LETTER FROM THE CEO

Dear Stockholders

2018 carbon emissions were up 3.4 percent in the United States.[1]

Make no mistake – we are losing the battle against climate change. While our investment thesis continues to work well, it is disheartening that the U.S. is not making meaningful progress on reducing carbon emissions. Simply put, carbon emissions need to go down by 3% per year, not up, over the next few decades to limit the impacts of climate change.

Something needs to change. We need to unleash the power of markets to solve climate change. It's no secret that the most credible, scalable and efficient solution is eliminating all energy subsidies, including the mother of all subsidies, unpriced carbon. The fossil fuel industry has enjoyed a century of socializing the costs of its business while privatizing all the profits. No credible economist has ever thought this was an example of a properly functioning free market. Fredrick Hayek wrote, *"the price system becomes similarly ineffective when the damage caused to others" …like "the smoke and noise of factories" … "cannot be effectively charged to the owner of that property."*[2] Similarly, Milton Friedman discusses a *"furnace pouring sooty smoke that dirties a third party's collar,"*[3] as a market failure. Carbon is the 'sooty smoke' of climate change.

Carbon is the "sooty smoke" of climate change

I have been a student of energy policy for 40 years, and it is time to do the one thing that we have failed to do: put a price on carbon. And then, dividend the resulting tax receipts to U.S. citizens. Friedman's only concern about taxing things like carbon was the unintended consequences and costs of government getting the proceeds. With a Carbon Tax and Dividend, the economists get the program they want, U.S. citizens get cash rebates, and we all benefit from reduced risk of climate change.

Mind you, Hannon Armstrong doesn't need a price on carbon to prosper. Perversely, the larger the impact of climate change, the better we should perform as we expand beyond investing in carbon mitigation solutions, into assets for adaptation and resiliency. Our Portfolio should become more valuable as the costs of climate change become more obvious to investors – but what an empty financial victory that would be.

By our estimates, our addressable and investable market is $100 billion in the U.S. over the next five years. If we invest at the current annual rate, Hannon Armstrong investments represent approximately 5 to 10 percent of the overall market, a meaningful contribution to the climate change investing business.

However, a $100 billion market segment in the U.S. is several orders of magnitude below the amount of capital needed to keep us below the 1.5 degrees Celsius (2.7 degrees Fahrenheit) warming threshold scientists estimate is necessary to avoid the most catastrophic damages from climate change.

2018 Review

$100 Billion addressable and investable market by 2025

We invested a record $1.2 billion in 2018, delivering a 32% increase in GAAP earnings per share and 9% increase in core earnings per share for the year ended December 31, 2018, compared to December 31, 2017. This was driven, in part, by the strength we saw in virtually all of our investment niches in which we operate – including governmental and commercial building energy efficiency, residential, C&I and utility solar, wind and sustainable infrastructure. We continued to focus on our diversified balance sheet Portfolio with over 185 different investments and, as expected, securitized a larger percentage of assets originated in the year for gain on sale income.

At year-end 2018, our forward-looking yield increased to 6.8%. This increase was driven by the higher returns of various assets added to the Portfolio in the year, as well as the disposition of some lower yielding assets. Notably, the higher Portfolio yields from balance sheet investments and higher securitizations in 2018 allowed us to increase our core return on equity to 11.1% in 2018.

Contributing to our strong 2018 performance was the successful execution of various equity and debt issuances, as well as the refinancing of our primary credit facility, extending its maturity to 2023. We lowered our fixed-rate debt percentage to approximately 75%, within our target range of 60% to 85% and ended the year with leverage at 1.5 to 1.

Outlook for 2019

I could not be more optimistic about how Hannon Armstrong can, and will, transact in the large and growing market to address climate change. We added several new clients to our client base,

dominated by top-tier firms growing to capture the future of energy. These firms are the key to any of our success in combating climate change and we are grateful for the opportunity to support them.

We continue to see better risk-adjusted returns in assets that are behind-the-meter, as opposed to grid-connected assets. This reinforces our focus on the three D's of the future electric power system: decentralization, digitalization and decarbonization.[4] Fortunately, this evolution is happening faster than we expected.

The improved forward-looking yield positions us well for recurring revenues in 2019 and should allow us to achieve our earnings growth. As such, we reaffirmed our previously stated 2018 to 2020 annual core earnings per share growth (using 2017 as the baseline) to be between 2% to 6%.

Setting the bar for Environmental, Social and Governance (ESG) measurement and reporting

$1.2 billion transactions closed with a 0.42 CarbonCount®

A rigorous approach to ESG – both in its measurement and reporting – has long been embedded in our corporate values. While we believe strong Social and Governance policies will improve stockholder returns, it is the Environmental actions, particularly related to carbon and climate change, that are most meaningful to our business, our stockholders and our employees.

Accordingly, we believe CarbonCount® remains the quintessential standard for ESG reporting. Our 2018 investments will reduce carbon emissions by 496,000 metric tons (MT) in the first year the projects are operational, translating into a 0.42 CarbonCount, or 0.42 MT of carbon emissions avoided per each $1,000 of investment. Our annual Sustainability Report Card included herein details the CarbonCount for each asset.

One of the first companies to include elements of TCFD in the Form 10-K

We formalized various ESG initiatives under the direction of our Board of Directors, highlights of which you can view in the ESG section of this report. We are extremely proud to be one of the first public companies to incorporate recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD) in our Form 10-K. We believe it is important for all companies to present information on the opportunities and risks associated with climate change. We hope that our presentation of both CarbonCount and TCFD recommendations will serve as a model for others to follow when considering how best to report the "E" in ESG.

Conclusion

Again, I want to thank the Hannon Armstrong team for an outstanding 2018. This is a smart, astute and committed team working for you, our stockholders, while they make a difference in the defining issue of our generation. Thank you for investing in Hannon Armstrong.

Respectfully,

Jeffrey W. Eckel
Chairman, President and CEO
April 18, 2019

[1] Rhodium Group, 2019, US Electric Sector-only
[2] Frederick Hayek, "The Road to Serfdom," 1944
[3] Milton and Rose Friedman, "Free to Choose," 1980
[4] Credit, Isabelle Kocher, CEO of Engie