

Performance Report

Q2 2021



Employees at the Maraba Coffee Cooperative in Rwanda compare data during a Root Capital training. The cooperative is using digital tools to track their business information and help farmers adapt to climate change.



Overview

This quarter further confirmed the critical importance of resilience, as agricultural businesses and rural communities fought the dual crises of COVID-19 and climate change. While the pandemic worsened, many countries fought heat waves, floods, or droughts. Throughout all of this, agricultural enterprises have proven themselves invaluable allies for their farmers and employees. We're proud to report a successful second quarter—not just for our balance sheet, but for the impact our clients generated in rural communities around the world.

Impact

Through the second quarter of 2021, Root Capital provided financing to 162 businesses reaching 570,000 smallholder farmers. These businesses have paid nearly \$815M directly to farmers. Fifty-one percent were gender-inclusive and actively created opportunities for women farmers, employees, and leaders. Additionally, Root Capital has equipped leaders and employees at 278 businesses with the tools they need to improve their financial management, provide agronomic support to farmers, and plan for an uncertain future.

We're happy to report that, through this quarter, 87% of our active loans and 92% of loans closed filled credit needs unmet by commercial lenders, showing our continued commitment to closing the financing gap that agricultural businesses face.

During the quarter, we also disbursed over \$200K in COVID-19 resilience grants that helped 17 clients implement biosafety measures, keeping their communities safe and their businesses running as the virus continues to spread.

Portfolio Performance

In Q2 2021, our average outstanding portfolio balance of \$49M was consistent with our balance in Q2 of last year. Our commitment to the strategic and impactful sectors of coffee, cocoa, and macadamia nuts is stronger than ever. This quarter, these industries comprised 94% of our portfolio balance, up from 87% in Q2 2020. Coffee businesses continue to represent the lion's share of our portfolio, making up 82% of our portfolio balance this quarter. The commodity price for coffee was particularly volatile this quarter, jumping 30% to its highest point since 2016. There have been no negative impacts on our portfolio from this volatility, but we're working with our clients to monitor the market and manage their risk in the face of rising prices.

This quarter, as the coffee harvest continues in South America, disbursements remained strong as we continued to grow the portfolio's size. We disbursed \$18M to coffee businesses in the region this quarter, a \$1M increase from Q2 2020. This growth is partially due to the

five loans closed this quarter with businesses in Peru that were either new to our portfolio or hadn't received a loan from Root Capital in the past three years. None of these clients previously had access to commercial financing, showing our continued impact in expanding access to finance in Peru—our largest country portfolio.

Our portfolio in East Africa also continues to grow, driven by new coffee enterprises and existing clients that are increasing their credit lines. This quarter we closed more than \$10M in loans in the region—a 5% increase compared to Q2 2020. Our disbursements also increased 8% this year to \$10.5M. Most of this activity came from coffee enterprises in Rwanda, Uganda, and the Democratic Republic of the Congo.

This quarter, we closed loans with two previously unbanked clients in Ghana's maize industry. This represents significant growth of our portfolio with local food crop businesses as we continue to pilot lending to these sectors. Despite continued shipping delays—brought about by factors like the global shipping container shortage—the Mexico and Central America portfolio remains strong and we expect full repayments on all funds disbursed in the region for the recent harvest in Q4 2020 and Q1 2021.

In Indonesia, we disbursed over \$1.6M to coffee clients—a threefold increase over the same period in 2020. Much of this activity compensated for lower utilization by clients in the first quarter due to a shift in purchasing timelines. We now stand at a similar disbursement level year-to-date (\$2.4M) as we did at this point in 2020.

Portfolio Quality

Our portfolio quality this year continues to be the strongest it has been since 2014. At the end of this quarter our Portfolio-at-Risk (PAR) greater than 90 days slightly increased to \$1.5M (2.8% of the loan portfolio outstanding) compared to \$1.4M in Q1 of 2021 (2.7%). Over the past twelve months, we wrote off \$4.8M of past due loans and recovered \$0.9M of previously written-off loans, resulting in a trailing 12-month net-write off ratio of 8%. More than 60% of these write-offs were associated with legacy loans that originated in prior years.

Advisory Services

This quarter, our Advisory Services team ensured that clients could build their capacity and resilience despite challenging conditions, such as changing pandemic restrictions, political instability, and natural disasters. Our network of trainers continued to deliver the bulk of our services remotely; but, where local regulations allow, we have begun a return to in-person training. As we do so, we're adjusting our services to more effectively build the skills of business leaders and farmers. For example, in West Africa, we brought 36 farmers together to receive training on financial literacy. When they returned to their communities, each had the tools they needed to train their peers. As a result, we were able to reach 740 farmers with this critical information. This format was dictated by pandemic restrictions on gathering

sizes, but actually managed to reach more people than our typical centralized workshop model.

We also took exciting steps this quarter to advance our gender equity advisory service, an innovative program developed with the support of the advisory firm [Value for Women](#). Working with enterprises in Guatemala, Honduras, Mexico, and Nicaragua, we piloted a diagnostic tool that enables a systematic evaluation of each business' gender inclusion practices. Our advisors then use the results from this diagnostic to help the businesses implement proven, tailored interventions that will close the gender gap in their leadership team and expand opportunities for women.

Financial Results

At the end of the second quarter, Root Capital's \$54.7M outstanding lending portfolio was supported by \$15.9M in unrestricted net assets, \$5.1M in subordinated debt, and \$43M of senior notes for an adjusted debt-to-equity ratio of 3.0x. In addition, we have \$12.8M in restricted net assets to support our future programmatic activity.

Through Q2 2021, Root Capital is pleased to report a surplus of \$300K compared to a \$1.5M deficit through this point last year. Grant and contribution revenue was \$4.3M compared to \$5.4M in 2020. Pandemic travel restrictions continue to delay previously planned in-person activities. This resulted in lower restricted grant revenue offset by lower programmatic expenses. Through this quarter, the lending portfolio generated revenue of \$3M, a slight increase from the same period last year.

So far this year, we have recovered \$900K and several clients have repaid nonperforming loans previously provisioned for at a higher rate. These recoveries, along with the continued strong portfolio performance, resulted in a negative provisioning expense of \$1.4M through the second quarter.

Conclusion

With a strong balance sheet and significantly improved portfolio quality, Root Capital remains well positioned to build the prosperity and resilience of agricultural businesses and rural communities. Over the past year and a half, as our clients have faced the acute crises of COVID-19 and climate change, our community of donors, investors, entrepreneurs, and farmers has shown that the challenges we face don't need to stop global progress. We can meet these threats and build back stronger than ever before.

2021 Dashboard

Impact Results	
317	Total Businesses Reached
Advisory Program	
278	Businesses Served by Advisory
1837	Days of Training Delivered
35%	Percent Woman Participants
46%	Percent Participants Under the Age of 35
Lending Program	
162	Businesses Reached by Lending ¹
51%	Percent Gender-Inclusive Businesses
570K	Producers Reached
36%	Percent Woman Farmers
17K	Employees Reached
56%	Percent Woman Employees
\$814M	Purchases from Farmers
\$967M	Total Sales for the Businesses
519K	Sustainable Hectares under Management
\$69.0M	Loan Disbursements
\$33.9M	Disbursements to Gender-Inclusive Businesses ²
\$36.7M	Disbursements to Climate Action Leaders ²

¹ "Businesses Reached" includes the total number of clients with an outstanding loan balance at any point in the year-to-date period.

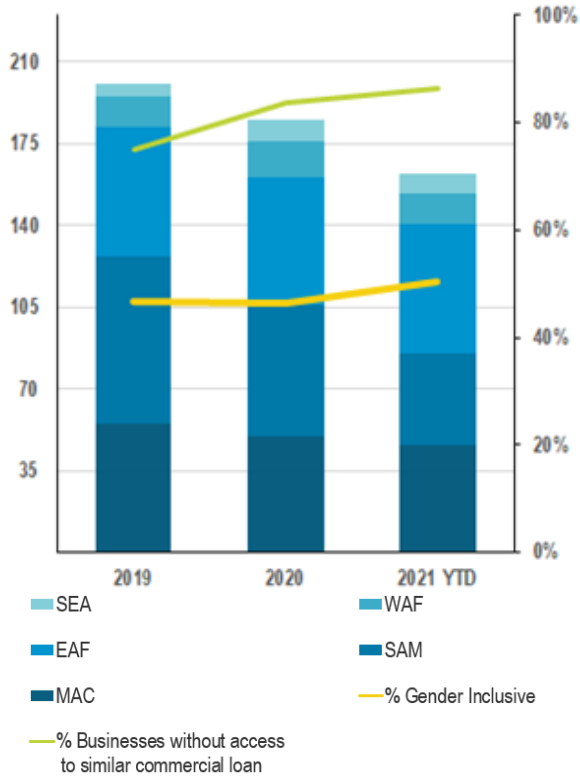
² A number of our client businesses are both Gender Inclusive and Climate Action Leaders.

See Terms and Acronyms on page 11 for definitions.

Results

Lending & Advisory Impact

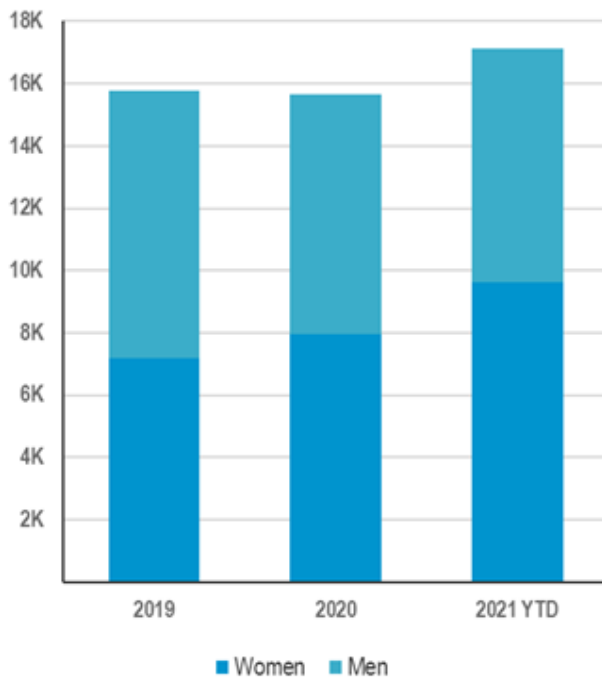
Businesses Reached (Lending Program)



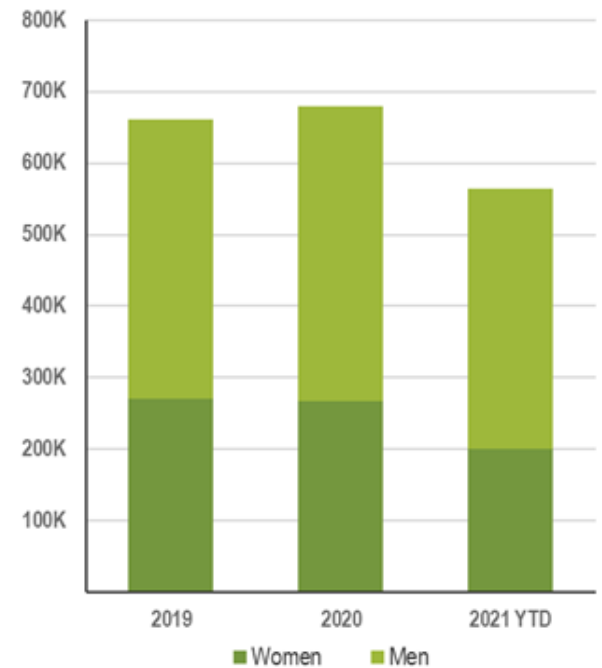
Purchases from Farmers and Client Businesses' Sales



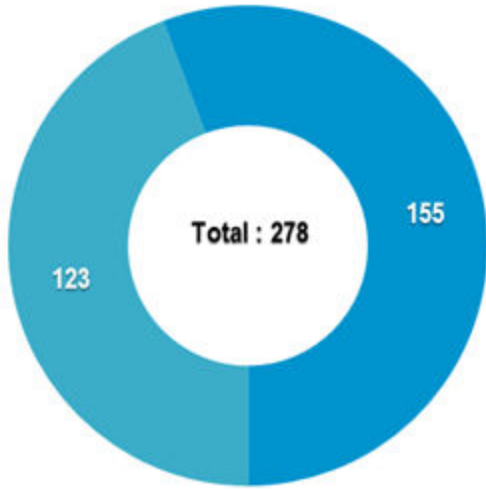
Employees Reached



Farmers Supplying Businesses

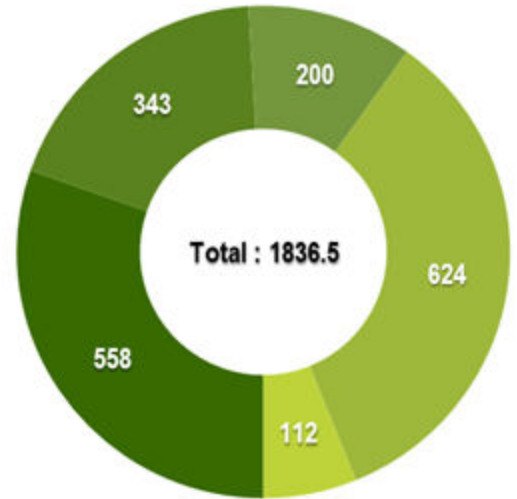


Businesses Served by Advisory Through Q2



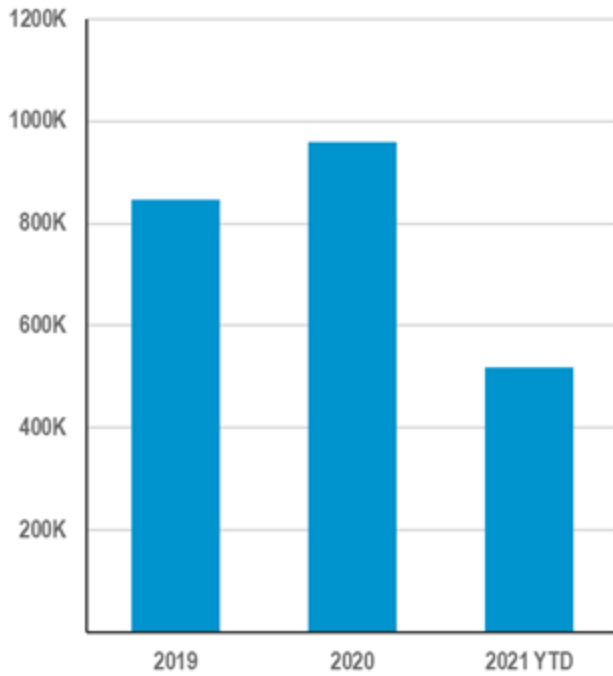
■ Existing Lending Clients ■ Potential Lending Clients

Days of Training Delivered Through Q2



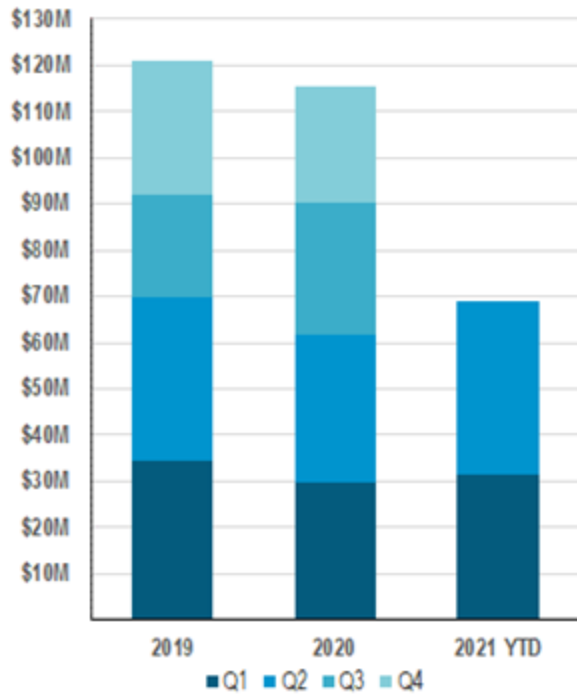
■ MAC ■ SAM ■ WAF ■ EAF ■ SEA

Sustainable Hectares Under Management

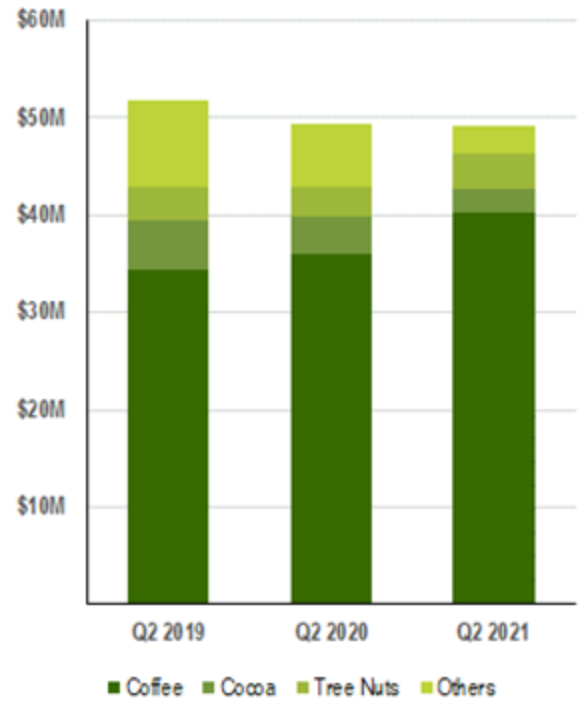


Portfolio Performance

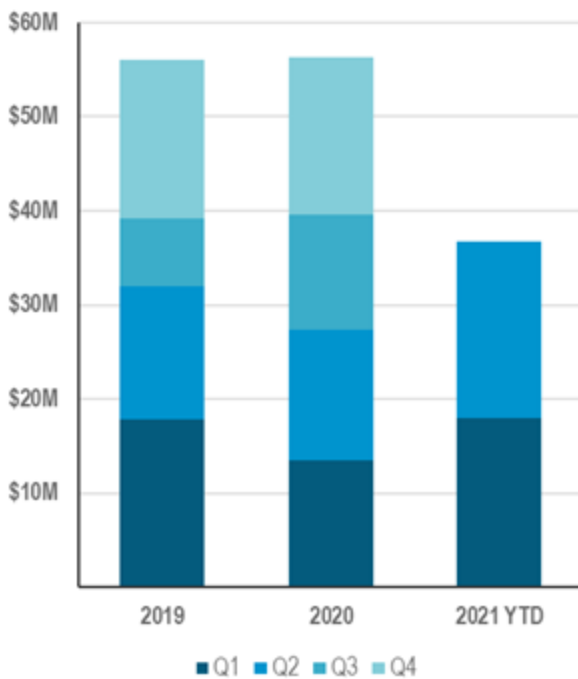
Total Loan Disbursements



Average Balance by Industry



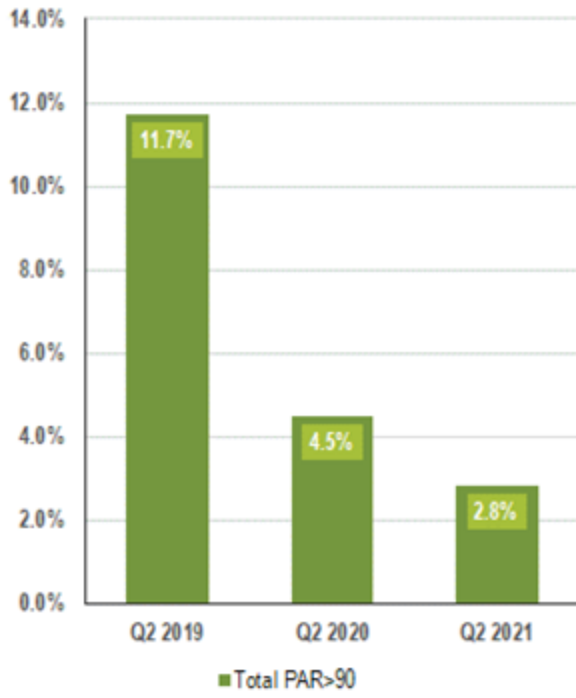
Disbursements to Climate Action Leaders



Average Balance by Region



Portfolio at Risk > 90 Days



Balance Sheet & Statement of Activities

Balance Sheet		As of June 30th	
<i>Millions of USD</i>	Q2 2021	Q2 2020	
Cash and Short-Term Investments	18.6	36.3	
Loans Receivable	54.7	49.5	
Allowance for Credit Losses	(2.9)	(6.6)	
Loans Receivable, Net of Allowance	51.8	42.8	
Other Assets	12.1	16.2	
Total Assets	82.5	95.3	
Senior Debt	43.2	52.5	
Subordinated Debt	5.1	9.6	
Other Liabilities	5.7	5.5	
Total Liabilities	53.9	67.6	
Unrestricted Net Assets	15.9	13.2	
Net Assets with Restrictions	12.8	14.5	
Total Net Assets	28.6	27.7	
Total Liabilities & Net Assets	82.5	95.3	
Debt-to-Equity Ratio	3.0x	5.0x	
Grant Net Assets*	16.3	15.3	

* Our grant net assets include off-balance-sheet conditional grants
 Reclassifications may have been made in the prior year to conform with the current year's presentation.

Statement of Activities		
	Year to date June 30th	
<i>Millions of USD</i>	2021	2020
Revenue		
Grant Revenue	3.7	4.1
Contribution Revenue	0.6	1.3
Lending Revenue	3.0	2.8
Total Revenue	7.3	8.2
Expenses		
Operating Expenses	7.8	7.8
Provisioning Expense	(1.4)	1.1
Interest Expense	0.5	0.7
Total Expenses	7.0	9.7
Surplus	0.3	(1.5)

Disclosure

The financial data is deemed accurate, but is not audited. Annual audited financial statements can be found on [Root Capital's website](#). Additionally, past performance is not indicative 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.

© 2021 Root Capital. All rights reserved.

Terms and Acronyms

Businesses Reached: We report “clients reached” to capture the number of businesses financed using our capital. Clients reached are those that had an outstanding loan balance at any point in the reporting period. This is a cumulative metric; clients are added to the annual total in the quarter in which they are first reached.

Climate Action Leader: An active lending client making substantial contributions to climate change mitigation and/or adaptation by: reducing atmospheric greenhouse gas concentrations through natural climate solutions like reforestation, and/or reducing climate risk and building adaptive capacity within their communities.

Contribution Revenue: Revenue earned during the period without donor restrictions, generally received from individuals or foundations.

Debt-to-Equity: The ratio of senior and subordinated debt to unrestricted net assets.

Gender-Inclusive Business: Women make up more than 30% of enterprise farmer suppliers and employees OR the enterprise is women-led and women make up more than 20% of enterprise farmers suppliers and employees.

Grant Revenue: Revenue earned during the period generally from foundations or governments under multi-year agreements.

Interest Expense: Interest expense incurred on debt.

Interest Income: Interest revenue generated on cash and investments.

Lending Revenue: Revenue generated from our lending activities, comprising fees and interest earned on our lending portfolio.

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.

Provisioning Expense: Allowance for loan loss expense on our lending portfolio, net of recovered funds.

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



Staff members pack bags of personal protective equipment for farmer-members at the cooperative's offices.

Client Profile

UNICAFEC

Location: San Ignacio, Peru

In 2006, Root Capital provided the UNICAFEC coffee cooperative in San Ignacio, Peru with a modest \$100K loan. As the cooperative has grown, so too has its financing needs. In 2020, Root Capital disbursed a \$1.5M line of credit to help UNICAFEC buy coffee from its 385 members. When COVID-19 struck Peru, cooperative leaders acted quickly to ensure that protecting farmer lives and preserving their economic livelihoods could go hand in hand.

With a resilience grant from Root Capital, UNICAFEC's leadership worked with our Advisory Services team to share public health information with farmers, provide employees with personal protective equipment, and retrofit their warehouse to comply with social distancing protocols. This allowed the cooperative to continue to operate, paying farmers when they needed it most.

This quarter, as the coffee harvest began in Peru, cases of COVID-19 reached an all-time high. In this country—where only 7% of the population had been vaccinated by the end of Q2—the pandemic isn't slowing down. Building on the success of their original resilience grant, we helped UNICAFEC implement a new project this quarter for “on-farm collection.” Instead of having farmers journey into town and risk exposure to the virus, the cooperative is sending teams out to remote communities—and, in the case of vulnerable farmers, directly to their homes—to collect their harvested coffee. Apart from helping UNICAFEC meet their annual sales commitments, this new system will ensure farmers can stay safe while working toward higher incomes and a brighter future for themselves and their families.