of Comprehensive Income Data

| (in thousands)   | Three months<br>ended September<br>30 |          | Nine months<br>ended September<br>30 |          |
|--|---------------------------------------|----------|--------------------------------------|----------|
|  | 2018                                  | 2017     | 2018                                 | 2017     |
| Net income   | \$21,221                              | \$17,592 | \$60,742                             | \$50,138 |
| Other comprehensive income (loss), net of taxes:   |                                       |          |                                      |          |
| Net unrealized gains (losses) on available-for-sale investment securities:   |                                       |          |                                      |          |
| Net unrealized gains (losses) on available-for-sale investment securities arising during the period, net of tax benefits (taxes) of \$1,876, \$(137), \$8,335 and \$(1,619), respectively        | (5,123 )                              | 208      | (22,768 )                            | 2,452    |
| 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 \$141, \$138, \$968 and \$675, respectively | 382                                   | 209      | 1,970                                | 1,023    |
| Other comprehensive income (loss), net of taxes  | (4,741 )                              | 417      | (20,798 )                            | 3,475    |
| Comprehensive income   | \$16,480                              | \$18,009 | \$39,944                             | \$53,613 |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

## American Savings Bank, F.S.B.

## Balance Sheets Data

(in thousands)

|   | September 30, 2018 | December 31, 2017 |
|---|--------------------|-------------------|
| Assets  |                    |                   |
| Cash and due from banks   | \$ 119,453         | \$ 140,934        |
| Interest-bearing deposits   | 39,575             | 93,165            |
| Investment securities   |                    |                   |
| Available-for-sale, at fair value   | 1,387,571          | 1,401,198         |
| Held-to-maturity, at amortized cost (fair value of \$99,929 and \$44,412, respectively) | 102,498            | 44,515            |
| Stock in Federal Home Loan Bank, at cost  | 8,158              | 9,706             |
| Loans held for investment   | 4,754,359          | 4,670,768         |
| Allowance for loan losses   | (54,127 )          | (53,637 )         |
| Net loans   | 4,700,232          | 4,617,131         |
| Loans held for sale, at lower of cost or fair value                                     | 1,036              | 11,250            |
| Other   | 488,743            | 398,570           |
| Goodwill  | 82,190             | 82,190            |
| Total assets  | \$6,929,456        | \$6,798,659       |
| Liabilities and shareholder's equity  |                    |                   |
| Deposit liabilities—noninterest-bearing   | \$ 1,789,351       | \$ 1,760,233      |
| Deposit liabilities—interest-bearing  | 4,341,064          | 4,130,364         |
| Other borrowings  | 71,110             | 190,859           |
| Other   | 115,401            | 110,356           |
| Total liabilities   | 6,316,926          | 6,191,812         |
| Commitments and contingencies   |                    |                   |
| Common stock  | 1                  | 1                 |
| Additional paid in capital  | 346,757            | 345,018           |
| Retained earnings   | 317,519            | 292,957           |
| Accumulated other comprehensive loss, net of tax benefits                               |                    |                   |
| Net unrealized losses on securities   | \$(37,719)         | \$(14,951)        |
| Retirement benefit plans  | (14,028 )          | (51,747 )         |
| Total shareholder's equity  | 612,530            | 606,847           |
| Total liabilities and shareholder's equity  | \$6,929,456        | \$6,798,659       |
| Other assets  |                    |                   |
| Bank-owned life insurance   | \$ 150,772         | \$ 148,775        |
| Premises and equipment, net   | 203,062            | 136,270           |
| Prepaid expenses  | 5,477              | 3,961             |
| Accrued interest receivable   | 19,818             | 18,724            |
| Mortgage-servicing rights   | 8,426              | 8,639             |
| Low-income housing equity investments   | 69,865             | 59,016            |
| Real estate acquired in settlement of loans, net  | 438                | 133               |
| Other   | 30,885             | 23,052            |
|   | \$488,743          | \$398,570         |
| Other liabilities   |                    |                   |
| Accrued expenses  | \$56,830           | \$39,312          |
| Federal and state income taxes payable  | 1,287              | 3,736             |

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|                               |           |           |
|-------------------------------|-----------|-----------|
| Cashier's checks              | 23,711    | 27,000    |
| Advance payments by borrowers | 4,998     | 10,245    |
| Other                         | 28,575    | 30,063    |
|                               | \$115,401 | \$110,356 |

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

Other borrowings consisted of securities sold under agreements to repurchase and advances from the Federal Home Loan Bank (FHLB) of \$71 million and nil, respectively, as of September 30, 2018 and \$141 million and \$50 million, respectively, as of December 31, 2017.

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

| (dollars<br>in thousands)                                  | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair<br>value | Gross unrealized losses |                     |   |        |   |            |
|--|-------------------|------------------------------|-------------------------------|----------------------------|-------------------------|---------------------|---|--------|---|------------|
|  |                   |                              |                               |                            | Less than 12 months     | 12 months or longer | Number<br>of<br>Fair<br>value<br>issues | Amount | Number<br>of<br>Fair<br>value<br>issues | Amount     |
| September 30,<br>2018                                      |                   |                              |                               |                            |                         |                     |   |        |   |            |
| Available-for-sale   |                   |                              |                               |                            |                         |                     |   |        |   |            |
| U.S. Treasury and<br>federal agency<br>obligations         | \$175,144         | \$ 24                        | \$(4,754 )                    | \$170,414                  | 11                      | \$67,258            | \$(1,339 )                              | 17     | \$93,132                                | \$(3,415 ) |
| Mortgage-related<br>securities- FNMA,<br>FHLMC and<br>GNMA | 1,195,492         | 292                          | (47,094 )                     | 1,148,690                  | 59                      | 473,714             | (13,996 )                               | 111    | 666,149                                 | (33,098 )  |
| Corporate bonds  | 49,378            | 46                           | (41 )                         | 49,383                     | 5                       | 22,839              | (41 )                                   | —      | —                                       | —          |
| Mortgage revenue<br>bonds                                  | 19,084            | —                            | —                             | 19,084                     | —                       | —                   | —                                       | —      | —                                       | —          |
|  | \$1,439,098       | \$ 362                       | \$(51,889 )                   | \$1,387,571                | 75                      | \$563,811           | \$(15,376)                              | 128    | \$759,281                               | \$(36,513) |
| Held-to-maturity   |                   |                              |                               |                            |                         |                     |   |        |   |            |
| Mortgage-related<br>securities- FNMA,<br>FHLMC and<br>GNMA | \$102,498         | \$ —                         | \$(2,569 )                    | \$99,929                   | 7                       | \$99,929            | \$(2,569 )                              | —      | \$—                                     | \$—        |
|  | \$102,498         | \$ —                         | \$(2,569 )                    | \$99,929                   | 7                       | \$99,929            | \$(2,569 )                              | —      | \$—                                     | \$—        |
| December 31, 2017  |                   |                              |                               |                            |                         |                     |   |        |   |            |
| Available-for-sale   |                   |                              |                               |                            |                         |                     |   |        |   |            |
| U.S. Treasury and<br>federal agency<br>obligations         | \$185,891         | \$ 438                       | \$(2,031 )                    | \$184,298                  | 15                      | \$83,137            | \$(825 )                                | 8      | \$62,296                                | \$(1,206 ) |
| Mortgage-related<br>securities- FNMA,<br>FHLMC and<br>GNMA | 1,220,304         | 793                          | (19,624 )                     | 1,201,473                  | 67                      | 653,635             | (6,839 )                                | 77     | 459,912                                 | (12,785 )  |
| Mortgage revenue<br>bond                                   | 15,427            | —                            | —                             | 15,427                     | —                       | —                   | —                                       | —      | —                                       | —          |
|  | \$1,421,622       | \$ 1,231                     | \$(21,655 )                   | \$1,401,198                | 82                      | \$736,772           | \$(7,664 )                              | 85     | \$522,208                               | \$(13,991) |
| Held-to-maturity   |                   |                              |                               |                            |                         |                     |   |        |   |            |
| Mortgage-related<br>securities- FNMA,                      | \$44,515          | \$ 1                         | \$(104 )                      | \$44,412                   | 2                       | \$35,744            | \$(104 )                                | —      | \$—                                     | \$—        |

FHLMC and  
GNMA

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

The contractual maturities of investment securities were as follows:

| September 30, 2018<br>(in thousands)             | Amortized cost | Fair value   |
|--|----------------|--------------|
| Available-for-sale                               |                |              |
| Due in one year or less                          | \$ 25,004      | \$24,896     |
| Due after one year through five years            | 108,364        | 106,774      |
| Due after five years through ten years           | 82,720         | 80,439       |
| Due after ten years                              | 27,518         | 26,772       |
|  | 243,606        | 238,881      |
| Mortgage-related securities-FNMA, FHLMC and GNMA | 1,195,492      | 1,148,690    |
| Total available-for-sale securities              | \$ 1,439,098   | \$ 1,387,571 |
| Held-to-maturity                                 |                |              |
| Mortgage-related securities-FNMA, FHLMC and GNMA | \$ 102,498     | \$99,929     |
| Total held-to-maturity securities                | \$ 102,498     | \$99,929     |

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

Loans. The components of loans were summarized as follows:

|                                   | September<br>30, 2018 | December<br>31, 2017 |
|-----------------------------------|-----------------------|----------------------|
| (in thousands)                    |                       |                      |
| Real estate:                      |                       |                      |
| Residential 1-4 family            | \$2,110,489           | \$2,118,047          |
| Commercial real estate            | 733,749               | 733,106              |
| Home equity line of credit        | 949,872               | 913,052              |
| Residential land                  | 12,982                | 15,797               |
| Commercial construction           | 112,838               | 108,273              |
| Residential construction          | 13,441                | 14,910               |
| Total real estate                 | 3,933,371             | 3,903,185            |
| Commercial                        | 574,243               | 544,828              |
| Consumer                          | 247,058               | 223,564              |
| Total loans                       | 4,754,672             | 4,671,577            |
| Less: Deferred fees and discounts | (313 )                | (809 )               |
| Allowance for loan losses         | (54,127 )             | (53,637 )            |
| Total loans, net                  | \$4,700,232           | \$4,617,131          |

ASB's policy is to require private mortgage insurance on all real estate loans when the loan-to-value ratio of the property exceeds 80% of the lower of the appraised value or purchase price at origination. For non-owner occupied residential properties, the loan-to-value ratio may not exceed 80% of the lower of the appraised value or purchase price at origination. ASB is subject to the risk that the private mortgage insurance company cannot satisfy the bank's claim on policies.



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)                              | Residential<br>1-4 family | Commercial<br>real<br>estate | Home<br>equity line<br>of credit | Residential<br>land | Commercial<br>construction | Residential<br>construction | Commercial<br>loans | Consumer<br>loans | Unallocated |
|---|---------------------------|------------------------------|----------------------------------|---------------------|----------------------------|-----------------------------|---------------------|-------------------|-------------|
| Three months ended<br>September 30, 2018    |                           |                              |                                  |                     |                            |                             |                     |                   |             |
| Allowance for<br>loan losses:               |                           |                              |                                  |                     |                            |                             |                     |                   |             |
| Beginning<br>balance                        | \$2,939                   | \$15,298                     | \$7,334                          | \$642               | \$4,616                    | \$4                         | \$10,161            | \$11,809          | \$-52,803   |
| Charge-offs                                 | —                         | —                            | (80)                             | (1)                 | —                          | —                           | (788)               | (4,508)           | (5,377)     |
| Recoveries                                  | 5                         | —                            | 71                               | 122                 | —                          | —                           | 105                 | 365               | 668         |
| Provision                                   | (623)                     | (1,033)                      | (347)                            | (296)               | (356)                      | —                           | 1,255               | 7,433             | 6,033       |
| Ending<br>balance                           | \$2,321                   | \$14,265                     | \$6,978                          | \$467               | \$4,260                    | \$4                         | \$10,733            | \$15,099          | \$-54,127   |
| Three months ended<br>September 30, 2017    |                           |                              |                                  |                     |                            |                             |                     |                   |             |
| Allowance for<br>loan losses:               |                           |                              |                                  |                     |                            |                             |                     |                   |             |
| Beginning<br>balance                        | \$3,130                   | \$18,840                     | \$5,527                          | \$1,264             | \$4,706                    | \$9                         | \$14,552            | \$8,328           | \$-56,356   |
| Charge-offs                                 | (522)                     | —                            | —                                | —                   | —                          | —                           | (1,215)             | (3,160)           | (4,897)     |
| Recoveries                                  | 33                        | —                            | 164                              | 259                 | —                          | —                           | 326                 | 316               | 1,098       |
| Provision                                   | 347                       | (2,800)                      | (36)                             | (141)               | 370                        | 2                           | (595)               | 3,343             | 490         |
| Ending<br>balance                           | \$2,988                   | \$16,040                     | \$5,655                          | \$1,382             | \$5,076                    | \$11                        | \$13,068            | \$8,827           | \$-53,047   |
| Nine months ended<br>September 30, 2018     |                           |                              |                                  |                     |                            |                             |                     |                   |             |
| Allowance for<br>loan losses:               |                           |                              |                                  |                     |                            |                             |                     |                   |             |
| Beginning<br>balance                        | \$2,902                   | \$15,796                     | \$7,522                          | \$896               | \$4,671                    | \$12                        | \$10,851            | \$10,987          | \$-53,637   |
| Charge-offs                                 | (31)                      | —                            | (224)                            | (18)                | —                          | —                           | (1,930)             | (12,628)          | (14,831)    |
| Recoveries                                  | 73                        | —                            | 98                               | 173                 | —                          | —                           | 1,555               | 1,085             | 2,984       |
| Provision                                   | (623)                     | (1,531)                      | (418)                            | (584)               | (411)                      | (8)                         | 257                 | 15,655            | 12,337      |
| Ending<br>balance                           | \$2,321                   | \$14,265                     | \$6,978                          | \$467               | \$4,260                    | \$4                         | \$10,733            | \$15,099          | \$-54,127   |
| September 30,<br>2018                       |                           |                              |                                  |                     |                            |                             |                     |                   |             |
| Ending<br>balance:                          |                           |                              |                                  |                     |                            |                             |                     |                   |             |
| individually<br>evaluated for<br>impairment | \$1,020                   | \$51                         | \$1,088                          | \$—                 | \$—                        | \$—                         | \$728               | \$3               | \$2,890     |
| Ending<br>balance:                          | \$1,301                   | \$14,214                     | \$5,890                          | \$467               | \$4,260                    | \$4                         | \$10,005            | \$15,096          | \$-51,237   |

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|   |             |           |           |          |           |          |           |           |             |   |
|---|-------------|-----------|-----------|----------|-----------|----------|-----------|-----------|-------------|---|
| collectively<br>evaluated for<br>impairment |             |           |           |          |           |          |           |           |             |   |
| Financing<br>Receivables:                   |             |           |           |          |           |          |           |           |             |   |
| Ending<br>balance                           | \$2,110,489 | \$733,749 | \$949,872 | \$12,982 | \$112,838 | \$13,441 | \$574,243 | \$247,058 | \$4,754,672 |   |
| Ending<br>balance:                          |             |           |           |          |           |          |           |           |             |   |
| individually<br>evaluated for<br>impairment | \$17,703    | \$981     | \$14,602  | \$2,057  | \$—       | \$—      | \$5,727   | \$90      | \$41,160    |   |
| Ending<br>balance:                          |             |           |           |          |           |          |           |           |             |   |
| collectively<br>evaluated for<br>impairment | \$2,092,786 | \$732,768 | \$935,270 | \$10,925 | \$112,838 | \$13,441 | \$568,516 | \$246,968 | \$4,713,512 |   |
| Nine months ended<br>September 30, 2017     |             |           |           |          |           |          |           |           |             |   |
| Allowance for<br>loan losses:               |             |           |           |          |           |          |           |           |             |   |
| Beginning<br>balance                        | \$2,873     | \$16,004  | \$5,039   | \$1,738  | \$6,449   | \$12     | \$16,618  | \$6,800   | \$-55,533   |   |
| Charge-offs                                 | (528        | ) —       | (14       | ) (92    | ) —       | —        | (3,477    | ) (8,360  | ) —(12,471  | ) |
| Recoveries                                  | 91          | —         | 294       | 477      | —         | —        | 922       | 970       | —2,754      |   |
| Provision                                   | 552         | 36        | 336       | (741     | ) (1,373  | ) (1     | ) (995    | ) 9,417   | —7,231      |   |
| Ending<br>balance                           | \$2,988     | \$16,040  | \$5,655   | \$1,382  | \$5,076   | \$11     | \$13,068  | \$8,827   | \$-53,047   |   |
| December 31,<br>2017                        |             |           |           |          |           |          |           |           |             |   |
| Ending<br>balance:                          |             |           |           |          |           |          |           |           |             |   |
| individually<br>evaluated for<br>impairment | \$1,248     | \$65      | \$647     | \$47     | \$—       | \$—      | \$694     | \$29      | \$2,730     |   |
| Ending<br>balance:                          |             |           |           |          |           |          |           |           |             |   |
| collectively<br>evaluated for<br>impairment | \$1,654     | \$15,731  | \$6,875   | \$849    | \$4,671   | \$12     | \$10,157  | \$10,958  | \$-50,907   |   |
| Financing<br>Receivables:                   |             |           |           |          |           |          |           |           |             |   |
| Ending<br>balance                           | \$2,118,047 | \$733,106 | \$913,052 | \$15,797 | \$108,273 | \$14,910 | \$544,828 | \$223,564 | \$4,671,577 |   |
| Ending<br>balance:                          |             |           |           |          |           |          |           |           |             |   |
| individually<br>evaluated for<br>impairment | \$18,284    | \$1,016   | \$8,188   | \$1,265  | \$—       | \$—      | \$4,574   | \$66      | \$33,393    |   |
| Ending<br>balance:                          |             |           |           |          |           |          |           |           |             |   |
| Ending<br>balance:                          | \$2,099,763 | \$732,090 | \$904,864 | \$14,532 | \$108,273 | \$14,910 | \$540,254 | \$223,498 | \$4,638,184 |   |

collectively  
evaluated for  
impairment

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

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

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

| (in thousands)  | September 30, 2018        |                            |            | December 31, 2017         |                            |            |
|-----------------|---------------------------|----------------------------|------------|---------------------------|----------------------------|------------|
|                 | Commercial<br>real estate | Commercial<br>construction | Commercial | Commercial<br>real estate | Commercial<br>construction | Commercial |
| Grade:          |                           |                            |            |                           |                            |            |
| Pass            | \$651,524                 | \$ 88,049                  | \$ 523,335 | \$630,877                 | \$ 83,757                  | \$ 492,942 |
| Special mention | 35,642                    | 22,500                     | 18,512     | 49,347                    | 22,500                     | 27,997     |
| Substandard     | 46,583                    | 2,289                      | 32,396     | 52,882                    | 2,016                      | 23,421     |
| Doubtful        | —                         | —                          | —          | —                         | —                          | 468        |
| Loss            | —                         | —                          | —          | —                         | —                          | —          |
| Total           | \$733,749                 | \$ 112,838                 | \$ 574,243 | \$733,106                 | \$ 108,273                 | \$ 544,828 |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)             | 30-59<br>days<br>past due | 60-89<br>days<br>past due | Greater<br>than<br>90 days | Total<br>past due | Current      | Total<br>financing<br>receivables | Recorded<br>investment ><br>90 days and<br>accruing |
|----------------------------|---------------------------|---------------------------|----------------------------|-------------------|--------------|-----------------------------------|---|
| September 30, 2018         |                           |                           |                            |                   |              |                                   |   |
| Real estate:               |                           |                           |                            |                   |              |                                   |   |
| Residential 1-4 family     | \$ 2,000                  | \$ 2,254                  | \$ 4,132                   | \$ 8,386          | \$ 2,102,103 | \$ 2,110,489                      | \$ —  |
| Commercial real estate     | —                         | —                         | —                          | —                 | 733,749      | 733,749                           | —   |
| Home equity line of credit | 1,375                     | 493                       | 3,194                      | 5,062             | 944,810      | 949,872                           | —   |
| Residential land           | —                         | —                         | 418                        | 418               | 12,564       | 12,982                            | —   |
| Commercial construction    | —                         | —                         | —                          | —                 | 112,838      | 112,838                           | —   |
| Residential construction   | —                         | —                         | —                          | —                 | 13,441       | 13,441                            | —   |
| Commercial                 | 1,053                     | 417                       | 463                        | 1,933             | 572,310      | 574,243                           | —   |
| Consumer                   | 4,679                     | 2,200                     | 1,969                      | 8,848             | 238,210      | 247,058                           | —   |
| Total loans                | \$ 9,107                  | \$ 5,364                  | \$ 10,176                  | \$ 24,647         | \$ 4,730,025 | \$ 4,754,672                      | \$ —  |
| December 31, 2017          |                           |                           |                            |                   |              |                                   |   |
| Real estate:               |                           |                           |                            |                   |              |                                   |   |
| Residential 1-4 family     | \$ 1,532                  | \$ 1,715                  | \$ 5,071                   | \$ 8,318          | \$ 2,109,729 | \$ 2,118,047                      | \$ —  |
| Commercial real estate     | —                         | —                         | —                          | —                 | 733,106      | 733,106                           | —   |
| Home equity line of credit | 425                       | 114                       | 2,051                      | 2,590             | 910,462      | 913,052                           | —   |
| Residential land           | 23                        | —                         | 625                        | 648               | 15,149       | 15,797                            | —   |
| Commercial construction    | —                         | —                         | —                          | —                 | 108,273      | 108,273                           | —   |
| Residential construction   | —                         | —                         | —                          | —                 | 14,910       | 14,910                            | —   |
| Commercial                 | 1,825                     | 2,025                     | 730                        | 4,580             | 540,248      | 544,828                           | —   |
| Consumer                   | 3,432                     | 2,159                     | 1,876                      | 7,467             | 216,097      | 223,564                           | —   |
| Total loans                | \$ 7,237                  | \$ 6,013                  | \$ 10,353                  | \$ 23,603         | \$ 4,647,974 | \$ 4,671,577                      | \$ —  |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)  | September<br>30, 2018 | December<br>31, 2017 |
|---|-----------------------|----------------------|
| Real estate:  |                       |                      |
| Residential 1-4 family                                    | \$ 12,768             | \$ 12,598            |
| Commercial real estate                                    | —                     | —                    |
| Home equity line of credit                                | 7,191                 | 4,466                |
| Residential land  | 516                   | 841                  |
| Commercial construction                                   | —                     | —                    |
| Residential construction                                  | —                     | —                    |
| Commercial  | 4,176                 | 3,069                |
| Consumer  | 3,266                 | 2,617                |
| Total nonaccrual loans                                    | \$ 27,917             | \$ 23,591            |
| Real estate:  |                       |                      |
| Residential 1-4 family                                    | \$ —                  | \$ —                 |
| Commercial real estate                                    | —                     | —                    |
| Home equity line of credit                                | —                     | —                    |
| Residential land  | —                     | —                    |
| Commercial construction                                   | —                     | —                    |
| Residential construction                                  | —                     | —                    |
| Commercial  | —                     | —                    |
| Consumer  | —                     | —                    |
| Total accruing loans 90 days or more past due             | \$ —                  | \$ —                 |
| Real estate:  |                       |                      |
| Residential 1-4 family                                    | \$ 10,701             | \$ 10,982            |
| Commercial real estate                                    | 981                   | 1,016                |
| Home equity line of credit                                | 11,131                | 6,584                |
| Residential land  | 1,542                 | 425                  |
| Commercial construction                                   | —                     | —                    |
| Residential construction                                  | —                     | —                    |
| Commercial  | 1,806                 | 1,741                |
| Consumer  | 63                    | 66                   |
| Total troubled debt restructured loans not included above | \$ 26,224             | \$ 20,814            |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)                     | September 30, 2018     |                                |                      | Three months ended<br>September 30, 2018                         |  | Nine months ended<br>September 30, 2018 |          |
|------------------------------------|------------------------|--------------------------------|----------------------|--|--|---|----------|
|                                    | Recorded<br>investment | Unpaid<br>principal<br>balance | Related<br>Allowance | Average Interest<br>recorded income<br>investment<br>recognized* | Average Interest<br>recorded income<br>investment<br>recognized* |   |          |
| With no related allowance recorded |                        |                                |                      |  |  |   |          |
| Real estate:                       |                        |                                |                      |  |  |   |          |
| Residential 1-4 family             | \$8,689                | \$9,200                        | \$ —                 | \$8,940  | \$ 239   | \$8,779                                 | \$ 396   |
| Commercial real estate             | —                      | —                              | —                    | —  | —  | —                                       | —        |
| Home equity line of credit         | 2,359                  | 2,714                          | —                    | 2,234  | 23   | 2,103                                   | 35       |
| Residential land                   | 2,057                  | 2,256                          | —                    | 1,773  | 6  | 1,358                                   | 16       |
| Commercial construction            | —                      | —                              | —                    | —  | —  | —                                       | —        |
| Residential construction           | —                      | —                              | —                    | —  | —  | —                                       | —        |
| Commercial                         | 3,948                  | 4,915                          | —                    | 3,915  | 6  | 3,099                                   | 26       |
| Consumer                           | 32                     | 32                             | —                    | 33   | —  | 18                                      | —        |
|                                    | \$17,085               | \$19,117                       | \$ —                 | \$16,895   | \$ 274   | \$15,357                                | \$ 473   |
| With an allowance recorded         |                        |                                |                      |  |  |   |          |
| Real estate:                       |                        |                                |                      |  |  |   |          |
| Residential 1-4 family             | \$9,014                | \$9,218                        | \$ 1,020             | \$8,820  | \$ 84  | \$8,909                                 | \$ 274   |
| Commercial real estate             | 981                    | 981                            | 51                   | 985  | 11   | 997                                     | 32       |
| Home equity line of credit         | 12,243                 | 12,327                         | 1,088                | 12,090   | 111  | 10,083                                  | 288      |
| Residential land                   | —                      | —                              | —                    | 20   | —  | 45                                      | 3        |
| Commercial construction            | —                      | —                              | —                    | —  | —  | —                                       | —        |
| Residential construction           | —                      | —                              | —                    | —  | —  | —                                       | —        |
| Commercial                         | 1,779                  | 1,779                          | 728                  | 1,774  | 28   | 1,824                                   | 94       |
| Consumer                           | 58                     | 58                             | 3                    | 57   | 1  | 58                                      | 3        |
|                                    | \$24,075               | \$24,363                       | \$ 2,890             | \$23,746   | \$ 235   | \$21,916                                | \$ 694   |
| Total                              |                        |                                |                      |  |  |   |          |
| Real estate:                       |                        |                                |                      |  |  |   |          |
| Residential 1-4 family             | \$17,703               | \$18,418                       | \$ 1,020             | \$17,760   | \$ 323   | \$17,688                                | \$ 670   |
| Commercial real estate             | 981                    | 981                            | 51                   | 985  | 11   | 997                                     | 32       |
| Home equity line of credit         | 14,602                 | 15,041                         | 1,088                | 14,324   | 134  | 12,186                                  | 323      |
| Residential land                   | 2,057                  | 2,256                          | —                    | 1,793  | 6  | 1,403                                   | 19       |
| Commercial construction            | —                      | —                              | —                    | —  | —  | —                                       | —        |
| Residential construction           | —                      | —                              | —                    | —  | —  | —                                       | —        |
| Commercial                         | 5,727                  | 6,694                          | 728                  | 5,689  | 34   | 4,923                                   | 120      |
| Consumer                           | 90                     | 90                             | 3                    | 90   | 1  | 76                                      | 3        |
|                                    | \$41,160               | \$43,480                       | \$ 2,890             | \$40,641   | \$ 509   | \$37,273                                | \$ 1,167 |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

| (in thousands)                     | December 31, 2017      |                                |                      | Three months ended<br>September 30, 2017 |                                   | Nine months ended<br>September 30, 2017 |                                   |
|------------------------------------|------------------------|--------------------------------|----------------------|--|-----------------------------------|---|-----------------------------------|
|                                    | Recorded<br>investment | Unpaid<br>principal<br>balance | Related<br>allowance | Average<br>investment<br>recorded        | Interest<br>income<br>recognized* | Average<br>investment<br>recorded       | Interest<br>income<br>recognized* |
| With no related allowance recorded |                        |                                |                      |  |                                   |   |                                   |
| Real estate:                       |                        |                                |                      |  |                                   |   |                                   |
| Residential 1-4 family             | \$9,097                | \$9,644                        | \$ —                 | \$9,650                                  | \$ 70                             | \$9,503                                 | \$ 230                            |
| Commercial real estate             | —                      | —                              | —                    | —  | —                                 | 121                                     | 11                                |
| Home equity line of credit         | 1,496                  | 1,789                          | —                    | 1,918                                    | 32                                | 2,108                                   | 97                                |
| Residential land                   | 1,143                  | 1,434                          | —                    | 1,209                                    | 73                                | 1,080                                   | 107                               |
| Commercial construction            | —                      | —                              | —                    | —  | —                                 | —                                       | —                                 |
| Residential construction           | —                      | —                              | —                    | —  | —                                 | —                                       | —                                 |
| Commercial                         | 2,328                  | 3,166                          | —                    | 1,808                                    | 29                                | 2,888                                   | 37                                |
| Consumer                           | 8                      | 8                              | —                    | —  | —                                 | —                                       | —                                 |
|                                    | \$14,072               | \$16,041                       | \$ —                 | \$14,585                                 | \$ 204                            | \$15,700                                | \$ 482                            |
| With an allowance recorded         |                        |                                |                      |  |                                   |   |                                   |
| Real estate:                       |                        |                                |                      |  |                                   |   |                                   |
| Residential 1-4 family             | \$9,187                | \$9,390                        | \$ 1,248             | \$9,788                                  | \$ 97                             | \$9,963                                 | \$ 333                            |
| Commercial real estate             | 1,016                  | 1,016                          | 65                   | 1,284                                    | 13                                | 1,292                                   | 41                                |
| Home equity line of credit         | 6,692                  | 6,736                          | 647                  | 5,076                                    | 68                                | 4,670                                   | 164                               |
| Residential land                   | 122                    | 122                            | 47                   | 1,251                                    | 12                                | 1,620                                   | 73                                |
| Commercial construction            | —                      | —                              | —                    | —  | —                                 | —                                       | —                                 |
| Residential construction           | —                      | —                              | —                    | —  | —                                 | —                                       | —                                 |
| Commercial                         | 2,246                  | 2,252                          | 694                  | 2,482                                    | 225                               | 4,104                                   | 694                               |
| Consumer                           | 58                     | 58                             | 29                   | 67                                       | 1                                 | 55                                      | 2                                 |
|                                    | \$19,321               | \$19,574                       | \$ 2,730             | \$19,948                                 | \$ 416                            | \$21,704                                | \$ 1,307                          |
| Total                              |                        |                                |                      |  |                                   |   |                                   |
| Real estate:                       |                        |                                |                      |  |                                   |   |                                   |
| Residential 1-4 family             | \$18,284               | \$19,034                       | \$ 1,248             | \$19,438                                 | \$ 167                            | \$19,466                                | \$ 563                            |
| Commercial real estate             | 1,016                  | 1,016                          | 65                   | 1,284                                    | 13                                | 1,413                                   | 52                                |
| Home equity line of credit         | 8,188                  | 8,525                          | 647                  | 6,994                                    | 100                               | 6,778                                   | 261                               |
| Residential land                   | 1,265                  | 1,556                          | 47                   | 2,460                                    | 85                                | 2,700                                   | 180                               |
| Commercial construction            | —                      | —                              | —                    | —  | —                                 | —                                       | —                                 |
| Residential construction           | —                      | —                              | —                    | —  | —                                 | —                                       | —                                 |
| Commercial                         | 4,574                  | 5,418                          | 694                  | 4,290                                    | 254                               | 6,992                                   | 731                               |
| Consumer                           | 66                     | 66                             | 29                   | 67                                       | 1                                 | 55                                      | 2                                 |
|                                    | \$33,393               | \$35,615                       | \$ 2,730             | \$34,533                                 | \$ 620                            | \$37,404                                | \$ 1,789                          |

\* Since loan was classified as impaired.

Troubled debt restructurings. A loan modification is deemed to be a TDR when the borrower is determined to be experiencing financial difficulties and ASB grants a concession it would not otherwise consider.

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.





## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

|                              | Three months ended September 30, 2018                            |                   |  |        | Nine months ended September 30, 2018                             |                   |  |          |
|------------------------------|--|-------------------|--|--------|--|-------------------|--|----------|
|                              | Outstanding recorded investment <sup>1</sup> Number of contracts |                   | Net increase in allowance (as of period end) |        | Outstanding recorded investment <sup>1</sup> Number of contracts |                   | 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       | 3  | \$ 632            | \$ 649                                       | \$ 1   | 4  | \$ 971            | \$ 993                                       | \$ 17    |
| Commercial real estate       | —  | —                 | —  | —      | —  | —                 | —  | —        |
| Home equity line of credit   | 16   | 1,584             | 1,585  | 263    | 55   | 7,092             | 7,097  | 1,205    |
| Residential land             | 3  | 1,562             | 1,568  | —      | 4  | 1,671             | 1,677  | —        |
| Commercial construction      | —  | —                 | —  | —      | —  | —                 | —  | —        |
| Residential construction     | —  | —                 | —  | —      | —  | —                 | —  | —        |
| Commercial                   | 6  | 256               | 256  | 134    | 13   | 2,550             | 2,550  | 176      |
| Consumer                     | —  | —                 | —  | —      | —  | —                 | —  | —        |
|                              | 28   | \$ 4,034          | \$ 4,058                                     | \$ 398 | 76   | \$ 12,284         | \$ 12,317                                    | \$ 1,398 |
|                              | Three months ended September 30, 2017                            |                   |  |        | Nine months ended September 30, 2017                             |                   |  |          |
|                              | Outstanding recorded investment <sup>1</sup> Number of contracts |                   | Net increase in allowance (as of period end) |        | Outstanding recorded investment <sup>1</sup> Number of contracts |                   | 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  | \$ 83             | \$ 83  | \$ —   | 7  | \$ 955            | \$ 963                                       | \$ 45    |
| Commercial real estate       | —  | —                 | —  | —      | —  | —                 | —  | —        |
| Home equity line of credit   | 15   | 862               | 862  | 184    | 28   | 1,386             | 1,372  | 277      |
| Residential land             | —  | —                 | —  | —      | —  | —                 | —  | —        |
| Commercial construction      | —  | —                 | —  | —      | —  | —                 | —  | —        |
| Residential construction     | —  | —                 | —  | —      | —  | —                 | —  | —        |
| Commercial                   | 1  | 330               | 330  | 38     | 2  | 672               | 672  | 38       |
| Consumer                     | —  | —                 | —  | —      | 1  | 59                | 59   | 27       |
|                              | 18   | \$ 1,275          | \$ 1,275                                     | \$ 222 | 38   | \$ 3,072          | \$ 3,066                                     | \$ 387   |

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (dollars in thousands)                                   | Three months ended September 30, 2018 |                     | Nine months ended September 30, 2018 |                     |
|--|---------------------------------------|---------------------|--------------------------------------|---------------------|
|  | Number of contracts                   | Recorded investment | Number of contracts                  | Recorded investment |
| Troubled debt restructurings that subsequently defaulted |                                       |                     |                                      |                     |
| Real estate:   |                                       |                     |                                      |                     |
| Residential 1-4 family                                   | —                                     | \$ —                | —                                    | \$ —                |
| Commercial real estate                                   | —                                     | —                   | —                                    | —                   |
| Home equity line of credit                               | —                                     | —                   | 1                                    | 81                  |
| Residential land   | —                                     | —                   | —                                    | —                   |
| Commercial construction                                  | —                                     | —                   | —                                    | —                   |
| Residential construction                                 | —                                     | —                   | —                                    | —                   |
| Commercial   | —                                     | —                   | 1                                    | 291                 |
| Consumer   | —                                     | —                   | —                                    | —                   |
|  | —                                     | \$ —                | 2                                    | \$ 372              |
|  |                                       |                     |                                      |                     |
| (dollars in thousands)                                   | Three months ended September 30, 2017 |                     | Nine months ended September 30, 2017 |                     |
|  | Number of contracts                   | Recorded investment | Number of contracts                  | Recorded investment |
| Troubled debt restructurings that subsequently defaulted |                                       |                     |                                      |                     |
| Real estate:   |                                       |                     |                                      |                     |
| Residential 1-4 family                                   | —                                     | \$ —                | 1                                    | \$ 222              |
| Commercial real estate                                   | —                                     | —                   | —                                    | —                   |
| Home equity line of credit                               | —                                     | —                   | —                                    | —                   |
| Residential land   | —                                     | —                   | —                                    | —                   |
| Commercial construction                                  | —                                     | —                   | —                                    | —                   |
| Residential construction                                 | —                                     | —                   | —                                    | —                   |
| Commercial   | —                                     | —                   | —                                    | —                   |
| Consumer   | —                                     | —                   | —                                    | —                   |
|  | —                                     | \$ —                | 1                                    | \$ 222              |

If loans modified in a TDR subsequently default, ASB evaluates the loan for further impairment. Based on its evaluation, adjustments may be made in the allocation of the allowance or partial charge-offs may be taken to further write-down the carrying value of the loan. Commitments to lend additional funds to borrowers whose loan terms have been modified in a TDR totaled \$0.06 million and nil at September 30, 2018 and December 31, 2017, respectively. The Company had \$5.0 million and \$4.3 million of consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure at September 30, 2018 and December 31, 2017, respectively. Mortgage servicing rights (MSRs). In its mortgage banking business, ASB sells residential mortgage loans to government-sponsored entities and other parties, who may issue securities backed by pools of such loans. ASB retains no beneficial interests in these loans other than the servicing rights of certain loans sold.

ASB received proceeds from the sale of residential mortgages of \$31.9 million and \$39.8 million for the three months ended September 30, 2018 and 2017 and \$109.3 million and \$119.7 million for the nine months ended September 30, 2018 and 2017, respectively, and recognized gains on such sales of \$0.2 million and \$0.5 million for the three months ended September 30, 2018 and 2017 and \$1.4 million and \$1.9 million for the nine months ended September 30, 2018 and 2017, respectively.

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



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

Mortgage servicing fees, a component of other income, net, were \$0.7 million and \$0.8 million for the three months ended September 30, 2018 and 2017, respectively, and \$2.2 million and \$2.3 million for the nine months ended September 30, 2018 and 2017, respectively.

Changes in the carrying value of MSR were as follows:

| (in thousands)     | Gross carrying amount <sup>1</sup> | Accumulated amortization <sup>1</sup> | Valuation allowance | Net carrying amount |
|--------------------|------------------------------------|---------------------------------------|---------------------|---------------------|
| September 30, 2018 | \$ 18,543                          | \$ (10,117 )                          | \$ —                | —\$ 8,426           |
| December 31, 2017  | 17,511                             | (8,872 )                              | —                   | 8,639               |

<sup>1</sup> Reflects the impact of loans paid in full.

Changes related to MSR were as follows:

| (in thousands)                                    | Three months ended September 30 |          | Nine months ended September 30 |          |
|---|---------------------------------|----------|--------------------------------|----------|
|   | 2018                            | 2017     | 2018                           | 2017     |
| Mortgage servicing rights                         |                                 |          |                                |          |
| Beginning balance                                 | \$ 8,509                        | \$ 9,181 | \$ 8,639                       | \$ 9,373 |
| Amount capitalized                                | 305                             | 394      | 1,032                          | 1,192    |
| Amortization                                      | (388 )                          | (505 )   | (1,245 )                       | (1,495 ) |
| Other-than-temporary impairment                   | —                               | —        | —                              | —        |
| Carrying amount before valuation allowance        | 8,426                           | 9,070    | 8,426                          | 9,070    |
| Valuation allowance for mortgage servicing rights |                                 |          |                                |          |
| Beginning balance                                 | —                               | —        | —                              | —        |
| Provision (recovery)                              | —                               | —        | —                              | —        |
| Other-than-temporary impairment                   | —                               | —        | —                              | —        |
| Ending balance                                    | —                               | —        | —                              | —        |
| Net carrying value of mortgage servicing rights   | \$ 8,426                        | \$ 9,070 | \$ 8,426                       | \$ 9,070 |

ASB capitalizes MSR acquired upon the sale of mortgage loans with servicing rights retained. On a monthly basis, ASB compares the net carrying value of the MSR to its fair value to determine if there are any changes to the valuation allowance and/or other-than-temporary impairment for the MSR.

ASB uses a present value cash flow model to estimate the fair value of MSR. Impairment is recognized through a valuation allowance for each stratum when the carrying amount exceeds fair value, with any associated provision recorded as a component of loan servicing fees included in "Revenues - bank" in the consolidated statements of income.

A direct write-down is recorded when the recoverability of the valuation allowance is deemed to be unrecoverable.

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

| (dollars in thousands)            | September 30, 2018 | December 31, 2017 |  |   |
|-----------------------------------|--------------------|-------------------|--|---|
| Unpaid principal balance          | \$ 1,206,025       | \$ 1,195,454      |  |   |
| Weighted average note rate        | 3.98               | % 3.94            |  | % |
| Weighted average discount rate    | 10.0               | % 10.0            |  | % |
| Weighted average prepayment speed | 7.0                | % 9.0             |  | % |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (dollars in thousands)              | September 30, December 31,<br>2018                      2017 |           |
|-------------------------------------|--|-----------|
| Prepayment rate:                    |  |           |
| 25 basis points adverse rate change | \$ (379 )  | \$ (869 ) |
| 50 basis points adverse rate change | (836 )   | (1,828 )  |
| Discount rate:                      |  |           |
| 25 basis points adverse rate change | (134 )   | (111 )    |
| 50 basis points adverse rate change | (265 )   | (220 )    |

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

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

The following tables present information about the securities sold under agreements to repurchase, including the related collateral received from or pledged to counterparties:

| (in millions)         | Gross amount of<br>recognized liabilities | Gross amount offset in<br>the Balance Sheet | Net amount of liabilities presented<br>in the Balance Sheet |
|-----------------------|---|---|---|
| Repurchase agreements |   |   |   |
| September 30, 2018    | \$ 71                                     | \$ —  | \$ 71   |
| December 31, 2017     | 141                                       | —   | 141   |

| (in millions)              | Gross amount not offset in the Balance Sheet<br>Net amount<br>of<br>liabilities presented<br>in the Balance Sheet | Financial<br>instruments | Cash<br>collateral<br>pledged |
|----------------------------|---|--------------------------|-------------------------------|
| Commercial account holders |   |                          |                               |
| September 30, 2018         | \$ 71   | \$ 154                   | \$ —                          |
| December 31, 2017          | 141   | 165                      | —                             |

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

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

ASB enters into IRLCs for residential mortgage loans, which commit ASB to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative financial instruments under applicable accounting guidance.

Outstanding IRLCs expose ASB to the risk that the price of the mortgage loans underlying the commitments may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. The IRLCs are free-standing derivatives which are carried at fair value with changes recorded in mortgage banking income.

ASB enters into forward commitments to hedge the interest rate risk for rate locked mortgage applications in process and closed mortgage loans held for sale. These commitments are primarily forward sales of to-be-announced mortgage backed securities. Generally, when mortgage loans are closed, the forward commitment is liquidated and replaced with a mandatory delivery forward sale of the mortgage to a secondary market investor. In some cases, a best-efforts forward sale agreement is

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

utilized as the forward commitment. These commitments are free-standing derivatives which are carried at fair value with changes recorded in mortgage banking income.

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

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

| (in thousands)                 | September 30, 2018 |            | December 31, 2017 |            |
|--------------------------------|--------------------|------------|-------------------|------------|
|                                | Notional amount    | Fair value | Notional amount   | Fair value |
| Interest rate lock commitments | \$ —               | \$ —       | \$13,669          | \$131      |
| Forward commitments            | —                  | —          | 14,465            | (24 )      |

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

| (in thousands)                 | September 30, 2018 |                       | December 31, 2017 |                       |
|--------------------------------|--------------------|-----------------------|-------------------|-----------------------|
|                                | Asset derivatives  | Liability derivatives | Asset derivatives | Liability derivatives |
| Interest rate lock commitments | \$ —               | \$ —                  | \$133             | \$ 2                  |
| Forward commitments            | —                  | —                     | 4                 | 28                    |
|                                | \$ —               | \$ —                  | \$137             | \$ 30                 |

<sup>1</sup> Asset derivatives are included in other assets and liability derivatives are included in other liabilities in the balance sheets.

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

| Derivative Financial Instruments Not Designated as Hedging Instruments | Location of net gains (losses) recognized in the Statement of Income | Three months ended |                   | Nine months ended |                   |
|--|--|--------------------|-------------------|-------------------|-------------------|
|  |  | September 30 2018  | September 30 2017 | September 30 2018 | September 30 2017 |
| (in thousands)   |  |                    |                   |                   |                   |
| Interest rate lock commitments   | Mortgage banking income  | \$(248)            | \$(119)           | \$(131)           | \$(414)           |
| Forward commitments  | Mortgage banking income  | 62                 | (90 )             | 24                | 175               |
|  |  | \$(186)            | \$(209)           | \$(107)           | \$(239)           |

Low-Income Housing Tax Credit (LIHTC). ASB's unfunded commitments to fund its LIHTC investment partnerships were \$24.9 million and \$15.8 million at September 30, 2018 and December 31, 2017, respectively. These unfunded commitments were unconditional and legally binding and are recorded in other liabilities with a corresponding increase in other assets. As of September 30, 2018, ASB did not have any impairment losses resulting from forfeiture or ineligibility of tax credits or other circumstances related to its LIHTC investment partnerships.



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

## Note 5 - Credit agreements and long-term debt

Credit agreements. HEI and Hawaiian Electric each entered into a separate agreement with a syndicate of eight financial institutions (the HEI Facility and Hawaiian Electric Facility, respectively, and together, the Facilities), effective July 3, 2017, to amend and restate their respective previously existing revolving unsecured credit agreements. The \$150 million HEI Facility extended the term of the facility to June 30, 2022. In March 2018, the PUC approved Hawaiian Electric's request to extend the term of the \$200 million Hawaiian Electric Facility to June 30, 2022. As of September 30, 2018 and December 31, 2017, no amounts were outstanding under the Facilities. The Facilities will be maintained to support each company's respective short-term commercial paper program, but may be drawn on to meet each company's respective working capital needs and general corporate purposes. Changes in long-term debt. On May 30, 2018, the Utilities issued, through a private placement pursuant to separate Note Purchase Agreements (the Note Purchase Agreements), the following unsecured notes bearing taxable interest (the Notes):

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

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

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

On October 4, 2018, HEI closed on a private placement transaction to issue \$150 million senior unsecured notes in two tranches, as follows:

|  | HEI Series 2018A  | HEI Series 2018B  |
|--|-------------------|-------------------|
| Aggregate principal amount due at maturity | \$50 million      | \$100 million     |
| Fixed coupon interest rate                 | 4.58%             | 4.72%             |
| Maturity date                              | December 15, 2025 | December 15, 2028 |
| Draw date                                  | October 4, 2018   | December 18, 2018 |

Proceeds from the HEI Series 2018A tranche were used to repay HEI's \$50 million short-term borrowing with The Bank of Tokyo-Mitsubishi UFJ, Ltd. Proceeds to be received from the HEI Series 2018B tranche will be used for general corporate purposes, including contributions to Hawaiian Electric to maintain a targeted equity capitalization structure. The note purchase agreement contains certain restrictive financial covenants that are substantially the same

as the financial covenants contained in HEI's senior credit facility, as amended.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

## Note 6 · Shareholders' equity

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

| (in thousands)                                   | HEI Consolidated                            |  |                          |            | Hawaiian Electric Consolidated           |                          |           |
|--|---|--|--------------------------|------------|--|--------------------------|-----------|
|  | Net unrealized gains (losses) on securities | Unrealized gains (losses) on derivatives | Retirement benefit plans | AOCI       | Unrealized gains (losses) on derivatives | Retirement benefit plans | AOCI      |
| Balance, December 31, 2017                       | \$(14,951)                                  | \$ —                                     | \$(26,990)               | \$(41,941) | \$—                                      | \$(1,219)                | \$(1,219) |
| Current period other comprehensive income (loss) | (22,768)                                    | —  | 1,581                    | (21,187)   | —  | 85                       | 85        |
| Balance, September 30, 2018                      | \$(37,719)                                  | \$ —                                     | \$(25,409)               | \$(63,128) | \$—                                      | \$(1,134)                | \$(1,134) |
| Balance, December 31, 2016                       | \$(7,931)                                   | \$(454)                                  | \$(24,744)               | \$(33,129) | \$(454)                                  | \$132                    | \$(322)   |
| Current period other comprehensive income        | 2,452                                       | 454                                      | 1,003                    | 3,909      | 454                                      | 67                       | 521       |
| Balance, September 30, 2017                      | \$(5,479)                                   | \$ —                                     | \$(23,741)               | \$(29,220) | \$—                                      | \$199                    | \$199     |

Reclassifications out of AOCI were as follows:

| (in thousands)  | Amount reclassified from AOCI   |         |                                |          | Affected line item in the Statements of Income / Balance Sheets |
|---|---------------------------------|---------|--------------------------------|----------|---|
|   | Three months ended September 30 |         | Nine months ended September 30 |          |   |
|   | 2018                            | 2017    | 2018                           | 2017     |   |
| HEI consolidated  |                                 |         |                                |          |   |
| Derivatives qualifying as cash flow hedges:   |                                 |         |                                |          |   |
| Window forward contracts  | \$—                             | \$—     | \$—                            | \$454    | Property, plant and equipment-electric utilities                |
| Retirement benefit plans:   |                                 |         |                                |          |   |
| Amortization of prior service credit and net losses recognized during the period in net periodic benefit cost | 5,259                           | 3,942   | 15,755                         | 11,793   | See Note 8 for additional details                               |
| Impact of D&Os of the PUC included in regulatory assets   | (4,725)                         | (3,596) | (14,174)                       | (10,790) | See Note 8 for additional details                               |
| Total reclassifications   | \$534                           | \$346   | \$1,581                        | \$1,457  |   |
| Hawaiian Electric consolidated  |                                 |         |                                |          |   |
| Derivatives qualifying as cash flow hedges:   |                                 |         |                                |          |   |
| Window forward contracts  | \$—                             | \$—     | \$—                            | \$454    | Property, plant and equipment                                   |
| Retirement benefit plans:   |                                 |         |                                |          |   |
| Amortization of prior service credit and net losses recognized during the period in net periodic benefit cost | 4,753                           | 3,618   | 14,259                         | 10,857   | See Note 8 for additional details                               |
| Impact of D&Os of the PUC included in regulatory assets   | (4,725)                         | (3,596) | (14,174)                       | (10,790) | See Note 8 for additional details                               |
| Total reclassifications   | \$28                            | \$22    | \$85                           | \$521    |   |

Note 7 · Revenues

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

Electric Utilities.

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

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

Utility fees - Pricing for transaction fees associated with electric service are set and approved by the PUC.

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

Bank.

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

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

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

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

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

Electric Utilities.

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

Since revenue adjustments discussed above resulted from either agreements with the PUC or change in tax law, rather than contracts with customers, they are not subject to the scope of Topic 606. See Notes 1, 3 and 10 to the audited consolidated financial statements in the Company's Form 10-K for the year ended December 31, 2017. The Utilities have elected to present these revenue adjustments on a gross basis, which results in the amounts being billed to customers presented in revenues from contracts with customers and the amortization of the related regulatory asset/liability as revenues from other sources. Depending on whether the previous deferral balance being amortized was a regulatory asset or regulatory liability, and depending on the size and direction of the current year deferral of surcharges and/or refunds to customers, it could result in negative regulatory revenue during the year.

Bank.

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

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

|   | Three months ended September 30, 2018 |          |       |           | Nine months ended September 30, 2018 |           |       |             |
|---|---------------------------------------|----------|-------|-----------|--------------------------------------|-----------|-------|-------------|
|   | Electric utility                      | Bank     | Other | Total     | Electric utility                     | Bank      | Other | Total       |
| (in thousands)                                |                                       |          |       |           |                                      |           |       |             |
| Revenues from contracts with customers        |                                       |          |       |           |                                      |           |       |             |
| Electric energy sales - residential           | \$222,196                             | \$—      | \$—   | \$222,196 | \$586,002                            | \$—       | \$—   | \$586,002   |
| Electric energy sales - commercial            | 229,476                               | —        | —     | 229,476   | 624,643                              | —         | —     | 624,643     |
| Electric energy sales - large light and power | 242,457                               | —        | —     | 242,457   | 649,454                              | —         | —     | 649,454     |
| Electric energy sales - other                 | 3,464                                 | —        | —     | 3,464     | 9,944                                | —         | —     | 9,944       |
| Utility fees                                  | 832                                   | —        | —     | 832       | 2,380                                | —         | —     | 2,380       |
| Bank fees                                     | —                                     | 11,743   | —     | 11,743    | —                                    | 34,797    | —     | 34,797      |
| Total revenues from contracts with customers  | 698,425                               | 11,743   | —     | 710,168   | 1,872,423                            | 34,797    | —     | 1,907,220   |
| Revenues from other sources                   |                                       |          |       |           |                                      |           |       |             |
| Regulatory revenue                            | (13,572 )                             | —        | —     | (13,572 ) | (13,465 )                            | —         | —     | (13,465 )   |
| Bank interest and dividend income             | —                                     | 65,185   | —     | 65,185    | —                                    | 190,448   | —     | 190,448     |
| Other bank noninterest income                 | —                                     | 3,568    | —     | 3,568     | —                                    | 7,774     | —     | 7,774       |
| Other   | 2,556                                 | —        | 143   | 2,699     | 7,004                                | —         | 218   | 7,222       |
| Total revenues from other sources             | (11,016 )                             | 68,753   | 143   | 57,880    | (6,461 )                             | 198,222   | 218   | 191,979     |
| Total revenues                                | \$687,409                             | \$80,496 | \$143 | \$768,048 | \$1,865,962                          | \$233,019 | \$218 | \$2,099,199 |
| Timing of revenue recognition                 |                                       |          |       |           |                                      |           |       |             |
| Services/goods transferred at a point in time | \$832                                 | \$11,743 | \$—   | \$12,575  | \$2,380                              | \$34,797  | \$—   | \$37,177    |
| Services/goods transferred over time          | 697,593                               | —        | —     | 697,593   | 1,870,043                            | —         | —     | 1,870,043   |
| Total revenues from contracts with customers  | \$698,425                             | \$11,743 | \$—   | \$710,168 | \$1,872,423                          | \$34,797  | \$—   | \$1,907,220 |

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

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

#### Note 8 · Retirement benefits

Defined benefit pension and other postretirement benefit plans information. For the first nine months of 2018, the Company contributed \$38 million (\$37 million by the Utilities) to its pension and other postretirement benefit plans, compared to \$50 million (\$49 million by the Utilities) in the first nine months of 2017. The Company's current



estimate of contributions to its pension and other postretirement benefit plans in 2018 is \$38 million (\$37 million by the Utilities, \$1 million by HEI and nil by ASB), compared to \$67 million (\$66 million by the Utilities, \$1 million by HEI and nil by ASB) in 2017. In addition, the Company expects to pay directly \$2 million (\$1 million by the Utilities) of benefits in 2018, compared to \$1 million (\$0.5 million by the Utilities) paid in 2017.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)  | Three months ended September 30 |           | Other benefits |          | Nine months ended September 30 |                  | Other benefits |          |
|---|---------------------------------|-----------|----------------|----------|--------------------------------|------------------|----------------|----------|
|   | Pension benefits                | 2018      | 2017           | 2018     | 2017                           | Pension benefits | 2018           | 2017     |
| HEI consolidated  |                                 |           |                |          |                                |                  |                |          |
| Service cost  | \$17,223                        | \$16,271  | \$680          | \$843    | \$51,764                       | \$48,635         | \$2,041        | \$2,530  |
| Interest cost   | 19,340                          | 20,304    | 1,986          | 2,363    | 58,033                         | 60,881           | 5,947          | 7,089    |
| Expected return on plan assets                                      | (27,237 )                       | (25,689 ) | (3,224 )       | (3,078 ) | (81,715 )                      | (77,056 )        | (9,683 )       | (9,248 ) |
| Amortization of net prior service gain                              | (11 )                           | (14 )     | (451 )         | (448 )   | (32 )                          | (41 )            | (1,354 )       | (1,345 ) |
| Amortization of net actuarial loss                                  | 7,527                           | 6,638     | 25             | 283      | 22,556                         | 19,858           | 71             | 848      |
| Net periodic pension/benefit cost (return)                          | 16,842                          | 17,510    | (984 )         | (37 )    | 50,606                         | 52,277           | (2,978 )       | (126 )   |
| Impact of PUC D&Os  | 7,785                           | (4,534 )  | 953            | 346      | 17,621                         | (14,557 )        | 3,048          | 1,019    |
| Net periodic pension/benefit cost (adjusted for impact of PUC D&Os) | \$24,627                        | \$12,976  | \$(31 )        | \$309    | \$68,227                       | \$37,720         | \$70           | \$893    |
| Hawaiian Electric consolidated                                      |                                 |           |                |          |                                |                  |                |          |
| Service cost  | \$16,840                        | \$15,764  | \$676          | \$839    | \$50,520                       | \$47,294         | \$2,028        | \$2,515  |
| Interest cost   | 17,824                          | 18,659    | 1,907          | 2,279    | 53,471                         | 55,974           | 5,721          | 6,837    |
| Expected return on plan assets                                      | (25,593 )                       | (23,973 ) | (3,178 )       | (3,037 ) | (76,777 )                      | (71,919 )        | (9,534 )       | (9,110 ) |
| Amortization of net prior service loss (gain)                       | 2                               | 2         | (451 )         | (451 )   | 6                              | 6                | (1,353 )       | (1,353 ) |
| Amortization of net actuarial loss                                  | 6,826                           | 6,098     | 25             | 275      | 20,477                         | 18,294           | 74             | 826      |
| Net periodic pension/benefit cost (return)                          | 15,899                          | 16,550    | (1,021 )       | (95 )    | 47,697                         | 49,649           | (3,064 )       | (285 )   |
| Impact of PUC D&Os  | 7,785                           | (4,534 )  | 953            | 346      | 17,621                         | (14,557 )        | 3,048          | 1,019    |
| Net periodic pension/benefit cost (adjusted for impact of PUC D&Os) | \$23,684                        | \$12,016  | \$(68 )        | \$251    | \$65,318                       | \$35,092         | \$(16 )        | \$734    |

HEI consolidated recorded retirement benefits expense of \$43 million (\$40 million by the Utilities) and \$25 million (\$22 million by the Utilities) in the first nine months of 2018 and 2017, respectively, and charged the remaining net periodic benefit cost primarily to electric utility plant.

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

Defined contribution plans information. For the first nine months of 2018 and 2017, the Company's expenses for its defined contribution pension plans under the Hawaiian Electric Industries Retirement Savings Plan (HEIRSP) and the ASB 401(k) Plan were \$4.8 million and \$5.1 million, respectively, and cash contributions were \$5.9 million and \$5.0 million, respectively. For the first nine months of 2018 and 2017, the Utilities' expenses for its defined contribution pension plan under the HEIRSP were \$1.7 million and \$1.4 million, respectively, and cash contributions were \$1.7 million and \$1.4 million, respectively.

#### Note 9 - Share-based compensation

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



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

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

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

|   | Three months ended September 30 |        | Nine months ended September 30 |        |
|---|---------------------------------|--------|--------------------------------|--------|
|   | 2018                            | 2017   | 2018                           | 2017   |
| (in millions)                                 |                                 |        |                                |        |
| HEI consolidated                              |                                 |        |                                |        |
| Share-based compensation expense <sup>1</sup> | \$ 1.5                          | \$ 1.1 | \$ 5.9                         | \$ 4.4 |
| Income tax benefit                            | 0.2                             | 0.4    | 0.9                            | 1.5    |
| Hawaiian Electric consolidated                |                                 |        |                                |        |
| Share-based compensation expense <sup>1</sup> | 0.6                             | 0.4    | 2.1                            | 1.6    |
| Income tax benefit                            | 0.1                             | 0.2    | 0.4                            | 0.6    |

<sup>1</sup> For the three and nine months ended September 30, 2018 and 2017, the Company has not capitalized any share-based compensation.

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

|                       | Three months ended September 30 |      | Nine months ended September 30 |        |
|-----------------------|---------------------------------|------|--------------------------------|--------|
|                       | 2018                            | 2017 | 2018                           | 2017   |
| (dollars in millions) |                                 |      |                                |        |
| Shares granted        | —                               | —    | 38,821                         | 35,770 |
| Fair value            | \$ —                            | \$ — | \$ 1.3                         | \$ 1.2 |
| Income tax benefit    | —                               | —    | 0.3                            | 0.5    |

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

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

|                                  | Three months ended September 30 |           | Nine months ended September 30 |           |
|----------------------------------|---------------------------------|-----------|--------------------------------|-----------|
|                                  | 2018                            | 2017      | 2018                           | 2017      |
|                                  | Shares(1)                       | Shares(1) | Shares(1)                      | Shares(1) |
| Outstanding, beginning of period | 200,856                         | 206,485   | 197,043                        | 220,683   |
| Granted                          | 1,789                           | 35.61     | 93,853                         | 97,873    |
| Vested                           | —                               | —         | (68,724)                       | (89,682)  |
| Forfeited                        | (2,287)                         | 32.83     | (14,859)                       | (23,079)  |
| Outstanding, end of period       | 200,358                         | 205,791   | 200,358                        | 205,791   |

|   |       |     |       |       |
|---|-------|-----|-------|-------|
| Total weighted-average grant-date fair value of shares granted<br>(in millions) | \$0.1 | \$— | \$3.2 | \$3.3 |
|---|-------|-----|-------|-------|

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

For the first nine months of 2018 and 2017, total restricted stock units and related dividends that vested had a fair value of \$2.7 million and \$3.4 million, respectively, and the related tax benefits were \$0.4 million and \$1.1 million, respectively.

As of September 30, 2018, there was \$4.8 million of total unrecognized compensation cost related to the nonvested restricted stock units. The cost is expected to be recognized over a weighted-average period of 2.6 years.

Long-term incentive plan payable in stock. The 2017-2019 and 2018-2020 long-term incentive plans (LTIP) provide for performance awards under the EIP of shares of HEI common stock based on the satisfaction of performance goals, including a market condition goal. The number of shares of HEI common stock that may be awarded is fixed on the date the grants are

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

made, subject to the achievement of specified performance levels and calculated dividend equivalents. The potential payout varies from 0% to 200% of the number of target shares depending on the achievement of the goals. The market condition goal is based on HEI's total shareholder return (TSR) compared to the Edison Electric Institute Index over the relevant three-year period. The other performance condition goals relate to EPS growth, return on average common equity (ROACE) and ASB's efficiency ratio. The 2016-2018 LTIP provides for performance awards payable in cash, and thus is not included in the tables below.

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

|  | Three months ended |        | Nine months ended |           |
|--|--------------------|--------|-------------------|-----------|
|  | September 30       |        | September 30      |           |
|  | 2018               | 2017   | 2018              | 2017      |
|  | Shares             | Shares | Shares(1)         | Shares(1) |
| Outstanding, beginning of period   | 66,173             | 33,770 | 32,904            | 83,106    |
| Granted  | 878                | —      | 37,819            | 37,204    |
| Vested (issued or unissued and cancelled)                                    | —                  | —      | —                 | (83,106)  |
| Forfeited  | (1,498)            | —      | (5,158)           | (3,434)   |
| Outstanding, end of period   | 65,368             | 33,770 | 65,565            | 33,770    |
| Total weighted-average grant-date fair value of shares granted (in millions) | \$—                | \$—    | \$1.4             | \$1.5     |

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

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

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

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

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

As of September 30, 2018, there was \$1.5 million of total unrecognized compensation cost related to the nonvested performance awards payable in shares linked to TSR. The cost is expected to be recognized over a weighted-average period of 1.8 years.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

|   | Three months ended |         | Nine months ended |           |
|---|--------------------|---------|-------------------|-----------|
|   | September 30       |         | September 30      |           |
|   | 2018               | 2017    | 2018              | 2017      |
|   | Shares(1)          | Shares  | Shares(1)         | Shares(1) |
| Outstanding, beginning of period  | 264,703            | 135,074 | 131,615           | 109,815   |
| Granted   | 3,511              | —       | 151,273           | 148,813   |
| Vested  | —                  | —       | —                 | (109,815) |
| Forfeited   | (5,958)            | —       | (20,633)          | (13,740)  |
| Outstanding, end of period  | 262,260            | 135,074 | 262,260           | 135,074   |
| Total weighted-average grant-date fair value of shares granted (at target performance levels) (in millions) | \$0.1              | \$—     | \$5.2             | \$5.0     |

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

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

As of September 30, 2018, there was \$5.4 million of total unrecognized compensation cost related to the nonvested shares linked to performance conditions other than TSR. The cost is expected to be recognized over a weighted-average period of 1.8 years.

#### Note 10 · Income taxes

The Company's and the Utilities' effective tax rates were 19% and 19%, respectively, for the nine months ended September 30, 2018. These rates differed from statutory rates, due to state income taxes and the amortization of excess deferred income taxes related to the provision in the Tax Act that lowered the federal income tax rate from 35% to 21%. In addition, certain tax return adjustments, most notably an increased pension deduction made in conjunction with the filing of the Company's 2017 tax returns, resulted in a net income tax benefit of \$5.3 million, that lowered the effective tax rate due to the additional tax benefits realized that were associated with the rate differential. The lower tax rate was partially offset by other Tax Act changes, including the non-deductibility of excess executive compensation and various fringe benefit costs. The Company's and the Utilities' effective tax rate were 35% and 36%, respectively, for the nine months ended September 30, 2017.

Staff Accounting Bulletin No. 118 (SAB No. 118). On December 22, 2017, the SEC staff issued SAB No. 118 to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. In 2017, the Company calculated its best estimate of the provision for income tax expense, in accordance with its understanding of the law and available guidance. In the third quarter of 2018, adjustments, largely relating to Treasury's depreciation regulation guidance issued in 2018 were made to the provisional tax impacts. The adjustments were due primarily to the application of 50% bonus depreciation to 2017 fourth quarter plant additions, resulting in additional regulatory liabilities totaling \$11.3 million. The Company will continue to monitor the provisional impacts and update when and if additional information is received as a result of changes in the Company's and Utilities' interpretations and assumptions, the issuance of Internal Revenue Service and Joint Committee on Taxation guidance, and actions the Company and Utilities may take as a result of the Tax Act. The provisional tax impacts will be finalized by the end of 2018.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

## Note 11 · Cash flows

| Nine months ended September 30<br>(in millions)   | 2018  | 2017  |
|---|-------|-------|
| Supplemental disclosures of cash flow information   |       |       |
| HEI consolidated  |       |       |
| Interest paid to non-affiliates   | \$ 67 | \$ 62 |
| Income taxes paid (including refundable credits)  | 50    | 32    |
| Hawaiian Electric consolidated  |       |       |
| Interest paid to non-affiliates   | 44    | 45    |
| Income taxes paid (including refundable credits)  | 47    | 9     |
| Supplemental disclosures of noncash activities  |       |       |
| HEI consolidated  |       |       |
| Property, plant and equipment   |       |       |
| Estimated fair value of noncash contributions in aid of construction (investing)                        | 6     | 3     |
| Unpaid invoices and accruals for capital expenditures, balance, end of period (investing)               | 42    | 35    |
| Loans transferred from held for investment to held for sale (investing)                                 | 1     | 41    |
| Common stock issued (gross) for director and executive/management compensation (financing) <sup>1</sup> | 4     | 11    |
| Obligations to fund low income housing investments (investing)  | 12    | 10    |
| Transfer of retail repurchase agreements to deposit liabilities (financing)                             | 102   | —     |
| Hawaiian Electric consolidated  |       |       |
| Electric utility property, plant and equipment  |       |       |
| Estimated fair value of noncash contributions in aid of construction (investing)                        | 6     | 3     |
| Unpaid invoices and accruals for capital expenditures, balance, end of period (investing)               | 28    | 32    |

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



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

## Note 12 · Fair value measurements

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

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

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

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

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

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

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

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

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

Mortgage servicing rights. MSR's are capitalized at fair value based on market data at the time of sale and accounted for in subsequent periods at the lower of amortized cost or fair value. Mortgage servicing rights are evaluated for impairment at each reporting date. ASB's MSR's are stratified based on predominant risk characteristics of the underlying loans including loan type and note rate. For each stratum, fair value is calculated by discounting expected net income streams using discount rates that

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

reflect industry pricing for similar assets. Expected net income streams are estimated based on industry assumptions regarding prepayment expectations and income and expenses associated with servicing residential mortgage loans for others. Impairment is recognized through a valuation allowance for each stratum when the carrying amount exceeds fair value, with any associated provision recorded as a component of loan servicing fees included in "Revenues - bank" in the consolidated statements of income. A direct write-down is recorded when the recoverability of the valuation allowance is deemed to be unrecoverable. ASB compares the fair value of MSRs to an estimated value calculated by an independent third-party. The third-party relies on both published and unpublished sources of market related assumptions and their own experience and expertise to arrive at a value. ASB uses the third-party value only to assess the reasonableness of its own estimate.

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

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

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

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

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

| (in thousands)                                  | Carrying or notional amount | Estimated fair value   |   |   | Total |
|---|-----------------------------|--|---|---|-------|
|   |                             | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |       |
| September 30, 2018                              |                             |  |   |   |       |
| Financial assets                                |                             |  |   |   |       |
| HEI consolidated                                |                             |  |   |   |       |
| Available-for-sale investment securities        | \$ 1,387,571                | \$ 1,368,487   | \$ 19,084                                     | \$ 1,387,571                              |       |
| Held-to-maturity investment securities          | 102,498                     | —99,929  | —   | 99,929                                    |       |
| Stock in Federal Home Loan Bank                 | 8,158                       | —8,158   | —   | 8,158                                     |       |
| Loans, net                                      | 4,701,268                   | —1,031   | 4,671,635                                     | 4,672,666                                 |       |
| Mortgage servicing rights                       | 8,426                       | —  | 13,443  | 13,443                                    |       |
| Financial liabilities                           |                             |  |   |   |       |
| HEI consolidated                                |                             |  |   |   |       |
| Deposit liabilities <sup>1</sup>                | 805,117                     | —791,753   | —   | 791,753                                   |       |
| Short-term borrowings—other than bank           | 203,359                     | —203,359   | —   | 203,359                                   |       |
| Other bank borrowings                           | 71,110                      | —71,107  | —   | 71,107                                    |       |
| Long-term debt, net—other than bank             | 1,782,242                   | —1,805,682   | —   | 1,805,682                                 |       |
| Derivative liabilities                          | 3,023                       | —27  | —   | 27  |       |
| Hawaiian Electric consolidated                  |                             |  |   |   |       |
| Short-term borrowings                           | 85,913                      | —85,913  | —   | 85,913                                    |       |
| Long-term debt, net                             | 1,468,624                   | —1,503,508   | —   | 1,503,508                                 |       |
| Derivative liabilities-window forward contracts | 3,023                       | —27  | —   | 27  |       |
| December 31, 2017                               |                             |  |   |   |       |
| Financial assets                                |                             |  |   |   |       |
| HEI consolidated                                |                             |  |   |   |       |
| Available-for-sale investment securities        | 1,401,198                   | —1,385,771   | 15,427  | 1,401,198                                 |       |
| Held-to-maturity investment securities          | 44,515                      | —44,412  | —   | 44,412                                    |       |
| Stock in Federal Home Loan Bank                 | 9,706                       | —9,706   | —   | 9,706                                     |       |
| Loans, net                                      | 4,628,381                   | —11,254  | 4,770,497                                     | 4,781,751                                 |       |
| Mortgage servicing rights                       | 8,639                       | —  | 12,052  | 12,052                                    |       |
| Derivative assets                               | 17,812                      | —393   | —   | 393                                       |       |
| Hawaiian Electric consolidated                  |                             |  |   |   |       |
| Derivative assets-window forward contracts      | 3,240                       | —256   | —   | 256                                       |       |
| Financial liabilities                           |                             |  |   |   |       |
| HEI consolidated                                |                             |  |   |   |       |
| Deposit liabilities <sup>1</sup>                | 5,890,597                   | —5,884,071   | —   | 5,884,071                                 |       |
| Short-term borrowings—other than bank           | 117,945                     | —117,945   | —   | 117,945                                   |       |
| Other bank borrowings                           | 190,859                     | —190,829   | —   | 190,829                                   |       |
| Long-term debt, net—other than bank             | 1,683,797                   | —1,813,295   | —   | 1,813,295                                 |       |
| Derivative liabilities                          | 13,562                      | 2010   | —   | 30  |       |
| Hawaiian Electric consolidated                  |                             |  |   |   |       |
| Short-term borrowings                           | 4,999                       | —4,999   | —   | 4,999                                     |       |

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Long-term debt, net 1,368,479 —1,497,079 — 1,497,079

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

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)   | September 30, 2018 |              |           | December 31, 2017 |              |           |
|--|--------------------|--------------|-----------|-------------------|--------------|-----------|
|  | Level 1            | Level 2      | Level 3   | Level 1           | Level 2      | Level 3   |
| Available-for-sale investment securities (bank segment)          |                    |              |           |                   |              |           |
| Mortgage-related securities-FNMA, FHLMC and GNMA                 | \$ —               | \$ 1,148,690 | \$ —      | \$ —              | \$ 1,201,473 | \$ —      |
| U.S. Treasury and federal agency obligations                     | —                  | 170,414      | —         | —                 | 184,298      | —         |
| Corporate bonds  | —                  | 49,383       | —         | —                 | —            | —         |
| Mortgage revenue bonds   | —                  | —            | 19,084    | —                 | —            | 15,427    |
|  | \$ —               | \$ 1,368,487 | \$ 19,084 | \$ —              | \$ 1,385,771 | \$ 15,427 |
| Derivative assets  |                    |              |           |                   |              |           |
| Interest rate lock commitments (bank segment) <sup>1</sup>       | \$ —               | \$ —         | \$ —      | \$ —              | \$ 133       | \$ —      |
| Forward commitments (bank segment) <sup>1</sup>                  | —                  | —            | —         | —                 | 4            | —         |
| Window forward contracts (electric utility segment) <sup>2</sup> | —                  | —            | —         | —                 | 256          | —         |
|  | \$ —               | \$ —         | \$ —      | \$ —              | \$ 393       | \$ —      |
| Derivative liabilities   |                    |              |           |                   |              |           |
| Interest rate lock commitments (bank segment) <sup>1</sup>       | \$ —               | \$ —         | \$ —      | \$ —              | \$ 2         | \$ —      |
| Forward commitments (bank segment) <sup>1</sup>                  | —                  | —            | —         | 20                | 8            | —         |
| Window forward contracts (electric utility segment) <sup>2</sup> | —                  | 27           | —         | —                 | —            | —         |
|  | \$ —               | \$ 27        | \$ —      | \$ 20             | \$ 10        | \$ —      |

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

<sup>2</sup> Derivatives are included in regulatory assets and/or liabilities in the balance sheets.

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

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

|   | Three months ended |                   | Nine months ended |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | September 30 2018  | September 30 2017 | September 30 2018 | September 30 2017 |
| Mortgage revenue bonds (in thousands)                         |                    |                   |                   |                   |
| Beginning balance   | \$ 15,427          | \$ 15,427         | \$ 15,427         | \$ 15,427         |
| Principal payments received                                   | —                  | —                 | —                 | —                 |
| Purchases   | 3,657              | —                 | 3,657             | —                 |
| Unrealized gain (loss) included in other comprehensive income | —                  | —                 | —                 | —                 |
| Ending balance  | \$ 19,084          | \$ 15,427         | \$ 19,084         | \$ 15,427         |

ASB holds two mortgage revenue bonds issued by the Department of Budget and Finance of the State of Hawaii. The Company estimates the fair value by using a discounted cash flow model to calculate the present value of estimated future principal and interest payments. The unobservable input used in the fair value measurement is the weighted average discount rate. As of September 30, 2018, the weighted average discount rate was 3.66% which was derived by incorporating a credit spread over the one month LIBOR rate. Significant increases (decreases) in the weighted average discount rate could result in a significantly lower (higher) fair value measurement.



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued (Unaudited)

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

| (in thousands)     | Fair value measurements |         |         |         |
|--------------------|-------------------------|---------|---------|---------|
|                    | Balance                 | Level 1 | Level 2 | Level 3 |
| Loans              |                         |         |         |         |
| September 30, 2018 | \$ 77                   | \$ —    | \$ —    | \$ 77   |
| December 31, 2017  | 2,621                   | —       | —       | 2,621   |

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

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

| (\$ in thousands)           | Fair value | Valuation technique      | Significant unobservable input       | Significant unobservable input value <sup>(1)</sup> |                  |
|-----------------------------|------------|--------------------------|--------------------------------------|---|------------------|
|                             |            |                          |                                      | Range   | Weighted Average |
| September 30, 2018          |            |                          |                                      |   |                  |
| Home equity lines of credit | \$ 77      | Fair value of collateral | Appraised value less 7% selling cost |   | N/A (2)          |
| Total loans                 | \$ 77      |                          |                                      |   |                  |
| December 31, 2017           |            |                          |                                      |   |                  |
| Residential loans           | \$ 613     | Fair value of collateral | Appraised value less 7% selling cost | 71-92%  | 84%              |
| Commercial loans            | 2,008      | Fair value of collateral | Appraised value                      | 71-76%  | 75%              |
| Total loans                 | \$ 2,621   |                          |                                      |   |                  |

(1) Represent percent of outstanding principal balance.

(2) N/A - Not applicable. There is one loan in each fair value measurement type.

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



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

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

HEI consolidated

## RESULTS OF OPERATIONS

| (in thousands, except per share amounts)             | Three months ended September 30 |           | %    | Primary reason(s)*   |
|--|---------------------------------|-----------|------|--|
|  | 2018                            | 2017      |      |  |
| Revenues   | \$768,048                       | \$673,185 | 14   | Increases for the electric utility and bank segments<br>Decrease for the electric utility segment, partly offset by increase for the bank segment and lower operating losses for the "other" segment |
| Operating income                                     | 98,064                          | 111,473   | (12) |  |
| Net income for common stock                          | 65,900                          | 60,073    | 10   | Higher net income at the electric utility and bank segments. See below for effective tax rate explanation.   |
| Basic earnings per common share                      | \$0.61                          | \$0.55    | 11   | Higher net income  |
| Weighted-average number of common shares outstanding | 108,879                         | 108,786   | —    | Issuances of shares under compensation stock plans.  |

| (in thousands, except per share amounts)             | Nine months ended September 30 |             | %   | Primary reason(s)*   |
|--|--------------------------------|-------------|-----|--|
|  | 2018                           | 2017        |     |  |
| Revenues   | \$2,099,199                    | \$1,897,028 | 11  | Increases for the electric utility and bank segments<br>Decrease for the electric utility segment, partly offset by increase for the bank segment and lower operating losses for the "other" segment |
| Operating income                                     | 248,752                        | 259,013     | (4) |  |
| Net income for common stock                          | 152,201                        | 132,927     | 14  | Higher net income at the electric utility and bank segments, partly offset by higher net losses at the "other" segment. See below for effective tax rate explanation.                                |
| Basic earnings per common share                      | \$1.40                         | \$1.22      | 15  | Higher net income  |
| Weighted-average number of common shares outstanding | 108,847                        | 108,737     | —   | Issuances of shares under compensation and director stock plans.   |

\* Also, see segment discussions which follow.

The Company's effective tax rates (combined federal and state income tax rates) for the third quarters of 2018 and 2017 were 14% and 36%, respectively. The Company's effective tax rates for the first nine months of 2018 and 2017 were 19% and 35%, respectively. The effective tax rates were lower for the three and nine months ended September 30, 2018 compared to the same periods in 2017 due primarily to the provision in the Tax Act that lowered the federal income tax rate from 35% to 21% and the related amortization of excess deferred income taxes. In addition, certain tax return adjustments, most notably an increased pension deduction made in conjunction with the filing of the Company's 2017 tax returns, contributed to the lower effective tax rate due to the additional tax benefits realized that were associated with the rate differential. The lower tax rate was partially offset by lower excess tax benefits associated with share-based awards in the first nine months of 2018 as compared to the same period of 2017 and other Tax Act changes (the non-deductibility of excess executive compensation and various fringe benefit costs and loss of

the domestic production activities deduction).

HEI's consolidated ROACE was 8.7% for the twelve months ended September 30, 2018 and 8.5% for the twelve months ended September 30, 2017.

Dividends. The payout ratios for the first nine months of 2018 and full year 2017 were 67% and 82%, respectively. HEI currently expects to maintain its dividend at its present level; however, the HEI Board of Directors evaluates the dividend

quarterly and considers many factors in the evaluation including, but not limited to, the Company's results of operations, the long-term prospects for the Company and current and expected future economic conditions. Economic conditions.

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

Through the first three quarters of 2018, Hawaii's tourism industry, a significant driver of Hawaii's economy, continues to grow in both visitor spending and arrivals. Visitor expenditures increased 9.8% and arrivals increased 6.5% compared to the same period in 2017. Looking ahead, the Hawaii Tourism Authority expects scheduled nonstop seats to Hawaii to increase as the year progresses, driven primarily by an increase in seats from West Coast, East Coast and Asia.

Hawaii's unemployment rate remained steady at 2.2% for September 2018, which was comparable to the rate for September 2017 and lower than the national unemployment rate of 3.7%. It is also the lowest unemployment rate in the nation.

Hawaii real estate activity, as indicated by the home resale market, experienced a growth in median sales prices for single family homes and condominiums so far in 2018. Median sales prices for single family residential homes on Oahu through September 2018 were higher by 4.2% and for condominiums were higher by 5.5%, over the same time period in 2017. The number of closed sales for single family residential homes and condominiums were down by -3.7% and -0.1% respectively through September of 2018 compared to same time period of 2017.

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

At its September 2018 meeting, the Federal Open Market Committee (FOMC) decided to raise the target range for the federal funds rate from "2% to 2.25%" in view of realized and expected labor market conditions and inflation. The FOMC will continue to assess economic conditions relative to its objectives of maximum employment and 2% inflation in determining the size and timing of future adjustments to the target range.

The performance of Hawaii's tourism industry remains strong. However, natural disasters such as the volcanic eruption on the Big Island and flooding from tropical storms on Kauai and the Big Island have had negative impacts on those islands, translating to some visitor traffic diversion to Oahu and Maui. Local economists are agreeing that Hawaii's economic growth continues to be positive but are signifying that the economic expansion has slowed. Potential risks to the Hawaii economy include infrastructure constraints, tight labor markets and high housing costs creating inflationary pressures. International trade tariffs and natural disasters also remain a source of great uncertainty. Most recently, a hotel employee strike which started in early October continues to impact thousands of hotel workers, customers and guests at a handful of properties on Oahu and Maui which could put a damper on Hawaii's visitor industry.

"Other" segment.

|                | Three months ended |         | Nine months ended |          |   |
|----------------|--------------------|---------|-------------------|----------|---|
|                | September 30       |         | September 30      |          |   |
| (in thousands) | 2018               | 2017    | 2018              | 2017     | Primary reason(s)   |
| Revenues       | \$143              | \$127   | \$218             | \$299    |   |
| Operating loss | (3,236)            | (4,000) | (10,865)          | (12,655) | Third quarter and first nine months of 2018 include \$0.7 million and \$3.0 million, respectively, of operating income from Pacific Current, LLC <sup>1</sup> . Third quarter 2018 corporate expense was slightly lower than third quarter of 2017; first nine months of 2018 corporate expense was slightly higher than same period in 2017. |
| Net loss       | (5,033)            | (5,006) | (16,897)          | (11,807) | Third quarter and first nine months of 2018 include higher interest expense (due to higher interest rates and balances at corporate and new   |

debt at Pacific Current, LLC related to Hamakua Energy's acquisition of a power plant) and lower tax benefits on expenses as a result of tax reform in third quarter and first nine months of 2018 as compared to the same periods in 2017.

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

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

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

#### FINANCIAL CONDITION

Liquidity and capital resources. As a result of the Tax Cut and Jobs Act, utility property is no longer eligible for bonus depreciation, but further guidance is required in order to finally determine the application of the new law. However, note that recent clarification in the tax law indicates that certain assets with longer construction periods that were placed in service after the effective date may be grandfathered and qualify for the old 50% bonus depreciation if subject to binding contracts entered into before such effective date. Consequently, additional bonus depreciation was taken for the fourth quarter of 2017 in the Company’s income tax return, resulting in an additional deferral of income taxes. The Utilities are currently evaluating its larger projects placed into service in 2018 for applicability. Nevertheless, the initial cash requirement for future utility capital projects will generally increase because of the loss of the immediate tax benefit from bonus depreciation. The Company believes that its ability to generate cash, both internally from electric utility and banking operations and externally from issuances of equity and debt securities, commercial paper and bank borrowings, is adequate to maintain sufficient liquidity to fund its contractual obligations and commercial commitments, its forecasted capital expenditures and investments, its expected retirement benefit plan contributions and other cash requirements for the foreseeable future.

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

| (dollars in millions)                 | September 30, 2018 |      | December 31, 2017 |      |
|---------------------------------------|--------------------|------|-------------------|------|
|                                       | \$                 | %    | \$                | %    |
| Short-term borrowings—other than bank | 203                | 5    | 118               | 3    |
| Long-term debt, net—other than bank   | 1,782              | 43   | 1,684             | 43   |
| Preferred stock of subsidiaries       | 34                 | 1    | 34                | 1    |
| Common stock equity                   | 2,132              | 51   | 2,097             | 53   |
|                                       | \$4,151            | 100% | \$3,933           | 100% |

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

| (in millions) | Average balance                      | Balance            |
|---------------|--------------------------------------|--------------------|
|               | Nine months ended September 30, 2018 | September 30, 2017 |
|               |                                      |                    |

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|  |       |       |       |
|--|-------|-------|-------|
| Commercial paper                                     | \$ 49 | \$ 68 | \$ 63 |
| Line of credit draws                                 | —     | —     | —     |
| Undrawn capacity under HEI’s line of credit facility |       | 150   | 150   |

Note: This table does not include Hawaiian Electric’s separate commercial paper issuances and line of credit facilities and draws, which are disclosed below under “Electric utility—Financial Condition—Liquidity and capital resources.” The maximum amount of HEI’s external short-term borrowings during the first nine months of 2018 was \$68 million. HEI has a \$150 million line of credit facility with no amounts outstanding at September 30, 2018. See Note 5 of the Condensed Consolidated Financial Statements.

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

On October 4, 2018, HEI closed on a private placement transaction to issue \$150 million senior unsecured notes in two tranches (\$50 million HEI Series 2018A and \$100 million HEI Series 2018B). Proceeds from the \$50 million HEI Series 2018A tranche drawn in October 2018 were used to repay HEI's \$50 million short-term borrowing with The Bank of Tokyo-Mitsubishi UFJ, Ltd. Proceeds from the HEI Series 2018B tranche to be drawn in December 2018 will be used for general corporate purposes, including contributions to Hawaiian Electric to maintain a targeted equity capitalization structure.

For the first nine months of 2018, net cash provided by operating activities of HEI consolidated was \$258 million. Net cash used by investing activities for the same period was \$542 million, primarily due to Hawaiian Electric's consolidated capital expenditures and ASB's net increase in loans held for investment and purchases of investment securities, partly offset by ASB's receipt of repayments from investment securities and Hawaiian Electric's receipt of contributions in aid of construction. Net cash provided by financing activities during this period was \$194 million as a result of several factors, including increases in short-term borrowings and ASB's deposit liabilities, proceeds from other bank borrowings and long-term debt and net increases in ASB's retail purchase agreements, partly offset by the payment of common stock dividends and repayments of other bank borrowings. Other than capital contributions from their parent company, intercompany services (and related intercompany payables and receivables), Hawaiian Electric's periodic short-term borrowings from HEI (and related interest) and the payment of dividends to HEI, the electric utility and bank segments are largely autonomous in their operating, investing and financing activities. (See the electric utility and bank segments' discussions of their cash flows in their respective "Financial condition—Liquidity and capital resources" sections below.) During the first nine months of 2018, Hawaiian Electric and ASB (through ASB Hawaii) paid cash dividends to HEI of \$77 million and \$36 million, respectively.

#### CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION

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

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

#### MATERIAL ESTIMATES AND CRITICAL ACCOUNTING POLICIES

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

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

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

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

Electric utility

## RESULTS OF OPERATIONS

Three months

ended

Increase

September 30

| 2018    | 2017    | (decrease) | (dollars in millions, except per barrel amounts)  |
|---------|---------|------------|---|
| \$687   | \$599   | \$88       | Revenues. Net increase largely due to:  |
|         |         | \$57       | higher fuel oil prices <sup>1</sup>   |
|         |         | 26         | higher purchased power energy costs <sup>2</sup>  |
|         |         | 11         | higher rate relief  |
|         |         | 8          | higher KWH generated  |
|         |         | 6          | higher RAM and MPIR revenues  |
|         |         | (7 )       | lower KWH purchased   |
|         |         | (12 )      | Tax reform adjustment   |
| 207     | 146     | 61         | Fuel oil expense. Increase due to higher fuel oil prices and higher KWH generated   |
| 178     | 160     | 18         | Purchased power expense. Net increase due to:   |
|         |         | 24         | higher purchased power energy price   |
|         |         | (6 )       | lower KWH purchased   |
| 114     | 99      | 15         | Operation and maintenance expenses. Net increase due to:  |
|         |         | 6          | reset of pension costs included in rates as part of rate case interim decisions   |
|         |         | 2          | 25KV underground circuit repair work  |
|         |         | 2          | higher operation and maintenance expenses for generation plants   |
|         |         | 1          | operation expenses for Schofield Generating Station placed in service in June   |
|         |         | 1          | higher workers' compensation claims   |
|         |         | 1          | higher medical premium costs  |
|         |         | 1          | higher underground cable maintenance costs  |
| 116     | 105     | 11         | Other expenses. Increase due to higher revenue taxes from higher revenue, coupled with higher depreciation expense for plant investments in 2017  |
| 74      | 88      | (14 )      | Operating income. Decrease due to higher operation and maintenance and other expenses, offset in part by higher revenue   |
| 50      | 47      | 3          | Net income for common stock. Increase due to higher RAM and MPIR revenues, rate relief and lower income taxes, offset in part by higher expenses, including interest expense. See below for discussion on effective tax rate. |
| 2,329   | 2,340   | (11 )      | Kilowatthour sales (millions) <sup>3</sup>  |
| \$90.93 | \$66.73 | \$24.20    | Average fuel oil cost per barrel <sup>1</sup>   |



| Nine months ended |         |            | Increase |  |
|-------------------|---------|------------|----------|--|
| 2018              | 2017    | (decrease) |          | (dollars in millions, except per barrel amounts)   |
| \$1,866           | \$1,674 | \$192      |          | Revenues. Net increase largely due to:   |
|                   |         |            | \$119    | higher fuel oil prices <sup>1</sup>  |
|                   |         |            | 50       | higher purchased power energy costs <sup>2</sup>   |
|                   |         |            | 35       | higher RAM and MPIR revenues   |
|                   |         |            | 28       | higher rate relief   |
|                   |         |            | 5        | higher KWH generated   |
|                   |         |            | (10 )    | lower KWH purchased  |
|                   |         |            | (34 )    | Tax reform adjustment  |
| 545               | 432     | 113        |          | Fuel oil expense. Increase due to higher fuel oil prices and higher KWH generated  |
| 478               | 441     | 37         |          | Purchased power expense. Net increase due to:  |
|                   |         |            | 44       | higher purchased power energy price  |
|                   |         |            | 2        | higher AES Hawaii capacity charges   |
|                   |         |            | (9 )     | lower KWH purchased  |
| 334               | 302     | 32         |          | Operation and maintenance expenses. Net increase due to:   |
|                   |         |            | 17       | reset of pension costs included in rates as part of rate case interim decisions  |
|                   |         |            | 3        | 25KV underground circuit repair work   |
|                   |         |            | 3        | higher operation and maintenance expenses for generation plants  |
|                   |         |            | 2        | write-off of smart grid costs  |
|                   |         |            | 2        | higher ERP costs related to outside consultants  |
|                   |         |            | 2        | higher medical premium costs   |
|                   |         |            | 1        | operation expenses for Schofield Generating Station placed in service in June  |
|                   |         |            | 1        | one-time rent expense adjustment for existing substation land  |
|                   |         |            | 1        | higher workers' compensation claims  |
| 328               | 304     | 24         |          | Other expenses. Increase due to higher revenue taxes from higher revenue, coupled with higher depreciation expense for plant investments in 2017   |
| 181               | 195     | (14 )      |          | Operating income. Decrease due to higher operation and maintenance and other expenses, offset in part by higher revenue  |
| 108               | 95      | 13         |          | Net income for common stock. Increase due to higher RAM and MPIR revenues, rate relief and lower taxes, offset in part by higher expenses, including interest expense. See below for discussion on effective tax rate. |
| 6,469             | 6,528   | (59 )      |          | Kilowatthour sales (millions) <sup>3</sup>   |
| \$84.67           | \$67.42 | \$17.25    |          | Average fuel oil cost per barrel <sup>1</sup>  |
| 462,516           | 461,408 | 1,108      |          | Customer accounts (end of period)  |

<sup>1</sup> The rate schedules of the electric utilities currently contain energy cost adjustment clauses (ECACs) through which changes in fuel oil prices and certain components of purchased energy costs are passed on to customers.

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

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

The Utilities' effective tax rates for the third quarters of 2018 and 2017 were 12% and 36%, respectively. The Utilities' effective tax rates for the first nine months of 2018 and 2017 were 19% and 36%, respectively. The effective tax rates were lower for the three and nine months ended September 30, 2018 compared to the same periods in 2017 due primarily to the provision in the Tax Act that lowered the federal income tax rate from 35% to 21% and the related

amortization of excess deferred income taxes. In addition, certain tax return adjustments, most notably an increased pension deduction made in conjunction with the filing of the Company's 2017 tax returns, contributed to the lower effective tax rate that were associated with the additional tax benefits realized due to the rate differential. The lower tax rate was partially offset by other Tax Act

changes (the non-deductibility of excess executive compensation and various fringe benefit costs and the loss of the domestic production activities deduction).

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

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

The net book value (cost less accumulated depreciation) of utility property, plant and equipment (PPE) as of September 30, 2018 amounted to \$4 billion, of which approximately 29% related to generation PPE, 62% related to transmission and distribution PPE, and 9% related to other PPE. Approximately 10% of the total net book value relates to generation PPE that has been deactivated or that the Utilities plan to deactivate or decommission. See "Adequacy of supply" below.

See "Economic conditions" in the "HEI Consolidated" section above.

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

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

Power Supply Improvement Plans and Integrated Grid Planning. The December 2016 PSIP Update Report approved by the PUC in July 2017 includes the continued growth of private rooftop solar and describes the grid and generation modernization work needed to reliably integrate an estimated total of 165,000 private systems by 2030, and additional grid-scale renewable energy resources. In addition, the plans forecast the addition of 360 MW of grid-scale solar and 157 MW of grid-scale wind, with 8 MW derived from the first phase of the community-based renewable energy (CBRE) program. The plans also include 115 MW from Demand Response (DR) programs, which can shift customer use of electricity to times when more renewable energy is available, potentially making room to add even more renewable resources. The December 2016 Update Report emphasizes work that is in progress or planned through 2021 on each of the five islands the Utilities serve.

Achieving 100% renewable energy will require modernizing the grid through coordinated energy system planning in partnership with local communities and stakeholders to affordably move Hawaii towards reliable and resilient clean energy future with minimal risk. To accomplish this, the Utilities filed its Integrated Grid Planning (IGP) Report with the PUC on March 1, 2018, which provides an innovative systems approach to energy planning intended to yield the most cost-effective renewable energy pathways that are rooted in customer and stakeholder input. The Utilities' IGP fully integrates resource, transmission, and distribution planning and incorporates solutions sourcing into the planning process. This will enable optimization and coordination of the solutions, thereby resulting in actionable near-term plans that maximize value to customers.

The PUC opened a docket for the IGP process that the Utilities had proposed. The Utilities are required to file an IGP work plan by December 14, 2018, describing the timing and scope of major activities that will occur in the IGP process.

Demand response programs. The PUC provided guidance concerning the objectives and goals for Demand Response (DR) programs, and ordered the Utilities to develop an integrated DR Portfolio Plan that will enhance system

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

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

On January 25, 2018, the PUC approved the Utilities' revised DR Portfolio tariff structure. The PUC supported the approach of working with aggregators to implement the DR portfolio, and ordered the Utilities to complete contracting by June 2018 and initiate first implementation by the third quarter of 2018. The Utilities have selected the aggregators and commenced negotiations in July 2018, with many technical requirements discussions held. The negotiations with the aggregators will continue into early fourth quarter of 2018.

Distributed Energy Resources. The PUC has approved rules and tariffs for the following Distributed Energy Resources (DER) programs:

1) Net Energy Metering (NEM) provides bill credit for the energy supplied from the customer's renewable system at the retail rate of energy delivered from the system. The NEM program was capped at 2015 levels and has been closed to new participants. Non-export customer systems can be added to NEM systems and NEM customers are allowed to add non-export energy storage.

2) Customer Grid Supply (CGS) allows customers to receive credit on their bills for energy delivered to the grid at specified rates for the energy delivered. Caps on availability of the CGS program on each island system apply and customers currently under the CGS program are grandfathered under rates which are fixed until 2022.

3) Controllable Customer Grid Supply (CGS+) program allows PV systems without battery storage to deliver energy to the grid on an as-available basis except when system-wide technical conditions require reduction of output. CGS+ customers receive credit on their bills for energy delivered to the grid at specified rates for the energy delivered. Caps on availability of the CGS+ program on each island system apply and rates are fixed until 2022.

4) Smart Export program is designed for PV systems with battery storage and features zero compensation during mid-day, but enhanced compensation at other times of the day to reflect the value of the energy to the grid at different times of the day. Caps on availability of the Smart Export program on each island system apply and rates are fixed until 2022.

5) Customer Self Supply program is designed for customers with renewable systems who are connected and may receive energy from but do not export to the grid.

PUC orders have also addressed interconnection requirements, authorized advanced inverter functions in PV and storage systems and specified reporting requirements regarding hosting capacity analyses.

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

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

The PUC indicated that the overall goal of the Grid Modernization Strategy is to deploy modern grid investments at an appropriate priority, sequence and pace to cost-effectively maximize flexibility, minimize the risk of redundancy and obsolescence, deliver customer benefits and enable greater DER and renewable energy integration. On June 30, 2017, the Utilities filed an initial draft of the Grid Modernization Strategy describing how new technology will help triple

private rooftop solar and make use of rapidly evolving products including storage and advanced inverters. The cost of the first segment of the modernization is estimated at about \$205 million over six years. The Utilities filed their final Grid Modernization Strategy on August 29, 2017. On February 7, 2018, the PUC issued an order setting forth next steps and directives for the Utilities to implement the Grid Modernization Strategy. The Utilities have begun work to implement the Grid Modernization Strategy by issuing solicitations for advanced meters, a meter data management system, and a communications network. Also, the Utilities

have filed their first application with the PUC on June 21, 2018, for the first implementation phase. Additional applications will be filed later to implement subsequent phases of the strategy.

Community-Based Renewable Energy. In December 2017, the PUC adopted a CBRE program framework which allows customers who cannot, or chose not to, take advantage of private rooftop solar to receive the benefits of renewable energy to help offset their monthly electric bills and support clean energy for Hawaii. The program has two phases.

The first phase will total 8 MW of solar PV only with one credit rate for each island. The Utilities' role will be limited to administrative only during the first phase. In July 2018, the Utilities' tariffs for each island and phase 1 of the CBRE program commenced. The Utilities are in the process of verifying the projects and awarding the capacity to interested subscriber organizations. The response has been positive; four of the five islands that the Utilities serve have received applications that equal or exceed what is allowed in phase 1.

The second phase will commence after review of the first full year of the first phase. The second phase is contemplated to be a larger capacity and include multiple credit rates (e.g., time of day) and various technologies. The Utilities will have the opportunity to develop self-build projects; however 50% of utility capacity will be reserved for low to moderate income customers.

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

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

As part of decoupling, the Utilities also track their rate-making ROACEs as calculated under the earnings sharing mechanism, which includes only items considered in establishing rates. At year-end, each utility's rate-making ROACE is compared against its ROACE allowed by the PUC to determine whether earnings sharing has been triggered. Annual earnings of a utility over and above the ROACE allowed by the PUC are shared between the utility and its ratepayers on a tiered basis. Earnings sharing credits are included in the annual decoupling filing for the following year. Results for 2017, 2016 and 2015 did not trigger the earnings sharing mechanism for the Utilities.

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

| %                                      | Rate-making Return on rate base (RORB)* |                       |               | ROACE**           |                       |               | Rate-making ROACE*** |                       |               |
|--|---|-----------------------|---------------|-------------------|-----------------------|---------------|----------------------|-----------------------|---------------|
|  | Hawaiian Electric                       | Hawaii Electric Light | Maui Electric | Hawaiian Electric | Hawaii Electric Light | Maui Electric | Hawaiian Electric    | Hawaii Electric Light | Maui Electric |
| Twelve months ended September 30, 2018 |   |                       |               |                   |                       |               |                      |                       |               |
| Utility returns                        | 6.32                                    | 7.32                  | 5.99          | 6.99              | 8.34                  | 7.10          | 7.55                 | 8.83                  | 6.94          |
| PUC-allowed returns                    | 7.57                                    | 7.80                  | 7.43          | 9.50              | 9.50                  | 9.50          | 9.50                 | 9.50                  | 9.50          |
| Difference                             | (1.25 )                                 | (0.48 )               | (1.44 )       | (2.51)            | (1.16 )               | (2.40 )       | (1.95 )              | (0.67 )               | (2.56 )       |

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

\*\* Recorded net income divided by average common equity.

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

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

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

Advocate to regularly evaluate decoupling and to allow the utility to request electric rate increases to cover rising operating costs and the cost of plant and equipment, including the cost of new capital projects to maintain and improve service reliability and integrate more renewable energy. The PUC may grant an interim increase within 10 to 11 months following the filing of an application, but there is no guarantee of such an interim increase and interim amounts collected are refundable, with interest, to the extent they exceed the amount approved in the PUC's final D&O. The timing and amount of any final increase is determined at the discretion of the PUC. The adoption of revenue, expense, rate base and cost of capital amounts (including the ROACE and RORB) for purposes of an interim rate increase does not commit the PUC to accept any such amounts in its final D&O.



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

| Test year<br>(dollars in millions)         | Date<br>(filed/<br>implemented) | Amount  | % over<br>rates in<br>effect | ROACE<br>(%) | RORB<br>(%) | Rate<br>base | Common<br>equity<br>% | Stipulated<br>agreement<br>reached with<br>Consumer Advocate |
|--|---------------------------------|---------|------------------------------|--------------|-------------|--------------|-----------------------|--|
| Hawaiian Electric<br>2017 <sup>1</sup>     |                                 |         |                              |              |             |              |                       |  |
| Request                                    | 12/16/16                        | \$106.4 | 6.9                          | 10.60        | 8.28        | \$2,002      | 57.36                 | Yes  |
| Interim increase                           | 2/16/18                         | 36.0    | 2.3                          | 9.50         | 7.57        | 1,980        | 57.10                 |  |
| Interim increase with Tax<br>Act           | 4/13/18                         | (0.6)   | —                            | 9.50         | 7.57        | 1,993        | 57.10                 |  |
| Final increase                             | 9/1/18                          | (0.6)   | —                            | 9.50         | 7.57        | 1,993        | 57.10                 |  |
| Hawaii Electric Light<br>2016 <sup>2</sup> |                                 |         |                              |              |             |              |                       |  |
| Request                                    | 9/19/16                         | \$19.3  | 6.5                          | 10.60        | 8.44        | \$479        | 57.12                 | Yes  |
| Interim increase                           | 8/31/17                         | 9.9     | 3.4                          | 9.50         | 7.80        | 482          | 56.69                 |  |
| Interim increase with Tax<br>Act           | 5/1/18                          | 1.5     | 0.5                          | 9.50         | 7.80        | 481          | 56.69                 |  |
| Final increase                             | 10/1/18                         | —       | —                            | 9.50         | 7.80        | 481          | 56.69                 |  |
| Maui Electric<br>2018                      |                                 |         |                              |              |             |              |                       |  |
| Request                                    | 10/12/17                        | \$30.1  | 9.3                          | 10.60        | 8.05        | \$473        | 56.94                 | Yes  |
| Interim increase                           | 8/23/18                         | 12.5    | 3.82                         | 9.50         | 7.43        | 462          | 57.02                 |  |

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

<sup>1</sup> Final decision and order was issued on June 22, 2018.

<sup>2</sup> Final decision and order was issued on June 29, 2018.

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

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

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

- Authorized the use of consolidated depreciation and amortization rates rather than separate depreciation and amortization rates for the three utilities

Established revised depreciation and amortization rates for the three utilities

Approved the implementation of the new depreciation and amortization rates and other changes to coincide with the effective date of the interim or final base rates approved in the subsequent rate case for each utility, beginning with Maui Electric's ongoing 2018 test year rate case.

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

New renewable PPAs.

In July 2015, Maui Electric signed two PPAs, with Kuia Solar and South Maui Renewable Resources (which subsequently assigned its PPA to SSA Solar of HI 2, LLC and SSA Solar of HI 3, LLC, respectively), each for a 2.87-MW solar facility. In February 2016, the PUC approved both PPAs, subject to certain conditions and modifications. The guaranteed commercial operations date for the facilities was December 31, 2016, however both projects experienced delays. South Maui Renewable Resources reached commercial operations on May 5, 2018, and Kuia Solar reached commercial operations on October 4, 2018.

In December 2014, the PUC approved a PPA for Renewable As-Available Energy dated October 3, 2013 between Hawaiian Electric and Na Pua Makani Power Partners, LLC (NPM) for a proposed 24-MW wind farm on Oahu. The NPM wind farm was expected to be placed into service by August 31, 2019 but delayed due to an appeal of the decision in the Habitat Conservation Permit contested case.

Hawaiian Electric terminated PPAs to purchase solar energy with three affiliates of SunEdison, which affiliates were acquired by an affiliate of NRG Energy, Inc. (NRG) during SunEdison's Chapter 11 bankruptcy proceedings. Hawaiian Electric then negotiated with NRG and its newly acquired affiliates and entered into amended and restated PPAs for solar energy on Oahu with Waipio PV, LLC for 45.9 MW, Lanikuhana Solar, LLC for 14.7 MW and Kawailoa Solar, LLC for 49.0 MW. In July 2017, the PUC approved the three NRG PPAs, subject to modifications and conditions. On August 31, 2018, NRG sold substantially all of its renewable platform to Global Infrastructure Partners (GIP). As a part of that transaction, the three projects are now owned by Clearway Energy Group LLC, which is an investment of GIP. The transaction is not expected to affect the success or completion of the projects. The three projects are expected to be in service by the end of 2019.

In July 2018, the PUC approved the Maui Electric's PPA with Molokai New Energy Partners to purchase solar energy from a PV plus battery storage project. The 4.9 MW project will deliver no more than 2.64 MW at any time to the Molokai system and is expected to be in service by end of 2019.

Tariffed renewable resources.

As of September 30, 2018, there were approximately 455 MW, 96 MW and 107 MW of installed distributed renewable energy technologies (mainly PV) at Hawaiian Electric, Hawaii Electric Light and Maui Electric, respectively, for tariff-based private customer generation programs, namely Standard Interconnection Agreement (SIA), NEM, Customer Grid Supply, Customer Self Supply, Controllable Customer Grid Supply and Smart Export. As of September 30, 2018, an estimated 28% of single family homes on the islands of Oahu, Hawaii and Maui have installed private rooftop solar systems, and approximately 17% of the Utilities' total customers have solar systems. The Utilities began accepting energy from feed-in tariff projects in 2011. As of September 30, 2018, there were 31 MW, 3 MW and 5 MW of installed feed-in tariff capacity from renewable energy technologies at Hawaiian Electric, Hawaii Electric Light and Maui Electric, respectively.

Biofuel sources.

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

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

Under a request for proposal process governed by the PUC and monitored by independent observers, in February 2018, the Utilities issued RFPs for 220 MW of renewable generation on Oahu, 50 MW of renewable generation on Hawaii Island, and 60 MW of renewable generation on Maui. The Utilities selected a final award group for Hawaii

Island in August 2018 and for Maui and Oahu in September 2018 and are proceeding to negotiate and file PPAs with the PUC for the selected projects by the end of 2018.

In October 2017, the Utilities filed a draft request for proposal with the PUC for 40 MW of firm renewable generation on Maui (Maui Firm RFP) to be in service by the end of 2022. The Utilities are currently working with the independent observer for the Maui Firm RFP to update and revise the draft Maui Firm RFP for filing with the PUC for approval.

On January 5, 2017, Hawaiian Electric issued requests for Onshore Wind Expression of Interest to developers that are capable of developing utility scale onshore wind projects that are eligible to capture the federal Investment Tax Credit for Large Wind on the island of Oahu. Hawaiian Electric entered into non-binding confidential negotiations with a developer that responded, and the agreement reached is subject to PUC approval.

Adequacy of supply.

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

In accordance with its planning criteria, Hawaiian Electric deactivated two fossil fuel generating units from active service at its Honolulu Power Plant in January 2014. Hawaiian Electric acquired new firm capacity of 8 MW with the commissioning of the State of Hawaii Department of Transportation's emergency power facility in June 2017.

Hawaiian Electric is continuing negotiations with firm capacity IPPs on Oahu. On August 22, 2018, 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, 2019. The PPA with AES Hawaii is scheduled to expire in 2022. On June 7, 2018, Hawaiian Electric's Schofield Generating Station was placed into service, providing approximately 50 MW of additional generating capability on Oahu.

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

Maui Electric. In January 2018, Maui Electric filed its 2018 AOS letter, which indicated that Maui Electric's generation capacity for the islands of Lanai and Molokai for the next three years is sufficiently large to meet all reasonably expected demands for service and provide reasonable reserves for emergencies. The 2018 AOS letter also indicated that without the peak reduction benefits of demand response but with the equivalent firm capacity value of wind generation, Maui Electric expects to have a reserve capacity shortfall from 2018 to 2020 on the island of Maui. Maui Electric is evaluating several measures to mitigate the anticipated reserve capacity shortfall. Maui Electric anticipates needing a significant amount of additional firm capacity on Maui in the 2022 timeframe after the planned retirement of the Kahului Power Plant.

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

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

minimize or eliminate the risk of near-term capacity shortfalls on the island of Maui.

Legislation and regulation. Congress and the Hawaii legislature periodically consider legislation that could have positive or negative effects on the Utilities and their customers. Also see “Environmental regulation” in Note 3 of the Condensed Consolidated Financial Statements.

Clean Water Act Section 316(b). On August 14, 2014, the EPA published in the Federal Register the final regulations required by section 316(b) of the CWA designed to protect aquatic organisms from adverse impacts associated with existing power plant cooling water intake structures. The regulations were effective October 14, 2014 and apply to the cooling water

systems for the steam generating units at three of Hawaiian Electric’s power plants on the island of Oahu. The regulations prescribe a process, including a number of required site-specific studies, for states to develop facility-specific entrainment and impingement controls to be incorporated in each facility’s National Pollutant Discharge Elimination System permit. Hawaiian Electric submitted the final site specific studies to the DOH in December 2016 for the Honolulu and Waiiau power plants and in September 2017 for the Kahe power plant. Hawaiian Electric will work with the DOH to identify the appropriate compliance methods for the 316(b) rule.

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

Impact of lava flows. In May 2018, a lava eruption occurred within the Leilani Estates subdivision, located along the lower East Rift Zone of Kilauea Volcano in the Puna district on the island of Hawaii. Over 20 fissures erupted lava and gas in the area covering approximately 13.7 square miles or 8,700 acres of land. Approximately 3,000 of the 86,000 Hawaii Electric Light customers reside in that area and over 1,000 customers had to evacuate their homes, some permanently. Since early August the lava activity significantly decreased and there is currently no active flow. The County of Hawaii has rescinded its mandatory evacuation order for the Leilani Estates subdivision, residents have returned to their homes, and the United States Geological Survey Hawaii Volcano Observatory has lowered the volcanic threat levels for Kilauea Volcano. The flow damaged some of Hawaii Electric Light’s property in the affected area and also resulted in the shutdown of independent power producer PGV’s facilities. Hawaii Electric Light continues to serve the load of Hawaii Island without capacity from PGV, and the Utilities expect to meet its 2020 RPS goals without the return of PGV to service. The financial impact to Hawaii Electric Light to date has not been material.

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

#### FINANCIAL CONDITION

Liquidity and capital resources. As a result of the Tax Cut and Jobs Act, utility property is no longer eligible for bonus depreciation, but further guidance is required in order to finally determine the application of the new law. However, note that recent clarification in the tax law indicates that certain assets with longer construction periods that were placed in service after the effective date may be grandfathered and qualify for the old 50% bonus depreciation if subject to binding contracts entered into before such effective date. Consequently, additional bonus depreciation was taken for the fourth quarter of 2017 in the Company’s income tax return, resulting in an additional deferral of income taxes. The Utilities are currently evaluating its larger projects placed into service in 2018 for applicability.

Nevertheless, the initial cash requirement for future capital projects will generally increase because of the loss of the immediate tax benefit from bonus depreciation. Management believes that Hawaiian Electric’s ability, and that of its subsidiaries, to generate cash, both internally from operations and externally from issuances of equity and debt securities and commercial paper and draws on lines of credit, is adequate to maintain sufficient liquidity to fund their respective capital expenditures, investments, debt repayments, retirement benefit plan contributions and other cash requirements in the foreseeable future.

Hawaiian Electric’s consolidated capital structure was as follows:

| (dollars in millions) | September 30, |      | December 31, |      |
|-----------------------|---------------|------|--------------|------|
|                       | 2018          |      | 2017         |      |
| Short-term borrowings | \$86          | 3 %  | \$5          | — %  |
| Long-term debt, net   | 1,469         | 42   | 1,369        | 42   |
| Preferred stock       | 34            | 1    | 34           | 1    |
| Common stock equity   | 1,876         | 54   | 1,845        | 57   |
|                       | \$3,465       | 100% | \$3,253      | 100% |





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

| (in millions)                                  | Average balance   | Balance            |                   |
|--|-------------------|--------------------|-------------------|
|  | Nine months ended | September 30, 2018 | December 31, 2017 |
| Short-term borrowings <sup>1</sup>             |                   |                    |                   |
| Commercial paper                               | \$ 90             | \$ 86              | \$ 5              |
| Line of credit draws                           | —                 | —                  | —                 |
| Borrowings from HEI                            | —                 | —                  | —                 |
| Undrawn capacity under line of credit facility | —                 | 200                | 200               |

<sup>1</sup> The maximum amount of external short-term borrowings by Hawaiian Electric during the first nine months of 2018 was \$157 million. As of September 30, 2018, Hawaiian Electric had short-term borrowings from Hawaii Electric Light of nil and Maui Electric had short-term borrowings from Hawaiian Electric of \$2 million.

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

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

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

On September 6, 2018, Hawaiian Electric and Hawaii Electric Light filed with the PUC a letter request for the expedited authorization to issue refunding special purpose revenue bonds (SPRBs) prior to December 31, 2020 to refinance their outstanding Series 2009 SPRBs in the amount of up to \$90 million and \$60 million, respectively.

On October 22, 2018, the Utilities received PUC approval for the supplemental increase to issue and sell additional common stock in the amounts of up to \$280 million for Hawaiian Electric and up to \$100 million each for Hawaii Electric Light and Maui Electric, with the new total up to amounts of \$430 million for Hawaiian Electric and \$110 million each for Hawaii Electric Light and Maui Electric, and to extend the period authorized by the PUC to issue and sell common stock from December 31, 2021 to December 31, 2022.

On October 26, 2018, the Utilities requested PUC approval to issue SPRBs (under the 2015 Legislative Authorization) in the amounts of up to \$70 million, \$2.5 million and \$7.5 million for Hawaiian Electric, Hawaii Electric Light and Maui Electric, respectively, prior to June 30, 2020, to finance the Utilities' capital improvement programs.

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

Nine months ended  
September 30,

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| (in thousands)                                      | 2018       | 2017       | Change     |
|---|------------|------------|------------|
| Net cash provided by operating activities           | \$193,722  | \$258,873  | \$(65,151) |
| Net cash used in investing activities               | (300,558 ) | (258,258 ) | (42,300 )  |
| Net cash provided by (used in) financing activities | 101,543    | (64,914 )  | 166,457    |

Net cash provided by operating activities. The decrease in net cash provided by operating activities was primarily driven by lower cash from an increase in accounts receivable due to timing and increase in customer bills as a result of higher

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fuel prices and purchased power costs included in rates, and a decrease in accounts payable due to timing on payments of invoices related to fuel and capital projects.

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

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

Forecast capital expenditures. For the five-year period 2018 through 2022, the Utilities forecast up to \$2.2 billion of net capital expenditures, which could change over time based upon external factors such as the timing and scope of environmental regulations, unforeseen delays in permitting and timing of PUC decisions. Proceeds from the issuance of equity and long-term debt, cash flows from operating activities, temporary increases in short-term borrowings and existing cash and cash equivalents are expected to provide the funds needed for the net capital expenditures, to pay down commercial paper or other short-term borrowings, as well as to fund any unanticipated expenditures not included in the 2018 to 2022 forecast (such as increases in the costs or acceleration of capital projects or unanticipated capital expenditures that may be required by new environmental laws and regulations).

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

| Bank                      | Three months ended September 30 |       | Increase   | Primary reason(s)   |
|---------------------------|---------------------------------|-------|------------|---|
| (in millions)             | 2018                            | 2017  | (decrease) |   |
| Interest income           | \$ 65                           | \$ 59 | \$ 6       | The increase in interest income was the result of an increase in balances and yields on earning assets. ASB's average investment securities portfolio balance for the three months ended September 30, 2018 increased by \$229 million compared to the same period in 2017 as ASB used excess liquidity to purchase investments. The yield on the investment securities portfolio increased by 26 basis points as new investment purchase yields were higher due to the rising interest rate environment. ASB's average loan portfolio balance for the three months ended September 30, 2018 increased by \$74 million compared to the same period in 2017 as the average residential, home equity line of credit and consumer loan portfolios for the three months ended September 30, 2018 increased by \$48 million, \$56 million and \$26 million, respectively, compared to the same period in 2017. The growth in these loan portfolios aligned with ASB's portfolio mix target and loan growth strategy. The average commercial and commercial real estate balances decreased by \$38 million and \$17 million, respectively. The decrease in these loan portfolios was due to paydowns in those loan portfolios. The yield on loans benefited from the rising interest rate environment, which resulted in an increase in yield from the total loan portfolio of 24 basis points. |
| Noninterest income        | 15                              | 15    | —          | Noninterest income was flat for the three months ended September 30, 2018 compared to noninterest income for the three months ended September 30, 2017 as lower fees from other financial services in 2018 as a result of debit card interchange expenses being netted against income beginning in 2018 were offset by higher bank-owned life insurance income. Prior year's debit card interchange expenses were recorded in other noninterest expense. This change was in accordance with the new revenue recognition accounting standard. See Note 7 of the Condensed Consolidated Financial Statements for additional information on the new revenue recognition standard.  |
| Revenues                  | 80                              | 74    | 6          | The increase in revenues for the three months ended September 30, 2018 compared to the same period in 2017 was due to higher interest income.   |
| Interest expense          | 4                               | 3     | 1          | Interest expense increased slightly for the three months ended September 30, 2018 compared to the same period in 2017. Average deposit balances for the three months ended September 30, 2018 increased by \$383 million compared to the same period in 2017 due to an increase in core deposits and time certificates of \$295 million and \$88 million, respectively. Average other borrowings for the three months ended September 30, 2018 decreased by \$22 million compared to the same period in 2017 due to a decrease in the average FHLB advances and repurchase agreements of \$19 million and \$3 million, respectively. The interest-bearing liability rate for the three months ended September 30, 2018 increased by 8 basis points compared to the same period in 2017 primarily due to an increase in term certificate and money market account yields.  |
| Provision for loan losses | 6                               | 1     | 5          | The provision for loan losses increased for the three months ended September 30, 2018 compared to the provision for loan losses for the three months ended  |

|                     |    |    |     |   |
|---------------------|----|----|-----|---|
|                     |    |    |     | September 30, 2017. The provision for loan losses for 2018 was primarily due to increased reserves for loan growth and additional loan loss reserves for the consumer and credit scored loan portfolios, partly offset by the release of reserves due to paydowns in the commercial and commercial real estate loan portfolios and improved credit quality in the residential, home equity line of credit, commercial and commercial real estate loan portfolios. The provision for loan losses for 2017 was primarily due to increased loan loss reserves for the consumer loan portfolio offset by the release of reserves for the commercial real estate and syndicated national credit loan portfolios due to loan paydowns and sales as the Bank strategically worked to improve commercial asset quality. Delinquency rates have decreased from 0.60% at September 30, 2017 to 0.52% at September 30, 2018. The annualized net charge-off ratio for the three months ended September 30, 2018 was 0.40% compared to an annualized net charge-off ratio of 0.32% for the same period in 2017. The increase was due to higher net charge-offs in the consumer loan portfolio with risk-based pricing. |
| Noninterest expense | 43 | 44 | (1) | Noninterest expense decreased slightly for the three months ended September 30, 2018 compared to the same period in 2017. The reclassification of debit card interchange expenses to noninterest income in accordance with the new revenue recognition accounting standard that became effective on January 1, 2018 was partly offset by higher employee benefit expenses.  |
| Expenses            | 53 | 48 | 5   | The increase in expenses for the three months ended September 30, 2018 compared to the same period in 2017 was due to higher provision for loan losses.   |
| Operating income    | 27 | 26 | 1   | Operating income increased slightly for the three months ended September 30, 2018 compared to the same period in 2017 as higher interest income and lower noninterest expenses were partly offset by higher provision for loan losses.  |
| Net income          | 21 | 18 | 3   | The increase in net income for the three months ended September 30, 2018 compared to the same period in 2017 was primarily due to lower income tax expense as a result of the lower corporate rate from the Tax Act.  |

|                    | Nine months ended September 30 |        | Increase   | Primary reason(s)   |
|--------------------|--------------------------------|--------|------------|---|
| (in millions)      | 2018                           | 2017   | (decrease) |   |
| Interest income    | \$ 190                         | \$ 176 | \$ 14      | The increase in interest income was primarily the result of an increase in balances and yields on earning assets. ASB's average investment securities portfolio balance for the nine months ended September 30, 2018 increased by \$257 million compared to the same period in 2017 as ASB used excess liquidity to purchase investments. The yield on the investment securities portfolio increased by 16 basis points as new investment purchase yields were higher due to the rising interest rate environment. ASB's average loan portfolio balance for the nine months ended September 30, 2018 increased by \$29 million compared to the same period in 2017 as increases in the average residential, home equity line of credit and consumer loan portfolios for the nine months ended September 30, 2018 of \$51 million, \$55 million and \$34 million, respectively, were partly offset by decreases in the the average commercial and commercial real estate balances of \$72 million and \$37 million, respectively. The growth in residential, home equity line of credit and consumer loan portfolios aligned with ASB's portfolio mix target and loan growth strategy. The decrease in commercial and commercial real estate loan portfolios was reflective of ASB's strategic decision to reduce the balances in certain commercial and national loan portfolios to improve the credit quality of those portfolios. The yield on loans benefited from the rising interest rate environment, which resulted in an increase in yields from the total loan portfolio of 20 basis points. |
| Noninterest income | 43                             | 47     | (4)        | Noninterest income decreased for the nine months ended September 30, 2018 compared to noninterest income for the nine months ended September 30, 2017 primarily due to lower fees from other financial services in 2018 as a result of debit card interchange expenses being netted against income beginning in 2018. Prior year's debit card interchange expenses were recorded in other noninterest expense. This change was in accordance with the new revenue recognition accounting standard. See Note 7 of the Condensed Consolidated Financial Statements for additional information on the new revenue recognition standard.  |
| Revenues           | 233                            | 223    | 10         | The increase in revenues for the nine months ended September 30, 2018 compared to the same period in 2017 was due higher interest income, partly offset by lower noninterest income.  |
| Interest expense   | 11                             | 9      | 2          | Interest expense increased for the nine months ended September 30, 2018 compared to the same period in 2017 due to higher interest expense from an increase in time certificate balances and increased rates for time certificates and money market accounts, partly offset by lower interest expense on other borrowings as a result of lower FHLB advances. Average deposit balances for the nine months ended September 30, 2018 increased by \$348 million compared to the same period in 2017 due to an increase in core deposits and time certificates of \$246 million and \$102 million, respectively. Average other borrowings for the nine months ended September 30, 2018 decreased by \$27 million compared to the same period in 2017 due to a decrease in FHLB advances, partly offset by an increase in repurchase agreements. The interest-bearing liability rate for the nine months ended September 30, 2018  |

|                           |     |     |    |   |
|---------------------------|-----|-----|----|---|
|                           |     |     |    | increased by 5 basis points compared to the same period in 2017.  |
|                           |     |     |    | The provision for loan losses increased for the nine months ended September 30, 2018 compared to the provision for loan losses for the nine months ended September 30, 2017. The provision for loan losses for 2018 was due to increased reserves for loan growth and additional loan loss reserves for the consumer loan portfolio, partly offset by the release of reserves for the commercial loan portfolio due to a recovery on a previously charged-off commercial loan and improved credit quality, primarily in the commercial and commercial real estate loan portfolios. The provision for loan losses for 2017 was primarily due to increased reserves for loan growth and additional loan loss reserves for the consumer loan portfolio, partly offset by the release of reserves for the commercial real estate and national syndicated credit loan portfolios due to lower outstanding balances and improved credit quality. Delinquency rates have decreased from 0.60% at September 30, 2017 to 0.52% at September 30, 2018. The annualized net charge-off ratio for the nine months ended September 30, 2018 was 0.33% compared to an annualized net charge-off ratio of 0.27% for the same period in 2017. The increase was due to higher net charge-offs in the consumer loan portfolio with risk-based pricing. |
| Provision for loan losses | 12  | 7   | 5  |   |
|                           |     |     |    | Noninterest expense for the nine months ended September 30, 2018 compared to the same period in 2017 was flat primarily due to higher compensation and employee benefits expenses as a result of an increase in the minimum pay rate for employees, annual merit increases, and higher service expenses, offset by the reclassification of debit card interchange expenses in accordance with the new revenue recognition accounting standard.  |
| Noninterest expense       | 131 | 131 | —  |   |
|                           |     |     |    | The increase in expenses for the nine months ended September 30, 2018 compared to the same period in 2017 was due to higher interest expense and higher provision for loan losses.  |
| Expenses                  | 154 | 147 | 7  |   |
|                           |     |     |    | The increase in operating income for the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to higher interest income, partly offset by higher provision for loan losses, higher interest expense, and lower noninterest income.  |
| Operating income          | 79  | 76  | 3  |   |
|                           |     |     |    | The increase in net income for the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to higher operating income and lower income tax expense as a result of the lower corporate rate from the Tax Act.   |
| Net income                | 61  | 50  | 11 |   |

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

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

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

|                          | Three months ended September 30 |       | Nine months ended September 30 |       |
|--------------------------|---------------------------------|-------|--------------------------------|-------|
| (%)                      | 2018                            | 2017  | 2018                           | 2017  |
| Return on average assets | 1.22                            | 1.07  | 1.18                           | 1.02  |
| Return on average equity | 13.80                           | 11.64 | 13.32                          | 11.24 |
| Net interest margin      | 3.81                            | 3.69  | 3.78                           | 3.68  |

| (dollars in thousands)                         | Three months ended September 30 |                                      |                 |                 |                                      |                 |
|--|---------------------------------|--------------------------------------|-----------------|-----------------|--------------------------------------|-----------------|
|  | 2018                            |                                      |                 | 2017            |                                      |                 |
|  | Average balance                 | Interest <sup>1</sup> income/expense | Yield/ rate (%) | Average balance | Interest <sup>1</sup> income/expense | Yield/ rate (%) |
| <b>Assets:</b>                                 |                                 |                                      |                 |                 |                                      |                 |
| Interest-earning deposits                      | \$66,866                        | \$ 339                               | 1.98            | \$54,598        | \$ 172                               | 1.23            |
| FHLB stock                                     | 10,087                          | 120                                  | 4.73            | 10,401          | 45                                   | 1.70            |
| Investment securities                          |                                 |                                      |                 |                 |                                      |                 |
| Taxable  | 1,518,743                       | 8,691                                | 2.29            | 1,291,604       | 6,521                                | 2.02            |
| Non-taxable                                    | 16,988                          | 190                                  | 4.38            | 15,427          | 171                                  | 4.33            |
| Total investment securities                    | 1,535,731                       | 8,881                                | 2.31            | 1,307,031       | 6,692                                | 2.05            |
| <b>Loans</b>                                   |                                 |                                      |                 |                 |                                      |                 |
| Residential 1-4 family                         | 2,114,398                       | 21,776                               | 4.12            | 2,066,648       | 21,383                               | 4.14            |
| Commercial real estate                         | 863,468                         | 10,140                               | 4.61            | 880,304         | 9,542                                | 4.26            |
| Home equity line of credit                     | 951,384                         | 8,936                                | 3.73            | 895,224         | 7,714                                | 3.42            |
| Residential land                               | 14,236                          | 192                                  | 5.39            | 16,340          | 296                                  | 7.26            |
| Commercial                                     | 581,202                         | 6,759                                | 4.59            | 618,708         | 6,863                                | 4.39            |
| Consumer                                       | 240,067                         | 8,082                                | 13.36           | 213,619         | 6,412                                | 11.91           |
| Total loans <sup>2,3</sup>                     | 4,764,755                       | 55,885                               | 4.66            | 4,690,843       | 52,210                               | 4.42            |
| Total interest-earning assets <sup>2</sup>     | 6,377,439                       | 65,225                               | 4.06            | 6,062,873       | 59,119                               | 3.88            |
| Allowance for loan losses                      | (52,781 )                       |                                      |                 | (55,881 )       |                                      |                 |
| Non-interest-earning assets                    | 622,721                         |                                      |                 | 558,736         |                                      |                 |
| Total assets                                   | \$6,947,379                     |                                      |                 | \$6,565,728     |                                      |                 |
| <b>Liabilities and shareholder’s equity:</b>   |                                 |                                      |                 |                 |                                      |                 |
| Savings  | \$2,352,553                     | \$ 415                               | 0.07            | \$2,292,341     | \$ 400                               | 0.07            |
| Interest-bearing checking                      | 1,016,490                       | 194                                  | 0.08            | 901,645         | 61                                   | 0.03            |
| Money market                                   | 161,363                         | 244                                  | 0.60            | 138,151         | 41                                   | 0.12            |
| Time certificates                              | 773,921                         | 2,782                                | 1.43            | 686,638         | 1,942                                | 1.12            |
| Total interest-bearing deposits                | 4,304,327                       | 3,635                                | 0.34            | 4,018,775       | 2,444                                | 0.24            |
| Advances from Federal Home Loan Bank           | 48,207                          | 241                                  | 1.99            | 66,848          | 436                                  | 2.59            |
| Securities sold under agreements to repurchase | 86,547                          | 163                                  | 0.75            | 90,011          | 34                                   | 0.15            |
| Total interest-bearing liabilities             | 4,439,081                       | 4,039                                | 0.36            | 4,175,634       | 2,914                                | 0.28            |
| <b>Non-interest bearing liabilities:</b>       |                                 |                                      |                 |                 |                                      |                 |
| Deposits                                       | 1,778,751                       |                                      |                 | 1,681,774       |                                      |                 |



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|  |             |           |             |           |
|--|-------------|-----------|-------------|-----------|
| Other                                      | 114,343     |           | 103,695     |           |
| Shareholder's equity                       | 615,204     |           | 604,625     |           |
| Total liabilities and shareholder's equity | \$6,947,379 |           | \$6,565,728 |           |
| Net interest income                        |             | \$ 61,186 |             | \$ 56,205 |
| Net interest margin (%) <sup>4</sup>       |             |           | 3.81        | 3.69      |

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| (dollars in thousands)                         | Nine months ended September 30 |                                      |                 |                 |                                      |                 |
|--|--------------------------------|--------------------------------------|-----------------|-----------------|--------------------------------------|-----------------|
|  | 2018                           |                                      |                 | 2017            |                                      |                 |
|  | Average balance                | Interest <sup>1</sup> income/expense | Yield/ rate (%) | Average balance | Interest <sup>1</sup> income/expense | Yield/ rate (%) |
| <b>Assets:</b>                                 |                                |                                      |                 |                 |                                      |                 |
| Interest-earning deposits                      | \$59,051                       | \$795                                | 1.77            | \$64,426        | \$479                                | 0.98            |
| FHLB stock                                     | 10,035                         | 274                                  | 3.65            | 11,128          | 150                                  | 1.80            |
| <b>Investment securities</b>                   |                                |                                      |                 |                 |                                      |                 |
| Taxable  | 1,491,378                      | 25,664                               | 2.29            | 1,235,029       | 19,651                               | 2.12            |
| Non-taxable                                    | 15,953                         | 502                                  | 4.15            | 15,427          | 481                                  | 4.11            |
| Total investment securities                    | 1,507,331                      | 26,166                               | 2.31            | 1,250,456       | 20,132                               | 2.15            |
| <b>Loans</b>                                   |                                |                                      |                 |                 |                                      |                 |
| Residential 1-4 family                         | 2,121,049                      | 65,204                               | 4.10            | 2,070,150       | 65,172                               | 4.20            |
| Commercial real estate                         | 865,603                        | 29,350                               | 4.49            | 902,605         | 28,676                               | 4.20            |
| Home equity line of credit                     | 935,184                        | 25,278                               | 3.61            | 880,472         | 22,078                               | 3.35            |
| Residential land                               | 15,727                         | 638                                  | 5.41            | 16,816          | 791                                  | 6.28            |
| Commercial                                     | 578,246                        | 19,752                               | 4.55            | 650,554         | 21,108                               | 4.32            |
| Consumer                                       | 235,063                        | 23,096                               | 13.14           | 201,379         | 17,444                               | 11.58           |
| Total loans <sup>2,3</sup>                     | 4,750,872                      | 163,318                              | 4.58            | 4,721,976       | 155,269                              | 4.38            |
| Total interest-earning assets <sup>2</sup>     | 6,327,289                      | 190,553                              | 4.01            | 6,047,986       | 176,030                              | 3.88            |
| Allowance for loan losses                      | (53,510 )                      |                                      |                 | (56,276 )       |                                      |                 |
| Non-interest-earning assets                    | 595,952                        |                                      |                 | 537,894         |                                      |                 |
| Total assets                                   | \$6,869,731                    |                                      |                 | \$6,529,604     |                                      |                 |
| <b>Liabilities and shareholder's equity:</b>   |                                |                                      |                 |                 |                                      |                 |
| Savings  | \$2,336,007                    | \$1,227                              | 0.07            | \$2,271,926     | \$1,160                              | 0.07            |
| Interest-bearing checking                      | 993,686                        | 476                                  | 0.06            | 898,794         | 175                                  | 0.03            |
| Money market                                   | 133,826                        | 343                                  | 0.34            | 146,864         | 133                                  | 0.12            |
| Time certificates                              | 777,816                        | 7,830                                | 1.35            | 676,083         | 5,390                                | 1.07            |
| Total interest-bearing deposits                | 4,241,335                      | 9,876                                | 0.31            | 3,993,667       | 6,858                                | 0.23            |
| Advances from Federal Home Loan Bank           | 50,487                         | 740                                  | 1.96            | 89,273          | 1,999                                | 2.99            |
| Securities sold under agreements to repurchase | 105,410                        | 553                                  | 0.70            | 93,128          | 111                                  | 0.16            |
| Total interest-bearing liabilities             | 4,397,232                      | 11,169                               | 0.34            | 4,176,068       | 8,968                                | 0.29            |
| <b>Non-interest bearing liabilities:</b>       |                                |                                      |                 |                 |                                      |                 |
| Deposits                                       | 1,758,824                      |                                      |                 | 1,658,238       |                                      |                 |
| Other  | 105,426                        |                                      |                 | 100,499         |                                      |                 |
| Shareholder's equity                           | 608,249                        |                                      |                 | 594,799         |                                      |                 |
| Total liabilities and shareholder's equity     | \$6,869,731                    |                                      |                 | \$6,529,604     |                                      |                 |
| Net interest income                            |                                | \$179,384                            |                 |                 | \$167,062                            |                 |
| Net interest margin (%) <sup>4</sup>           |                                |                                      | 3.78            |                 |                                      | 3.68            |

Interest income includes taxable equivalent basis adjustments, based upon a federal statutory tax rate of 21% and 35%, of \$0.04 million and \$0.06 million for the three months ended September 30, 2018 and 2017, respectively and \$0.1 million and \$0.2 million for the nine months ended September 30, 2018 and 2017, respectively.

<sup>2</sup> Includes loans held for sale, at lower of cost or fair value.

<sup>3</sup> Includes recognition of net deferred loan fees of \$0.1 million and \$0.3 million for the three months ended September 30, 2018 and 2017 and \$0.2 million and \$1.4 million for the nine months ended September 30, 2018 and 2017, respectively, together with interest accrued prior to suspension of interest accrual on nonaccrual loans.

<sup>4</sup> Defined as net interest income, on a fully taxable equivalent basis, as a percentage of average total interest-earning assets.

Earning assets, costing liabilities, contingencies and other factors. Earnings of ASB depend primarily on net interest income, which is the difference between interest earned on earning assets and interest paid on costing liabilities. The interest rate environment has been impacted by disruptions in the financial markets over a period of several years. These conditions have begun to moderate with the interest rate increases in the past year, resulting in an increase in ASB's net interest income and net interest margin.

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

Loan portfolio. ASB's loan volumes and yields are affected by market interest rates, competition, demand for financing, availability of funds and management's responses to these factors. See Note 4 of the Condensed Consolidated Financial Statements for the composition of ASB's loans.

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

|   | September 30, 2018 |   | December 31, 2017 |   |
|---|--------------------|---|-------------------|---|
| Outstanding balance of home equity loans (in thousands) | \$ 949,872         |   | \$ 913,052        |   |
| Percent of portfolio in first lien position             | 48.3               | % | 48.0              | % |
| Annualized net charge-off (recovery) ratio              | 0.02               | % | (0.03)            | % |
| Delinquency ratio                                       | 0.53               | % | 0.28              | % |

  

| September 30, 2018                 | End of draw period – interest only |               |           |           |            |            | Current amortizing |
|------------------------------------|------------------------------------|---------------|-----------|-----------|------------|------------|--------------------|
|                                    | Total                              | Interest only | 2018-2019 | 2020-2022 | Thereafter |            |                    |
| Outstanding balance (in thousands) | \$949,872                          | \$ 721,463    | \$ 26,496 | \$ 98,666 | \$ 596,301 | \$ 228,409 |                    |
| % of total                         | 100                                | % 76          | % 3       | % 10      | % 63       | % 24       | %                  |

The HELOC portfolio makes up 20% of the total loan portfolio and is generally an interest-only revolving loan for a 10-year period, after which time the HELOC outstanding balance converts to a fully amortizing variable rate term loan with a 20-year amortization period. This product type comprises 77% of the total HELOC portfolio and is the current product offering. Borrowers also have a "Fixed Rate Loan Option" to convert a part of their available line of credit into a 5, 7 or 10-year fully amortizing fixed rate loan with level principal and interest payments. As of September 30, 2018, approximately 22% of the portfolio balances were amortizing loans under the Fixed Rate Loan Option.

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

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

| (dollars in thousands)                             | September 30, 2018 |            | December 31, 2017 |            |
|--|--------------------|------------|-------------------|------------|
|  | Balance            | % of total | Balance           | % of total |
| U.S. Treasury and federal agency obligations       | \$ 170,414         | 12 %       | \$ 184,298        | 13 %       |
| Mortgage-related securities — FNMA, FHLMC and GNMA | 1,251,188          | 84         | 1,245,988         | 86         |
| Corporate bonds                                    | 49,383             | 3          | —                 | —          |
| Mortgage revenue bonds                             | 19,084             | 1          | 15,427            | 1          |
| Total investment securities                        | \$ 1,490,069       | 100 %      | \$ 1,445,713      | 100 %      |

Principal and interest on mortgage-related securities issued by Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) are guaranteed by the issuer and, in the case of GNMA, backed by the full faith and credit of the U.S. government. U.S. Treasury securities are also backed by the full faith of the U.S. government.

Deposits and other borrowings. Deposits continue to be the largest source of funds for ASB and are affected by market interest rates, competition and management's responses to these factors. Deposit retention and growth will remain challenging in the current environment due to competition for deposits and the low level of short-term interest rates. Advances from the FHLB of Des Moines and securities sold under agreements to repurchase continue to be additional sources of funds. As of September 30, 2018, ASB's costing liabilities consisted of 99% deposits and 1% other borrowings compared to 97% deposits and 3% other borrowings as of December 31, 2017. During the first nine months of 2018, ASB developed new deposit products that enabled approximately \$102 million of retail repurchase

agreements to be transferred to deposits. The weighted average cost of deposits for the first nine months of 2018 and 2017 was 0.22% and 0.16%, respectively.

Federal Home Loan Bank of Des Moines. As of September 30, 2018 ASB had no advances outstanding at the FHLB of Des Moines compared to \$50 million advances outstanding as of December 31, 2017. As of September 30, 2018, the unused borrowing capacity with the FHLB of Des Moines was \$2.1 billion. The FHLB of Des Moines continues to be an important source of liquidity for ASB.

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

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

As of September 30, 2018, ASB had an unrealized loss, net of taxes, on available-for-sale investment securities (including securities pledged for repurchase agreements) in AOCI of \$37.7 million compared to an unrealized loss, net of taxes, of \$15.0 million as of December 31, 2017. See "Item 3. Quantitative and qualitative disclosures about market risk" for a discussion of ASB's interest rate risk sensitivity.

During the first nine months of 2018, ASB recorded a provision for loan losses of \$12.3 million due to increased reserves for loan growth and additional loan loss reserves for the consumer loan portfolio, partly offset by the release of reserves for the commercial loan portfolio due to a recovery on a previously charged-off commercial loan and improved credit quality, primarily in the commercial and commercial real estate loan portfolios. During the first nine months of 2017, ASB recorded a provision for loan losses of \$7.2 million primarily due to increased reserves for loan growth and additional loan loss reserves for the consumer loan portfolio, partly offset by the release of reserves for the commercial real estate and national syndicated credit loan portfolios due to lower outstanding balances and improved credit quality. Financial stress on ASB's customers may result in higher levels of delinquencies and losses.

|  | Nine months ended |          | Year ended   |
|--|-------------------|----------|--------------|
|  | September 30      |          | December 31, |
| (in thousands)   | 2018              | 2017     | 2017         |
| Allowance for loan losses, January 1   | \$53,637          | \$55,533 | \$ 55,533    |
| Provision for loan losses  | 12,337            | 7,231    | 10,901       |
| Less: net charge-offs  | 11,847            | 9,717    | 12,797       |
| Allowance for loan losses, end of period   | \$54,127          | \$53,047 | \$ 53,637    |
| Ratio of net charge-offs during the period to average loans outstanding (annualized) | 0.33              | % 0.27   | % 0.27 %     |

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

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

Final Capital Rules. On July 2, 2013, the FRB finalized its rule implementing the Basel III regulatory capital framework. The final rule would apply to banking organizations of all sizes and types regulated by the FRB and the OCC, except bank holding companies subject to the FRB's Small Bank Holding Company Policy Statement and Savings & Loan Holding Companies (SLHCs) substantially engaged in insurance underwriting or commercial activities. HEI currently meets the requirements of the exemption as a top-tier grandfathered unitary SLHC that derived, as of June 30 of the previous calendar year, either 50% or more of its total consolidated assets or 50% or more of its total revenues on an enterprise-wide basis (calculated under GAAP) from activities that are not financial in

nature pursuant to Section 4(k) of the Bank Holding Company Act. The FRB is temporarily excluding these SLHCs from the final rule while it considers a proposal relating to capital and other requirements for SLHC intermediate holding companies (such as ASB Hawaii). The FRB indicated that it would release a proposal on intermediate holding companies that would specify the criteria for establishing and transferring activities to intermediate holding companies and propose to apply the FRB's capital requirements to such intermediate holding companies. The FRB has not yet issued such a proposal, or a proposal on how to apply the Basel III capital rules to SLHCs that are substantially engaged in commercial or insurance underwriting activities, such as grandfathered unitary SLHCs like HEI.

Pursuant to the final rule and consistent with the proposals, all banking organizations, including covered holding companies, would initially be subject to the following minimum regulatory capital requirements: a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6%, a total capital ratio of 8% of risk-weighted assets and a tier 1 leverage ratio of 4%, and these requirements would increase in subsequent years. In order to avoid restrictions on capital distributions and discretionary bonus payments to executive officers, the final rule requires a banking organization to hold a buffer of common equity tier 1 capital above its minimum capital requirements in an amount greater than 2.5% of total risk-weighted assets (capital conservation buffer). In addition, a countercyclical capital buffer would expand the capital conservation buffer by up to 2.5% of a banking organization's total risk-weighted assets for advanced approaches banking organizations. The final rule would establish qualification criteria for common equity, additional tier 1 and tier 2 capital instruments that help to ensure their ability to absorb losses. All banking organizations would be required to calculate risk-weighted assets under the standardized approach, which harmonizes the banking agencies' calculation of risk-weighted assets and addresses shortcomings in capital requirements identified by the agencies. The phased-in effective dates of the capital requirements under the final rule are:

#### Minimum Capital Requirements

| Effective dates  | 1/1/2015 | 1/1/2016 | 1/1/2017 | 1/1/2018 | 1/1/2019 |
|--|----------|----------|----------|----------|----------|
| Capital conservation buffer                            |          | 0.625 %  | 1.25 %   | 1.875 %  | 2.50 %   |
| Common equity Tier-1 ratio + conservation buffer       | 4.50 %   | 5.125 %  | 5.75 %   | 6.375 %  | 7.00 %   |
| Tier-1 capital ratio + conservation buffer             | 6.00 %   | 6.625 %  | 7.25 %   | 7.875 %  | 8.50 %   |
| Total capital ratio + conservation buffer              | 8.00 %   | 8.625 %  | 9.25 %   | 9.875 %  | 10.50 %  |
| Tier-1 leverage ratio                                  | 4.00 %   | 4.00 %   | 4.00 %   | 4.00 %   | 4.00 %   |
| Countercyclical capital buffer — not applicable to ASB |          | 0.625 %  | 1.25 %   | 1.875 %  | 2.50 %   |

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

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

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

**Arbitration Agreements.** Pursuant to section 1028(b) of the Dodd-Frank Act, on July 19, 2017, the Bureau issued a final rule to regulate arbitration agreements in contracts for specified consumer financial product and services. First, the final rule prohibits covered providers of certain consumer financial products and services from using an agreement with a consumer that provides for arbitration of any future dispute between the parties to bar the consumer from filing or participating in a class action concerning the covered consumer financial product or service. Second, the final rule requires covered providers that are involved in arbitration pursuant to a pre-dispute arbitration agreement to submit specified arbitral records to the Bureau and also to submit specified court records. The compliance date for this



regulation was March 19, 2018. Under the Congressional Review Act, the U.S. House of Representatives voted to overturn the final rule on July 25, 2017, and the U.S. Senate did the same on October 24, 2017. On November 1, 2017, the President signed the repeal of the final rule. In light of these developments, ASB did not modify its existing agreements.

Expedited Funds Availability Act of 1987 (EFA Act) and the Check Clearing for the 21st Century Act of 2003 (Check 21 Act). The Board of Governors of the Federal Reserve System amended Regulation CC, Availability of Funds and Collection of Checks, which implements EFA Act and Check 21 Act effective July 1, 2018. The Board of Governors modified the current check collection and returns requirement to reflect the virtually all-electronic check collection and return environment and to

encourage all depository banks to receive, and paying banks to send, returned checks electronically. The Board of Governors applied Regulation CC's existing check warranties to checks that are collected electronically, and adopted new warranties and indemnities related to checks collected and returned electronically and to electronically-created items.

## FINANCIAL CONDITION

Liquidity and capital resources.

| (dollars in millions)          | September 30, December |          | % change |
|--------------------------------|------------------------|----------|----------|
|                                | 2018                   | 31, 2017 |          |
| Total assets                   | \$ 6,929               | \$ 6,799 | 2        |
| Investment securities          | 1,490                  | 1,446    | 3        |
| Loans held for investment, net | 4,700                  | 4,617    | 2        |
| Deposit liabilities            | 6,130                  | 5,891    | 4        |
| Other bank borrowings          | 71                     | 191      | (63 )    |

As of September 30, 2018, ASB was one of Hawaii's largest financial institutions based on assets of \$6.9 billion and deposits of \$6.1 billion.

As of September 30, 2018, ASB's unused FHLB borrowing capacity was approximately \$2.1 billion. As of September 30, 2018, ASB had commitments to borrowers for loans and unused lines and letters of credit of \$1.8 billion, of which commitments to borrowers whose loan terms have been modified in troubled debt restructurings were \$0.06 million. Management believes ASB's current sources of funds will enable it to meet these obligations while maintaining liquidity at satisfactory levels.

For the nine months ended September 30, 2018, net cash provided by ASB's operating activities was \$76 million. Net cash used during the same period by ASB's investing activities was \$230 million, primarily due to purchases of investment securities of \$190 million, a net increase in loans of \$96 million, additions to premises and equipment of \$59 million, purchases of held-to-maturity investment securities of \$62 million and contributions to low income housing investments of \$8 million, partly offset by receipt of repayments from available-for-sale investment securities of \$168 million, proceeds from the sale of commercial loans of \$7 million and receipts of repayments from held-to-maturity investment securities of \$4 million. Net cash provided by financing activities during this period was \$79 million, primarily due to increases in deposit liabilities of \$137 million, proceeds from FHLB advances of \$237 million, and a net increase in retail repurchase agreements of \$33 million, partly offset by principal payments on FHLB advances of \$287 million and \$36 million in common stock dividends to HEI (through ASB Hawaii).

For the nine months ended September 30, 2017, net cash provided by ASB's operating activities was \$80 million. Net cash used during the same period by ASB's investing activities was \$211 million, primarily due to purchases of investment securities of \$369 million, additions to premises and equipment of \$36 million, and contributions to low-income housing investments of \$8 million, partly offset by receipt of repayments from investment securities of \$155 million, proceeds from the sale of commercial loans of \$31 million, a net decrease in loans receivable of \$13 million, and a decrease in restricted cash of \$2 million. Net cash provided by financing activities during this period was \$131 million, primarily due to increases in deposit liabilities of \$203 million, proceeds from FHLB advances of \$60 million, and a net increase in retail repurchase agreements of \$24 million, partly offset by principal payments on FHLB advances of \$110 million, repayments of securities sold under agreements to repurchase of \$14 million, a net decrease in mortgage escrow deposits of \$5 million and \$28 million in common stock dividends to HEI (through ASB Hawaii).

ASB believes that maintaining a satisfactory regulatory capital position provides a basis for public confidence, affords protection to depositors, helps to ensure continued access to capital markets on favorable terms and provides a foundation for growth. FDIC regulations restrict the ability of financial institutions that are not well-capitalized to compete on the same terms as well-capitalized institutions, such as by offering interest rates on deposits that are significantly higher than the rates offered by competing institutions. As of September 30, 2018, ASB was well-capitalized (minimum ratio requirements noted in parentheses) with a Common equity Tier-1 ratio of 12.6% (6.5%), a Tier-1 capital ratio of 12.6% (8.0%), a Total capital ratio of 13.8% (10.0%) and a Tier-1 leverage ratio of 8.6% (5.0%). As of December 31, 2017, ASB was well-capitalized with a common equity Tier-1 ratio of 13.0%,

Tier-1 capital ratio of 13.0%, a Total capital ratio of 14.2% and a Tier-1 leverage ratio of 8.6%. All dividends are subject to review by the OCC and FRB and receipt of a letter from the FRB communicating the agencies' non-objection to the payment of any dividend ASB proposes to declare and pay to HEI (through ASB Hawaii).

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

| Change in interest rates<br>(basis points) | Change in NII<br>(gradual change in interest rates) |                      | Change in EVE<br>(instantaneous change in interest rates) |                      |
|--|---|----------------------|---|----------------------|
|  | September 30,<br>2018                               | December 31,<br>2017 | September 30,<br>2018                                     | December 31,<br>2017 |
| +300                                       | 2.3 %   | 3.0 %                | 7.3 %   | (8.0 )%              |
| +200                                       | 1.7   | 2.4                  | 5.8   | (4.0 )               |
| +100                                       | 1.0   | 1.6                  | 3.6   | (0.6 )               |
| -100                                       | (2.1 )  | (2.7 )               | (7.1 )  | (6.0 )               |

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

ASB's base EVE increased to \$1.52 billion as of September 30, 2018, compared to \$1.18 billion as of December 31, 2017, due to the growth and mix of the balance sheet and longer duration of core deposits.

During the third quarter of 2018, ASB's biennial core deposit study was conducted by a third party as part of its regular process. As a result of the study, the duration of ASB's core deposits extended by approximately two years compared to the bank's core deposit duration at December 31, 2017. This had the effect of improving ASB's base EVE and EVE sensitivity.

EVE sensitivity shifted from liability to asset sensitive as of September 30, 2018, primarily due to core deposit study enhancements leading to a higher retention rate and longer duration. The extension of core deposit duration provides greater capacity for hedging long duration assets. Although market rate increases have been slowing prepayments and extending duration in the residential loan and mortgage-backed investment portfolios, the longer duration of core deposits mitigated this exposure.

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

Item 4. Controls and Procedures

HEI:

Disclosure Controls and Procedures

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

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

Changes in Internal Control Over Financial Reporting

On October 2, 2018, Hawaiian Electric completed the implementation of an ERP/EAM system utilizing SAP, which supports essentially all of the Utilities' business processes and activities including work management, procurement and supply chain, customer relationship management, invoicing and collection of payments, human resource management, payroll, and the preparation of financial information for financial reporting. SAP allows Hawaiian Electric to benefit from enhanced security features and seamless data integration. The implementation of SAP modified processes and procedures which will result in changes to Hawaiian Electric's internal control over financial reporting beginning in the fourth quarter of 2018.

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

Hawaiian Electric:

Disclosure Controls and Procedures

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

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

Changes in Internal Control Over Financial Reporting

On October 2, 2018, Hawaiian Electric completed the implementation of an ERP/EAM system utilizing SAP, which supports essentially all of the Utilities' business processes and activities including work management, procurement and supply chain, customer relationship management, invoicing and collection of payments, human resource management, payroll, and the preparation of financial information for financial reporting. SAP allows Hawaiian Electric to benefit from enhanced security features and seamless data integration. The implementation of SAP modified processes and procedures which will result in changes to Hawaiian Electric's internal control over financial reporting beginning in the fourth quarter of 2018.

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

reporting.

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## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings

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

## Item 1A. Risk Factors

For information about Risk Factors, see pages 26 to 37 of HEI's and Hawaiian Electric's 2017 Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures about Market Risk" and the Condensed Consolidated Financial Statements herein. Also, see "Cautionary Note Regarding Forward-Looking Statements" on pages iv and v herein.

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

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

## ISSUER PURCHASES OF EQUITY SECURITIES

| Period*                 | Total Number of Shares Purchased** | Average Price Paid per Share** | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|-------------------------|------------------------------------|--------------------------------|--|--|
| July 1 to 31, 2018      | 32,461                             | \$34.59                        | —  | NA   |
| August 1 to 31, 2018    | 20,865                             | \$35.41                        | —  | NA   |
| September 1 to 30, 2018 | 172,052                            | \$35.97                        | —  | NA   |

NA Not applicable.

\* Trades (total number of shares purchased) are reflected in the month in which the order is placed.

\*\* The purchases were made to satisfy the requirements of the DRIP, the HEIRSP and the ASB 401(k) Plan for shares purchased for cash or by the reinvestment of dividends by participants under those plans and none of the purchases were made under publicly announced repurchase plans or programs. Average prices per share are calculated exclusive of any commissions payable to the brokers making the purchases for the DRIP, the HEIRSP and the ASB 401(k) Plan. Of the "Total number of shares purchased," 28,461 of the 32,461 shares, 20,165 of the 20,865 shares and 155,152 of the 172,052 shares were purchased for the DRIP; 4,000 of the 32,461 shares, none of the 20,865 shares and 12,700 of the 172,052 shares were purchased for the HEIRSP; and the remainder was purchased for the ASB 401(k) Plan. The repurchased shares were issued for the accounts of the participants under registration statements registering the shares issued under these plans.

Item 6. Exhibits

|                                       |   |
|---------------------------------------|---|
| <u>HEI Exhibit 31.1</u>               | Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Constance H. Lau (HEI Chief Executive Officer)                   |
| <u>HEI Exhibit 31.2</u>               | Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Gregory C. Hazelton (HEI Chief Financial Officer)                |
| <u>HEI Exhibit 32.1</u>               | HEI Certification Pursuant to 18 U.S.C. Section 1350  |
| HEI Exhibit 101.INS                   | XBRL Instance Document  |
| HEI Exhibit 101.SCH                   | XBRL Taxonomy Extension Schema Document   |
| HEI Exhibit 101.CAL                   | XBRL Taxonomy Extension Calculation Linkbase Document   |
| HEI Exhibit 101.DEF                   | XBRL Taxonomy Extension Definition Linkbase Document  |
| HEI Exhibit 101.LAB                   | XBRL Taxonomy Extension Label Linkbase Document   |
| HEI Exhibit 101.PRE                   | XBRL Taxonomy Extension Presentation Linkbase Document  |
| <u>Hawaiian Electric Exhibit 31.3</u> | Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Alan M. Oshima (Hawaiian Electric Chief Executive Officer)       |
| <u>Hawaiian Electric Exhibit 31.4</u> | Certification Pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934 of Tayne S. Y. Sekimura (Hawaiian Electric Chief Financial Officer) |
| <u>Hawaiian Electric Exhibit 32.2</u> | Hawaiian Electric Certification Pursuant to 18 U.S.C. Section 1350  |



SIGNATURES

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

HAWAIIAN ELECTRIC  
INDUSTRIES, INC.

(Registrant)

HAWAIIAN ELECTRIC COMPANY, INC.

(Registrant)

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

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

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

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

Date: November 7, 2018

Date: November 7, 2018