Performance Report
Q4 2017

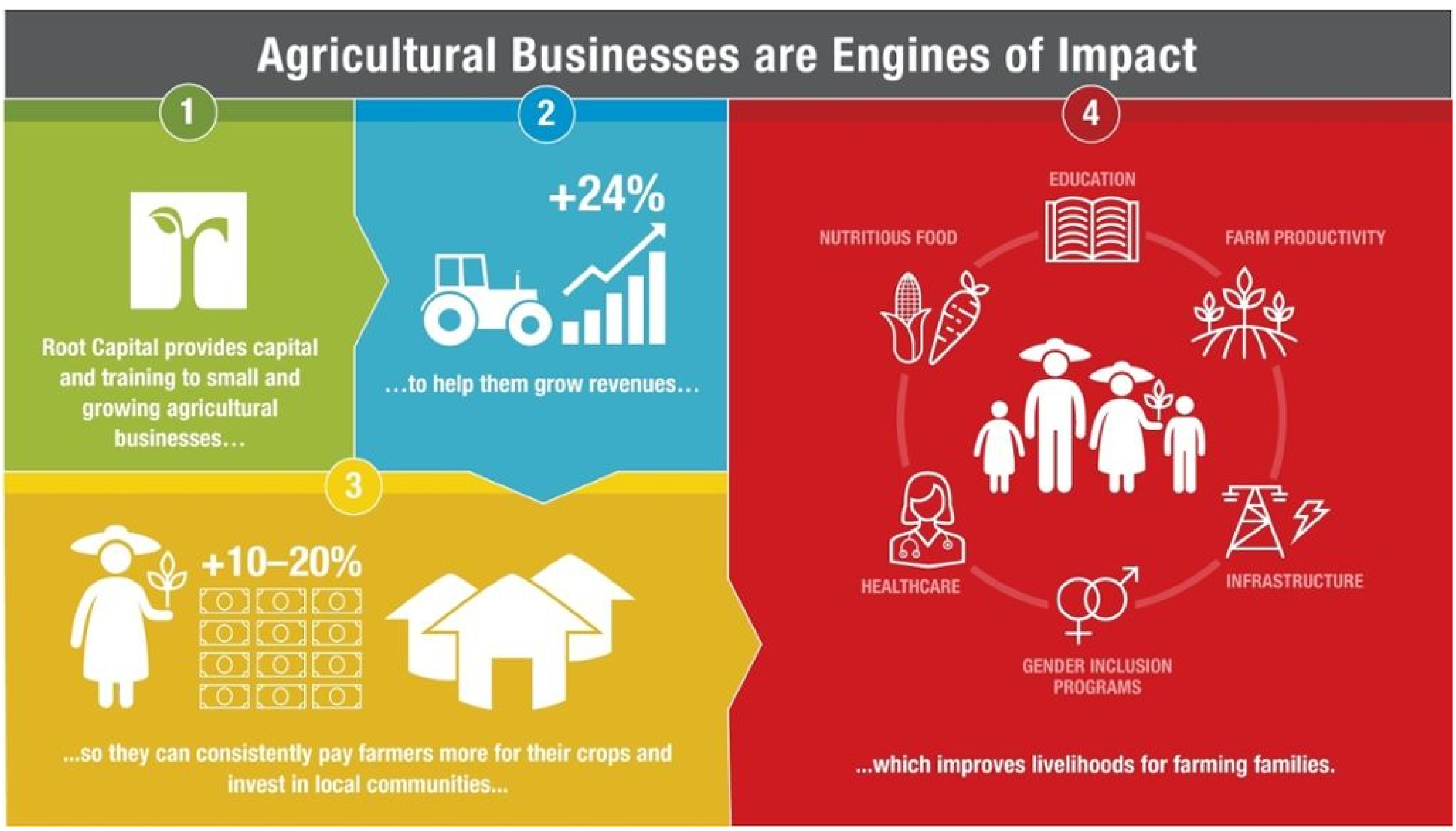
Beekeeper and member of Pangoa, a cooperative in Peru providing stable incomes to 685 coffee, cocoa and honey producers.

root capital

OVERVIEW

We are deeply grateful to our donors, investors, staff and clients for helping us make 2017 a success, both in terms of our impact and our financial performance. We are proud to share the news of positive financial results for 2017, driven by a combination of lower provisioning, controlled operating expenses and strong fundraising.

Root Capital and our clients continue to make a critical difference for vulnerable farmers and ecosystems. In 2017, we reached 244 businesses, who in turn supported 571,000 producers by purchasing $887 million worth of crops. The businesses we support exemplify both grit and generosity: 97 percent of the loans we made went to businesses operating in poverty or environmental vulnerability hotspots and 94 percent of our clients “pay it forward” to their communities and landscapes by providing a multitude of social and environmental services. For example, Sol y Café, a coffee cooperative that we feature at the end of this report, provides a range of high-value services to member producers and their families, ranging from access to doctors to basic financial services to training on climate-smart agricultural practices, all of which link smallholder producers to better livelihoods and improve the environmental health of farming communities. This virtuous cycle is illustrated in the infographic below, which we developed recently as part of our overall brand refresh.



Portfolio Performance and Impact

In 2017, Root Capital disbursed $120 million to small agricultural businesses across our portfolio, a slight increase of 2% over last year. Leading this result was a $17 million increase in disbursements (21 percent year over year) to coffee businesses, with notable growth taking place in Indonesia, Peru, Nicaragua, and Rwanda.

Root Capital's average loan portfolio balance for the quarter was $61.3 million, a 26 percent decrease from $83.2 million this time last year. This reduction is due to a number of factors: a more conservative risk appetite in loan underwriting, write offs of nonperforming loans, a delay in the Central American coffee harvest and continued growth in off-balance sheet lending to support clients with larger credit needs. During the fourth quarter, loans to businesses in the coffee sector represented just over half of our portfolio balance at $32 million. Outside of coffee, we supported businesses in a range of agricultural industries, including cocoa, macadamia nuts and dried fruits and vegetables.

Portfolio Quality

At year end, our Portfolio-at-Risk (PAR) greater than 90 days was $5.9 million (9.7 percent of our loan portfolio), compared to $6.4 million (9.5 percent) at the end of the third quarter adjusted per changes detailed below.

Please note that during Q4, we implemented a change to increase visibility into our active loan portfolio. In line with our provisioning policy, when certain nonperforming loans secured with hard collateral are considered a loss, their balances are written down to a discounted collateral value. The adjusted collateral value is included in "other collateralized assets" on our balance sheet and no longer appears in the PAR nor the the loan portfolio balance. At year end, we held $4.8 million in other collateralized assets.

During the quarter, we wrote off $656,000 of loans and received $960,000 in principal repayments from 10 clients, including a $410,000 payment from a West African cashew processor. The largest addition to PAR greater than 90 days during Q4 was driven by the downgrade of a loan to a legume business in East Africa as newly-enacted protectionist policies led to a price collapse.

Over the course of 2017, we wrote off $7.2 million and recovered $2.0 million, resulting in a 6.5% net write off ratio. This compared to $6.1 million in write offs and $2.1 million in recoveries during 2016. The majority of 2017 loan write offs, $5.5 million, occured in the second quarter. Two-thirds of this year's write offs were related to non-coffee clients.

Advisory Services

Over the course of 2017, our advisory team supported 387 businesses, delivering nearly 1,600 days of training. In the last quarter of the year alone, Root Capital delivered 563 days of training. In recognition of the breadth of capacity gaps which prevent businesses from reaching their full potential, we continued to expand the range of advisory services we offer to businesses. This year, nearly 200 days of advisory training were focused on mobile advisory services. Our advisory support enables businesses to more efficiently collect and analyze farmer data to drive key business decisions and meet certification requirements. Businesses like Sol y Café who have received this support are able to learn more about their farmers and increase productivity and quality.

Our advisory services footprint grew this year as we expanded our offerings into new geographies like the Democratic Republic of Congo where we completed our first-ever training, with attendees from 12 different coffee businesses operating in the Eastern region, and Colombia where we trained 10 coffee businesses working in post-conflict zones. In Indonesia, we completed diagnostics with five coffee cooperatives in Aceh in preparation for the 2018 launch of our advisory training program in Southeast Asia.

Financial Results

Root Capital achieved a $97,000 surplus for the fiscal year thanks to disciplined underwriting, targeted expense management and record fundraising. Our total interest and fee revenue remained in line with expectations as effective management of foreign currency exposures resulted in a year-over-year increase in interest and fees. The net provisioning expense for the year of $3.7 million was below our expected budget of $4.0 million, driven by disciplined underwriting and strong recoveries. Targeted expense management generated $2.4 million in savings relative to 2016.

In 2017, we broke fundraising records thanks to the tremendous generosity of our philanthropic partners, raising $18.3 million for use in 2017 and future years. This year we implemented a $5.8 million, four-year Challenge Grant issued by long-time funders Propel Capital and The Kendeda Fund. Through the Challenge Grant, we made a host of investments in our fundraising capacity in order to expand and diversify our donor base and improve our stewardship. (If you are interested in learning more about this transformative campaign and how you can participate, we'd love to hear from you at giving@rootcapital.org.)

At year-end, Root Capital's $61 million lending portfolio was supported by $10.7 million in unrestricted net assets and $9.2 million in long-term subordinated debt, resulting in a debt to equity ratio of 3.7x. At fiscal year end we also chose to retain a higher than usual balance of cash and short-term investments to fund an anticipated peak in the Central American coffee harvest at the beginning of 2018. We ended the year with $20.7 million in temporarily restricted and conditional (off-balance sheet) net assets.

Conclusion

As we head into 2018, we are focused on continuing the trend of financial stability while remaining steadfast in our commitment to providing the hardest-to-serve businesses the resources they need to grow. We thank all of our donors and investors for your continued partnership and we look forward to your ongoing support as we work together to build an even stronger future for rural communities.

Fourth Quarter Dashboard

Metric	Result	Full Year Target (unless otherwise noted)	Results as % of Target
Social and Environmental Metrics			
Number of Producers Reached	687K	774K	89%
Producers supplying business	571K	634K	90%
Producers buying inputs	116K	140K	83%
Purchases from Producers	$887M	$1.1B	84%
Total Revenue of businesses	$1.1B	$1.3B	86%
Sustainable Hectares under Management	535K	673K	79%
Lending Program			
Loan Disbursements	$119.8M	$124.6M	96%
Average Outstanding Portfolio Balance [1]	$61.3M	$70.3M	87%
Average Outstanding Balance per Active Loan	$351K	$435K	
Number of Clients Reached [2]	244	318	77%
Additional Capital Mobilized [3]	$6.4M	$8.7M	73%
Portfolio-at-Risk Over 90 Days [4*]	9.7%	< 7.0%	
Net Write-off Ratio *	6.5%	< 6.0%	
Advisory Services			
Number of Businesses Served	387	271	143%
Days of Training Delivered	1556	1506	103%
Operating Results			
Total Operating Expense	$13.2M	$13.5M	98%
Debt to Equity Ratio *	3.7	< 5.0	
Capital Utilization *	70%	87%	81%

[1] *Average Outstanding Balance figures are for the current quarter only.*
[2] *"Clients Reached" includes the total number of clients with an outstanding loan balance at any point in the year-to-date period. See Terms and Acronyms below.*
[3] *"Additional Capital Mobilized" is the combined average balance for loan participations and syndicated loans. See Terms and Acronyms below.*
[4] *As of December 31, 2017, we have segregated and removed a segment "other collateralized assets" from the PAR greater than 90 days and total portfolio balances. At year end, we held $4.8 million in other collateralized assets.*
** Figures represent performance on last day of quarter.*

Capital Partners

In 2017, we further expanded our ability to meet the needs of agricultural businesses through partnerships with other impact investors and service providers. We currently manage three main activities: participation sales, in which lenders support our capacity to serve our clients by purchasing portions of the largest loans in our portfolio, a modest pool of syndicated loans, in which exposure is shared pro-rata among one or more partners, and Lending for African Farmers Company (LAFCo), an African-domiciled investment company that targets small- and medium-sized enterprises that contribute to food security and better nutrition across the continent. During the fourth quarter, our capital partners' average balances totaled $10.8 million: $3.7 million in participations, $2.7 million in syndications and $4.4 million in LAFCo.

The table below represents the financial, social and environmental results for LAFCo. As Root Capital and LAFCo are co-lenders to many of the same companies, these results should not be interpreted as fully additional to the Root Capital portfolio metrics.

LAFCo Dashboard	Result
Social and Environmental Metrics	
Number of Producers Reached	145K
Producers supplying business	144K
Producers buying inputs	1K
Purchases from Producers	$79M
Total Revenue of businesses	$113M
Sustainable Hectares under Management	100K
Lending Program	
Loan Disbursements	$6.5M
Average Outstanding Balance [1]	$4.4M
Number of Clients Reached [2]	10

[1] *Average Outstanding Balance figures are for the current quarter only.*
[2] *"Clients Reached" includes the total number of clients with an outstanding balance at any point in the quarter.*

Terms and Acronyms

Additional Capital Mobilized: Loans facilitated by Root Capital beyond those made on our own balance sheet (e.g., capital placed via syndicated lending with other impact investors or via loan referrals.).

Capital Utilization: Capital utilization measures the proportion of available capital that is deployed in our lending portfolio at a point in time, calculated as: (Gross loans outstanding) / (Notes payable + unrestricted net assets).

Clients Reached: We report "clients reached" to capture the number of businesses reached by our capital. Clients reached are those that had an outstanding loan balance at any point in the quarter, including clients that did not receive a disbursement in the quarter. This is a cumulative metric; clients are added to the annual total in the quarter in which they are first reached.

Debt to Equity: Notes payable and other debt, divided by lending net assets. Our calculation treats long-term subordinated debt as equity, reflecting its equity-like characteristics.

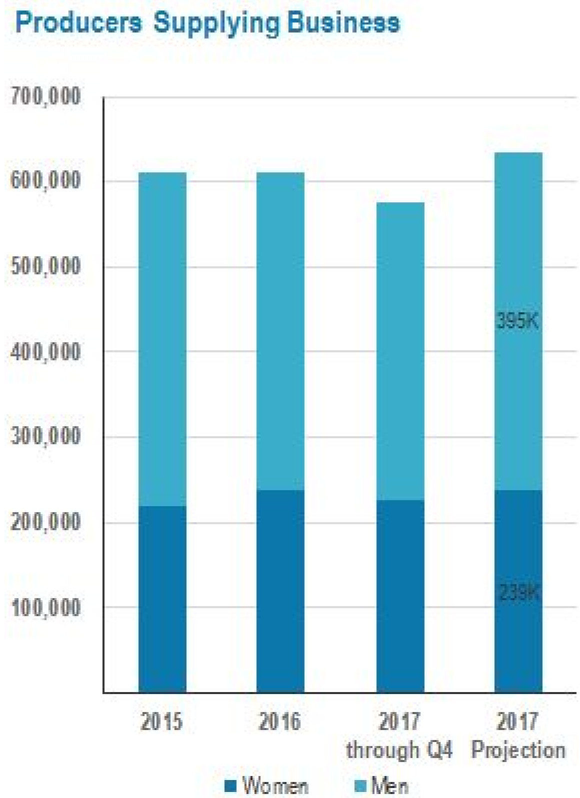
Gender-Inclusive Clients: A gender-inclusive business either has a supplier and non managerial employee base composed of 30 percent women or more, or is woman-led with 20 percent or greater participation by women producers and/or employees.

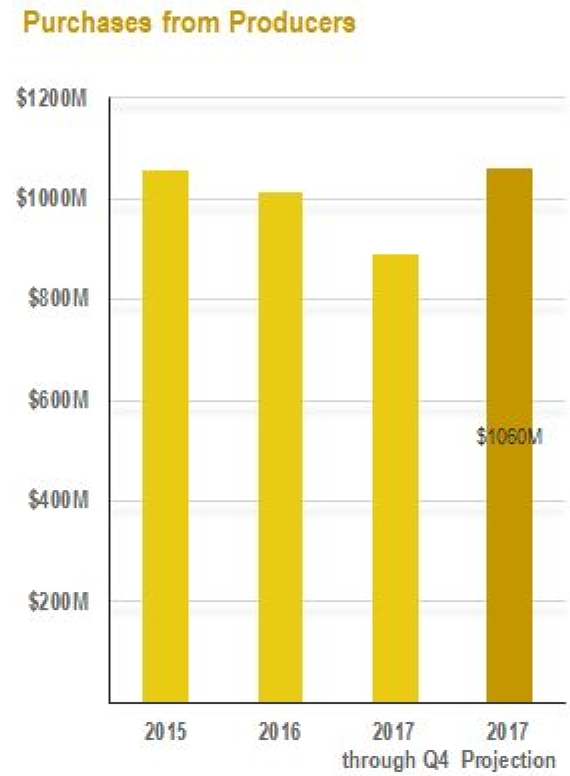
Net Write-off Ratio: A trailing 12-month figure representing the previous 12 months' write offs, net of recovered funds, as a percentage of the average outstanding balance during the same period.

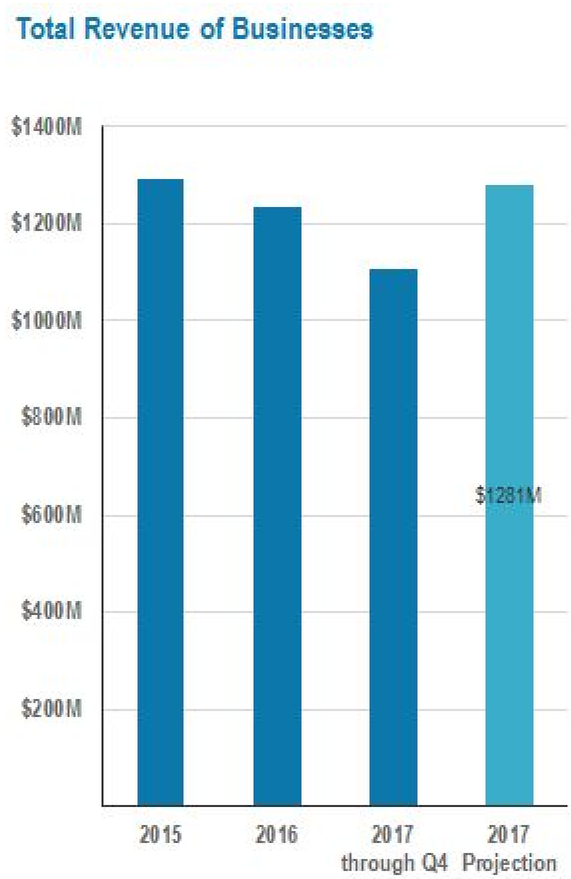
Region Acronyms: MAC (Mesoamerica & Caribbean), SAM (South America), EAF (East Africa), WAF (West Africa), ASI (Southeast Asia — currently Indonesia).

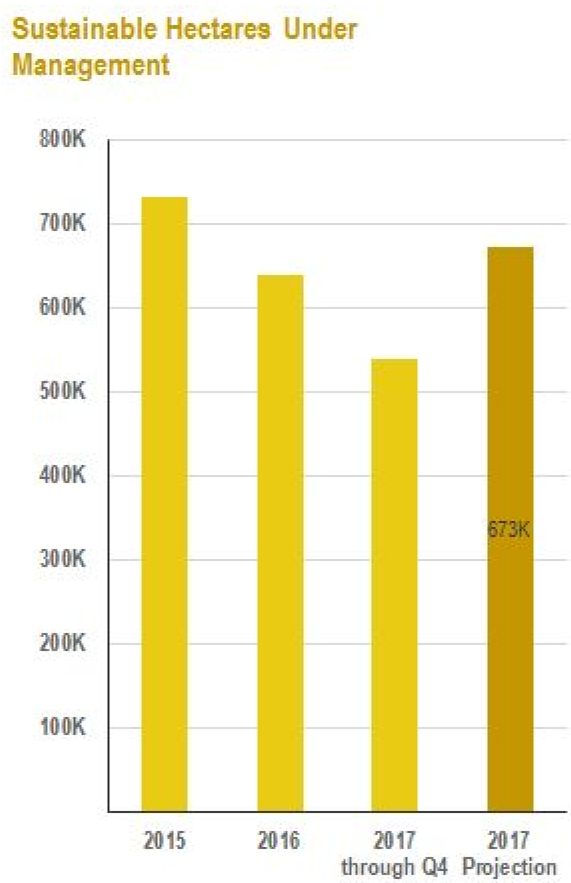
PORTFOLIO PERFORMANCE

Social and Environmental Metrics

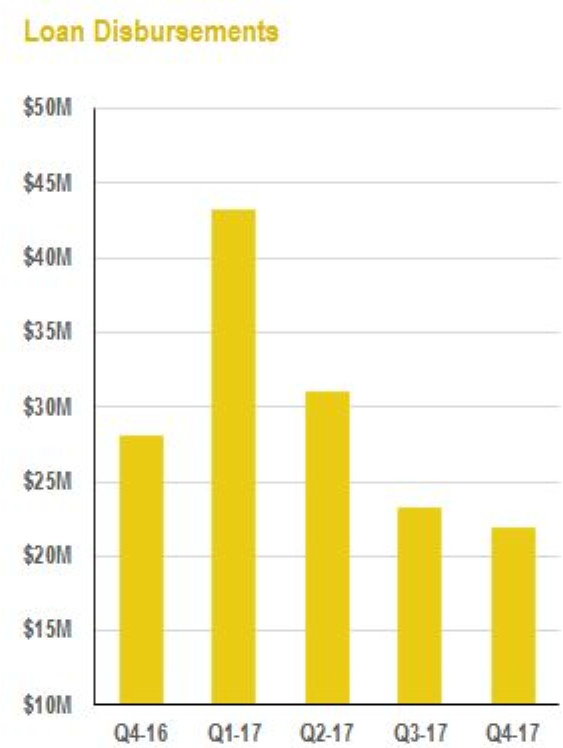


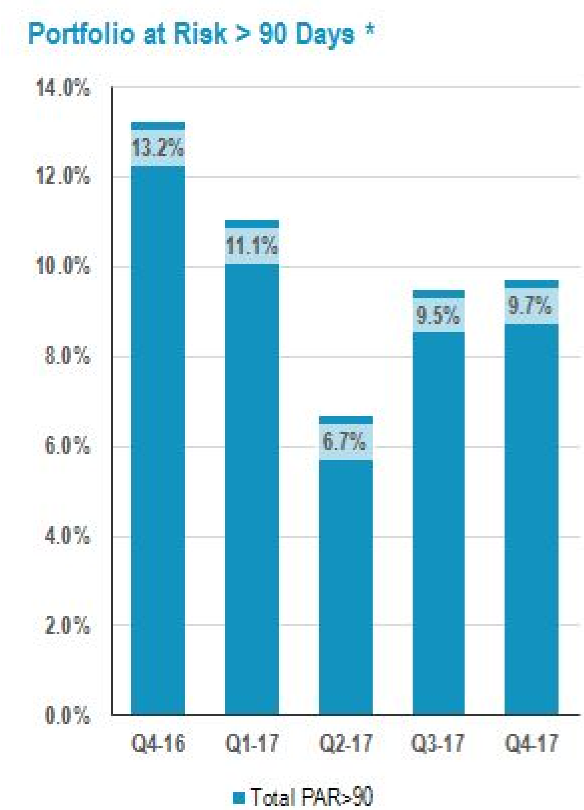


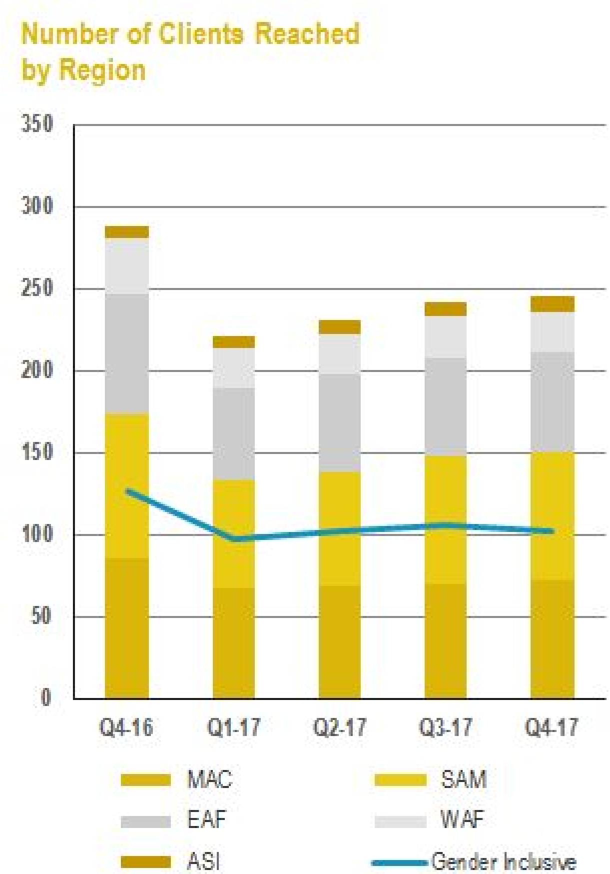




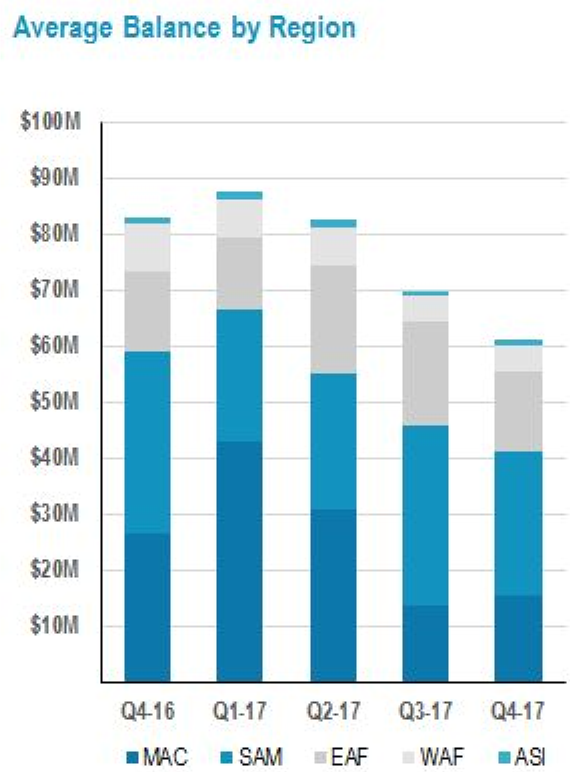
Lending Performance

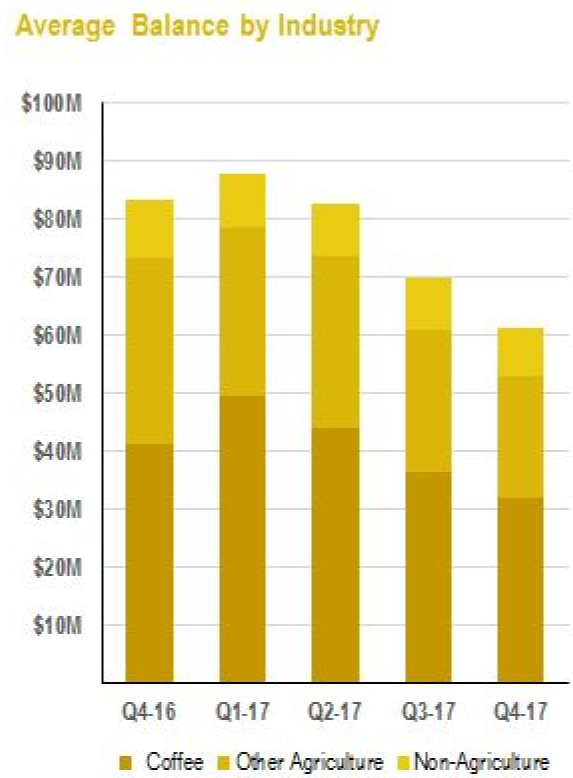




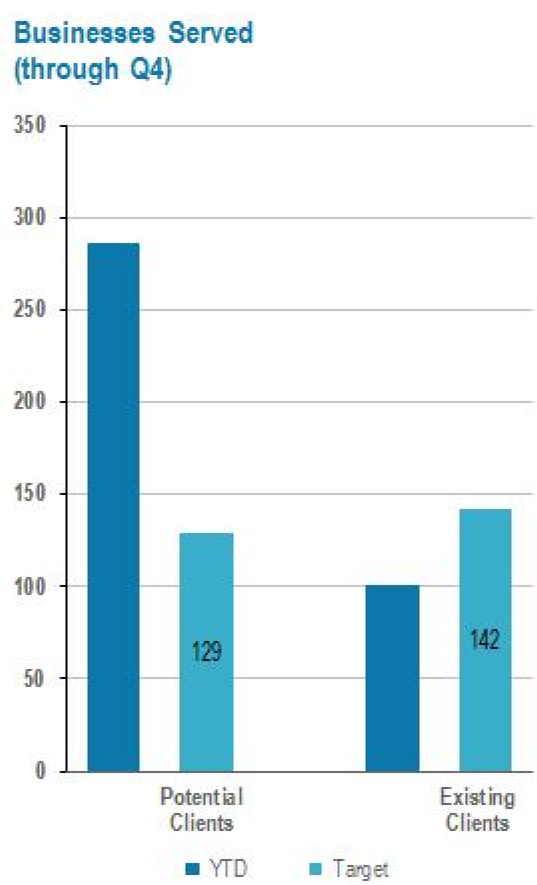


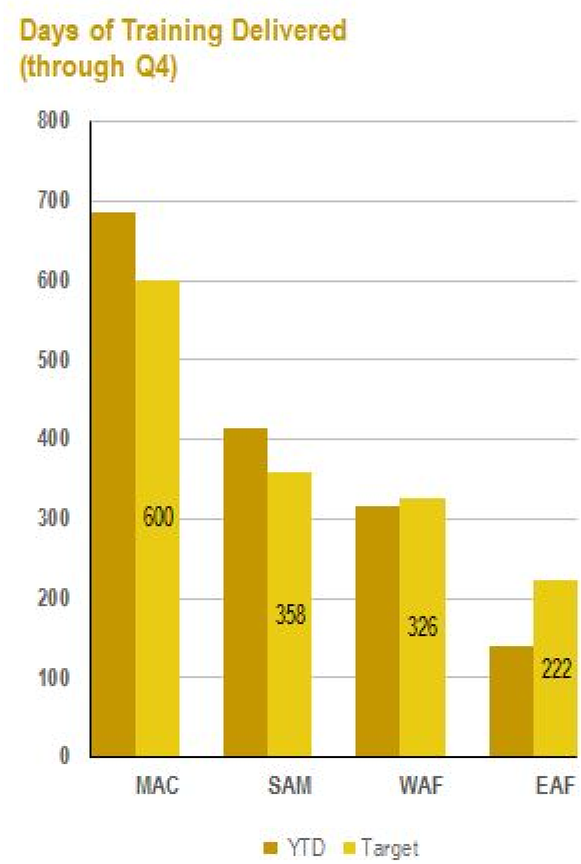
* As of December 31, 2017, we have segregated and removed a segment "other collateralized assets" from the PAR greater than 90 days and total portfolio balances and restated results for previous quarters. At year end, we held $4.8 million in other collateralized assets.





Advisory Services





Balance Sheet

As of December 31

Balance Sheet Highlights			
Millions of USD	2017	2016	Yr/Yr Growth
Cash and Short-Term Investments	35.1	26.3	33%
Total Loans Receivable	60.7	82.2	-26%
Allowance for Credit Losses	(7.2)	(10.3)	-30%
Loans Receivable (net)	53.5	71.9	-26%
Other Collateralized Assets (net) (1)	2.6	1.1	140%
Other Assets	14.1	6.9	105%
Total Assets	**105.3**	**106.2**	**-1%**
Senior Debt	73.2	79.7	-8%
Subordinated Debt	9.2	8.9	3%
Other Liabilities	6.7	2.7	147%
Total Liabilities	**89.1**	**91.3**	**-2%**
Lending Net Assets	10.7	10.6	1%
T/R Net Assets (Purpose & Time)	5.6	4.4	28%
Total Net Assets	16.3	15.0	**9%**
Total Liabilities & Net Assets	**105.3**	**106.2**	**-1%**

Key Financial Metrics			
	2017	2016	Yr/Yr Growth
Grant Net Assets (2)	22.3	14.6	53%
Debt-to-Equity Ratio (3)	3.7	4.1	-0.4 pts

(1) Includes gross balance of Other Collateralized Assets ($4.8M in 2017 and $1.6M in 2016) net of allowance for losses ($2.1M in 2017 and $0.5M in 2016)
(2) Grant Net Assets include Temporarily Restricted Net Assets, held on the balance sheet, as well as $14.4M of conditional grants, held off of our balance sheet in accordance with US GAAP, and $2.3M of subordinated debt slated to convert to net assets through 2019 . As grant conditions are met in future periods, we will add the off-balance sheet Contingent Net Assets to the Temporarily Restricted Net Asset (Purpose & Time) balance.
(3) Debt-to-equity treats long-term subordinated debt as equity, reflecting its equity-like characteristics.

Statement of Activities

Full-year

Millions of USD	2017	2016	Yr/Yr Growth
Interest & Fee Revenue	**7.5**	**7.2**	**4%**
Net Provisioning Expense	(3.7)	(9.3)	-60%
LAFCo & Agency Services Fees	0.5	0.7	-27%
Net Earned Revenue	**4.3**	**(1.4)**	**-414%**
Net Interest Expense	(1.9)	(2.2)	-15%
Net Earned & Financial Revenue	**2.5**	**(3.6)**	**-169%**
Contributions and Grants	10.8	8.9	22%
Operating Revenue	**13.3**	**5.3**	**152%**
Operating Expenses	(13.2)	(15.6)	-15%
Net Surplus	**0.1**	**(10.3)**	**-101%**

Disclosure

Interim financial data is deemed accurate, but is not audited. Annual audited financial statements will be provided to the Board of Directors, donors and investors. In the event of material differences, a reconciliation will also be provided. Additionally, past performance is not indicative, nor a guaranty, of future results, and no assurances can be given that the Notes will be repaid.

For additional information, please go to www.rootcapital.org or email info@rootcapital.org.

Client Profile

COOPERATIVA SOL Y CAFÉ

Location: Peru

Since its establishment in 2005, Sol y Café has built a name for itself as one of Peru's strongest coffee cooperatives. Its coffee regularly wins awards at cupping competitions—and with its organic, Fair Trade and Rainforest Alliance certifications, buyers can rest assured that their purchase supports both farmer livelihoods and environmental sustainability. To guarantee the quality buyers have come to expect, the cooperative imposes strict standards on its producers. In return, the business invests in farmers' success by providing them with steady incomes, technical assistance, an internal credit fund and access to medical care.

Root Capital was the first financial institution to ever work with Sol y Café. When we first started working with the cooperative in 2009, we started with a $400,000 trade credit loan. Since then, Sol y Café has grown exponentially in its capacity, and is currently working with a $2 million active line of credit. To date, Root Capital has provided the cooperative with $18.2 million of working capital, ensuring that they can offer timely payments to their 1,095 producers throughout the year.

Sol y Café's ongoing growth and development as an organization encouraged us to pilot new innovations, including advisory support on the use of mobile technology. Since our first workshop in 2015, the business has digitized internal inspections for 100% of its members, streamlining the process of gathering farmer-level data. This simple change has big implications: we estimate that the inefficiencies eliminated by digitizing this process will save the business over $20,000 annually. By expanding their use of mobile technology, Sol y Café has transformed the process of farm-level inspections into a tool for learning more about their farmers. This means that when they develop farmer-level programs, they can leverage data to determine how they can best increase the productivity on farms and ensure the quality that the market demands.