July 13, 2022

Hannon Armstrong Sets the Record Straight on Muddy Waters' Deceptive Report

ANNAPOLIS, Md.--(BUSINESS WIRE)-- Hannon Armstrong Sustainable Infrastructure Capital, Inc. ("Hannon Armstrong," "we," "our" or the "Company") (NYSE: HASI), a leading investor in climate solutions, today issued the following statement in response to baseless allegations made in a fallacious short attack report by Muddy Waters Capital LLC on July 12, 2022.

For more than 40 years, Hannon Armstrong has operated with the highest level of integrity, which includes providing audited, accurate and timely financial statements. Muddy Waters' report questions the integrity of these financial statements by relying on factual errors and inflammatory and misleading statements. Hannon Armstrong believes that its accounting is fully compliant with GAAP and SEC regulations and is an accurate representation of our financial performance. We supplement our GAAP financial statements with certain non-GAAP measures, including a metric we refer to as Distributable Earnings. We believe these non-GAAP measures are a useful supplement to our GAAP earnings for our investors and we fully disclose our Distributable Earnings methodology and adjustments in our SEC filings. In addition to EY serving as our independent auditor, Hannon Armstrong works with another of the "Big Four" accounting firms on risk management and disclosure controls, including on our equity method investments. We believe that this comprehensive approach and commitment to financial integrity is in stark contrast to the false allegations made in the report.

The report presents both an array of factual errors and numerous inflammatory and misleading statements demonstrating a fundamental lack of understanding of our financial statements and our business. It insinuates that our non-cash earnings (a) indicate a shortfall in cash available to pay our dividend, (b) result in inflated earnings and (c) reflect distressed borrowers/projects. In fact, our non-cash earnings do not impact our ability to fund our dividend, are intentionally structured at underwriting and are not indicative of distress.

While we will not engage in a tit for tat rebuttal of every falsehood in the report, it is important to set the record straight on the following key points:

- **We have sufficient portfolio cash flow to pay our dividend.**The report assumes the non-cash earnings present in our financial statements result in a shortfall in the cash flow required to fund our dividend each year. This is absolutely false. We have internal processes to rigorously model our liquidity and expected cash flow and our

expectations consistently reflect that portfolio cash flows remain adequate to cover our dividend. In order to provide the most up to date information, we will introduce additional non-GAAP disclosures to support this statement in our Q2 earnings report scheduled for August 4, 2022.

- **Because HLBV accounting is complex and does not reflect our economics in any one period, we use Distributable Earnings as a supplemental disclosure.** For certain Equity Method Investments in renewable energy projects, GAAP permits the use of Hypothetical Liquidation at Book Value ("HLBV"). These investments also typically include a tax equity investor that is allocated tax credits. At the time of these tax credit allocations, the remaining investors (including Hannon Armstrong) are often allocated a large gain. The report suggests there is something improper about our HLBV allocations since there is no corresponding cash. However, this accounting is required when the HLBV methodology is utilized, and we fully disclose that we expect to recover the carrying value of our investment over time. In addition, we perform an impairment analysis each quarter to substantiate the carrying value of these investments. We provide our non-GAAP Distributable Earnings metric in-part to reverse our HLBV allocations and make an adjustment that reflects earnings that are consistent with our economics for the period. The report also alleges that we are allocated the tax credits, we are improperly inflating our earnings, we round trip cash to our equity method investments, and we fail to disclose related party transactions. All of these allegations are false. The report lacks any basic understanding of the income and cashflows associated with renewable projects and standard accounting practice for these projects.

- **SunStrong cashflows are from residential solar portfolios, which is one of the strongest performing ABS asset classes.** All transactions have business substance and are executed at arm's length. As is customary in joint venture transactions, we do not have unilateral control of the governance and we do not exercise voting rights with respect to related party transactions. None of the income that we booked from SunStrong is unrealizable. All related party transactions are disclosed as such. We have not "round-tripped" any cash from SunStrong in order to inflate our earnings.

- **We incurred zero losses on our securitization residuals during the last 20 years and our market-based discount rates reflect that.** While the report inaccurately claims we manipulate the discount rate on our securitizations and residuals resulting in inflated gains and residual balances, the fact, is that we use market-based assumptions in calculating discount rates. These assumptions utilize market rates of interest and risk premiums, and our residuals are fully supported by expected future cash flows. The report mentions an expectation that our discount rate should reasonably be in the "high teens" for a subordinated interest in commercial receivables disregarding the fact that the receivables we are securitizing are of high credit quality and in many cases are with government obligors or other low risk assets, as evidenced by our zero historical loss rate on residuals. Therefore, a lower discount rate should be expected.

- **The PIK in our loans is intentionally structured to match the cashflows of underlying projects.** The report alleges improper recording of Payment-in-Kind ("PIK") interest. Our PIK interest is not indicative of distressed borrowers and was fully contemplated in our underwriting. This PIK interest is typically the result of tax equity investors being allocated cash in the early years of the transaction resulting in our cash flow allocation being below our loan interest rate. Because there is sufficient cash flow to pay all of our interest, these loans that are categorized as PIK in the early years have cash flow that exceeds earnings in the later years. This accounting is in accordance with GAAP and consistent with our economic results. We disclose our policies on accounting for our Commercial and Government receivables, in which we assess the collectability of amounts we have recorded as income and will cease to recognize income if we believe there is substantial doubt on our ability to collect these amounts. We perform this analysis quarterly and have concluded that our PIK interest is fully realizable.

"We have a long history of adhering to the highest ethical and professional standards, and we will proactively communicate with our investors, clients and other stakeholders," said Jeffrey W. Eckel, Hannon Armstrong Chairman and CEO. "We are committed to fiercely defending our Company, while continuing to prove our investment thesis of making better risk-adjusted returns investing on the right side of the climate change line."

About Hannon Armstrong

Hannon Armstrong (NYSE: HASI) is the first U.S. public company solely dedicated to investments in climate solutions, providing capital to assets developed by leading companies in energy efficiency, renewable energy, and other sustainable infrastructure markets. With $9 billion in managed assets, our core purpose is to make climate positive investments with superior risk-adjusted returns. For more information, please visit hannonarmstrong.com or follow us on Twitter and Linkedin.

Forward-Looking Statements

Some of the information contained in this press release is forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended that are subject to risks and uncertainties. For these statements, we claim the protections of the safe harbor for forward-looking statements contained in such Sections. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions, we intend to identify forward-looking statements.

Forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Actual results may differ materially from those set forth in the forward-looking statements. Factors that could cause actual results to differ materially from those described in the forward-looking statements include those discussed under the caption "Risk Factors" included in our most recent Annual Report on Form 10-K as well as in other periodic reports that we file with the U.S. Securities and Exchange Commission

Forward-looking statements are based on beliefs, assumptions and expectations as of the date of this press release. We disclaim any obligation to publicly release the results of any revisions to these forward-looking statements reflecting new estimates, events or circumstances after the date of this press release.

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Source: Hannon Armstrong Sustainable Infrastructure Capital, Inc.