
Section 1: 10-Q (FORM 10-Q)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 June 30, 2017

OR

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

For the transition period from _____ to _____

Commission file number 001-35877

**HANNON ARMSTRONG SUSTAINABLE
INFRASTRUCTURE CAPITAL, INC.**

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

46-1347456
(I.R.S. Employer
Identification No.)

1906 Towne Centre Blvd, Suite 370 Annapolis, Maryland
(Address of principal executive offices)

21401
(Zip code)

(410) 571-9860
(Registrant's telephone number, including area code)

N/A
(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. Yes No

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). Yes No

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 Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of the latest practicable date: 53,072,035 shares of common stock, par value \$0.01 per share, outstanding as of July 31, 2017 (which includes 1,416,629 shares of unvested restricted common stock).

FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this Quarterly Report on Form 10-Q (“Form 10-Q”) within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) 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 are contained in our Annual Report on Form 10-K for the year ended December 31, 2016 as amended by our Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2016 (collectively, our “2016 Form 10-K”) that was filed with the U.S. Securities and Exchange Commission (the “SEC”), and include risks discussed in the Management’s Discussion and Analysis of Financial Condition and Results of Operation of this Form 10-Q and in other periodic reports that we file with the SEC. Statements regarding the following subjects, among others, may be forward-looking:

- our expected returns and performance of our investments;
- the state of government legislation, regulation and policies that support or enhance the economic feasibility of sustainable infrastructure projects, including energy efficiency and renewable energy projects and the general market demands for such projects;
- market trends in our industry, energy markets, commodity prices, interest rates, the debt and lending markets or the general economy;
- our business and investment strategy;
- availability of opportunities to invest in sustainable infrastructure projects, including energy efficiency and renewable energy projects and our ability to complete potential new opportunities in our pipeline;
- our relationships with originators, investors, market intermediaries and professional advisers;
- competition from other providers of capital;
- our or any other companies’ projected operating results;
- actions and initiatives of the federal, state and local governments and changes to federal, state and local government policies, regulations, tax laws and rates and the execution and impact of these actions, initiatives and policies;
- the state of the U.S. economy generally or in specific geographic regions, states or municipalities, economic trends and economic recoveries;
- our ability to obtain and maintain financing arrangements on favorable terms, including securitizations;
- general volatility of the securities markets in which we participate;
- changes in the value of our assets, our portfolio of assets and our investment and underwriting process;
- rates of default or decreased recovery rates on our assets;
- interest rate and maturity mismatches between our assets and any borrowings used to fund such assets;
- changes in interest rates and the market value of our assets and target assets;

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- changes in commodity prices;
- effects of hedging instruments on our assets or liabilities;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- impact of and changes in accounting guidance and similar matters;
- our ability to maintain our qualification as a real estate investment trust for U.S. federal income tax purposes (a “REIT”);
- our ability to maintain our exception from registration under the Investment Company Act of 1940, as amended (the “1940 Act”);
- availability of qualified personnel;
- estimates relating to our ability to make distributions to our stockholders in the future; and
- our understanding of our competition.

Forward-looking statements are based on beliefs, assumptions and expectations as of the date of this Form 10-Q. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements after the date of this Form 10-Q, whether as a result of new information, future events or otherwise.

The risks included here are not exhaustive. Other sections of this Form 10-Q or our 2016 Form 10-K may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

The following discussion is a supplement to and should be read in conjunction with our 2016 Form 10-K.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Financing receivables	\$ 1,140,441	\$ 1,042,237
Investments	126,329	58,058
Real estate	298,145	172,257
Equity method investments	550,986	363,297
Cash and cash equivalents	41,696	29,428
Other assets	130,934	80,610
Total Assets	<u>\$2,288,531</u>	<u>\$ 1,745,887</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable, accrued expenses and other	\$ 37,559	\$ 25,219
Deferred funding obligations	273,447	170,892
Credit facilities	392,482	283,346
Nonrecourse debt (secured by assets of \$1,269 million and \$864 million, respectively)	921,780	692,091
Total Liabilities	<u>1,625,268</u>	<u>1,171,548</u>
Stockholders' Equity:		
Preferred stock, par value \$0.01 per share, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, par value \$0.01 per share, 450,000,000 shares authorized, 51,655,406 and 46,493,155 shares issued and outstanding, respectively	517	465
Additional paid in capital	766,894	663,744
Accumulated deficit	(107,263)	(92,213)
Accumulated other comprehensive income (loss)	(575)	(1,388)
Non-controlling interest	3,690	3,731
Total Stockholders' Equity	<u>663,263</u>	<u>574,339</u>
Total Liabilities and Stockholders' Equity	<u>\$2,288,531</u>	<u>\$ 1,745,887</u>

See accompanying notes.

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HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Interest income, financing receivables	\$ 13,637	\$ 12,647	\$ 27,755	\$ 24,135
Interest income, investments	1,358	434	2,301	809
Rental income	4,863	2,975	8,972	5,791
Gain on sale of receivables and investments	7,726	5,438	11,675	10,940
Fee income	691	351	1,372	653
Total Revenue	28,275	21,845	52,075	42,328
Expenses:				
Interest expense	15,361	11,034	29,144	22,310
Compensation and benefits	5,659	5,754	10,385	10,172
General and administrative	3,139	2,322	5,327	4,138
Total Expenses	24,159	19,110	44,856	36,620
Income before equity method investments	4,116	2,735	7,219	5,708
Income (loss) from equity method investments	8,377	1,076	12,548	1,346
Income before income taxes	12,493	3,811	19,767	7,054
Income tax (expense) benefit	(83)	(36)	(114)	(82)
Net income (loss)	\$ 12,410	\$ 3,775	\$ 19,653	\$ 6,972
Net income (loss) attributable to non-controlling interest holders	70	28	114	56
Net income (loss) attributable to controlling stockholders	\$ 12,340	\$ 3,747	\$ 19,539	\$ 6,916
Basic earnings per common share	\$ 0.23	\$ 0.09	\$ 0.38	\$ 0.16
Diluted earnings per common share	\$ 0.23	\$ 0.09	\$ 0.38	\$ 0.16
Weighted average common shares outstanding—basic	50,573,996	37,737,026	49,044,051	37,376,618
Weighted average common shares outstanding—diluted	50,573,996	37,737,026	49,044,051	37,376,618

See accompanying notes.

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HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	\$ 12,410	\$ 3,775	\$ 19,653	\$ 6,972
Unrealized gain (loss) on interest rate swaps, net of tax benefit (provision) of \$0.0 million in each of the three and six month periods ended 2017 and 2016	(2,792)	(2,434)	(1,804)	(5,916)
Unrealized gain (loss) on available-for-sale securities, net of tax benefit (provision) of \$0.0 million and \$0.0 million in each of the three and six months periods ended 2017 and 2016, respectively	2,149	691	2,621	962
Comprehensive income (loss)	\$ 11,767	\$ 2,032	\$ 20,470	\$ 2,018
Less: Comprehensive income (loss) attributable to non-controlling interest holders	67	19	118	19
Comprehensive income (loss) attributable to controlling stockholders	<u>\$11,700</u>	<u>\$2,013</u>	<u>\$20,352</u>	<u>\$1,999</u>

See accompanying notes.

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HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net income (loss)	\$ 19,653	\$ 6,972
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,058	3,573
Equity-based compensation	5,553	4,920
Equity method investments	(6,938)	412
Non-cash gain on securitization	(11,061)	(7,095)
Gain on sale of financing receivables and investments	(1,655)	(1,366)
Changes in financing receivables held-for-sale	—	5,382
Changes in accounts payable and accrued expenses	2,168	2,718
Other	(129)	(5,439)
Net cash provided by operating activities	<u>13,649</u>	<u>10,077</u>
Cash flows from investing activities		
Purchases of financing receivables	(80,921)	(106,874)
Principal collections from financing receivables	55,513	57,469
Proceeds from sales of financing receivables	51,389	29,032
Purchases of investments	(10,991)	(23,333)
Principal collections from investments	1,225	857
Proceeds from sales of investments	—	13,914
Purchases of real estate	(118,963)	(7,345)
Equity method investments	(214,537)	(10,706)
Equity method distributions received	33,772	27,903
Other	(5,285)	(1,550)
Net cash used in investing activities	<u>(288,798)</u>	<u>(20,633)</u>
Cash flows from financing activities		
Proceeds from credit facilities	277,612	117,400
Principal payments on credit facilities	(168,801)	(119,146)
Proceeds from nonrecourse debt	258,189	—
Principal payments on nonrecourse debt	(27,704)	(41,429)
Payments on deferred funding obligations	(73,927)	(43,414)
Net proceeds of common stock issuances	98,399	91,516
Payments of dividends and distributions	(33,020)	(23,321)
Other	(9,167)	(5,912)
Net cash provided by (used in) financing activities	<u>321,581</u>	<u>(24,306)</u>
Increase (decrease) in cash, cash equivalents, and restricted cash	46,432	(34,862)
Cash, cash equivalents, and restricted cash at beginning of period	59,144	79,216
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 105,576</u>	<u>\$ 44,354</u>
Interest paid	\$ 21,088	\$ 19,396
Non-cash changes in deferred funding obligations (financing activity)	\$ 175,970	\$ 13,041
Non-cash changes in financing receivables and investments (investing activity)	\$ (175,970)	\$ (26,456)
Non-cash changes in residual assets (investing activity)	\$ (11,061)	\$ (7,095)

See accompanying notes.

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

June 30, 2017

1. The Company

Hannon Armstrong Sustainable Infrastructure Capital, Inc. (“the Company”) makes debt and equity investments in sustainable infrastructure, including energy efficiency and renewable energy. The Company and its subsidiaries are hereafter referred to as “we,” “us,” or “our.” We refer to the financings that we hold on our balance sheet as our “Portfolio.” Our Portfolio may include:

- Financing receivables, such as project loans, receivables and direct financing leases,
- Debt securities,
- Real estate, such as land or other physical assets and related intangible assets used in sustainable infrastructure projects, and
- Equity investments in unconsolidated entities, such as projects where we hold a non-controlling equity interest.

We finance our business through cash on hand, borrowings under credit facilities and debt transactions, and various asset-backed securitization transactions and equity issuances. We also generate fee income through securitizations and syndications, by providing broker/dealer services and by servicing assets owned by third parties. Some of our subsidiaries are special purpose entities that are formed for specific operations associated with financing sustainable infrastructure receivables for specific long term contracts.

Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “HASI.” We have qualified as a REIT and also intend to operate our business in a manner that will continue to permit us to maintain our exception from registration as an investment company under the Investment Company Act of 1940, as amended. We operate our business through, and serve as the sole general partner of, our operating partnership subsidiary, Hannon Armstrong Sustainable Infrastructure, L.P, (the “Operating Partnership”), which was formed to acquire and directly or indirectly own our assets.

2. Summary of Significant Accounting Policies

Basis of Presentation

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and such differences could be material. These financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2016, as filed with the SEC. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company’s financial position, results of operations and cash flows have been included. The Company’s results of operations for the quarterly period ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year or any other future period. Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted. Certain amounts in the prior years have been reclassified to conform to the current year presentation. These reclassifications include changes to the presentation of the Consolidated Statements of Cash Flows related to the adoption of Accounting Standards Update (“ASU”) No. 2016-18 *Statement of Cash Flows (Topic 230)*. The adoption of this ASU is discussed further in our 2016 Form 10-K in the Recently Issued Accounting Pronouncements section of Note 2.

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The consolidated financial statements include the accounts of the Company and its controlled subsidiaries, including the Operating Partnership. All significant intercompany transactions and balances have been eliminated in consolidation.

Financing Receivables

Financing receivables include financing energy efficiency and renewable energy project loans, receivables and direct financing leases.

Unless otherwise noted, we generally have the ability and intent to hold our financing receivables for the foreseeable future and thus they are classified as held for investment. Our ability and intent to hold certain financing receivables may change from time to time depending on a number of factors, including economic, liquidity and capital market conditions. At inception of the arrangement, the carrying value of financing receivables held for investment represents the present value of the note, lease or other payments, net of any unearned fee income, which is recognized as income over the term of the note or lease using the effective interest method. Financing receivables that are held for investment are carried, unless deemed impaired, at cost, net of any unamortized acquisition premiums or discounts and include origination and acquisition costs, as applicable. Financing receivables that we intend to sell in the short-term are classified as held-for-sale and are carried at the lower of amortized cost or fair value on our balance sheet. The net purchases and proceeds from these sales of our held-for-sale financing receivables are recorded as an operating activity in our statement of cash flows based on our intent at the time of purchase. We may secure debt with the proceeds from our financing receivables.

We evaluate our financing receivables for potential delinquency or impairment on at least a quarterly basis and more frequently when economic or other conditions warrant such an evaluation. When a financing receivable becomes 90 days or more past due, and if we otherwise do not expect the debtor to be able to service all of its debt or other obligations, we will generally consider the financing receivable delinquent or impaired and place the financing receivable on non-accrual status and cease recognizing income from that financing receivable until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a financing receivable's status significantly improves regarding the debtor's ability to service the debt or other obligations, we will remove it from non-accrual status.

A financing receivable is also considered impaired as of the date when, based on current information and events, it is determined that it is probable that we will be unable to collect all amounts due in accordance with the original contracted terms. Many of our financing receivables are secured by energy efficiency and renewable energy infrastructure projects. Accordingly, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and value of the underlying project, as well as the financial and operating capability of the borrower, its sponsors or the obligor as well as any guarantors. We consider a number of qualitative and quantitative factors in our assessment, including, as appropriate, a project's operating results, loan-to-value ratios and any cash reserves, the ability of expected cash from operations to cover the cash flow requirements currently and into the future, key terms of the transaction, the ability of the borrower to refinance the transaction, other credit support from the sponsor or guarantor and the project's collateral value. In addition, we consider the overall economic environment, the sustainable infrastructure sector, the effect of local, industry, and broader economic factors, the impact of any variation in weather and the historical and anticipated trends in interest rates, defaults and loss severities for similar transactions.

If a financing receivable is considered to be impaired, we will determine if an allowance should be recorded. We will record an allowance if the present value of expected future cash flows discounted at the financing receivable's contractual effective rate is less than its carrying value. This estimate of cash flows may include the currently estimated fair market value of the collateral less estimated selling costs if repayment is expected solely from the collateral. We charge off financing receivables against the allowance when we determine the unpaid principal balance is uncollectible, net of recovered amounts.

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Investments

Investments include debt securities that meet the criteria of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 320, *Investments—Debt and Equity Securities*. We have designated our debt securities as available-for-sale and carry these securities at fair value on our balance sheet. Unrealized gains and losses, to the extent not considered to have an other than temporary impairment (“OTTI”), on available-for-sale debt securities are recorded as a component of accumulated other comprehensive income (“AOCI”) in equity on our balance sheet.

We evaluate our investments for OTTI on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Our OTTI assessment is a subjective process requiring the use of judgments and assumptions. Accordingly, we regularly evaluate the extent and impact of any credit deterioration associated with the financial and operating performance and value of the underlying project. We consider a number of qualitative and quantitative factors in our assessment. We first consider the current fair value of the security and the duration of any unrealized loss. Other factors considered include changes in the credit rating, performance of the underlying project, key terms of the transaction, the value of any collateral and any support provided by the sponsor or guarantor.

To the extent that we have identified an OTTI for a security and intend to hold the investment to maturity and we do not expect that we will be required to sell the security prior to recovery of the amortized cost basis, we recognize only the credit component of the OTTI in earnings. We determine the credit component using the difference between the securities’ amortized cost basis and the present value of its expected future cash flows, discounted using the effective interest method or its estimated collateral value. Any remaining unrealized loss due to factors other than credit is recorded in AOCI.

To the extent we hold investments with an OTTI and if we have made the decision to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we recognize the entire portion of the impairment in earnings.

Premiums or discounts on investment securities are amortized or accreted into investment interest income using the effective interest method.

Real Estate

Real estate consists of land or other real estate and its related lease intangibles, net of any amortization. Our real estate is generally leased to tenants on a triple net lease basis, whereby the tenant is responsible for all operating expenses relating to the property, generally including property taxes, insurance, maintenance, repairs and capital expenditures. Scheduled rental revenue typically varies during the lease term and thus rental income is recognized on a straight-line basis, unless there is considerable risk as to collectability, so as to produce a constant periodic rent over the term of the lease. Accrued rental income is the aggregate difference between the scheduled rents which vary during the lease term and the income recognized on a straight-line basis and is recorded in other assets. Expenses related to leases where we are the lessor, if any, are charged to operations as incurred.

We record our real estate purchases as asset acquisitions that are recorded at cost, including acquisition and closing costs, unless they meet the definition of a business combination in accordance with ASC 805, *Business Combinations*. For business combinations, the fair value of the real estate acquired in a business combination with in-place leases is allocated to (i) the acquired tangible assets, consisting of land or other real property such as buildings, and (ii) the identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and the value of other acquired intangible assets, based in each case on their fair values.

The fair value of the tangible assets of an acquired leased property is determined by valuing the property as if it were vacant, and the “as-if-vacant” value is then allocated to land, building and tenant improvements, if any, based on the determination of the fair values of these assets. The as-if-vacant fair value of a property is determined by management based on appraisals by a qualified appraiser.

In allocating the fair value of the identified intangibles of an acquired property, above-market and below-market in-place lease values are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases, and (ii) management’s estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease, including renewal periods likely of being exercised

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by the lessee. The capitalized above-market lease values are amortized as a reduction of rental income and the capitalized below-market lease values are amortized as an increase to rental income, both of which are amortized over the term used to value the intangible. We also record, as appropriate, an intangible asset for in-place leases. The value of the leases in place at the time of the transaction is equal to the potential income lost if the leases were not in place. The amortization of this intangible occurs over the initial term unless management believes that it is likely that the tenant would exercise the renewal option. If a lease were to be terminated, all unamortized amounts relating to that lease would be written off.

Securitization of Receivables

We have established various special purpose entities or securitization trusts for the purpose of securitizing certain financing receivables or other debt investments. We determined that the trusts used in securitizations are variable interest entities (“VIEs”), as defined in ASC 810, *Consolidation*. We typically serve as primary or master servicer of these trusts; however, as the servicer, we do not have the power to make significant decisions impacting the performance of the trusts. Based on an analysis of the structure of the trusts, under U.S. GAAP, we have concluded that we are not the primary beneficiary of the trusts as we do not have power over the trusts’ significant activities. Therefore, we do not consolidate these trusts in our consolidated financial statements.

We account for transfers of financing receivables to these securitization trusts as sales pursuant to ASC 860, *Transfers and Servicing*, as we have concluded the transferred receivables have been isolated from the transferor (i.e., put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership) and we have surrendered control over the transferred receivables. We have received true-sale-at-law opinions for all of our securitization trust structures and non-consolidation legal opinions for all but one legacy securitization trust structure that support our conclusion regarding the transferred receivables. When we sell receivables in securitizations, we generally retain interests in the form of servicing rights and residual assets, which we refer to as securitization assets.

Gain or loss on the sale of receivables is calculated based on the excess of the proceeds received from the securitization (less any transaction costs) plus any retained interests obtained over the cost basis of the receivables sold. For retained interests, we generally estimate fair value based on the present value of future expected cash flows using our best estimates of the key assumptions of anticipated losses, prepayment rates, and current market discount rates commensurate with the risks involved.

We initially account for all separately recognized servicing assets and servicing liabilities at fair value and subsequently measure such servicing assets and liabilities using the amortization method. Servicing assets and liabilities are amortized in proportion to, and over the period of, estimated net servicing income with servicing income recognized as earned. We assess servicing assets for impairment at each reporting date. If the amortized cost of servicing assets is greater than the estimated fair value, we will recognize an impairment in Net income.

Our other retained interest in securitized assets, the residual assets, are classified as available-for-sale securities and carried at fair value on the consolidated balance sheets in Other Assets. We generally do not sell our residual assets. Our residual assets are evaluated for impairment on a quarterly basis. Interest income related to the residual assets is recognized using the effective interest rate method. If there is a change in expected cash flows related to the residual assets, we calculate a new yield based on the current amortized cost of the residual assets and the revised expected cash flows. This yield is used prospectively to recognize interest income.

Cash and Cash Equivalents

Cash and cash equivalents include short-term government securities, certificates of deposit and money market funds, all of which had an original maturity of three months or less at the date of purchase. These securities are carried at their purchase price, which approximates fair value.

Restricted Cash

Restricted cash includes cash and cash equivalents set aside with certain lenders primarily to support deferred funding and other obligations outstanding as of the balance sheet dates. Restricted cash is reported as part of Other Assets in the consolidated balance sheets. Refer to Note 3 for disclosure of the balances of Restricted cash included in Other Assets.

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Consolidation and Equity Method Investments

We account for our investment in entities that are considered voting or variable interest entities under ASC 810, *Consolidation*. We perform an ongoing assessment to determine the primary beneficiary of each entity as required by ASC 810. We have established various special purpose entities or securitization trusts for the purpose of securitizing certain financing receivables or other debt investments which are not consolidated in our financial statements as described in *Securitization of Receivables* above.

Substantially all of the activities of the special purpose entities that are formed for the purpose of holding our financing receivables and investments on our balance sheet are closely associated with our activities. Based on our assessment, we determined that we have power over and receive the benefits of these special purpose entities; hence, we are the primary beneficiary and should consolidate these entities under the provisions of ASC 810.

We have made equity investments in various renewable energy projects. We share in the cash flows, income, and tax attributes according to a negotiated schedule (which typically does not correspond with our ownership percentages). Our renewable energy projects are typically owned in partnerships structures (using limited liability companies, or LLCs taxed as partnerships) where we receive a stated preferred return consisting of a priority distribution of all or a portion of the project's cash flows, and in some cases, tax attributes. We have typically partnered with either the operator of the project or other tax equity investors. Once our preferred return is achieved, the partnership "flips" and the company which operates the project, receives a larger portion of the cash flows through its interest in the holding company and we, along with any other institutional investors, will have an on-going residual interest.

These equity investments in renewable energy projects are accounted for under the equity method of accounting. Certain of our equity method investments were determined to be VIEs in which we are not the primary beneficiary. Our maximum exposure to loss associated with our equity method investments is limited to our recorded value of our investments. Under the equity method of accounting, the carrying value of these equity method investments is determined based on amounts we invested, adjusted for the equity in earnings or losses of the investee allocated based on the limited liability company agreement, less distributions received. Because certain of the limited liability company and holding company agreements contain preferences with regard to cash flows from operations, capital events and liquidation, we reflect our share of profits and losses by determining the difference between our "claim on the investee's book value" at the end and the beginning of the period, which is adjusted for distributions received and contributions made. This claim is calculated as the amount we would receive (or be obligated to pay) if the investee were to liquidate all of its assets at recorded amounts determined in accordance with U.S. GAAP and distribute the resulting cash to creditors and investors in accordance with their respective priorities. This method is commonly referred to as the hypothetical liquidation at book value method or ("HLBV"). Intercompany gains and losses are eliminated for an amount equal to our interest and are reflected in the share in income or loss from equity method investments in the consolidated statements of operations. Cash distributions received from our equity method investments are classified as operating cash flows to the extent of cumulative HLBV earnings. Any additional cash flows are deemed to be returns of the investment and are classified as investing cash flows. We have elected to recognize earnings from these investments one quarter in arrears to allow for the receipt of financial information.

We have also made an investment in a joint venture which holds land under solar projects. This investment entitles us to receive an equal percentage of both cash distributions and profit and loss under the terms of the LLC agreement. The investment, which we have determined to be a voting interest entity, is accounted for under the equity method of accounting, with our portion of rental income, adjusted for any fair value to book value basis difference, being recognized in Income (loss) from equity method investments in the period in which the income is earned.

We evaluate the realization of our investments accounted for using the equity method if circumstances indicate that our investment is an OTTI. An OTTI impairment occurs when the estimated fair value of an investment is below the carrying value and the difference is determined to not be recoverable. This evaluation requires significant judgment regarding, but not limited to, the severity and duration of the impairment; the ability and intent to hold the securities until recovery; financial condition, liquidity, and near-term prospects of the issuer; specific events; and other factors.

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Derivative Financial Instruments

We utilize derivative financial instruments, primarily interest rate swaps, to manage, or hedge, our interest rate risk exposures associated with new debt issuances, to manage our exposure to fluctuations in interest rates on variable rate debt, and to optimize the mix of our fixed and floating-rate debt. In addition, we use forward-starting interest rate swap contracts to manage a portion of our interest rate exposure for anticipated refinancing of our long-term debts. Our objective is to reduce the impact of changes in interest rates on our results of operations and cash flows.

The interest rate swaps we use are designated as cash flow hedges and are considered highly effective in reducing our exposure to the interest rate risk that they are designated to hedge. This effectiveness is required in order to qualify for hedge accounting. Instruments that meet the required hedging criteria are formally designated as hedges at the inception of the derivative contract. Derivatives are recorded at fair value. If a derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in AOCI, net of associated deferred income tax effects and are recognized in earnings at the same time as the hedged item, including as a result of the accrual of interest. Changes in fair value of the ineffective portions of these hedges are recognized in general and administrative expenses. For any derivative instruments not designated as hedging instruments, changes in fair value would be recognized in earnings in the period that the change occurs. We assess, both at the inception of the hedge and on an ongoing basis, whether the derivatives designated as cash flow hedges are highly effective in offsetting the changes in cash flows of the hedged items. We do not hold derivatives for trading purposes.

Interest rate swap contracts contain a credit risk that counterparties may be unable to fulfill the terms of the agreement. We attempt to minimize that risk by evaluating the creditworthiness of its counterparties, who are limited to major banks and financial institutions, and do not anticipate nonperformance by the counterparties.

Income Taxes

We elected and qualified to be taxed as a REIT for U.S. federal income tax purposes, commencing with our taxable year ended December 31, 2013. To qualify as a REIT, we must meet on an ongoing basis a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our net taxable income, excluding capital gains, to our stockholders. We intend to continue to meet the requirements for qualification as a REIT. As a REIT, we are not subject to U.S. federal corporate income tax on that portion of net income that is currently distributed to our owners. However, our taxable REIT subsidiaries (“TRSs”) will generally be subject to U.S. federal, state, and local income taxes as well as taxes of foreign jurisdictions, if any.

We account for income taxes under ASC 740, *Income Taxes* for our TRSs using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when the new rate is enacted. We evaluate any deferred tax assets for valuation allowances based on an assessment of available evidence including sources of taxable income, prior years taxable income, any existing taxable temporary differences and our future investment and business plans that may give rise to taxable income.

We apply ASC 740, *Income Taxes* with respect to how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. This guidance requires the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more likely than not” to be sustained by the applicable tax authority. We are required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which includes U.S. federal and certain states.

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Equity-Based Compensation

At the time of completion of our initial public offering (“IPO”), we adopted our 2013 Equity Incentive Plan (the “2013 Plan”), which provides for grants of stock options, stock appreciation rights, restricted stock units, shares of restricted common stock, phantom shares, dividend equivalent rights, long-term incentive-plan units (“LTIP units”) and other restricted limited partnership units issued by our Operating Partnership and other equity-based awards. From time to time, we may make equity or equity based awards as compensation to members of our senior management team, our independent directors, employees, advisors, consultants and other personnel under our 2013 Plan.

We record compensation expense for grants made under the 2013 Plan in accordance with ASC 718, *Compensation—Stock Compensation*. We record compensation expense for unvested grants that vest solely based on service conditions on a straight-line basis over the vesting period of the entire award based upon the fair market value of the grant on the date of grant. Fair market value for restricted common stock is based on our share price on the date of grant. For awards where the vesting is contingent upon achievement of certain performance targets, compensation expense is measured based on the fair market value on the grant date and is recorded over the requisite service period (which includes the performance period). Actual performance results at the end of the performance period determines the number of shares that will ultimately be awarded. The award earned is generally between 0% and 200% of the initial target, depending on the extent to which the performance target is met. We have also issued restricted stock units where the vesting is contingent upon service being provided for a defined period and certain market conditions being met. The fair value of these awards, as measured at the grant date, is recognized over the requisite service period as it is provided, even if the market conditions are not met. The grant date fair value of these awards was developed by an independent appraiser using a Monte Carlo simulation.

Earnings Per Share

We compute earnings per share of common stock in accordance with ASC 260, *Earnings Per Share*. Basic earnings per share is calculated by dividing Net income attributable to controlling stockholders (after consideration of the earnings allocated to unvested grants under the 2013 Plan if applicable) by the weighted-average number of shares of common stock outstanding during the period excluding the weighted average number of unvested grants under the 2013 Plan if applicable (“participating securities” as defined in Note 12). Diluted earnings per share is calculated by dividing Net income attributable to controlling stockholders by the weighted-average number of shares of common stock outstanding during the period plus other potentially dilutive securities. No adjustment is made for shares that are anti-dilutive during a period.

Segment Reporting

We provide and arrange debt and equity investments for sustainable infrastructure projects and report all of our activities as one business segment.

Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or modified retrospective transition method. The updated standard becomes effective for us on January 1, 2018 and we expect will be first presented in our March 31, 2018, Form 10-Q. We do not expect the adoption of ASU 2014-09 to have a material impact on our consolidated financial statements and related disclosures as the majority of our sources of revenue, e.g., investments in financing receivables, debt and equity securities, land leasing, and the securitization of financing receivables are not impacted by this new standard. Upon adoption of the new standard, we expect to elect the modified retrospective transition method.

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Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, an identified asset for the lease term. Changes were made to align lessor accounting with the lessee accounting model and ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU will be effective for us beginning January 1, 2019. Early application is permitted for all public business entities upon issuance. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, and may apply certain practical expedients to transition. If elected, these practical expedients would allow us to continue to use our previous lease classification conclusions and continue to classify the leases that exist at the date of adoption based on their pre-existing classification. We are currently evaluating the impact the adoption of this ASU will have on our consolidated financial statements and related disclosures.

Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses—Measurement of Credit Losses on Financial Instruments* (Topic 326). ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016-13 will replace the "incurred loss" approach under existing guidance with an "expected loss" model for instruments measured at amortized cost, and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as currently required. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and is to be adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. We are currently evaluating the impact the adoption of ASU 2016-13 will have on our consolidated financial statements and related disclosures.

Equity Method Investments

In March 2016, the FASB issued ASU No. 2016-07, *Simplifying the Transition to the Equity Method of Accounting*. The new standard eliminates the requirement for an investor to retroactively apply the equity method when an increase in ownership interest in an investee triggers equity method accounting. It also simplifies, in certain areas, the accounting for equity method investments. The new standard is effective for us in the current fiscal year ending December 31, 2017 and interim periods therein. The new provisions are applied on a prospective basis to transactions within its scope. The adoption of this standard did not have a material impact on our consolidated financial statements and related disclosures.

Other accounting standards updates effective after June 30, 2017, are not expected to have a material effect on our consolidated financial statements and related disclosures.

3. Fair Value Measurements

Fair value is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The fair value accounting guidance provides a three-level hierarchy for classifying financial instruments. The levels of inputs used to determine the fair value of our financial assets and liabilities carried on the balance sheet at fair value and for those which only disclosure of fair value is required are characterized in accordance with the fair value hierarchy established by ASC 820, *Fair Value Measurements*. Where inputs for a financial asset or liability fall in more than one level in the fair value hierarchy, the financial asset or liability is classified in its entirety based on the lowest level input that is significant to the fair value measurement of that financial asset or liability. We use our judgment and consider factors specific to the financial assets and liabilities in determining the significance of an input to the fair value measurements. As of June 30, 2017 and December 31, 2016, only our residual assets, financing receivables held-for-sale, interest rate swaps and investments available-for-sale, if any, were carried at fair value on the consolidated balance sheets on a recurring basis. The three levels of the fair value hierarchy are described below:

- Level 1—Quoted prices (unadjusted) in active markets that are accessible at the measurement date.

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- Level 2—Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3—Unobservable inputs are used when little or no market data is available.

Unless otherwise discussed below, fair value is measured using a discounted cash flow model, contractual terms and Level 3 unobservable inputs which consist of base interest rates and spreads over base rates which are based upon market observation and recent comparable transactions. An increase in these unobservable inputs would result in a lower fair value and a decline would result in a higher fair value. The financing receivables held for sale, if any, are carried at the lower of cost or fair value.

	<u>As of June 30, 2017</u>		
	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Level</u>
	<i>(dollars in millions)</i>		
Assets			
Financing receivables	\$ 1,129	\$ 1,140	Level 3
Investments ⁽¹⁾	126	126	Level 3
Securitization residual assets	28	28	Level 3
Liabilities			
Credit facilities	\$ 392	\$ 392	Level 3
Nonrecourse notes ⁽²⁾	951	943	Level 3
Derivative liabilities	1	1	Level 2

(1) The amortized cost of our investments as of June 30, 2017 was \$127 million.

(2) Fair value and carrying value of nonrecourse notes excludes unamortized debt issuance costs.

	<u>As of December 31, 2016</u>		
	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Level</u>
	<i>(dollars in millions)</i>		
Assets			
Financing receivables	\$ 1,017	\$ 1,042	Level 3
Investments ⁽¹⁾	58	58	Level 3
Securitization residual assets	19	19	Level 3
Derivative assets	1	1	Level 2
Liabilities			
Credit facilities	\$ 283	\$ 283	Level 3
Nonrecourse notes ⁽²⁾	718	709	Level 3

(1) The amortized cost of our investments as of December 31, 2016 was \$61 million.

(2) Fair value and carrying value of nonrecourse notes excludes unamortized debt issuance costs.

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Investments

We carry our investments in debt securities at fair value on our balance sheet as investments available-for-sale. The following table reconciles the beginning and ending balances for our Level 3 investments that are carried at fair value on a recurring basis:

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
	<i>(dollars in millions)</i>			
Balance, beginning of period	\$ 125	\$ 37	\$ 58	\$ 29
Purchases of investments	1	10	67	32
Payments on investments	(1)	—	(1)	(1)
Sale of investments	—	—	—	(14)
Gains on investments recorded in earnings	—	—	—	1
Gains (losses) on investments recorded in OCI ⁽¹⁾	1	1	2	1
Balance, end of period	\$ 126	\$ 48	\$ 126	\$ 48

- (1) As of June 30, 2017 and December 31, 2016, approximately \$10 million of investment grade rated debt was held for more than 12 months in an unrealized loss position of approximately \$1 million due to interest rate movements. We have the intent and the ability to hold this investment until a recovery of amortized cost. As of June 30, 2017 and December 31, 2016, we held no other securities in an unrealized loss position for over 12 months.

For investments held at fair value, we used a range of interest rate spreads of approximately 1% to 4% based upon comparable transactions as of June 30, 2017 and December 31, 2016.

Interest Rate Swap Agreements

The fair values of the derivative financial instruments are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. We have determined that the significant inputs, such as interest yield curves and discount rates, used to value our derivatives fall within Level 2 of the fair value hierarchy and that the credit valuation adjustments associated with our counterparties and our own credit risk utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of our or our counterparties default. As of June 30, 2017 and December 31, 2016, we assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of our derivatives. As a result, we determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The fair values of the derivative financial instruments are included in the other assets or accounts payable, accrued expenses and other line items in the consolidated balance sheets.

Non-recurring Fair Value Measurements

Our financial statements may include non-recurring fair value measurements related to acquisitions and non-monetary transactions, if any. Assets acquired in a business combination are recorded at their fair value. We may use third party valuation firms to assist us with developing our estimates of fair value.

Concentration of Credit Risk

Financing receivables, investments and leases consist primarily of U.S. federal government-backed receivables, investment grade state and local government receivables and receivables from various sustainable infrastructure projects and do not, in our view, represent a significant concentration of credit risk. See Note 6 for an analysis by type of obligor. As described above, we do not believe we have a significant credit exposure to our interest rate swap providers. We had cash deposits that are subject to credit risk as shown below:

	June 30, 2017	December 31, 2016
	<i>(dollars in millions)</i>	
Cash deposits	\$ 42	\$ 29
Restricted cash deposits (included in Other assets)	64	30
Total cash deposits	\$ 106	\$ 59
Amount of cash deposits in excess of amounts federally insured	\$ 103	\$ 57

4. Non-Controlling Interest

Units of limited partnership interests in the Operating Partnership (“OP units”) that are owned by limited partners other than the Company are included in non-controlling interest on our consolidated balance sheets. The outstanding OP units held by outside limited partners represents less than 1% of our outstanding OP units and are redeemable for cash, or at our option, for a like number of shares of our common stock. No OP

units were exchanged for shares of common stock or redeemed for cash during the six months ended June 30, 2017 or the six months ended June 30, 2016. The non-controlling interest holders are generally allocated their pro rata share of income, other comprehensive income and equity transactions.

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5. Securitization of Receivables

The following summarizes certain transactions with our securitization trusts:

	As of and for the six months ended June 30,	
	2017	2016
	<i>(dollars in millions)</i>	
Gains on securitizations	\$ 12	\$ 10
Purchase of receivables securitized	\$ 195	\$ 319
Proceeds from securitizations	\$ 207	\$ 329
Residual and servicing assets included in Other Assets	\$ 29	\$ 15
Cash received from residual and servicing assets	\$ 3	\$ 2

In connection with securitization transactions, we typically retain servicing responsibilities and residual assets. In certain instances, we receive annual servicing fees of up to 0.20% of the outstanding balance. We may periodically make servicer advances, which are subject to credit risk. Included in other assets in our consolidated balance sheets are our servicing assets at amortized cost, our residual assets at fair value, and our servicing advances at cost, if any. Our residual assets are subordinate to investors' interests, and their values are subject to credit, prepayment and interest rate risks on the transferred financial assets. The investors and the securitization trusts have no recourse to our other assets for failure of debtors to pay when due. In computing gains and losses on securitizations, we use the same discount rates we use for the fair value calculation of residual assets, which are determined based on a review of comparable market transactions including Level 3 unobservable inputs which consist of base interest rates and spreads over base rates. Depending on the nature of the transaction risks, the discount rate ranged from 4% to 7%.

As of June 30, 2017 and December 31, 2016, our managed assets totaled \$4.6 billion and \$3.9 billion, respectively, of which \$2.5 billion and \$2.3 billion, respectively, were securitized assets held in unconsolidated securitization trusts. There were no securitization credit losses in the six months ended June 30, 2017 or 2016. As of June 30, 2017 there was approximately \$1.4 million in payments from certain debtors to the securitization trusts that was greater than 90 days past due. The securitized assets consist of financing receivables from contracts for the installation of energy efficiency and other technologies in facilities owned by, or operated for or by, federal, state or local government entities where the ultimate obligor is the government. The contracts may have guarantees of energy savings from third party service providers, the majority of which are entities rated investment grade by an independent rating agency. Based on the nature of the receivables and experience-to-date, we do not currently expect to incur any credit losses on the receivables sold.

6. Our Portfolio

As of June 30, 2017, our Portfolio included approximately \$2.1 billion of financing receivables, investments, real estate and equity method investments on our balance sheet. The financing receivables and investments are typically collateralized by contractually committed debt obligations of government entities or private high credit quality obligors and are often supported by additional forms of credit enhancement, including security interests and supplier guaranties. The real estate is typically land and related lease intangibles for long-term leases to wind and solar projects with high credit quality obligors. The equity method investments represent our non-controlling equity investments in renewable energy projects and land.

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The following is an analysis of our Portfolio by type of obligor and credit quality as of June 30, 2017:

	<u>Investment Grade</u>			<u>Subtotal, Debt and Real Estate</u>	<u>Equity Method Investments</u>	<u>Total</u>
	<u>Government ⁽¹⁾</u>	<u>Commercial Investment Grade⁽²⁾</u>	<u>Commercial Non-Investment Grade ⁽³⁾</u>			
	<i>(dollars in millions)</i>					
Financing receivables	\$ 632	\$ 482	\$ 26	\$ 1,140	\$ —	\$ 1,140
Investments	104	22	—	126	—	126
Real estate ⁽⁴⁾	—	298	—	298	21	319
Equity investments in renewable energy projects	—	—	—	—	530	530
Total	\$ 736	\$ 802	\$ 26	\$ 1,564	\$ 551	\$ 2,115
% of Debt and Real Estate Portfolio	47%	51%	2%	100%	N/A	N/A
Average Remaining Balance ⁽⁵⁾	\$ 13	\$ 9	\$ 9	\$ 11	\$ 20	\$ 12

- (1) Transactions where the ultimate obligor is the U.S. federal government or state or local governments where the obligors are rated investment grade (either by an independent rating agency or based upon our internal credit analysis). This amount includes \$525 million of U.S. federal government transactions and \$211 million of transactions where the ultimate obligors are state or local governments. Transactions may have guaranties of energy savings from third party service providers, the majority of which are entities rated investment grade by an independent rating agency.
- (2) Transactions where the projects or the ultimate obligors are commercial entities that have been rated investment grade (either by an independent rating agency or based on our internal credit analysis). Of this total, \$10 million of the transactions have been rated investment grade by an independent rating agency. Commercial investment grade financing receivables include \$311 million of internally rated residential solar loans made on a nonrecourse basis to special purpose subsidiaries of the SunPower Corporation, for which we rely on certain limited indemnities, warranties, and other obligations of Sunpower Corporation or its other subsidiaries.
- (3) Transactions where the projects or the ultimate obligors are commercial entities that have ratings below investment grade (either by an independent rating agency or using our internal credit analysis).
- (4) Includes the real estate and the lease intangible assets (including those held through equity method investments) from which we receive scheduled lease payments, typically under long-term triple net lease agreements.
- (5) Excludes approximately 125 transactions each with outstanding balances that are less than \$1 million and that in the aggregate total \$48 million.

Financing Receivables and Investments

The following table provides a summary of our anticipated maturity dates of our financing receivables and investments and the weighted average yield for each range of maturities as of June 30, 2017:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>5-10 years</u>	<u>More than 10 years</u>
	<i>(dollars in millions)</i>				
Financing Receivables					
Maturities by period	\$1,140	\$ 7	\$ 25	\$ 75	\$ 1,033
Weighted average yield by period	5.2%	8.4%	5.3%	5.0%	5.2%
Investments					
Maturities by period	\$ 126	\$ —	\$ —	\$ 1	\$ 125
Weighted average yield by period	4.3%	— %	— %	4.7%	4.3%

Our non-investment grade assets includes two financing receivables with a carrying value of approximately \$10 million that became past due in the second quarter of 2017. These financing receivables, which we acquired as part of our acquisition of American Wind Capital Company, LLC in 2014, are assignments of land lease payments from two wind projects (the “Projects”). We have been informed by the owner of the Projects that the Projects are experiencing a decline in revenue. On this basis, the owner of the Projects is seeking to renegotiate the land lease contractual payment terms or terminate the lease. In July 2017, we filed a legal claim against the owners of the Projects in order to protect our interests in the Projects and the amounts due to us under the land lease assignments. Although there can be no assurance in this regard, we believe that we have the ability to recover the carrying value from the Projects, including by taking title to the underlying collateral, and thus have not recorded an allowance for losses as of June 30, 2017. We have determined that the assets are impaired and placed them on non-accrual status.

Other than discussed above, we had no financing receivables, investments or leases that were impaired or on nonaccrual status as of June 30, 2017 or December 31, 2016. There was no provision for credit losses or troubled debt restructurings as of June 30, 2017 or December 31, 2016.

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Real Estate

Our real estate is leased to renewable energy projects, typically under long-term triple net leases with expiration dates that range between the years 2033 and 2057 under the initial terms and 2047 and 2080 if all renewals are exercised. The components of our real estate portfolio as of June 30, 2017 and December 31, 2016, were as follows:

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
	<i>(dollars in millions)</i>	
Real Estate		
Land	\$ 222	\$ 145
Lease intangibles	80	29
Accumulated amortization of lease intangibles	(4)	(2)
Real Estate	<u>\$ 298</u>	<u>\$ 172</u>

In the first quarter of 2017, we purchased a portfolio of over 4,000 acres of land and related long-term triple net leases to over 20 individual solar projects with investment grade off-takers at a cost of approximately \$138 million. Approximately \$21 million (1,100 acres) of this real estate portfolio was acquired through an equity interest in a joint venture that we account for under the equity method of accounting and approximately \$49 million of our purchase price was allocated to intangible lease assets on a relative fair value basis. Up to an additional \$7 million may become payable under this transaction upon completion of certain project related contingencies.

As of June 30, 2017, the future amortization expense of these intangible assets and the future minimum rental income payments under our land lease agreements are as follows:

<u>Years Ending December 31,</u>	<u>Future</u> <u>Amortization</u> <u>Expense</u>	<u>Minimum</u> <u>Rental Income</u> <u>Payments</u>
	<i>(dollars in millions)</i>	
From July 1, 2017 to December 31, 2017	\$ 1	\$ 8
2018	2	17
2019	2	17
2020	2	17
2021	2	17
2022	2	17
Thereafter	65	602
Total	<u>\$ 76</u>	<u>\$ 695</u>

There are conservation easement agreements covering several of our properties that limit the use of the property upon its lease expiration.

Equity Investments

We have made non-controlling equity investments in a number of renewable energy projects operated by renewable energy companies as well as in a joint venture that owns land with a long-term triple net lease agreement to several solar projects that we account for as equity method investments. As of June 30, 2017, we held the following equity method investments:

<u>Acquisition Date</u>	<u>Transaction</u>	<u>Investment</u> <i>(in millions)</i>	<u>Partner</u>
Various	Strong Upwind Holdings I,II, and III LLC	\$ 195	Various ⁽¹⁾
June 2017	Northern Frontier LLC	94	Various
December 2015	Buckeye Wind Energy Class B Holdings LLC	67	Invenergy
February 2017	Strong Upwind Holdings IV LLC	59	JPMorgan
October 2016	Invenergy Gunsight Mountain Holdings, LLC	36	Invenergy

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<u>Acquisition Date</u>	<u>Transaction</u>	<u>Investment</u> <i>(in millions)</i>	<u>Partner</u>
June 2016	MM Solar Holdings LLC	28	AES
Various	Other transactions	72	Various
	Total Equity Method Investments	\$ 551	

- (1) In June 2017, we acquired the remaining interest in these holding company entities for \$22 million from JPMorgan. The entities are now consolidated entities in which the underlying assets (i.e. project level equity method investments) are being reported in our financial statements as equity method investments.

Based on an evaluation of our equity method investments, we determined that no OTTI impairment had occurred as of June 30, 2017, or December 31, 2016.

Deferred Funding Obligations

In accordance with the terms of certain purchase agreements relating to financing receivables and investments, payments of the purchase price are scheduled to be made over time and as a result, we have recorded deferred funding obligations of \$273 million and \$171 million as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017 and December 31, 2016, we have pledged approximately \$34 million and \$41 million of our equity method investments as collateral for a deferred funding obligation of \$26 million and \$34 million, respectively.

The next five years of outstanding deferred funding obligations to be paid are as follows:

	<i>(dollars in millions)</i>
July 1, 2017 to December 31, 2017	\$ 49
2018	103
2019	73
2020	36
2021	12
Total Deferred Funding Obligations	\$ 273

7. Credit Facilities

Revolver

We have a senior secured revolving credit facility which matures in July 2019. The facility provides for total maximum advances of \$1.5 billion with the aggregate amount outstanding at any point in time of \$500 million and which consists of two components, the G&I Facility and the PF Facility. The “G&I Facility” can be used to leverage certain qualifying government and institutional financings entered into by us and the “PF Facility” can be used to leverage certain qualifying project financings entered into by us. In June 2017, we entered into an amendment that adjusted certain of the sub-limits but did not change the overall maximum advances or aggregate amount available at any point in time.

The following table provides additional detail on our credit facility as of June 30, 2017 and December 31, 2016:

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
	<i>(dollars in millions)</i>	
Outstanding balance	\$ 290	\$ 283
Value of collateral pledged to credit facility	\$ 421	\$ 471
Weighted average short-term borrowing rate	2.9%	2.3%

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Loans under the G&I Facility bear interest at a rate equal to the London Interbank Offered Rate (“LIBOR”) plus 1.5% or, under certain circumstances, 1.5% plus the Base Rate. Loans under the PF Facility bear interest at a rate equal to LIBOR plus 2.5% or, under certain circumstances, 2.5% plus the Base Rate or as mutually agreed. The Base Rate is defined as the highest of (i) the Federal Funds Rate plus 0.5%, (ii) the rate of interest publicly announced by Bank of America from time to time as its “prime rate,” (iii) LIBOR plus 1.0% and (iv) zero. Under the PF Facility, we also have the option to borrow at a fixed rate of interest until the expiration of the credit facility in July 2019. The fixed rate is determined by agreement with the Administrative Agent and is based on the prevailing US SWAP rate of an equivalent term to the average-life of the fixed rate portion of the borrowing plus an agreed upon margin. The loans are made through wholly-owned special purpose subsidiaries (the “Borrowers”) and we have guaranteed the obligations of the Borrowers under the credit facility pursuant to (x) a Continuing Guaranty, dated July 19, 2013, and (y) a Limited Guaranty, dated July 19, 2013, both as amended and restated.

Any financing we propose to be included in the borrowing base as collateral under the facility is subject to the approval of the administrative agent in its sole discretion and the payment of a placement fee. We may, with the consent of the administrative agent, borrow against new projects before such projects become Approved Financings (as defined in the PF Facility loan agreement) but after they have been pledged as collateral. The amount eligible to be drawn under the facility for purposes of financing such investments will be based on a discount to the value of each investment or an applicable valuation percentage. Under the G&I Facility, the applicable valuation percentage for non-delinquent investments is 85% in the case of a U.S. federal government obligor, 80% in the case of an institutional obligor or a state and local obligor, and with respect to other obligors or in certain circumstances, such other percentage as the administrative agent may prescribe. Under the PF Facility, the applicable valuation percentage is 67% or such other percentage as the administrative agent may prescribe. The sum of approved financings after taking into account the valuation percentages and any changes in the valuation of the financings in accordance with the loan agreements determines the borrowing capacity, subject to the overall facility limits described above.

We have approximately \$5 million of remaining unamortized costs associated with the credit facility that have been capitalized and included in Other assets on our balance sheet, and are being amortized on a straight-line basis over the term of the Loan Agreements. On each monthly payment date, the Borrowers shall also pay to the administrative agent, for the benefit of the lenders, certain availability fees for each Loan Agreement equal to 0.50%, divided by 360, multiplied by the excess of the available borrowing capacity under each component of the credit facility over the actual amount borrowed under such component.

The credit facility contains terms, conditions, covenants, and representations and warranties that are customary and typical for a transaction of this nature, including various affirmative and negative covenants, and limitations on the incurrence of liens and indebtedness, investments, fundamental organizational changes, dispositions, changes in the nature of business, transactions with affiliates, use of proceeds and stock repurchases.

The credit facility also includes customary events of default, including the existence of a default in more than 50% of underlying financings. The occurrence of an event of default may result in termination of the credit facility, acceleration of amounts due under the credit facility, and accrual of default interest at a rate of LIBOR plus 2.50% in the case of the G&I Facility and at a rate of LIBOR plus 5.00% in the case of the PF Facility.

We were in compliance with the required financial covenants described below at each quarterly reporting date that such covenants were applicable:

<u>Covenant</u>	<u>Covenant Threshold</u>
Minimum Liquidity (defined as available borrowings under the Loan Agreements plus unrestricted cash divided by actual borrowings) of greater than:	5%
12 month rolling Net Interest Margin of greater than:	zero
Maximum Debt to Equity Ratio of less than: ⁽¹⁾	4 to 1

(1) Debt is defined as Total Indebtedness excluding accounts payable and accrued expenses and nonrecourse debt.

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Term Loan

In February 2017, we borrowed \$102 million under a recourse credit facility. In July 2017, we amended this agreement to mature on September 20, 2017. This credit facility is secured by equity in one of our wholly-owned subsidiaries that holds approximately \$128 million of real estate, financing receivables and equity investments. The credit facility can be repaid at any time. The loan bears interest at a rate of three month LIBOR plus 200 basis points through September 1, 2017, increasing to three month LIBOR plus 275 basis points on September 2, 2017.

This term loan also includes customary events of default. The occurrence of an event of default may result in termination of the term loan, acceleration of amounts due, and accrual of default interest. Any default interest will accrue at the applicable rate plus 2.0% prior to any acceleration or the scheduled maturity date, and 5.0% thereafter. We recorded \$1.4 million of debt issuance costs which are netted against the outstanding balance.

8. Nonrecourse Debt

We have outstanding the following asset-backed nonrecourse debt and bank loans (dollars in millions):

	Outstanding Balance as of		Interest Rate	Maturity Date	Anticipated Balance at Maturity	Value of Assets Pledged as of		Description of Assets Pledged
	June 30, 2017	December 31, 2016				June 30, 2017	December 31, 2016	
HASI Sustainable Yield Bond 2013-1	\$ 73	\$ 75	2.79%	December 2019	\$ 57	\$ 91	\$ 93	Financing receivables Equity interest in Strong Upwind Holdings I, LLC
ABS Loan Agreement	\$ 89	\$ 90	5.74%	September 2021	\$ 17	\$ 87	\$ 97	Financing receivables, real estate and real estate intangibles
HASI Sustainable Yield Bond 2015-1A	\$ 96	\$ 97	4.28%	October 2034	\$ —	\$ 138	\$ 138	Class B Bond of HASI Sustainable Yield Bond 2015-1
HASI Sustainable Yield Bond 2015-1B Note	\$ 14	\$ —	5.41%	October 2034	\$ —	\$ 138	\$ —	Equity interest in Strong Upwind Holdings II and III, LLC, related interest rate swap
HASI SYB Loan Agreement 2015-1	(1)	\$ 74	(1)	(1)	(1)	(1)	\$ 96	Equity interests in Strong Upwind Holdings I, II, III, and IV LLC, and Northern Frontier, LLC
2017 Credit Agreement	\$ 196	—	3.47% ⁽²⁾	June 2024	\$ —	\$ 262	\$ —	Equity interest in Buckeye Wind Energy Class B Holdings LLC, related interest rate swap
HASI SYB Loan Agreement 2015-2	\$ 37	\$ 41	5.38% ⁽³⁾	December 2023	\$ —	\$ 67	\$ 70	Residential solar financing receivables, related interest rate swaps
HASI SYB Loan Agreement 2015-3	\$ 147	\$ 150	4.92%	December 2020	\$ 127	\$ 173	\$ 175	Residential solar financing receivables, related interest rate swaps
HASI SYB Loan Agreement 2016-1	\$ 119	\$ 98	4.23% ⁽³⁾	November 2021	\$ 101	\$ 139	\$ 114	Residential solar financing receivables, related interest rate swaps
HASI SYB Trust 2016-2	\$ 85	\$ —	4.35%	April 2037	\$ —	\$ 91	\$ —	Financing receivables
Other nonrecourse debt (4)	\$ 87	\$ 84	2.26% - 7.45%	2017 to 2046	\$ —	\$ 221	\$ 81	Financing receivables
Debt issuance costs	\$ (21)	\$ (17)						
Nonrecourse debt ⁽⁵⁾	\$ 922	\$ 692						

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- (1) This nonrecourse debt agreement was re-financed in the second quarter of 2017 with the same lender through the 2017 Credit Agreement.
- (2) Interest rate represents the current period's LIBOR based rate plus the spread. Under the terms of the 2017 Credit Agreement, this rate will become fixed upon the lender's syndication of the loan, or that can be fixed at our option.
- (3) Interest rate represents the current period's LIBOR based rate plus the spread. Also see the interest rate swap contracts shown in the table below, the value of which are not included in the book value of assets pledged.
- (4) Other nonrecourse debt consists of various debt agreements used to finance certain of our financing receivables for their term. Debt service payment requirements, in a majority of cases, are equal to or less than the cash flows received from the underlying financing receivables.
- (5) The total collateral pledged against our nonrecourse debt was \$1,269 million and \$864 million as of June 30, 2017 and December 31, 2016, respectively.

We have pledged the financed assets, and typically our interests in one or more parents or subsidiaries of the borrower that are legally separate bankruptcy remote special purpose entities as security for the nonrecourse debt. There is no recourse for repayment of these obligations other than to the applicable borrower and any collateral pledged as security for the obligations. The assets and credit of these entities are not available to satisfy any of our other debts and obligations, except as not prohibited by the debt agreements. The creditors can only look to the borrower, the cash flows of the pledged assets and any other collateral pledged, to satisfy the debt and we are not otherwise liable for nonpayment of such cash flows. The debt agreements contain terms, conditions, covenants, and representations and warranties that are customary and typical for a transaction of this nature, including limitations on the incurrence of liens and indebtedness, investments, fundamental organizational changes, dispositions, changes in the nature of business, transactions with affiliates, use of proceeds and stock repurchases. The agreements also include customary events of default, the occurrence of which may result in termination of the agreements, acceleration of amounts due, and accrual of default interest. We typically act as servicer for the debt transactions.

We have guaranteed the performance of the representations and warranties and other obligations of certain of our subsidiaries under certain of the debt agreements and provided an indemnity against certain losses from "bad acts" of such subsidiaries including fraud, failure to disclose a material fact, theft, misappropriation, voluntary bankruptcy or unauthorized transfers. In the case of the debt secured by certain of our renewable energy equity interests, we have also guaranteed the compliance of our subsidiaries with certain tax matters and certain obligations if our joint venture partners exercise their right to withdraw from our partnerships.

The HASI Sustainable Yield Bond ("HASI SYB") 2015-1 consists of two instruments, (i) \$101 million in aggregate principal amount of 4.28% HASI SYB 2015-1A, Class A Bonds (the "Class A Bonds") and (ii) \$18 million in aggregate principal amount of 5.0% HASI SYB 2015-1B, Class B Bonds (the "Class B Bonds"), both with an anticipated repayment date in October 2034. The Class A Bonds rank senior to the Class B Bonds in priority of payment. In January 2017, we borrowed \$14 million of non-recourse debt using the Class B Bonds as collateral.

In connection with several of our nonrecourse debt borrowings, we have entered into the following interest rate swaps that are designated as cash flow hedges (dollars in millions):

	Base Rate	Hedged Rate	Notional Value as of		Fair Value as of		Term
			June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	
HASI SYB Loan Agreement 2015-1 ⁽¹⁾	3 month Libor	1.55%	\$ —	\$ 67	\$ —	\$ —	December 2015 to September 2021
HASI SYB Loan Agreement 2015-2	3 month Libor	1.52%	\$ 36	\$ 37	\$ —	\$ —	December 2015 to December 2018
HASI SYB Loan Agreement 2015-2	3 month Libor	2.55%	\$ 29	\$ 29	\$ (0.4)	\$ (0.2)	December 2018 to December 2024
HASI SYB Loan Agreement 2015-3	1 month Libor	2.34%	\$ 119	\$ 119	\$ 0.2	\$ 1.0	November 2020 to August 2028
HASI SYB Loan Agreement 2016-1	3 month Libor	1.88%	\$ 109	\$ 72	\$ (0.1)	\$ 0.2	November 2016 to November 2021
HASI SYB Loan Agreement 2016-1	3 month Libor	2.73%	\$ 107	\$ 107	\$ (0.7)	\$ —	November 2021 to October 2032
Total			\$ 400	\$ 431	\$ (1.0)	\$ 1.0	

- (1) This interest rate swap was financially settled in June 2017.

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The total fair value of our derivatives relating to interest rate hedges that are effective in offsetting variable cash flows is reflected as unrealized gains or losses in AOCI and in Other assets or Accounts payable, accrued expenses and other in the Condensed Consolidated Balance Sheets. As of June 30, 2017 and December 31, 2016, all of our derivatives were designated as hedging instruments and there was no ineffectiveness recorded on our designated hedges.

The next 12-months of stated minimum maturities of nonrecourse debt are as follows:

	<i>(dollars in millions)</i>
July 1, 2017 to December 31, 2017	\$ 37
2018	47
2019	105
2020	176
2021	143
2022	18
Thereafter	417
	<u>\$ 943</u>
Deferred financing costs, net	(21)
Total Nonrecourse	<u><u>\$ 922</u></u>
Debt	

The stated minimum maturities of nonrecourse debt above include only the mandatory minimum principal payments. To the extent there are additional cash flows received from Buckeye Wind Energy Class B Holdings LLC, these additional cash flows are required to be used to make additional principal payments against the respective debt. Any additional principal payments made due to these provisions may impact the anticipated balance at maturity of these financings.

SunPower Corporation (“Sunpower”), which originated and services the residential solar leases that are the collateral for the HASI SYB Loan Agreement 2015-3 and the HASI SYB Loan Agreement 2016-1, had publicly disclosed that were not in compliance and did not expect to be in compliance for 2017, with a debt-to-EBITDA leverage covenant in one of their loan agreements, due in part to a restructuring they have undertaken as result of changes in the broader solar market. According to SunPower’s disclosure, they were not in default under this cash collateralized loan that has an outstanding balance of \$5 million. In June 2017, SunPower negotiated an amendment to their loan agreement and removed the debt-to-EBITDA leverage covenant.

The portfolios of residential solar leases are held in bankruptcy remote special purpose entities (“SPEs”) that are performing in line with our expectations and the SPEs, and not SunPower, are the source of repayment under our loans. SunPower has provided us certain limited indemnities and warranties and as servicer, provides various services including billing, monitoring payments by homeowners to a third-party lockbox and customer service. Our loan agreements included the same debt-to-EBITDA covenant referred to above to monitor changes in SunPower’s credit, as is typical for a servicer. As a result, our lenders are entitled to apply approximately \$1 million of the cash flow after payment of principal and interest each quarter to further reduce the principal balance on our loan. We continue to monitor the situation and anticipate having further discussions with our lenders and with SunPower but at the present time, do not anticipate any other impact.

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9. Commitments and Contingencies

Litigation

The nature of our operations exposes us to the risk of claims and litigation in the normal course of our business. Other than non-material litigation arising out of the ordinary course of business, we are not currently subject to any legal proceedings that are probable of having a material adverse effect on our financial position, results of operations or cash flows.

10. Income Tax

We recorded a tax expense of approximately \$0.1 million for the three and six months ended June 30, 2017 and 2016. Our income tax expense was determined using a federal rate of 35% and a combined state rate, net of federal benefit, of 5%.

11. Equity

Dividends and Distributions

Our board of directors declared the following dividends in 2016 and 2017:

<u>Announced Date</u>	<u>Record Date</u>	<u>Pay Date</u>	<u>Amount per share</u>
3/15/16	3/30/16	4/7/16	\$ 0.30
6/07/16	7/06/16	7/14/16	\$ 0.30
9/15/16	10/05/16	10/13/16	\$ 0.30
12/13/16	12/29/16*	1/12/17	\$ 0.33
3/15/17	4/05/17	4/13/17	\$ 0.33
6/01/17	7/06/17	7/13/17	\$ 0.33

* This dividend was treated as a distribution in 2017 for tax purposes.

We have an effective universal shelf registration statement registering the potential offer and sale, from time to time and in one or more offerings, of any combination of our common stock, preferred stock, depositary shares and warrants and rights (collectively referred to as the “securities”). We may offer the securities directly, through agents, or to or through underwriters by means of ordinary brokers’ transactions on the NYSE or otherwise at market prices prevailing at the time of sale or at negotiated prices and may include “at the market” (“ATM”) offerings or sales “at the market,” to or through a market maker or into an existing trading market on an exchange or otherwise. We completed the following public offerings and ATM offerings of our common stock in 2016 and 2017:

<u>Closing Date</u>	<u>Common Stock Offerings</u>	<u>Shares Issued</u> ⁽¹⁾	<u>Price Per Share</u>	<u>Net Proceeds</u> ⁽²⁾
<i>(amounts in millions, except per share amounts)</i>				
6/21/16	Public Offering	4.600	\$19.78 ⁽³⁾	\$ 91
5/9/16 to 6/30/16	ATM	0.065	\$20.31 ⁽⁴⁾	\$ 1
11/09/16	Public Offering	4.025	\$19.28 ⁽³⁾	\$ 77
12/13/16 to 12/29/16	ATM	0.407	\$19.47 ⁽⁴⁾	\$ 8
1/20/17 to 2/2/17	ATM	0.197	\$19.18 ⁽⁴⁾	\$ 4
3/10/17	Public Offering	3.450	\$18.73 ⁽³⁾	\$ 64
5/17/17 to 6/22/17	ATM	1.376	\$22.71 ⁽⁴⁾	\$ 31

(1) Includes shares issued in connection with the exercise of the underwriters’ option to purchase additional shares.

(2) Net proceeds from the offerings is shown after deducting underwriting discounts, commissions and other offering costs.

(3) Represents the price per share at which the underwriters in our public offerings purchased shares from our company.

(4) Represents the average price per share at which investors in our ATM offerings purchased shares from our company.

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Awards of Shares of Restricted Common Stock under our 2013 Plan

We have issued awards with service, performance and market conditions. During the six months ended June 30, 2017, our board of directors awarded employees and directors 707,648 shares of restricted stock and restricted stock units that vest in 2017 to 2020. As of June 30, 2017, as it relates to previously issued awards with performance conditions, we have concluded that it is probable that the performance conditions will be met.

For the three and six months ended June 30, 2017, we recorded \$3 million and \$6 million, respectively, of equity-based compensation expense as compared to \$3 million and \$5 million, respectively, for the three and six months ended June 30, 2016. The total unrecognized compensation expense related to awards of shares of restricted stock and restricted stock units was approximately \$17 million as of June 30, 2017. We expect to recognize compensation expense related to these awards over a weighted-average term of approximately two years. A summary of the unvested shares of restricted common stock that have been issued is as follows:

	Restricted Shares of Common Stock	Weighted Average Share Price	Value (in millions)
Ending Balance — December 31, 2015	1,248,069	\$ 15.16	\$ 18.9
Granted	661,055	18.62	12.3
Vested	(716,264)	14.03	(10.0)
Forfeited	(11,188)	17.25	(0.2)
Ending Balance — December 31, 2016	1,181,672	\$ 17.76	\$ 21.0
Granted	451,614	19.04	8.6
Vested	(216,657)	14.12	(3.1)
Forfeited	—	—	—
Ending Balance — June 30, 2017	1,416,629	\$ 18.72	\$ 26.5

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A summary of the unvested shares of restricted stock units that have market based vesting conditions that have been issued is as follows:

	Restricted Stock Units	Weighted Average Share Price	Value (in millions)
Ending Balance — December 31, 2016	—	—	—
Granted	256,034	\$ 18.99	\$ 4.9
Vested	—	—	—
Forfeited	—	—	—
Ending Balance — June 30, 2017	256,034	\$ 18.99	\$ 4.9

12. Earnings per Share of Common Stock

Both the Net income or loss attributable to the non-controlling OP units and the non-controlling limited partners' outstanding OP units have been excluded from Net income or loss and the diluted earnings per share calculation attributable to common stockholders.

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. Any shares of common stock which, if included in the diluted earnings per share calculation, would have an anti-dilutive effect have been excluded from the diluted earnings per share calculation.

The computation of basic and diluted earnings per common share of common stock is as follows:

Numerator:	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	<i>(in millions, except share and per share data)</i>			
Net income attributable to controlling stockholders and participating securities	\$ 12.3	\$ 3.8	\$ 19.5	\$ 6.9
Less: Dividends paid on participating securities	(0.4)	(0.4)	(0.9)	(0.9)
Undistributed earnings attributable to participating securities	—	—	—	—
Net income attributable to controlling stockholders	<u>\$ 11.9</u>	<u>\$ 3.4</u>	<u>\$ 18.6</u>	<u>\$ 6.0</u>
Denominator:				
Weighted-average number of common shares — basic	<u>50,573,996</u>	<u>37,737,026</u>	<u>49,044,051</u>	<u>37,376,618</u>
Weighted-average number of common shares — diluted	<u>50,573,996</u>	<u>37,737,026</u>	<u>49,044,051</u>	<u>37,376,618</u>
Basic earnings per common share	<u>\$ 0.23</u>	<u>\$ 0.09</u>	<u>\$ 0.38</u>	<u>\$ 0.16</u>
Diluted earnings per common share	<u>\$ 0.23</u>	<u>\$ 0.09</u>	<u>\$ 0.38</u>	<u>\$ 0.16</u>
Other Information:				
Weighted-average number of OP units	<u>284,992</u>	<u>284,992</u>	<u>284,992</u>	<u>284,992</u>
Unvested restricted common stock outstanding as of			<u>1,416,629</u>	<u>1,330,026</u>
Unvested restricted stock units outstanding as of			<u>256,034</u>	<u>0</u>

13. Equity Method Investments

We have noncontrolling unconsolidated equity investments in entities that own minority interests in renewable energy projects and in one case, real estate. We recognized income from our equity method investments of \$8.4 million and \$12.5 million during the three and six months ended June 30, 2017, respectively, as compared to income of \$1.1 million and \$1.3 million during the three and six months ended June 30, 2016. We describe our accounting for noncontrolling equity investments in Note 2.

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The following is a summary of the consolidated financial position and results of operations of the significant holding companies, accounted for using the equity method.

	As of March 31, 2017	As of December 31, 2016
	<i>(dollars in millions, unaudited)</i>	
Current Assets	\$ 3	\$ 3
Total Assets	\$ 115	\$ 99
Current Liabilities	\$ 4	\$ 4
Total Liabilities	\$ 38	\$ 39
Members' Equity	\$ 77	\$ 60

	For the three months ended March 31,	
	2017	2016
	<i>(dollars in millions, unaudited)</i>	
Revenue	\$ 3	\$ 3
Income from Continuing Operations	\$ 1	\$ 0
Net income	\$ 1	\$ 0

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

In this Form 10-Q, unless specifically stated otherwise or the context otherwise indicates, references to "we," "our," "us," and "HASI" refer to Hannon Armstrong Sustainable Infrastructure Capital, Inc., a Maryland corporation, Hannon Armstrong Sustainable Infrastructure, L.P., and any of our other subsidiaries. Hannon Armstrong Sustainable Infrastructure, L.P. is a Delaware limited partnership of which we are the sole general partner and to which we refer in this Form 10-Q as our "Operating Partnership."

The following discussion is a supplement to and should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and related notes and with our Annual Report on Form 10-K for the year ended December 31, 2016 as amended by our Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2016 (collectively, our "2016 Form 10-K") that was filed with the SEC.

Our Business

We make debt and equity investments in sustainable infrastructure, including energy efficiency and renewable energy. Our goal is to deliver attractive risk-adjusted returns to our stockholders by investing in projects that generate long-term, recurring and predictable cash flows or cost savings. The cash flows or cost savings are generally generated from proven technologies that minimize performance uncertainty, enabling us to more accurately predict project cash flow over the term of the financing or investment. Our financings typically benefit from contractually committed obligations of government entities or private, high credit quality obligors. Our investments take various forms, including lending or financing transactions, land ownership and a variety of preferred and common equity structures with a preference for structures in which we hold a senior or preferred position in the capital structure.

We are internally managed and our management team has extensive industry knowledge and experience having completed its first renewable energy financing over 25 years ago and its first energy efficiency financing over 20 years ago. We have deep and long-standing relationships in the markets we target with leading energy service providers, manufacturers, project developers and owners. We originate many of our transactions through programmatic finance relationships with global energy service companies ("ESCOs"), such as Honeywell International, Ingersoll Rand, Johnson Controls, Schneider Electric, Siemens and United Technologies. We also originate transactions with renewable energy manufacturers, developers and operators such as EDF Renewable Energy, E.ON, First Solar, Invenergy, SunPower and other companies who own and operate renewable energy projects, including a number of U.S. utility companies. Additionally, we rely on relationships with a variety of key financial participants, including institutional investors, senior lenders, and investment and commercial banks, as well as leading intermediaries, to complement our origination and financing activities.

We focus our investment activities primarily on:

- *Energy Efficiency Projects:* projects, typically undertaken by ESCOs, which reduce a building's or facility's energy usage or cost by improving or installing various building components, including heating, ventilation and air conditioning systems ("HVAC systems"), lighting, energy controls, roofs, windows, building shells, and/or combined heat and power systems; and
- *Renewable Energy Projects:* projects that deploy cleaner energy sources, such as solar and wind to generate power production.

We make debt and equity investments in energy efficiency projects, which reduce the amount or cost of energy usage. We are usually assigned the payment stream and other contractual rights, often using our pre-existing master purchase agreements with the ESCOs. Our financings are generally also secured by the installed improvements in the building or other real estate rights.

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We also provide debt and equity investments, or own the land used, for renewable energy projects such as solar or wind. We focus on projects that use proven technology and that often have contractually committed agreements, such as power purchase agreements (“PPAs”), with high credit quality utilities or large electricity users under which the utility or user purchases the power produced by the project at a minimum price with potential price escalators for a portion of the project’s estimated life. These projects may be distributed (building or facility specific) or utility-scale (standalone projects designed to sell power to electric utilities or large users).

We own approximately 20,000 acres of land that are leased under long-term agreements to over 45 renewable energy projects, which we have recorded in our financial statements as real estate, and also have rights to payments from land leases for a diversified portfolio of over 50 wind and solar projects, which we have recorded in our financial statements as financing receivables. We have equity investments in renewable energy projects operated by various renewable energy companies and in a joint venture that owns land leased to several solar projects. These transactions enable us to participate in the cash flows associated with these projects, typically on a priority basis.

We may also invest in other projects, such as water, electric or communications infrastructure, that improve water or energy efficiency, increase energy system resiliency, positively impact the environment or more efficiently use natural resources.

We completed approximately \$400 million and \$690 million of transactions during the three months and six months ended June 30, 2017, respectively, compared to approximately \$257 million and \$470 million during the same period in 2016. As of June 30, 2017, pursuant to our strategy of holding a large portion of these transactions on our balance sheet, we held approximately \$2.1 billion of transactions on our balance sheet, which we refer to as our “Portfolio”, including approximately 91% of our 2017 transactions.

For those transactions that we choose not to hold on our balance sheet, we transfer all or a portion of the economics of the transaction, typically using securitization trusts, to institutional investors in exchange for upfront revenues and in some cases, ongoing fees for managing the assets. As of June 30, 2017, we managed approximately \$2.5 billion in these trusts or vehicles that are not consolidated on our balance sheet. When combined with our Portfolio, as of June 30, 2017, we manage approximately \$4.6 billion of assets which we refer to as our managed assets.

We finance our Portfolio with a combination of debt and equity. During the six months ended June 30, 2017, we issued approximately \$99 million of common equity and completed approximately \$360 million of debt financings.

We have a large and active pipeline of potential new opportunities that are in various stages of our underwriting process. We refer to potential opportunities as being part of our pipeline if we have determined that the project fits within our investment strategy and exhibits the appropriate risk/reward characteristics through an initial credit analysis, including a quantitative and qualitative assessment of the opportunity, as well as research on the market and sponsor. Our pipeline of transactions that could potentially close in the next 12 months consists of opportunities in which we will be the lead originator, as well as projects in which we may participate with other institutional investors. As of June 30, 2017, our pipeline consisted of more than \$2.5 billion in new debt and equity opportunities. There can, however, be no assurance that any or all of the transactions in our pipeline will be completed or with regard to any specific terms of such pipeline transactions.

We elected to be, and intend to continue to operate our business so as to qualify to be taxed as a REIT for U.S. federal income tax purposes, commencing with our taxable year ended December 31, 2013. We also intend to continue to operate our business in a manner that will permit us to maintain our exception from registration as an investment company under the 1940 Act.

Factors Impacting our Operating Results

We expect that our results of operations will be affected by a number of factors and will primarily depend on the size of our Portfolio, including the mix of transactions which we hold in our Portfolio, the income we receive from securitizations, syndications and other services, our Portfolio’s credit risk profile, changes in market interest rates and liquidity, commodity prices, U.S. federal, state and/or municipal governmental policies, general market conditions in local, regional and national economies and our ability to qualify as a REIT and maintain our exception from registration as an investment company under the 1940 Act. We provide a summary of the factors impacting our operating results in our 2016 Form 10-K under “MD&A – Factors Impacting our Operating Results.”

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Critical Accounting Policies and Use of Estimates

Our financial statements are prepared in accordance with U.S. GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and use of assumptions as to future uncertainties. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies under Note 2 in our 2016 Form 10-K and under Note 2 of this Form 10-Q.

We have identified the following accounting policies as critical because they require significant judgments and assumptions about highly complex and inherently uncertain matters and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies govern:

- Financing receivables
- Investments
- Real estate
- Securitization of receivables
- Consolidation and equity method investments

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them, as necessary, based on changing conditions.

We provide additional information on our critical accounting policies and use of estimates under “MD&A—Critical Accounting Policies and Use of Estimates” in our 2016 Form 10-K.

Financial Condition and Results of Operation

Our Portfolio

Our Portfolio totaled approximately \$2.1 billion as of June 30, 2017, and included approximately \$0.5 billion of energy efficiency, approximately \$1.4 billion of renewable energy (wind and solar) and approximately \$0.2 billion of other sustainable infrastructure investments. Approximately 60% of our Portfolio consisted of fixed rate debt investments. Approximately 14% of our Portfolio was real estate with long-term leases and approximately 26% of our Portfolio represented unconsolidated equity ownership of renewable energy related projects. Our Portfolio consisted of over 165 transactions with an average size of \$12 million and the weighted average remaining life of our Portfolio (excluding match-funded transactions) of approximately 12 years as of June 30, 2017.

Our Portfolio included the following as of June 30, 2017:

- Financing receivables, such as project loans, receivables and direct financing leases,
- Debt securities,
- Real estate, such as land or other physical assets and related lease intangible assets used in sustainable infrastructure projects, and
- Equity investments in unconsolidated entities, such as projects where we hold a non-controlling equity interest

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We generally refer to both financing receivables and debt securities as debt investments. The table below provides details on the interest rate and maturity of our financing receivables and investments as of June 30, 2017:

	Balance (in millions)	Maturity
Fixed-rate financing receivables, interest rates less than 5.00% per annum	\$ 485	2018 to 2046
Fixed-rate financing receivables, interest rates from 5.01% to 6.50% per annum	456	2017 to 2046
Fixed-rate financing receivables, interest rates greater than 6.50% per annum	199	2018 to 2069
Financing receivables	1,140	
Allowance for credit losses	—	
Financing receivables, net of allowance	1,140	
Fixed-rate investment in debt securities, interest rates of less than 5.00% per annum	118	2025 to 2041
Fixed-rate investment in debt securities, interest rates from 5.01% to 6.50% per annum	8	2031 to 2047
Total Financing Receivables and Investments	\$ 1,266	

The table below presents, for each major category of our Portfolio and the related interest-bearing liabilities, the average outstanding balances, investment income earned, the interest expense incurred, and average yield or cost. Our earnings from our equity method investments are not included in Total Revenue and thus we have excluded our equity method investments and the related earnings and interest expenses from these calculations. Our net investment margin represents the difference between the interest, investment and rental income generated by our Portfolio and the interest expense, divided by our Portfolio balance.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	<i>(dollars in millions)</i>			
Interest income, financing receivables	\$ 14	\$ 13	\$ 28	\$ 24
Average monthly balance of financing receivables	\$ 995	\$ 853	\$ 1,014	\$ 862
Average interest rate from financing receivables	5.5%	5.9%	5.5%	5.6%
Interest income, investments	\$ 1	\$ 1	\$ 2	\$ 1
Average monthly balance of investments	\$ 128	\$ 44	\$ 108	\$ 37
Average interest rate of investments	4.3%	4.0%	4.2%	4.4%
Rental income	\$ 5	\$ 3	\$ 9	\$ 6
Average monthly balance of real estate	\$ 282	\$ 163	\$ 257	\$ 161
Average yield on real estate	6.9%	7.3%	7.0%	7.2%
Average monthly balance of Portfolio	\$ 1,405	\$ 1,060	\$ 1,379	\$ 1,060
Average yield from Portfolio	5.7%	6.1%	5.7%	5.8%
Interest expense ⁽¹⁾	\$ 12	\$ 8	\$ 22	\$ 15
Average monthly balance of debt ⁽¹⁾	\$ 1,001	\$ 739	\$ 953	\$ 733
Average interest rate from debt ⁽¹⁾	4.6%	4.1%	4.6%	4.1%
Average interest spread ⁽¹⁾	1.1%	2.0%	1.1%	1.7%
Net investment margin ⁽¹⁾	2.4%	3.2%	2.5%	2.9%

(1) Excludes the nonrecourse debt used to finance the equity investments in the renewable energy projects because our earnings from the equity investments in the renewable energy projects are not included in total revenue.

The following table provides a summary of our anticipated principal repayments for our financing receivables and investments as of June 30, 2017:

	Total	Payment due by Period			
		Less than 1 year	1-5 years	5-10 years	More than 10 years
	<i>(dollars in millions)</i>				
Financing receivables	\$1,140	\$ 16	\$ 142	\$ 299	\$ 683
Investments	\$ 126	\$ 1	\$ 4	\$ 4	\$ 117

See Note 6 to our financial statements in this Form 10-Q:

- For the anticipated maturity dates of our financing receivables and investments and the weighted average yield for each range of maturities as of June 30, 2017,

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- For information on the term of our leases and a schedule of our future minimum rental income under our land lease agreements as of June 30, 2017, and
- Information on the credit quality of our Portfolio.

For information on our residual assets relating to our securitization trusts, see Note 5 to our financial statements in this Form 10-Q. The residual assets do not have a contractual maturity date and the underlying securitized assets have contractual maturity dates until 2046.

Results of Operations

Comparison of the Three Months Ended June 30, 2017 vs. Three Months Ended June 30, 2016

	<u>Three Months Ended June 30,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2017</u>	<u>2016</u>		
				<i>(dollars in millions)</i>
Revenue:				
Interest income, financing receivables	\$ 14	\$ 13	\$ 1	8%
Interest income, investments	1	1	—	—
Rental income	5	3	2	67%
Gain on sale of receivables and investments	7	5	2	40%
Fee income	1	—	1	NM
Total Revenue	<u>28</u>	<u>22</u>	<u>6</u>	27%
Expenses:				
Interest expense	15	11	4	36%
Compensation and benefits	6	6	—	—
General and administrative	3	2	1	50%
Total Expenses	<u>24</u>	<u>19</u>	<u>5</u>	26%
Income (loss) before equity method investments	4	3	1	33%
Income (loss) from equity method investments	8	1	7	700%
Net income (loss) before income tax	12	4	8	200%
Income tax expense	—	—	—	NM
Net income (loss)	<u>\$ 12</u>	<u>\$ 4</u>	<u>\$ 8</u>	200%

* NM – Percentage change is not meaningful.

- Net income increased by approximately \$8 million as a result of a \$6 million increase in total revenue and \$7 million increase in income from equity method investments, partially offset by a \$5 million increase in total expenses, including a \$4 million increase in interest expense. These results do not include the Non-GAAP Core Earnings adjustment related to our equity method investments, which is discussed in the Non-GAAP Financial Measures section below.
- Interest Income, Financing Receivables increased by \$1 million due primarily to an increase in average size of the financing receivables in the Portfolio from \$0.9 billion in the three months ended June 30, 2016, to \$1.0 billion in the same period in 2017. In addition, rental income grew by approximately \$2 million due to incremental additions to the real estate portfolio.
- Gain on sale of receivables and investments and fee income grew by \$3 million primarily due to an increase in securitization activity during the three months ended June 30, 2017 when compared to the same period in 2016.
- The increase in revenue was offset by \$4 million of higher interest expense due primarily to higher average outstanding borrowing and an increase in floating interest rates during the three months ended June 30, 2017 when compared to the same period in 2016.
- General and administrative expenses increased by \$1 million due to additional professional service fees and other miscellaneous expenses.

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- Income from equity method investments increase by \$7 million due primarily to new investments and increased income allocations from certain of our renewable energy investments.

Comparison of the Six Months Ended June 30, 2017 vs. Six Months Ended June 30, 2016

	<u>Six Months Ended June 30,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2017</u>	<u>2016</u>		
	<i>(dollars in millions)</i>			
Revenue:				
Interest income, financing receivables	\$ 28	\$ 24	\$ 4	17%
Interest income, investments	2	1	1	100%
Rental income	9	6	3	50%
Gain on sale of receivables and investments	12	10	2	20%
Fee income	<u>1</u>	<u>1</u>	<u>—</u>	NM
Total Revenue	52	42	10	24%
Expenses:				
Interest expense	29	22	7	32%
Compensation and benefits	11	10	1	10%
General and administrative	<u>5</u>	<u>4</u>	<u>1</u>	25%
Total Expenses	45	36	9	25%
Income (loss) before equity method investments	7	6	1	17%
Income (loss) from equity method investments	<u>13</u>	<u>1</u>	<u>12</u>	1200%
Net income (loss) before income tax	20	7	13	186%
Income tax expense	<u>—</u>	<u>—</u>	<u>—</u>	NM
Net income (loss)	<u>\$ 20</u>	<u>\$ 7</u>	<u>\$ 13</u>	186%

* NM – Percentage change is not meaningful.

- Net income increased by approximately \$13 million as a result of a \$10 million increase in total revenue and \$12 million increase in income from equity method investments, partially offset by a \$9 million increase in total expenses, including a \$7 million increase in interest expense. These results do not include the Non-GAAP Core Earnings adjustment related to our equity method investments, which is discussed in the Non-GAAP Financial Measures section below.
- Interest Income, Financing Receivables increased by \$4 million due to an increase in average size of the financing receivables in the Portfolio from \$0.9 billion in the six months ended June 30, 2016 to \$1.0 billion in the same period in 2017.
- Rental income grew by \$3 million due to an increase in average investment in real estate from \$0.2 billion in the six months ended June 30, 2016 to \$0.3 billion in the same period in 2017.
- Gain on sale of receivables and investments grew by \$2 million due primarily to an increase in securitization activity.
- The increase in revenue was offset by \$7 million of higher interest expense due to an increase in the average outstanding balance of our debt and higher floating interest rates during the six months ended June 30, 2017 when compared to the same period in 2016.
- Compensation and benefits increased by \$1 million due to higher staffing costs and general and administrative costs increased by approximately \$1 million due to additional professional service fees and other miscellaneous expenses.
- Income from equity method investments increase by \$12 million due primarily to new investments and increased income allocations from certain of our renewable energy investments.

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Non-GAAP Financial Measures

We consider the following non-GAAP financial measures useful to investors as key supplemental measures of our performance: (1) Core Earnings and (2) managed assets. These non-GAAP financial measures should be considered along with, but not as alternatives to, net income or loss as measures of our operating performance. These non-GAAP financial measures, as calculated by us, may not be comparable to similarly named financial measures as reported by other companies that do not define such terms exactly as we define such terms.

Core Earnings

We calculate Core Earnings as U.S. GAAP Net income excluding non-cash equity compensation expense, non-cash provision for credit losses, amortization of intangibles, any one-time acquisition related costs or non-cash tax charges and the earnings attributable to our non-controlling interest of our operating partnership. We also make an adjustment to account for our equity method investments in the renewable energy projects as described below. In the future, Core Earnings may also exclude one-time events pursuant to changes in U.S. GAAP and certain other non-cash charges as approved by a majority of our independent directors.

Certain of our equity method investments in renewable energy projects are structured using typical partnership “flip” structures where we, along with any other institutional investors, if any, receive a pre-negotiated preferred return consisting of priority distributions from the project cash flows, in many cases, along with tax attributes. Once this preferred return is achieved, the partnership “flips” and the renewable energy company, which operates the project, receives more of the cash flows through its equity interests while we, and any other institutional investors, retain an ongoing residual interest. We typically negotiate the purchase prices of these projects, which have a finite expected life, based on our assessment of the expected cash flows we will receive from these projects discounted back to the net present value, based on a target investment rate, with the expected cash flows to be received in the future reflecting both a return on the capital (at the investment rate) and a return of the capital we have committed to the project. This is also similar to how we negotiate many of our financing receivables.

Under U.S. GAAP, we account for these investments utilizing the hypothetical liquidation at book value (“HLBV”) method. Under this method, we recognize income or loss based on the change in the amount each partner would receive, typically based on the negotiated profit and loss allocation, if the assets were liquidated at book value, after adjusting for any distributions or contributions made during such quarter. The HLBV allocations of income or loss are also impacted by the receipt of tax attributes, as tax equity investors are allocated losses in proportion to the tax benefits received while the sponsors of the project are allocated gains of a similar amount. In addition, the agreed upon allocations of the project’s cash flows may differ materially from the profit and loss allocation used for the HLBV calculations.

The cash distributions for our equity method investments are segregated into a return on and return of capital on our cash flow statement based on the cumulative income that has been allocated using the HLBV method. However, as a result of the application of the HLBV method, including the impact of tax allocations, the high levels of depreciation and other non-cash expenses that are common to renewable energy projects and the differences between the agreed upon profit and loss and the cash flow allocations, the distributions and thus the economic returns (i.e. return on capital) achieved from the investment are often significantly different from the income or loss that is allocated to us under the HLBV method. Thus, in calculating Core Earnings, we further adjust GAAP Net income to take into account our calculation of the return on capital (based upon the investment rate) from our renewable energy equity method investments, as adjusted to reflect the performance of the project and the cash distributed. We believe this adjustment to our GAAP Net income in calculating our Core Earnings measure is an important supplement to the HLBV income allocations determined under US GAAP for an investor to understand the economic performance of these investments.

For the three and six months ended June 30, 2017, we recognized \$8 million and \$13 million in income under GAAP for our equity investments in renewable energy projects and an additional \$2 million and \$7 million for our Core Earnings adjustment as discussed above to reflect our return on capital from these investments for the three and six months ended June 30, 2017, respectively. This compares to the collected cash distributions from these equity method investments of approximately \$22 million and \$39 million, for the three and six months ended June 30, 2017, with the difference between Core Earnings and cash collected representing a return of capital.

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We believe that Core Earnings provides an additional measure of our core operating performance by eliminating the impact of certain non-cash expenses and facilitating a comparison of our financial results to those of other comparable REITs with fewer or no non-cash charges and comparison of our own operating results from period to period. Our management uses Core Earnings in this way. We believe that our investors also use Core Earnings, or a comparable supplemental performance measure, to evaluate and compare our performance to that of our peers, and as such, we believe that the disclosure of Core Earnings is useful to our investors.

However, Core Earnings does not represent cash generated from operating activities in accordance with U.S. GAAP and should not be considered as an alternative to Net income (determined in accordance with U.S. GAAP), or an indication of our cash flow from operating activities (determined in accordance with U.S. GAAP), or a measure of our liquidity, or an indication of funds available to fund our cash needs, including our ability to make cash distributions. In addition, our methodology for calculating Core Earnings may differ from the methodologies employed by other REITs to calculate the same or similar supplemental performance measures, and accordingly, our reported Core Earnings may not be comparable to similar metrics reported by other REITs.

We have calculated our Core Earnings for the three and six months ended June 30, 2017 and June 30, 2016. The table below provides a reconciliation of our U.S. GAAP Net income to Core Earnings:

	<u>Three Months Ended June 30,</u>				<u>Six Months Ended June 30,</u>			
	<u>2017</u>		<u>2016</u>		<u>2017</u>		<u>2016</u>	
	<u>\$</u>	<u>Per Share</u>	<u>\$</u>	<u>Per Share</u>	<u>\$</u>	<u>Per Share</u>	<u>\$</u>	<u>Per Share</u>
	<i>(dollars in thousands, except per share amounts)</i>							
Net income attributable to controlling stockholders	\$ 12,340	\$ 0.23	\$ 3,747	\$ 0.09	\$ 19,539	\$ 0.38	\$ 6,916	\$ 0.16
Core Earnings Adjustments:								
Equity method investments	1,814		5,673		6,991		12,315	
Non-cash equity-based compensation charges	2,984		2,913		5,553		4,920	
Amortization of intangibles	658		363		1,165		713	
Current year earnings attributable to non-controlling interest	70		28		114		56	
Core Earnings⁽¹⁾	\$17,866	\$0.34	\$12,724	\$0.32	\$33,362	\$0.66	\$24,920	\$0.64

(1) Core Earnings per share is based on 52,561,081 shares and 50,830,442 shares for the three and six months ended June 30, 2017, respectively, and 39,547,758 shares and 39,069,470 shares for the three and six months ended June 30, 2016, respectively, which represents the weighted average number of fully-diluted shares outstanding including participating securities and the minority interest in our Operating Partnership.

Managed Assets

As we both consolidate assets on our balance sheet and securitize investments, certain of our financing receivables and other assets are not reflected on our balance sheet where we may have a residual interest in the performance of the investment, such as servicing rights or a retained interest in cash flows. Thus, we present our investments on a non-GAAP “managed” basis, which assumes that securitized financing receivables are not sold. We believe that our managed asset information is useful to investors because it portrays the amount of both on- and off-balance sheet financing receivables that we manage, which enables investors to understand and evaluate the credit performance associated with the portfolio of financing receivables and investments reported on our consolidated balance sheet and our retained interests in securitized financing receivables. Our non-GAAP managed assets measure may not be comparable to similarly titled measures used by other companies.

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The following is a reconciliation of our U.S. GAAP Portfolio to our managed assets:

	As of	
	June 30, 2017	December 31, 2016
	<i>(dollars in millions)</i>	
Financing receivables	\$ 1,140	\$ 1,042
Investments	126	58
Real estate	298	172
Equity method investments	551	363
Assets held in securitization trusts	2,458	2,298
Managed Assets	\$ 4,573	\$ 3,933
Credit losses as a percentage of assets under management	0.0%	0.0%

Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential short term (within one year) and long term cash requirements, including ongoing commitments to repay borrowings, fund and maintain our current and future assets, make distributions to our stockholders and other general business needs. We will use significant cash to make debt and equity investments, repay principal and interest on our borrowings, make distributions to our stockholders and fund our operations.

We use borrowings as part of our financing strategy to increase potential returns to our stockholders and have available to us a broad range of financing sources. In July 2013, we entered into a \$350 million senior secured revolving credit facility with maximum total advances of \$700 million. Since that time, we have entered into a number of amendments, including in June 2017, intended to increase the flexibility and borrowing capability under the credit facility and to extend the maturity date for an additional year to July 2019. As of June 30, 2017, we have used \$290 million of the \$500 million of borrowing capacity and have utilized approximately \$1.2 billion of the maximum total advances of \$1.5 billion.

In February 2017, we borrowed \$102 million from a financial institution. In July 2017, we amended this agreement to extend the maturity date to September 20, 2017, which can be repaid at any time. It bears interest at a floating rate of 2.00% above three month LIBOR which will increase to 2.75% after September 1, 2017 and is also secured by the equity of our special purpose subsidiary that holds \$128 million of land investments, financing receivables, and equity method investments.

In addition, as of June 30, 2017, we had approximately \$920 million of nonrecourse borrowings. We also continue to utilize off-balance sheet securitization transactions where we transfer the loans or other assets we originate to securitization trusts or other bankruptcy remote special purpose funding vehicles that are not consolidated on our balance sheet. As of June 30, 2017, the outstanding principal balance of our assets financed through the use of these off-balance sheet transactions was approximately \$2.5 billion.

Large institutional investors, primarily insurance companies and commercial banks, have provided the financing for these non-recourse and off-balance sheet financings. We have worked to expand our liquidity and access to the debt and bank loan markets and have entered into transactions with a number of new lenders and insurance companies in the last year. We continue to provide details on the greenhouse gas emissions (“GHG”) saved by our investments and believe that investors increasingly are interested in investments that have a measurable GHG savings. For further information on the credit facility, asset backed nonrecourse notes, securitizations and our nonrecourse match funded debt, see Note 5, 7 and 8 to our financial statements of this Form 10-Q.

We plan to raise additional equity capital and continue to use fixed and floating rate borrowings which may be in the form of additional bank credit facilities (including term loans and revolving facilities), warehouse facilities, repurchase agreements and public and private equity and debt issuances, including match funded arrangements, as a means of financing our business. We also expect to use both on-balance sheet and non-consolidated securitizations and also believe we will be able to customize securitized tranches to meet investment preferences of different investors. We may also consider the use of separately funded special purpose entities or funds to allow us to expand the investments that we make. We also expect to continue to raise funds through public and private offerings of equity. During the three months and six months ended June 30, 2017, we issued approximately 1.4 million and 1.6 million shares, respectively and raised approximately \$31 million and \$35 million, respectively, under our “at-the-market” equity distribution program, or our ATM program, established in May 2016. In addition, in March 2017, we raised \$64 million of common equity through public offerings in 2017. See Note 11 to our financial statements of this Form 10-Q.

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The decision on how we finance specific assets or groups of assets is largely driven by capital allocations and risk and portfolio and financial management considerations, including the potential for gain on sale or fee income, as well as the overall interest rate environment, prevailing credit spreads and the terms of available financing and market conditions. Over time, as market conditions change, we may use other forms of debt and equity in addition to these financings arrangements.

Although we are not restricted by any regulatory requirements to maintain our leverage ratio at or below any particular level, the amount of leverage we may deploy for particular assets will depend upon the availability of particular types of financing and our assessment of the credit, liquidity, price volatility and other risks of those assets, the interest rate environment and the credit quality of our financing counterparties. As shown in the table below, our debt to equity ratio was approximately 2.0 to 1 as of June 30, 2017 which is below our target ratio of 2.5 to 1. We would expect over time to add additional debt, which will allow us to achieve our targeted levels. Our percentage of fixed rate debt was approximately 54% as of June 30, 2017, below our targeted fixed rate debt percentage range of approximately 60% to 85%. In the second quarter of 2017, we modified an existing non-recourse loan, increasing our overall borrowing under the arrangement by \$125 million. The instrument is currently floating based on three month LIBOR plus an applicable spread, however the instrument may become fixed either upon the lender's successful syndication of the loan or, at our option.

The calculation of our debt at fixed rates and leverage is shown in the chart below:

	<u>June 30, 2017</u>	<u>% of Total</u>	<u>December 31, 2016</u>	<u>% of Total</u>
Floating-rate Borrowings	\$ 599	46%	\$ 320	33%
Fixed-rate debt	\$ 715	54%	\$ 655	67%
Total debt(1)	\$ 1,314	100%	\$ 975	100%
Equity	\$ 663		\$ 574	
Leverage	2.0 to 1		1.7 to 1	

- (1) Floating-Rate Borrowings include borrowings under our floating-rate credit facilities and approximately \$207 million and \$37 of nonrecourse debt that has not been hedged as of June 30, 2017 and December 31, 2016, respectively. Fixed-rate debt also includes the present notional value of nonrecourse debt that is hedged using interest rate swaps. Debt excludes securitizations that are not consolidated on our balance sheet (where the collateral is typically borrowings with U.S. government obligors)

We intend to use leverage for the primary purpose of financing our portfolio and business activities and not for the purpose of speculating on changes in interest rates. While we may temporarily exceed the leverage or fixed rate debt targets, if our board of directors approves a material change to these targets, we anticipate advising our stockholders of this change through disclosure in our periodic reports and other filings under the Exchange Act.

While we generally intend to hold our target assets that we do not securitize upon acquisition as long term investments, certain of our investments may be sold in order to manage our interest rate risk and liquidity needs, to meet other operating objectives and to adapt to market conditions. The timing and impact of future sales of financings, if any, cannot be predicted with any certainty. Since we expect that our assets will generally be financed, we expect that a significant portion of the proceeds from sales of our assets (if any), prepayments and scheduled amortization will be used to repay balances under our financing sources.

We believe these identified sources of liquidity will be adequate for purposes of meeting our short term and long term liquidity needs, which include funding future investments, operating costs and distributions to our stockholders. To qualify as a REIT, we must distribute annually at least 90% of our REIT's taxable income without regard to the deduction for dividends paid and excluding net capital gains. These dividend requirements limit our ability to retain earnings and thereby replenish or increase capital for growth and our operations.

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Sources and Uses of Cash

We had approximately \$106 million and \$59 million of unrestricted cash, cash equivalents, and restricted cash as of June 30, 2017 and December 31, 2016, respectively.

Cash Flows Relating to Operating Activities

Net cash provided by operating activities was approximately \$14 million for six months ended June 30, 2017, driven primarily by net income of \$20 million and various non-cash adjustments of approximately \$5 million offset by an \$11 million non-cash gain on securitizations.

Net cash provided by operating activities was approximately \$10 million for six months ended June 30, 2016, driven primarily by net income of \$7 million and proceeds from the sale of financing receivables held for sale of \$5 million offset by a net decrease in accounts payable and accrued expenses and other of approximately \$2 million.

Cash Flows Relating to Investing Activities

Net cash used in investing activities was approximately \$289 million for six months ended June 30, 2017. We used \$92 million to purchase financing receivables and investments, \$119 million to purchase real estate, and made an additional \$215 million investment in our equity method investments. We received \$51 million from the sale of financing receivables and investments and \$34 million in distributions in excess of our cumulative income from our equity investments in renewable energy projects. In addition, we collected cash from principal payments on our financing receivables and investments of \$57 million and had a \$5 million cash outflow from other investing activities.

Net cash used in investing activities was approximately \$21 million for six months ended June 30, 2016. We used \$130 million to purchase financing receivables and investments, \$7 million to purchase real estate, and made an additional \$11 million investment in our equity method investments. We received \$43 million from the sale of financing receivables and investments and \$28 million in distributions in excess of our cumulative income from our equity method investments. In addition, we collected cash from principal payments on our financing receivables and investments of \$58 million and had a \$2 million cash outflow from other investing activities.

Cash Flows Relating to Financing Activities

Net cash provided by financing activities was approximately \$322 million for the six months ended June 30, 2017. This includes proceeds from borrowings under the credit facility of \$278 million, proceeds from non-recourse borrowings of \$258 million and net proceeds from the issuance of common stock of \$98 million which were partially offset by payments of \$270 million on our credit facility, nonrecourse debt and deferred funding obligations and payments of \$42 million related to dividends and distributions and other financing activities.

Net cash used in financing activities was approximately \$24 million for the six months ended June 30, 2016. This includes payments of \$204 million on our credit facility, nonrecourse debt and deferred funding obligations and payments of \$29 million related to dividends and distributions and other financing activities that were partially offset by proceeds from borrowings under the credit facility of \$117 million and net proceeds from the issuance of common stock of \$92 million.

Off-Balance Sheet Arrangements

We have relationships with non-consolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, or special purpose or variable interest entities, established to facilitate the sale of securitized assets. Other than our securitization assets (including any outstanding servicer advances) of approximately \$29 million as of June 30, 2017, that may be at risk in the event of defaults in our securitization trusts, and limited representations, warranties and covenants regarding our activities with regard to certain of our renewable energy equity interests, we have not guaranteed any obligations of nonconsolidated entities or entered into any commitment or intent to provide additional funding to any such entities. A more detailed description of our relations with non-consolidated entities can be found in Note 2 included in the notes to the Condensed Consolidated

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Financial statements included in this Form 10-Q and as described under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Use of Estimates*,” in our 2016 Form 10-K.

Dividends

U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its REIT taxable income. Our current policy is to pay quarterly distributions, which on an annual basis will equal or exceed substantially all of our REIT taxable income. Any distributions we make will be at the discretion of our board of directors and will depend upon, among other things, our actual results of operations. These results and our ability to pay distributions will be affected by various factors, including the net interest and other income from our portfolio, our operating expenses and any other expenditures. In the event that our board of directors determines to make distributions in excess of the income or cash flow generated from our assets, we may make such distributions from the proceeds of future offerings of equity or debt securities or other forms of debt financing or the sale of assets. To the extent that in respect of any calendar year, cash available for distribution is less than our taxable income, we could be required to sell assets or borrow funds to make cash distributions or make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. We will generally not be required to make distributions with respect to activities conducted through our domestic TRSs.

To the extent that we generate taxable income, distributions to our stockholders generally will be taxable as ordinary income, although all or a portion of such distributions may be designated by us as a qualified dividend or capital gain. In the event we make distributions to our stockholders in excess of our taxable income, the excess will constitute a return of capital. In addition, a portion of such distributions may be taxable stock dividends payable in our shares. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital, qualified dividend income or capital gain.

The dividends declared in 2016 and 2017 are described under Note 11 to our financial statements in this Form 10-Q.

Book Value Considerations

As of June 30, 2017, we carried only our investments available-for-sale, interest rate swaps and retained assets in securitized receivables at fair value on our balance sheet. As a result, in reviewing our book value, there are a number of important factors and limitations to consider. Other than the approximately \$126 million in investments available-for-sale, an approximately \$1 million liability for interest rate swaps and the \$28 million in residual assets relating to our retained interests in securitized receivables that are on our balance sheet at fair value as of June 30, 2017, the carrying value of our remaining assets and liabilities are calculated as of a particular point in time, which is largely determined at the time such assets and liabilities were added to our balance sheet using a cost basis in accordance with U.S. GAAP. As such, our remaining assets and liabilities do not incorporate other factors that may have a significant impact on their value, most notably any impact of business activities, changes in estimates, or changes in general economic conditions or interest rates since the dates the assets or liabilities were initially recorded. Accordingly, our book value does not necessarily represent an estimate of our net realizable value, liquidation value or our market value as a whole.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We anticipate that our primary market risks will be related to, the credit quality of our counterparties and project companies, market interest rates, the liquidity of our assets, and commodity prices. We will seek to manage these risks while, at the same time, seeking to provide an opportunity to stockholders to realize attractive returns through ownership of our common stock.

Credit Risks

We source and identify quality opportunities within our broad areas of expertise and apply our rigorous underwriting processes to our transactions, which, we believe, will generally enable us to minimize our credit losses and keep financing costs low. While we do not anticipate facing significant credit risk in our assets related to government energy efficiency projects, we are subject to varying degrees of credit risk in these projects in relation to guarantees provided by ESCOs where payments under energy savings performance contracts are contingent upon achieving pre-determined levels of energy savings. We are also exposed to credit risk in our other projects that do not benefit from governments as obligor such as on balance sheet financing of projects undertaken by universities, schools and hospitals, as well as privately owned commercial projects. In the case of various renewable energy and sustainable infrastructure projects, we will also be exposed to the credit risk of the obligor of the project's power purchase agreement or other long-term contractual revenue commitments, as well as to the credit risk of certain suppliers and project operators. We may encounter enhanced credit risk as we expect that over time our strategy will increasingly include mezzanine debt, real estate or equity investments. We seek to manage credit risk thorough due diligence and underwriting processes, strong structural protections in our transaction agreements with customers and continual, active asset management and portfolio monitoring. Nevertheless, unanticipated credit losses could occur and during periods of economic downturn in the global economy, our exposure to credit risks from obligors increases, and our efforts to monitor and mitigate the associated risks may not be effective in reducing our credit risks. Additional detail of the credit risks surrounding our Portfolio can be found in Note 6 of our financial statements included in this Form 10-Q.

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Interest Rate and Borrowing Risks

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

We are subject to interest rate risk in connection with new asset originations and our borrowings, including our credit facility, and in the future, any new floating rate assets, credit facilities or other borrowings. Because short-term borrowings are generally short-term commitments of capital, lenders may respond to market conditions, making it more difficult for us to secure continued financing. If we are not able to renew our then existing borrowings or arrange for new financing on terms acceptable to us, or if we default on our covenants or are otherwise unable to access funds under any of these borrowings, we may have to curtail our origination of new assets and/or dispose of assets. We face particular risk in this regard given that we expect many of our borrowings will have a shorter duration than the assets they finance. Increasing interest rates may reduce the demand for our investments while declining interest rates may increase the demand. Both our current and future credit facilities and other borrowings may be of limited duration and are periodically refinanced at then current market rates. We attempt to reduce interest rate risks and to minimize exposure to interest rate fluctuations through the use of match funded or fixed rate financing structures, when appropriate, whereby we seek (1) to match the maturities of our debt obligations with the maturities of our assets, (2) to borrow at fixed rates for a period of time, like in our asset backed securitizations, or (3) to match the interest rates on our assets with like-kind debt (i.e., we may finance floating rate assets with floating rate debt and fixed-rate assets with fixed-rate debt), directly or through the use of interest rate swap agreements, interest rate cap agreements or other financial instruments, or through a combination of these strategies. We expect these instruments will allow us to minimize, but not eliminate, the risk that we have to refinance our liabilities before the maturities of our assets and to reduce the impact of changing interest rates on our earnings. In addition to the use of traditional derivative instruments, we also seek to mitigate interest rate risk by using securitizations, syndications and other techniques to construct a portfolio with a staggered maturity profile. We monitor the impact of interest rate changes on the market for new originations and often have the flexibility to increase the term of the project to offset interest rate increases.

Typically, our nonrecourse debt is at fixed rates or we have used interest rate hedges that convert the majority of the floating rate debt to fixed rate. If interest rates rise, and our fixed rate debt balance remains constant, we expect the fair value of our fixed rate debt to decrease and the value of our hedges on floating rate debt to increase. See Note 3 to our financial statements in this Form 10-Q for the estimated fair value of our fixed rate nonrecourse debt, which is based on having the same debt service requirements that could have been borrowed at the date presented, at prevailing current market interest rates. We carry our interest rate hedges at fair value in our balance sheet as described in Note 8 to our financial statements in this Form 10-Q.

Our credit facilities are variable rate loans with approximately \$392 million outstanding as of June 30, 2017 and we have \$207 million of variable rate exposure under our nonrecourse debt. Significant increases in interest rates would result in higher interest expense while decreases in interest rates would result in lower interest expense. As described above, we may use various financing techniques including interest rate swap agreements, interest rate cap agreements or other financial instruments, or a combination of these strategies to mitigate the variable interest nature of this facility. A 50 basis point increase in LIBOR would increase the quarterly interest expense related to the \$599 million in variable rate borrowings by \$0.7 million. Such hypothetical impact of interest rates on our variable rate borrowings does not consider the effect of any change in overall economic activity that could occur in a rising interest rate environment. Further, in the event of such a change in interest rates, we may take actions to further mitigate our exposure to such a change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the analysis assumes no changes in our financial structure.

We record certain of our assets at fair value in our financial statements and any changes in the discount rate would impact the value of these assets. See Note 3 to our financial statements in this Form 10-Q.

Liquidity and Concentration Risk

The assets that comprise our asset portfolio are not and will not be publicly traded. A portion of these assets may be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly-traded securities. The illiquidity of our assets may make it difficult for us to sell such assets if the need or desire arises, including in response to changes in economic and other conditions. Each of our projects typically have one obligor and thus we are subject to concentration risk and could incur significant losses if any of these projects perform poorly or if we are required to write down the value of any of these projects. See also “—Credit Risks” above.

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Commodity Price Risk

When we make debt or equity investments for a project that acts as a substitute for an underlying commodity, we may be exposed to volatility in prices for that commodity. For example, the performance of renewable energy projects that produce electricity can be impacted by volatility in the market prices of various forms of energy, including electricity, coal and natural gas. This is especially true for utility scale projects that sell power on a wholesale basis such as many of our wind projects as opposed to distributed renewable projects or energy efficiency projects which compete against the retail or delivered costs of electricity which includes the cost of transmitting and distributing the electricity to the end user.

Although we generally focus on renewable energy projects that have the majority of their operating cash flow supported by long term PPAs, to the extent that the projects have shorter term contracts (which may have the potential of producing higher current returns) or sell their power in the open market on a merchant basis, the cash flows of such projects, and thus the repayment of, or the returns available for, our assets, may be subject to risk if energy prices change. We also mitigate our exposure through structural protections. These structural protections, which are typically in the form of a preferred return mechanism, are designed to allow recovery of our capital and an acceptable return over time. When structuring and underwriting these transactions, we evaluate these transactions using a variety of scenarios, including natural gas prices remaining low for an extended period of time. In the case of utility scale solar projects, we focus on owning the land under the project where our rent is paid out of project operational costs before the debt or equity in the project receives any payments.

We believe the current low prices in natural gas will increase demand for some types of our projects, such as combined heat and power, but may reduce the demand for other projects such as renewable energy that may be a substitute for natural gas. We seek to structure our energy efficiency financings so that we typically avoid exposure to commodity price risk. However, volatility in energy prices may cause building owners and other parties to be reluctant to commit to projects for which repayment is based upon a fixed monetary value for energy savings that would not decline if the price of energy declines.

Risk Management

Our ongoing active asset management and portfolio monitoring processes provide investment oversight and valuable insight into our origination, underwriting and structuring processes. These processes create value through active monitoring of the state of our markets, enforcement of existing contracts and receivables management. Subject to maintaining our qualification as a REIT, and as described above, we engage in a variety of interest rate management techniques that seek to mitigate the economic effect of interest rate changes on the values of, and returns on, some of our assets. While there has only been one credit loss, amounting to approximately \$11 million (net of recoveries) on the approximately \$4 billion of transactions we originated since 2012, which represents an aggregate loss of less than approximately 0.3% on cumulative transactions originated over this time period, there can be no assurance that we will continue to be as successful, particularly as we invest in more credit sensitive assets or more equity positions and engage in increasing numbers of transactions with obligors other than U.S. federal government agencies. We seek to manage credit risk using thorough due diligence and underwriting processes, strong structural protections in our loan agreements with customers and continual, active asset management and portfolio monitoring.

Item 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, have concluded that as of June 30, 2017, the Company's disclosure controls and procedures were effective to give reasonable assurances to the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Exchange Act and the rules and regulations promulgated thereunder.

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Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's "internal control over financial reporting" (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the three month period ended June 30, 2017, that have materially affected, or was reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The nature of our operations exposes us to the risk of claims and litigation in the normal course of our business. Other than non-material litigation arising out of the ordinary course of business, we are not currently subject to any legal proceedings that are probable of having a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, see the information in Item 1A. “Risk Factors” of our 2016 Form 10-K, filed with the SEC, which is accessible on the SEC’s website at www.sec.gov.

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

Purchases of Equity Securities

During the six months ended June 30, 2017, certain of our employees surrendered common stock owned by them to satisfy their federal and state tax obligations associated with the vesting of their restricted stock awards. No OP units were exchanged for shares of common stock during the six months ended June 30, 2017.

The table below summarizes all of our repurchases of common stock during 2017. These repurchases are related to the surrender of common stock by certain of our employees to satisfy their tax and other compensation related withholdings associated with the vesting of restricted stock. The price paid per share is based on the closing price of our common stock as of the date of the withholding.

Period	Total number of shares purchased	Average price per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
January 2017	2,332	\$ 18.28	N/A	N/A
February 2017	351	\$ 19.92	N/A	N/A
March 2017	22,701	\$ 19.82	N/A	N/A
April 2017	52,185	\$ 21.35	N/A	N/A

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

<u>Exhibit number</u>	<u>Exhibit description</u>
3.1	Articles of Amendment and Restatement of Hannon Armstrong Sustainable Infrastructure Capital, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-Q for the quarter ended June 30, 2013 (No. 001-35877), filed on August 9, 2013)
3.2	Bylaws of Hannon Armstrong Sustainable Infrastructure Capital, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Form 10-Q for the quarter ended June 30, 2013 (No. 001-35877), filed on August 9, 2013)
3.3	Amended and Restated Agreement of Limited Partnership of Hannon Armstrong Sustainable Infrastructure, L.P. (incorporated by reference to Exhibit 3.3 to the Registrant's Form 10-Q for the quarter ended June 30, 2013 (No. 001-35877), filed on August 9, 2013)
4.1	Specimen Common Stock Certificate of Hannon Armstrong Sustainable Infrastructure Capital, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Form S-11 (No. 333-186711), filed on April 12, 2013)
10.1*	Amendment No. 6 to Amended & Restated Loan Agreement PF dated June 8, 2017
10.2*	Reaffirmation of Guaranty (PF) dated June 8, 2017
10.3*	Amendment No. 6 to Amended & Restated Loan Agreement G&I dated June 8, 2017
10.4*	Reaffirmation of Guaranty (G&I) dated June 8, 2017
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer pursuant to section 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes—Oxley Act of 2002
32.2**	Certification of Chief Financial Officer pursuant to section 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes—Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101. PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

** Furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE
CAPITAL, INC.**
(Registrant)

Date: August 3, 2017

/s/ Jeffrey W. Eckel

Jeffrey W. Eckel
Chairman, Chief Executive Officer and President

Date: August 3, 2017

/s/ Charles W. Melko

Charles W. Melko
Chief Accounting Officer and Senior Vice President

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Section 2: EX-10.1 (EX-10.1)

Exhibit 10.1

EXECUTION VERSION

AMENDMENT NO. 6 TO AMENDED & RESTATED LOAN AGREEMENT PF

THIS AMENDMENT NO. 6 TO AMENDED & RESTATED LOAN AGREEMENT (PF) (this “Sixth Amendment”), dated as of June 8, 2017, is by and among (i) **HASI CF I Borrower LLC**, a Delaware limited liability company (“Borrower HASI”), **HAT CF I Borrower LLC**, a Delaware limited liability company (“Borrower HAT I”) and **HAT CF II Borrower LLC**, a Delaware limited liability company (“Borrower HAT II”, and together with Borrower HASI and Borrower HAT I, the “Borrowers”), (ii) **Bank of America, N.A.**, in its capacity as lender under the A&R Loan Agreement (as defined below) (in such capacity, the “Lender”), (iii) **Bank of America, N.A.**, in its capacity as administrative agent under the A&R Loan Agreement (in such capacity, the “Administrative Agent”), and (iv) for purposes of Section 3 only, **Bank of America, N.A.**, in its capacity as administrative agent under the Other Loan Agreement (in such capacity, the “Other Administrative Agent”).

WHEREAS, the Borrowers, the Lender, and the Administrative Agent are parties to an Amended & Restated Loan Agreement (PF) dated as of August 12, 2014 (as amended, amended and restated, or otherwise modified from time to time, the “A&R Loan Agreement”);

WHEREAS, (a) the Borrowers, the Lender, and the Administrative Agent have agreed to amend certain provisions of the A&R Loan Agreement as more specifically set forth herein and (b) the Other Administrative Agent has agreed to consent to such amendments as more specifically set forth herein.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Definitions.

Capitalized terms used in this Sixth Amendment but not defined herein shall have the meanings ascribed thereto in the A&R Loan Agreement.

SECTION 2. Required Lender.

The Lender holds 100% of the Outstanding Amount and the aggregate unused Commitments under the A&R Loan Agreement and thus constitutes the Required Lender for purposes of the A&R Loan Agreement and this Sixth Amendment.

SECTION 3. A&R Loan Agreement Amendment.

In accordance with *Section 15.1.1* of the A&R Loan Agreement and, with respect to the Administrative Agent and the Other Administrative Agent, *Section 2.4(c)(i)* of the A&R Intercreditor Agreement, and in each case subject to the terms set forth herein, as of the date hereof, the Required Lender, the Administrative Agent, the Other Administrative Agent and each Borrower hereby agree to amend the A&R Loan Agreement as follows:

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- i. Section 2.6 of the A&R Loan Agreement is amended by deletion of clause (b) in its entirety and replacement with the following:

“(b) the date on which the aggregate principal amount of all Advances made under the Loan Facility since July 19, 2013 (without regard to any prepayment or repayments hereunder), is equal to or greater than \$1,000,000,000 (the “Maximum Advance Limitation”), and”.

SECTION 4. Sixth Amendment as Loan Document; Representations.

- i. For the avoidance of doubt, the parties hereto agree that this Sixth Amendment shall be deemed to be a Loan Document under the A&R Loan Agreement.
- ii. The parties hereto agree that the total aggregate amount of all Advances made under the Loan Facility (without regard to any prepayment or repayments thereunder) as of the date of this Sixth Amendment is \$872,779,621.29.
- iii. Each Borrower represents and warrants, as to itself and each Related Borrower Party, to each Agent and the Lender, as of the date hereof, that the following statements are true and correct:
- a. The execution, delivery and performance by such Borrower of this Sixth Amendment, and the consummation of the transactions contemplated hereby do not and will not (i) violate in any material respect (A) any provision of any Applicable Law with respect to such Related Borrower Party, (B) any of the Organizational Documents of any Related Borrower Party, or (C) any order, judgment or decree of any court or other agency of government binding on any Related Borrower Party; (ii) conflict with, result in a breach of or constitute (immediately or upon the giving of notice) a default in any material respect under any Contractual Obligation of any Related Borrower Party; (iii) result in or require the creation or imposition of any material Lien upon any of the properties or assets of any Related Borrower Party (other than any Liens permitted by or created under any of the Loan Documents in favor of Collateral Agent, on behalf of the Secured Parties); or (iv) require any approval of stockholders, members or partners or any approval or consent of any Person under any Contractual Obligation of any Related Borrower Party;
- b. Such Borrower is duly authorized to execute, deliver and perform its obligations under this Sixth Amendment. The execution, delivery and performance of this Sixth Amendment has been duly authorized by all necessary corporate, limited liability company or partnerships, as applicable, action on the part of such Borrower; and
- c. This Sixth Amendment is a legal, valid and binding obligation of such Borrower, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

*Project Moon (PF)
Amendment No. 6 to A&R Loan Agreement*

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- iv. For purposes of determining withholding Taxes imposed under the Foreign Account Tax Compliance Act (FATCA), from and after the effective date of this Sixth Amendment, each Borrower and each Agent shall treat (and the Lender hereby authorizes the Agents to treat) the A&R Loan Agreement as not qualifying as a “grandfathered obligation” within the meaning of Treasury Regulation Section 1.1471-2(b)(2)(i).

SECTION 5. Effect of Sixth Amendment.

The amendment set forth herein is limited as written, is effective only in the specific instance and for the specific purpose for which given, and shall not be deemed to be a waiver of or consent to, or modification of in any respect, any other term or condition in the A&R Loan Agreement or any of the documents referred to herein or therein. The terms and provisions set forth in each Loan Document are hereby ratified and confirmed by each Borrower in all respects. Each Borrower acknowledges and agrees that the execution, delivery and performance of this Sixth Amendment by the Administrative Agent and of the Lender does not and shall not create (nor shall Borrowers or any Related Borrower Subsidiary rely upon the existence of or claim or assert that there exists) any obligation of the Lender and the Administrative Agent to consider or agree to any amendment of or waiver or consent with respect to any of the Loan Documents, or any other instrument or agreement to which the Administrative Agent or the Lender is a party (collectively an “Amendment or Consent”), and in the event that the Administrative Agent or the Lender subsequently agrees to consider any requested Amendment or Consent, neither the existence of this Sixth Amendment, nor any other conduct of the Administrative Agent or the Lender related hereto, shall be of any force or effect on the Administrative Agent’s or the Lender’s consideration or decision with respect to any such requested Amendment or Consent, and the Administrative Agent and the Lender shall not have any obligation whatsoever to consider or agree to any such Amendment or Consent.

SECTION 6. Governing Law.

This Sixth Amendment shall be governed by the laws of the State of New York.

SECTION 7. Severability.

Wherever possible, each provision of this Sixth Amendment shall be interpreted in such manner as to be valid under Applicable Law. If any provision is found to be invalid under Applicable Law, it shall be ineffective only to the extent of such invalidity and the remaining provisions of this Sixth Amendment shall remain in full force and effect.

SECTION 8. Counterparts; Electronic Signatures.

This Sixth Amendment may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of a signature page of this Sixth Amendment by telecopy or other electronic means shall be effective as delivery of a manually executed counterpart thereof.

*Project Moon (PF)
Amendment No. 6 to A&R Loan Agreement*

SECTION 9. Amendment Fee.

In accordance with *Sections 3.2.4* and *15.1.4* of the A&R Loan Agreement, as a condition precedent to the execution and delivery by the Administrative Agent and Lenders of this Sixth Amendment, the Borrowers shall pay or cause to be paid to the Administrative Agent, the amendment fee set forth in Section 9 of that certain Amendment No. 6 to Amended and Restated Loan Agreement (G&I), dated as of the date hereof by and among the parties hereto.

[Signatures Appear on Next Pages]

Project Moon (PF)
Amendment No. 6 to A&R Loan Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Sixth Amendment to be executed and delivered by their respective officers or representatives hereunto duly authorized as of the date first written above.

Borrowers

HASI CF I BORROWER LLC, as a Borrower

By: /s/ Nathaniel J. Rose

Name: Nathaniel J. Rose

Title: Authorized Signatory

HAT CF I BORROWER LLC, as a Borrower

By: /s/ Nathaniel J. Rose

Name: Nathaniel J. Rose

Title: Authorized Signatory

HAT CF II BORROWER LLC, as a Borrower

By: /s/ Nathaniel J. Rose

Name: Nathaniel J. Rose

Title: Authorized Signatory

Project Moon (PF)
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Lender

BANK OF AMERICA, N.A., as Lender

By: /s/ Claudia Welch

Name: Claudia Welch

Title: Director

*Project Moon (PF)
Amendment No. 6 to A&R Loan Agreement*

ACKNOWLEDGED AND AGREED:

BANK OF AMERICA, N.A., as Administrative Agent

By: /s/ Maria McClain

Name: Maria McClain

Title: Vice President, Agency Management

For purposes of Section 3 only:

BANK OF AMERICA, N.A., as Other Administrative Agent

By: /s/ Maria McClain

Name: Maria McClain

Title: Vice President, Agency Management

*Project Moon (PF)
Amendment No. 6 to A&R Loan Agreement*

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Section 3: EX-10.2 (EX-10.2)

Exhibit 10.2

EXECUTION VERSION

REAFFIRMATION OF GUARANTY

THIS REAFFIRMATION OF GUARANTY (this "Agreement"), made as of June 8, 2017, by (i) **Hannon Armstrong Sustainable Infrastructure Capital, Inc.** ("HA INC"), a Maryland corporation, (ii) **Hannon Armstrong Sustainable Infrastructure, LP** ("HA LP"), a Delaware limited partnership, (iii) **Hannon Armstrong Capital, LLC** ("HA LLC"), a Maryland limited liability company, (iv) **HAT Holdings I, LLC** ("HAT Holdings I"), a Maryland limited liability company, (v) **HAT Holdings II, LLC** ("HAT Holdings II"), a Maryland limited liability company (each of HA INC, HA LP, HA LLC, HAT Holdings I and HAT Holdings II, a "Guarantor" and together, the "Guarantors"), for the benefit of the Secured Parties, and (vi) **Bank of America, N.A.**, in its capacity as administrative agent under the A&R Loan Agreement (as defined below) (in such capacity, the "Administrative Agent").

WHEREAS, the Borrowers, the Lender, and the Administrative Agent are parties to an Amended & Restated Loan Agreement (PF) dated as of August 12, 2014 (as amended, amended and restated, or otherwise modified from time to time, the "A&R Loan Agreement");

WHEREAS, HA INC, HA LP and HA LLC are party to that certain Amended & Restated Continuing Guaranty (the "Continuing Guaranty"), dated as of August 12, 2014, in favor of the Secured Parties;

WHEREAS, HAT Holdings I is party to that certain Amended & Restated HAT Holdings I Limited Guaranty (the "HAT I Limited Guaranty"), dated as of August 12, 2014, in favor of the Secured Parties;

WHEREAS, HAT Holdings II is party to that certain HAT Holdings II Limited Guaranty (the "HAT II Limited Guaranty"), and together with the Continuing Guaranty and the HAT I Limited Guaranty, each a "Guaranty" and together the "Guaranties"), dated as of August 12, 2014, in favor of the Secured Parties; and

WHEREAS, the Borrowers, the Lender and the Administrative Agent have agreed to amend certain provisions of the A&R Loan Agreement as more specifically set forth in that certain Amendment No. 6 to Amended & Restated Loan Agreement (PF), dated as of the date hereof, including a change of the Maximum Advance Limitation.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Definitions.

Capitalized terms used in this Agreement but not defined herein shall have the meanings ascribed thereto in the applicable Guaranty.

*Project Moon (PF)
Reaffirmation of Guaranty*

SECTION 2. [RESERVED]

SECTION 3. Reaffirmation.

Each Guarantor, with respect to itself and the applicable Guaranty, hereby: (a) consents to and approves of all of the terms and provisions of the Guaranty and the Loan Amendment, (b) confirms that the Guaranty is in full force and effect, (c) ratifies, confirms and reaffirms all of its obligations, undertakings, agreements, guaranties, indemnities, covenants, indebtedness and liabilities under the Guaranty and (d) agrees that the Guaranty remains in full force and effect and shall and does continue to constitute the legal, valid and binding obligation of the Guarantor, enforceable against it in accordance with the terms thereof and shall not be discharged or affected by the Loan Amendment.

SECTION 4. Representations and Warranties.

Each Guarantor, with respect to itself and the applicable Guaranty, represents and warrants, as of the date hereof, as follows:

(a) The execution, delivery and performance by such Guarantor of this Agreement and the consummation of the transactions contemplated hereby do not and will not (a) violate in any material respect (i) any provision of any Applicable Law with respect to such Guarantor, (ii) any of the Organizational Documents of such Guarantor or (iii) any order, judgment or decree of any court or other agency of government binding on such Guarantor; (b) conflict with, result in a breach of or constitute (immediately or upon the giving of notice) a default in any material respect under any Contractual Obligation of such Guarantor; (c) result in or require the creation or imposition of any material Lien upon any of the properties or assets of such Guarantor (other than any Liens permitted by or created under any of the Loan Documents in favor of Collateral Agent, on behalf of the Secured Parties); or (d) require any approval of stockholders, members or partners of such Guarantor or any approval or consent of any Person under any Contractual Obligations of such Guarantor except such approvals or consents which have been obtained on or prior to the date hereof and are in full force and effect;

(b) Such Guarantor is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization. Such Guarantor is duly qualified, authorized to do business and in good standing as a foreign corporation in each jurisdiction where failure to be so qualified could reasonably be expected to have a Material Adverse Effect;

(c) Such Guarantor is duly authorized to execute, deliver and perform its obligations under this Agreement. The execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate, limited liability company or partnerships, as applicable, action on the part of such Guarantor; and

(d) This Agreement is a legal, valid and binding obligation of such Guarantor, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

*Project Moon (PF)
Reaffirmation of Guaranty*

SECTION 5. Miscellaneous.

Sections 16, 18, 19, 20, 21, 22, 23, 24 and 25 of the Continuing Guaranty are hereby incorporated by reference, *mutatis mutandis*, as if fully set forth herein.

[Remainder of page intentionally left blank; signatures begin on following page]

*Project Moon (PF)
Reaffirmation of Guaranty*

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered as of the day and year first above written.

Solely with respect to the Continuing Guaranty:

HANNON ARMSTRONG SUSTAINABLE
INFRASTRUCTURE CAPITAL, INC.

By: /s/ Nathaniel J. Rose

Name: Nathaniel J. Rose

Title: Authorized Signatory

Address: 1906 Towne Centre Blvd., Suite 370

Annapolis, MD 21401

Attention: Legal Department

Email: legaldepartment@hannonarmstrong.com

Facsimile: 410-571-6199

HANNON ARMSTRONG SUSTAINABLE
INFRASTRUCTURE, L.P.

By Hannon Armstrong Sustainable Infrastructure
Capital, Inc., its General Partner

By: /s/ Nathaniel J. Rose

Name: Nathaniel J. Rose

Title: Authorized Signatory

Address: 1906 Towne Centre Blvd., Suite 370

Annapolis, MD 21401

Attention: Legal Department

Email: legaldepartment@hannonarmstrong.com

Facsimile: 410-571-6199

HANNON ARMSTRONG CAPITAL, LLC

By: /s/ Nathaniel J. Rose

Name: Nathaniel J. Rose

Title: Authorized Signatory

Address: 1906 Towne Centre Blvd., Suite 370

Annapolis, MD 21401

Attention: Legal Department

Email: legaldepartment@hannonarmstrong.com

Facsimile: 410-571-6199

[Signature Page to Reaffirmation of Guaranty (PF)]

Solely with respect to the HAT I Limited Guaranty:

HAT HOLDINGS I LLC

By: /s/ Nathaniel J. Rose

Name: Nathaniel J. Rose

Title: Authorized Signatory

Address: 1906 Towne Centre Blvd., Suite 370

Annapolis, MD 21401

Attention: Legal Department

Email: legaldepartment@hannonarmstrong.com

Facsimile: 410-571-6199

[Signature Page to Reaffirmation of Guaranty (PF)]

Solely with respect to the HAT II Limited Guaranty:

HAT HOLDINGS II LLC

By: /s/ Nathaniel J. Rose

Name: Nathaniel J. Rose

Title: Authorized Signatory

Address: 1906 Towne Centre Blvd., Suite 370

Annapolis, MD 21401

Attention: Legal Department

Email: legaldepartment@hannonarmstrong.com

Facsimile: 410-571-6199

[Signature Page to Reaffirmation of Guaranty (PF)]

ACKNOWLEDGED AND AGREED:

BANK OF AMERICA, N.A., as Administrative Agent

By: /s/ Maria McClain
Name: Maria McClain
Title: Vice President, Agency Management

[Signature Page to Reaffirmation of Guaranty (PF)]

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Section 4: EX-10.3 (EX-10.3)

Exhibit 10.3

EXECUTION VERSION

AMENDMENT NO. 6 TO AMENDED & RESTATED LOAN AGREEMENT G&I

THIS AMENDMENT NO. 6 TO AMENDED & RESTATED LOAN AGREEMENT (G&I) (this “Sixth Amendment”), dated as of June 8, 2017, is by and among (i) **HASI CF I Borrower LLC**, a Delaware limited liability company (“Borrower HASI I”), **HAT CF I Borrower LLC**, a Delaware limited liability company (“Borrower HAT I”) and **HAT CF II Borrower LLC**, a Delaware limited liability company (“Borrower HAT II”), and together with Borrower HASI and Borrower HAT I, the “Borrowers”), (ii) **Bank of America, N.A.**, in its capacity as lender under the A&R Loan Agreement (as defined below) (in such capacity, the “Lender”), (iii) **Bank of America, N.A.**, in its capacity as administrative agent under the A&R Loan Agreement (in such capacity, the “Administrative Agent”) and (iv) for purposes of Sections 3 and 4 only, **Bank of America, N.A.**, in its capacity as administrative agent under the Other Loan Agreement (in such capacity, the “Other Administrative Agent”).

WHEREAS, the Borrowers, the Lender, and the Administrative Agent are parties to an Amended & Restated Loan Agreement (G&I) dated as of August 12, 2014 (as amended, amended and restated, or otherwise modified from time to time, the “A&R Loan Agreement”);

WHEREAS, the Administrative Agent and the Other Administrative Agent, together with the Grantors, the PF Collateral Agent and the G&I Collateral Agent (as such parties are defined in the A&R Intercreditor Agreement), are parties to an Intercreditor Agreement dated as of August 12, 2014 (as amended, amended and restated, or otherwise modified from time to time, the “A&R Intercreditor Agreement”);

WHEREAS, (a) the Borrowers, the Lender, and the Administrative Agent have agreed to amend certain provisions of the A&R Loan Agreement as more specifically set forth herein and (b) the Other Administrative Agent has agreed to consent to such amendments as more specifically set forth herein.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Definitions.

Capitalized terms used in this Sixth Amendment but not defined herein shall have the meanings ascribed thereto in the A&R Loan Agreement.

SECTION 2. Required Lender.

The Lender holds 100% of the Outstanding Amount and the aggregate unused Commitments under the A&R Loan Agreement and thus constitutes the Required Lender for purposes of the A&R Loan Agreement and this Sixth Amendment.

*Project Moon (G&I)
Amendment No. 6 to A&R Loan Agreement*

SECTION 3. A&R Loan Agreement Amendment.

In accordance with *Section 15.1.1* of the A&R Loan Agreement and, with respect to the Administrative Agent and the Other Administrative Agent, *Section 3.4(c)(i)* of the A&R Intercreditor Agreement, and in each case subject to the terms set forth herein, as of the date hereof, the Required Lender, the Administrative Agent, the Other Administrative Agent and each Borrower hereby agree to amend the A&R Loan Agreement as follows:

- i. *Section 2.6* of the A&R Loan Agreement is amended by deletion of clause (b) in its entirety and replacement with the following:
“(b) the date on which the aggregate principal amount of all Advances made under the Loan Facility since July 19, 2013 (without regard to any prepayment or repayments hereunder), is equal to or greater than \$500,000,000 (the “Maximum Advance Limitation”), and”.
- ii.

SECTION 4. Sixth Amendment as Loan Document; Representations.

- i. For the avoidance of doubt, the parties hereto agree that this Sixth Amendment shall be deemed to be a Loan Document under the A&R Loan Agreement.
- ii. The parties hereto agree that the total aggregate amount of all Advances made under the Loan Facility (without regard to any prepayment or repayments thereunder) as of the date of this Sixth Amendment is \$349,100,000.000.
- iii. Each Borrower represents and warrants, as to itself and each Related Borrower Party, to each Agent and the Lender, as of the date hereof, that the following statements are true and correct:
 - a. The execution, delivery and performance by such Borrower of this Sixth Amendment, and the consummation of the transactions contemplated hereby do not and will not (i) violate in any material respect (A) any provision of any Applicable Law with respect to such Related Borrower Party, (B) any of the Organizational Documents of any Related Borrower Party, or (C) any order, judgment or decree of any court or other agency of government binding on any Related Borrower Party; (ii) conflict with, result in a breach of or constitute (immediately or upon the giving of notice) a default in any material respect under any Contractual Obligation of any Related Borrower Party; (iii) result in or require the creation or imposition of any material Lien upon any of the properties or assets of any Related Borrower Party (other than any Liens permitted by or created under any of the Loan Documents in favor of Collateral Agent, on behalf of the Secured Parties); or (iv) require any approval of stockholders, members or partners or any approval or consent of any Person under any Contractual Obligation of any Related Borrower Party;
 - b. Such Borrower is duly authorized to execute, deliver and perform its obligations under this Sixth Amendment. The execution, delivery and performance of this Sixth Amendment has been duly authorized by all necessary corporate, limited liability company or partnerships, as applicable, action on the part of such Borrower; and

Project Moon (G&I)
Amendment No. 6 to A&R Loan Agreement

-
- c. This Sixth Amendment is a legal, valid and binding obligation of such Borrower, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.
 - iv. For purposes of determining withholding Taxes imposed under the Foreign Account Tax Compliance Act (FATCA), from and after the effective date of this Sixth Amendment, each Borrower and each Agent shall treat (and the Lender hereby authorizes the Agents to treat) the A&R Loan Agreement as not qualifying as a "grandfathered obligation" within the meaning of Treasury Regulation Section 1.1471-2(b)(2)(i).

SECTION 5. Effect of Sixth Amendment.

The amendment set forth herein is limited as written, is effective only in the specific instance and for the specific purpose for which given, and shall not be deemed to be a waiver of or consent to, or modification of in any respect, any other term or condition in the A&R Loan Agreement or any of the documents referred to herein or therein. The terms and provisions set forth in each Loan Document are hereby ratified and confirmed by each Borrower in all respects. Each Borrower acknowledges and agrees that the execution, delivery and performance of this Sixth Amendment by the Administrative Agent and of the Lender does not and shall not create (nor shall Borrowers or any Related Borrower Subsidiary rely upon the existence of or claim or assert that there exists) any obligation of the Lender and the Administrative Agent to consider or agree to any amendment of or waiver or consent with respect to any of the Loan Documents, or any other instrument or agreement to which the Administrative Agent or the Lender is a party (collectively an "Amendment or Consent"), and in the event that the Administrative Agent or the Lender subsequently agrees to consider any requested Amendment or Consent, neither the existence of this Sixth Amendment, nor any other conduct of the Administrative Agent or the Lender related hereto, shall be of any force or effect on the Administrative Agent's or the Lender's consideration or decision with respect to any such requested Amendment or Consent, and the Administrative Agent and the Lender shall not have any obligation whatsoever to consider or agree to any such Amendment or Consent.

SECTION 6. Governing Law.

This Sixth Amendment shall be governed by the laws of the State of New York.

SECTION 7. Severability.

Wherever possible, each provision of this Sixth Amendment shall be interpreted in such manner as to be valid under Applicable Law. If any provision is found to be invalid under Applicable Law, it shall be ineffective only to the extent of such invalidity and the remaining provisions of this Sixth Amendment shall remain in full force and effect.

*Project Moon (G&I)
Amendment No. 6 to A&R Loan Agreement*

SECTION 8. Counterparts; Electronic Signatures.

This Sixth Amendment may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of a signature page of this Sixth Amendment by telecopy or other electronic means shall be effective as delivery of a manually executed counterpart thereof.

SECTION 9. Amendment Fee.

In accordance with *Sections 3.2.4* and *15.1.4* of the A&R Loan Agreement, as a condition precedent to the execution and delivery by the Administrative Agent and Lenders of this Sixth Amendment, the Borrowers shall pay or cause to be paid to the Administrative Agent, a fee in the amount of \$25,000.

[Signatures Appear on Next Pages]

Project Moon (G&I)
Amendment No. 6 to A&R Loan Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Sixth Amendment to be executed and delivered by their respective officers or representatives hereunto duly authorized as of the date first written above.

Borrowers

HASI CF I BORROWER LLC, as a Borrower

By: /s/ Nathaniel J. Rose
Name: Nathaniel J. Rose
Title: Authorized Signatory

HAT CF I BORROWER LLC, as a Borrower

By: /s/ Nathaniel J. Rose
Name: Nathaniel J. Rose
Title: Authorized Signatory

HAT CF II BORROWER LLC, as a Borrower

By: /s/ Nathaniel J. Rose
Name: Nathaniel J. Rose
Title: Authorized Signatory

*Project Moon (G&I)
Amendment No. 6 to A&R Loan Agreement*

Lender

BANK OF AMERICA, N.A., as Lender

By: /s/ Claudia Welch
Name: Claudia Welch
Title: Director

*Project Moon (G&I)
Amendment No. 6 to A&R Loan Agreement*

ACKNOWLEDGED AND AGREED:

BANK OF AMERICA, N.A., as
Administrative Agent

By: /s/ Maria McClain
Name: Maria McClain
Title: Vice President, Agency Management

For purposes of Sections 3 and 4 only:

BANK OF AMERICA, N.A., as Other Administrative
Agent

By: /s/ Maria McClain
Name: Maria McClain
Title: Vice President, Agency Management

*Project Moon (G&I)
Amendment No. 6 to A&R Loan Agreement*

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Section 5: EX-10.4 (EX-10.4)

Exhibit 10.4

EXECUTION VERSION

REAFFIRMATION OF GUARANTY

THIS REAFFIRMATION OF GUARANTY (this "Agreement"), made as of June 8, 2017, by (i) **Hannon Armstrong Sustainable Infrastructure Capital, Inc.** ("HA INC"), a Maryland corporation, (ii) **Hannon Armstrong Sustainable Infrastructure, LP** ("HA LP"), a Delaware limited partnership, (iii) **Hannon Armstrong Capital, LLC** ("HA LLC"), a Maryland limited liability company, (iv) **HAT Holdings I, LLC** ("HAT Holdings I"), a Maryland limited liability company, (v) **HAT Holdings II, LLC** ("HAT Holdings II"), a Maryland limited liability company (each of HA INC, HA LP, HA LLC, HAT Holdings I and HAT Holdings II, a "Guarantor" and together, the "Guarantors"), for the benefit of the Secured Parties, and (vi) **Bank of America, N.A.**, in its capacity as administrative agent under the A&R Loan Agreement (as defined below) (in such capacity, the "Administrative Agent").

WHEREAS, the Borrowers, the Lender, and the Administrative Agent are parties to an Amended & Restated Loan Agreement (G&I) dated as of August 12, 2014 (as amended, amended and restated, or otherwise modified from time to time, the "A&R Loan Agreement");

WHEREAS, HA INC, HA LP and HA LLC are party to that certain Amended & Restated Continuing Guaranty (the "Continuing Guaranty"), dated as of August 12, 2014, in favor of the Secured Parties;

WHEREAS, HAT Holdings I is party to that certain Amended & Restated HAT Holdings I Limited Guaranty (the "HAT I Limited Guaranty"), dated as of August 12, 2014, in favor of the Secured Parties;

WHEREAS, HAT Holdings II is party to that certain HAT Holdings II Limited Guaranty (the "HAT II Limited Guaranty"), and together with the Continuing Guaranty and the HAT I Limited Guaranty, each a "Guaranty" and together the "Guaranties"), dated as of August 12, 2014, in favor of the Secured Parties; and

WHEREAS, the Borrowers, the Lender and the Administrative Agent have agreed to amend certain provisions of the A&R Loan Agreement as more specifically set forth in that certain Amendment No. 6 to Amended & Restated Loan Agreement (G&I), dated as of the date hereof, including a change of the Maximum Advance Limitation.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto hereby agree as follows:

SECTION 1. Definitions.

Capitalized terms used in this Agreement but not defined herein shall have the meanings ascribed thereto in the applicable Guaranty.

SECTION 2. [RESERVED]

SECTION 3. Reaffirmation.

Each Guarantor, with respect to itself and the applicable Guaranty, hereby: (a) consents to and approves of all of the terms and provisions of the Guaranty and the Loan Amendment, (b) confirms that the Guaranty is in full force and effect, (c) ratifies, confirms and reaffirms all of its obligations, undertakings, agreements, guaranties, indemnities, covenants, indebtedness and liabilities under the Guaranty and (d) agrees that the Guaranty remains in full force and effect and shall and does continue to constitute the legal, valid and binding obligation of the Guarantor, enforceable against it in accordance with the terms thereof and shall not be discharged or affected by the Loan Amendment.

SECTION 4. Representations and Warranties.

Each Guarantor, with respect to itself and the applicable Guaranty, represents and warrants, as of the date hereof, as follows:

(a) The execution, delivery and performance by such Guarantor of this Agreement and the consummation of the transactions contemplated hereby do not and will not (a) violate in any material respect (i) any provision of any Applicable Law with respect to such Guarantor, (ii) any of the Organizational Documents of such Guarantor or (iii) any order, judgment or decree of any court or other agency of government binding on such Guarantor; (b) conflict with, result in a breach of or constitute (immediately or upon the giving of notice) a default in any material respect under any Contractual Obligation of such Guarantor; (c) result in or require the creation or imposition of any material Lien upon any of the properties or assets of such Guarantor (other than any Liens permitted by or created under any of the Loan Documents in favor of Collateral Agent, on behalf of the Secured Parties); or (d) require any approval of stockholders, members or partners of such Guarantor or any approval or consent of any Person under any Contractual Obligations of such Guarantor except such approvals or consents which have been obtained on or prior to the date hereof and are in full force and effect;

(b) Such Guarantor is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization. Such Guarantor is duly qualified, authorized to do business and in good standing as a foreign corporation in each jurisdiction where failure to be so qualified could reasonably be expected to have a Material Adverse Effect;

(c) Such Guarantor is duly authorized to execute, deliver and perform its obligations under this Agreement. The execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate, limited liability company or partnerships, as applicable, action on the part of such Guarantor; and

(d) This Agreement is a legal, valid and binding obligation of such Guarantor, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

*Project Moon (G&I)
Reaffirmation of Guaranty*

SECTION 5. Miscellaneous.

Sections 16, 18, 19, 20, 21, 22, 23, 24 and 25 of the Continuing Guaranty are hereby incorporated by reference, *mutatis mutandis*, as if fully set forth herein.

[Remainder of page intentionally left blank; signatures begin on following page]

*Project Moon (G&I)
Reaffirmation of Guaranty*

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered as of the day and year first above written.

Solely with respect to the Continuing Guaranty:

HANNON ARMSTRONG SUSTAINABLE
INFRASTRUCTURE CAPITAL, INC.

By: /s/ Nathaniel J. Rose

Name: Nathaniel J. Rose

Title: Authorized Signatory

Address: 1906 Towne Centre Blvd., Suite 370

Annapolis, MD 21401

Attention: Legal Department

Email: legaldepartment@hannonarmstrong.com

Facsimile: 410-571-6199

HANNON ARMSTRONG SUSTAINABLE
INFRASTRUCTURE, L.P.

By Hannon Armstrong Sustainable Infrastructure
Capital, Inc., its General Partner

By: /s/ Nathaniel J. Rose

Name: Nathaniel J. Rose

Title: Authorized Signatory

Address: 1906 Towne Centre Blvd., Suite 370

Annapolis, MD 21401

Attention: Legal Department

Email: legaldepartment@hannonarmstrong.com

Facsimile: 410-571-6199

HANNON ARMSTRONG CAPITAL, LLC

By: /s/ Nathaniel J. Rose

Name: Nathaniel J. Rose

Title: Authorized Signatory

Address: 1906 Towne Centre Blvd., Suite 370

Annapolis, MD 21401

Attention: Legal Department

Email: legaldepartment@hannonarmstrong.com

Facsimile: 410-571-6199

[Signature Page to Reaffirmation of Guaranty (G&I)]

Solely with respect to the HAT I Limited Guaranty:

HAT HOLDINGS I LLC

By: /s/ Nathaniel J. Rose

Name: Nathaniel J. Rose

Title: Authorized Signatory

Address: 1906 Towne Centre Blvd., Suite 370

Annapolis, MD 21401

Attention: Legal Department

Email: legaldepartment@hannonarmstrong.com

Facsimile: 410-571-6199

[Signature Page to Reaffirmation of Guaranty (G&I)]

Solely with respect to the HAT II Limited Guaranty:

HAT HOLDINGS II LLC

By: /s/ Nathaniel J. Rose

Name: Nathaniel J. Rose

Title: Authorized Signatory

Address: 1906 Towne Centre Blvd., Suite 370

Annapolis, MD 21401

Attention: Legal Department

Email: legaldepartment@hannonarmstrong.com

Facsimile: 410-571-6199

[Signature Page to Reaffirmation of Guaranty (G&I)]

ACKNOWLEDGED AND AGREED:

BANK OF AMERICA, N.A., as Administrative Agent

By: /s/ Maria McClain

Name: Maria McClain

Title: Vice President, Agency Management

[Signature Page to Reaffirmation of Guaranty (G&I)]

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Section 6: EX-31.1 (EX-31.1)

EXHIBIT 31.1 CERTIFICATIONS

I, Jeffrey W. Eckel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hannon Armstrong Sustainable Infrastructure Capital, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the Audit Committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 3, 2017

By: /s/ Jeffrey W. Eckel

Name: Jeffrey W. Eckel

Title: Chairman, Chief Executive Officer and President

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Section 7: EX-31.2 (EX-31.2)

EXHIBIT 31.2 CERTIFICATIONS

I, J. Brendan Herron, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hannon Armstrong Sustainable Infrastructure Capital, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the Audit Committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 3, 2017

By: /s/ J. Brendan Herron

Name: J. Brendan Herron

Title: Chief Financial Officer and Executive Vice President

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Section 8: EX-32.1 (EX-32.1)

EXHIBIT 32.1 CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, 10 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of Hannon Armstrong Sustainable Infrastructure Capital, Inc. (the “Company”) for the period ended June 30, 2017, to be filed with the Securities and Exchange Commission on or about the date hereof (the “report”), I, Jeffrey W. Eckel, Chief Executive Officer and President of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

Date: August 3, 2017

By: /s/ Jeffrey W. Eckel

Name: Jeffrey W. Eckel

Title: Chairman, Chief Executive Officer and President

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Section 9: EX-32.2 (EX-32.2)

