Performance Report

Q4 2013

root capital

OVERVIEW

For Root Capital, as for our clients, 2013 was a year that tested our resilience. Faced with adverse market dynamics including low global coffee prices, the devastating outbreak of coffee leaf rust in Latin America and increased competition from other social lenders for a segment of our portfolio, Root Capital took it as an opportunity to analyze our business and improve our operations. After experiencing significantly below-target lending activity in Q1-Q2 (down 36 percent from our target), our performance steadily improved during the latter half of 2013, and we ended the year with $122.2 million in disbursements. By year-end, we had reached 256 clients, collectively representing more than 2.2 million smallholder farmers and their families. While year-over-year disbursements grew only slightly, our year-end portfolio balance was $72.3 million, a 17 percent increase over 2012. Additionally, our Financial Advisory Services (FAS) program grew substantially in 2013, providing financial management training to 296 enterprises, a 60 percent increase over the previous year, reflecting our deep commitment to reaching the least-served segment of the smallholder finance market in Africa and Latin America. The year ended with exciting news. In December, Root Capital was named “Best Financier in East Africa” at the annual East African Agribusiness Awards. We are honored by the achievement, and proud that our team was recognized for their role in “transforming East Africa’s agribusiness climate.”

Portfolio Performance

In a year when early headwinds threatened to shrink our lending for the first time in our 15-year history, we were able to achieve limited growth by year-end as each quarter’s results showed improvement. Across our portfolios, we disbursed $122.2 million in loans and reached 256 small and growing businesses that aggregated 402,000 producers in Africa and Latin America. While disbursements grew two percent over 2012, they were 18 percent below our initial projection for the year. The shortfall in disbursements was largely due to the aforementioned market challenges, particularly in Central America and East Africa, and to the Frontier Portfolios that are at an earlier stage of development. We ended the year with strong performance that resulted in a portfolio balance more than $10 million higher than year-end 2012.

In response to market challenges, Root Capital launched a number of business-improvement initiatives in the first half of the year focused on client retention and acquisition. We launched a formal “voice of the customer” process to better and more systematically understand the needs of our clients. Serving our clients’ needs and providing them with customized financial products that can unlock rural prosperity is the cornerstone of our mission. In response to client feedback, we continued to expand our product offering by introducing general working capital lines of credit to address year-round credit needs and long-term finance for farm renovation—particularly important for clients and smallholders affected by the coffee leaf rust outbreak. We also deepened our presence in select markets including Honduras, Mexico and Benin, and reached new customer segments, including private agro-exporters with strong social and environmental performance and sourcing from smallholders.

All of these business-improvement activities, in combination with a slight uptick in coffee prices and a rebound in specialty coffee trading volumes, contributed to increased growth by year-end against our more cautious expectations earlier in the year.

Total disbursements in our Sustainable Trade Fund (STF) by year-end were at $119.7 million, below projections but two percent above 2012 disbursements. The STF portfolio balance was $68.8 million, an 18 percent increase over the previous year. At year-end, 50 percent of the portfolio was in non-coffee products, up from 40 percent at year-end 2012, reflecting success in our ongoing efforts to diversify our portfolio and to serve clients in new industries. The largest industries outside of coffee in the portfolio were cocoa, cashews and quinoa.

In Latin America, STF disbursements reached $93.5 million, 11 percent below target due to the aforementioned market dynamics. 2013 was a strong year for lending in South America with a total of $55.5 million in disbursements, eight percent higher than 2012 and slightly higher than annual targets. Fiscal year results for Central America capture the second half of the 2012-2013 harvest, when market forces negatively impacted our growth, as well as the first half of the 2013-2014 harvest, which began to show a strong turnaround. Overall disbursements in Central America were 24 percent below projections and nine percent lower than last year. The outstanding portfolio balances for South America and Central America, respectively, were $23.1 million and $27 million at year-end, for a combined growth of 15 percent over 2012.

In Africa, STF disbursements continued to grow, reaching $26.2 million, a seven percent increase over last year. Disbursements in West Africa, at 13 percent higher than projections, drove this growth, and at year-end the West Africa portfolio balance was 33 percent higher than the previous year at $9.1 million. This success is the result of making new hires to fully staff the lending team in the region, and consequential growth in the cocoa and cashew sectors. The outstanding portfolio balance for East Africa was $9.6 million. While our 35 active clients in East Africa matched our expectation for the year, low coffee prices throughout the first three quarters of the year contributed to 35% fall in average loan size, and an 11% reduction in the overall size of the portfolio.

Disbursements for the Frontier Portfolios totaled $2.5 million in 2013, but the second half of 2013 marked a turning point in the Frontier Portfolios from start-up to growth. In Q3 and Q4, we approved 23 loans, surpassing our target of 22, together totaling $5.7 million. Two additional loans, totaling $838,000, were under review by the credit committee at year-end. While we launched our Food Security and Nutrition portfolio in Q1 2013, pipeline generation and closing has been more challenging than expected, particularly with earlier stage businesses. The complexities of foreign currency lending have also delayed disbursements. With over $5 million in projected disbursements in 2014, however, we are looking forward to strong growth in the portfolios.

La Vivrière, a private enterprise in Senegal that processes, packages and sells staple cereal products for both domestic consumption and export, is one of the businesses that we financed through the Food Security and Nutrition portfolio in 2013. The company used a $149,000 working capital loan to source millet and maize from its farmer suppliers for processing, and a $55,000 capital expenditure loan to purchase additional storage facilities in order to scale its business. In addition to providing nutritious, affordable staple cereal products to over 180,000 customers, it provides a stable market to about 500 cereal suppliers, and employs 60 full-time workers and 24 seasonal workers, mostly women, providing important income-generating opportunities in the suburbs of Dakar.

We ended 2013 with a global Portfolio-at-Risk (PAR) of 1.7 percent. The STF PAR was 1.6 percent, down from 4.7 percent in Q3. The decrease was driven primarily by write-offs in South America, Mexico and West Africa, and upgrades in the risk classifications of several loans across regions that have begun to perform. Despite the market challenges faced in 2013, we have not seen an increase in systemic risk in our global portfolio and continue to maintain solid underwriting standards and prudent risk management practices.

Globally, the Loan Loss Ratio increased from 4.4 percent at the end of Q3 to 5.1 percent at year-end. In total, we wrote off $3.8 million in 2013, up from $2.5 million in 2012. One third of the amount written off was the result of $1.2 million in financing to one coffee client in Nicaragua, illustrating how a single client can significantly impact our performance. We continually incorporate lessons learned from situations such as this into our monitoring policies, risk management practices and underwriting standards; for example, beginning in 2014 we are introducing single-client exposure limits tied to a client's risk score. Increased collection efforts on written-off loans were successful, with a record $536,000 in recoveries across portfolios.

The activity level of our Financial Advisory Services (FAS) program grew substantially in 2013, providing financial training to 296 enterprises, a 60 percent increase over last year and exceeding our 2013 goal by almost 50 percent. Across our FAS activities, we placed a higher priority on assisting unbanked businesses to prepare them to access credit. This resulted in a greater number of clients reached but less intensive training on a per client basis. Another major success was in Africa, where we were able to expand significantly and achieved 133 percent of our projections.

Operating Results

Despite slower revenue growth than expected during 2013, we were able to end the year in a strong financial position by implementing cost-saving measures and lowering our outstanding debt and its associated interest expense. In 2013, we saw lower interest and fee revenue in both the Sustainable Trade Fund and Frontier Portfolios due to decreased disbursements and lower portfolio balance throughout much of the year. In the Sustainable Trade Fund we also saw higher portfolio risk than projected, which together with lower revenue, resulted in 73 percent operational self-sufficiency (OSS), below our target of 82 percent. In the face of below-target lending activity, we implemented a series of cost-saving measures and reduced annual operating expenses to $13.8 million, 10 percent less than the initial 2013 budget. These cost savings, together with a lower interest expense on notes payable and strong fundraising results of $12.5 million in philanthropy, resulted in a 2013 operating surplus of $143K. We also ended the year with a strong balance sheet of $116.6 million, including loan receivables of $71.9 million, a notes payable balance of $75.1 million, and a debt-to-equity ratio of 3.29.

Looking Forward

The strong finish to 2013 has carried forward into a robust start for 2014 and we are optimistic that our many business improvement initiatives will continue to bear fruit into the new year. The coffee market is also beginning to show signs of rebounding, which would further strengthen this outlook. That said, our experience in 2013 underscores the challenges and risks —including but by no means limited to price volatility and plant disease—that are inherent to smallholder agricultural lending. Indeed, it is still to be seen what the short and medium-term effects of coffee leaf rust will be in Latin America.

When we launched our five-year “Scaling Impact Plan”, our approach was always to incorporate lessons learned as we proceeded. June 2014 will mark the mid-point of the five-year plan and we have already kicked off a multi-month process for updating the plan to incorporate the learning that has taken place over the preceding 30 months. Reacting to this learning is essential to our development and to our ability to serve our clients’ needs. We look forward to sharing the output of these reflections as we revise the plan throughout the year.

Q4 2013 DASHBOARD*

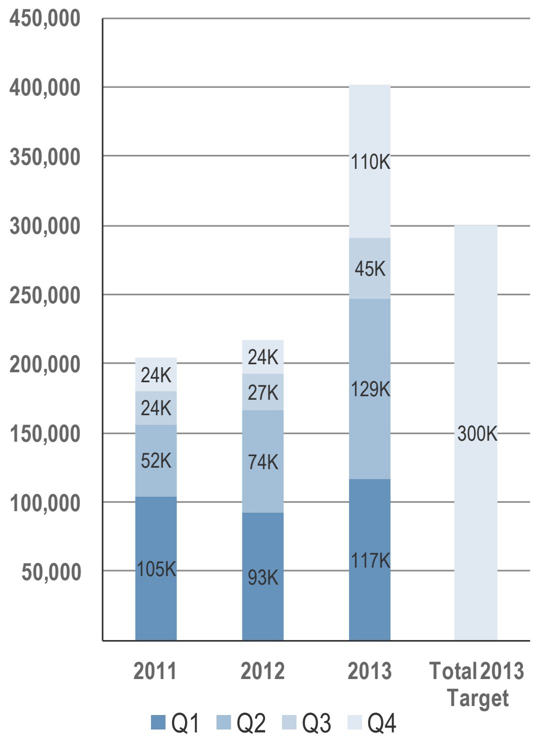
Metric	Result	Target	Results as % of Target	Page
Social and Environmental Metrics				
Number of Producers Reached	600K	540K for 2013	111%	6
Producers reached directly	402K	300K for 2013	134%	6
Producers reached indirectly	198K	240K for 2013	83%	6
Purchases from Producers	$780M	$379M for 2013	206%	6
Total Revenue of Rural SGBs	$950M	$518M for 2013	184%	7
Sustainable Hectares under Management	686K	651K for 2013	105%	7
Total Clients Reached	256	N.A.		
Lending Program				
Loan Disbursements	$122.2M	$150M through Q4	82%	
Sustainable Trade Fund	$119.7M	$141M through Q4	85%	8
Frontier Portfolios	$2.5M	$8.8M through Q4	29%	13
Outstanding Portfolio Balance**	$72.3M	$80M through Q4	90%	
Sustainable Trade Fund	$68.8M	$74M through Q4	93%	8
Frontier Portfolios	$3.5M	$6.1M through Q4	56%	13
Number of Active Clients**	196	N.A.		
Sustainable Trade Fund	171	N.A.		10
Frontier Portfolios	25	N.A.		14
Average Outstanding Balance per Active Loan**	$316K	N.A.		
Sustainable Trade Fund	$342K	N.A.		10
Frontier Portfolios	$123K	N.A.		
Portfolio-at-Risk Over 90 Days**	1.7%	3.7% for 2013	47%	
Sustainable Trade Fund	1.6%	3.5% for 2013	45%	11
Frontier Portfolios	5.0%	5.9% for 2013	84%	15
Loan Loss Ratio**	5.1%	3.7% for 2013	136%	
Sustainable Trade Fund	5.4%	3.4% for 2013	159%	11
Frontier Portfolios	-2.2%	9.3% for 2013	-24%	15
Financial Advisory Services (FAS)				
Number of Groups Served by FAS	296	199 for 2013	149%	17
Days of Training Delivered	1643	1835 for 2013	90%	17
Catalyze Program				
Overview of Catalyze Program	See page 18 for discussion of Catalyze Program			
Operating Results**				
Total Operating Expense	$13.8M	$15M through Q3 2013	91%	19
Debt to Equity	3.29	4.17:1 through Q3 2013	90%	21
Capital Utilization	87.3%	88.4% through Q3 2013	99%	21
Fundraising Results				
Outstanding Debt Balance	$75.9M	$98M for 2013	77%	20
Contributions Raised	$12.5M	$15M for 2013	84%	20

**All figures are representative of global performance unless otherwise specified*

***Figures represent performance at end of quarter*

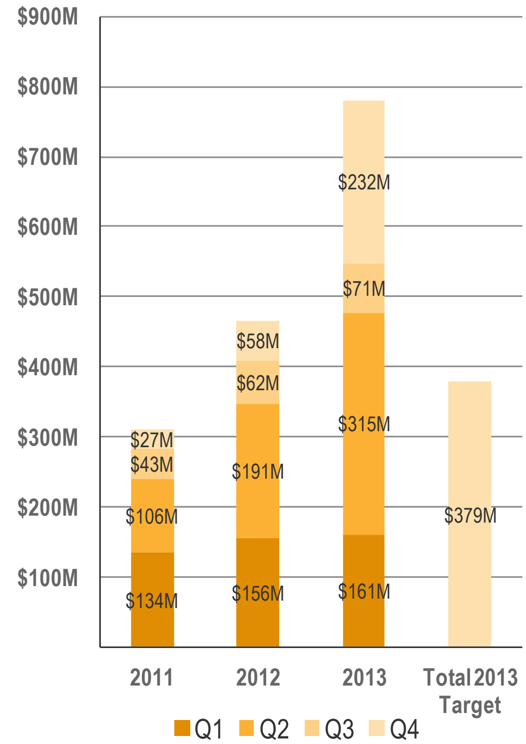
SOCIAL AND ENVIRONMENTAL METRICS

Number of Producers Reached Directly (through Q4)



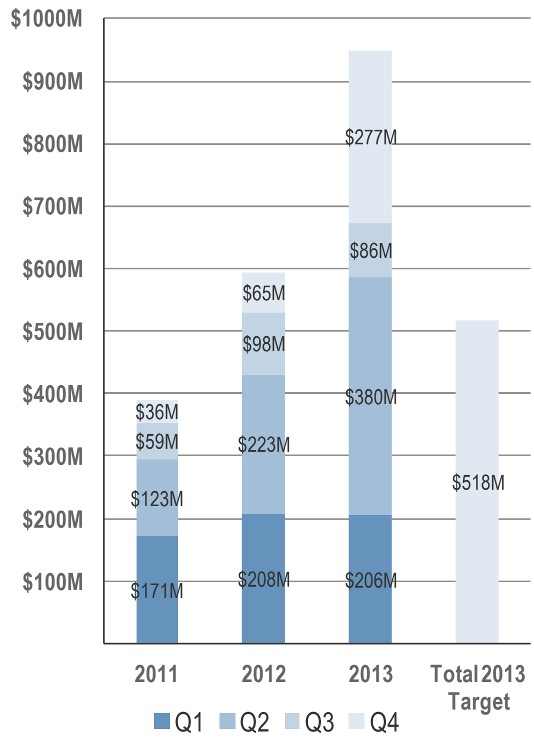
- Through Q4, we reached 402K producers directly. By reaching producers "directly," we mean producers who sell their harvest to the enterprise.
- The year-end total significantly exceeded our target primarily because of two changes in our reporting practices, described in detail in the note on the following page, and because in Q4 two large enterprises that reach many producers entered the portfolio.
- Through Q4, we reached 198K producers indirectly. By "indirectly," we mean that producers purchased agro-inputs or post-harvest handling services from the enterprise. Some of these enterprises reach tens of thousands of producers, but the impact of selling a drought-resistant seed variety to farmers is different from that of linking farmers to markets. Therefore, we report on these separately.
- Of all the producers reached directly this year, 118K, or 29%, were women.

Purchases from Producers (through Q4)

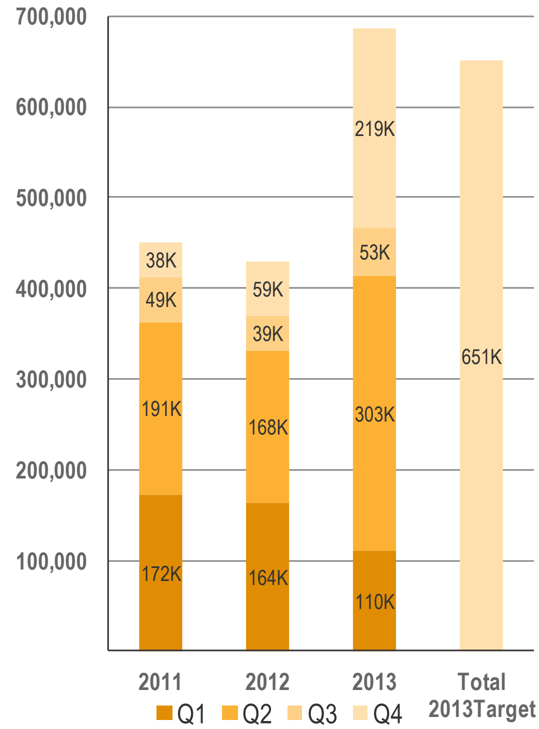


- "Purchases from producers" is the total amount that our client enterprises paid to their small-scale suppliers.
- In aggregate, through Q4, our clients purchased an estimated $780M of agricultural product from their producers. The large increase in purchases from producers beyond the projections is because of two changes in our reporting practices, described in detail in the note on the following page.
- The average payment per producer in 2013 was $1.9K.

Total Revenue of Rural SGBs (through Q4)



Sustainable Hectares Under Management (through Q4)



- ➔ In aggregate, through Q4, our clients generated an estimated $950M in total revenue. The average revenue per enterprise was $3.7M. The median revenue per enterprise was 1.3M.
- ➔ The large increase in purchases from producers beyond the projections is driven by the same factors that drove the increase in number of producers (see note below).
- ➔ In Q4, client enterprises represented an estimated 686K hectares of sustainably managed agroforestry and agricultural lands, with an average of 1.7 hectares per producer.

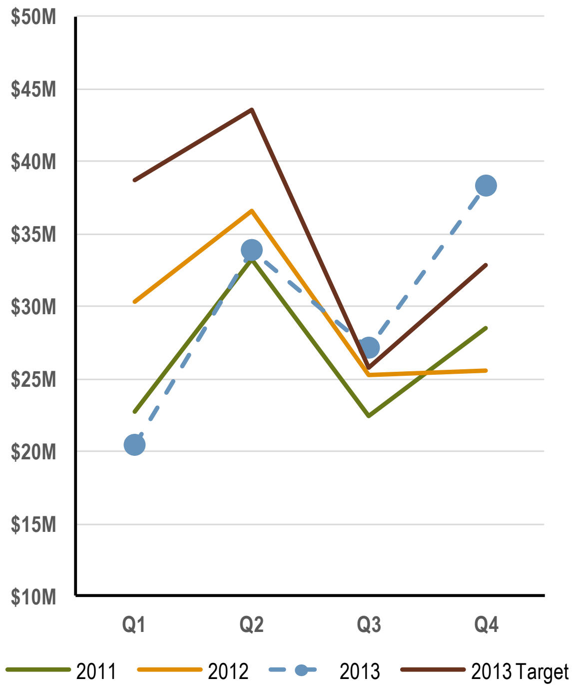
Note: Through 2012, in reporting our impact, we capped the number of producers reached at 5,000 for any one client. In other words, even if a client reached 20,000 producers, we counted 5,000 for that client, in order to maintain a conservative estimate of the number of farmers reached and to limit the volatility in this metric over time associated with the entry and exit of large clients from the portfolio. Beginning in 2013, we no longer cap the number of producers per client at 5,000 in order to more accurately reflect the true number of producers that we reach with our financing. For example, for the past few years, we have been financing a particularly large cotton enterprise in Uganda and have historically capped its 40K producers at 5K. However, we have been providing around 50% of the business' financing, comparable to what we provide for many of our other clients, so we believe it is more accurate to report the full number of producers reached rather than to cap this figure arbitrarily. In the past, for each enterprise for which we applied the 5,000 cap, we adjusted the revenues and payments to producers down proportionately. One consequence of removing the cap is that we are now counting the full revenues and payments to producers of our largest clients, which is driving a significant increase in those numbers.

In Q2 2013, we began to report metrics not only for enterprises that received a disbursement during the quarter (as we had done historically), but also began including metrics for enterprises that have loans outstanding from previous quarters or years, even if they did not receive a disbursement in the current quarter. This method more accurately captures the number of producers reached by our capital in a given time period. This change in methodology resulted in a one-time increase in all social and environmental metrics in Q2, and also contributed to metrics being significantly above 2013 year-end targets.

SUSTAINABLE TRADE FUND

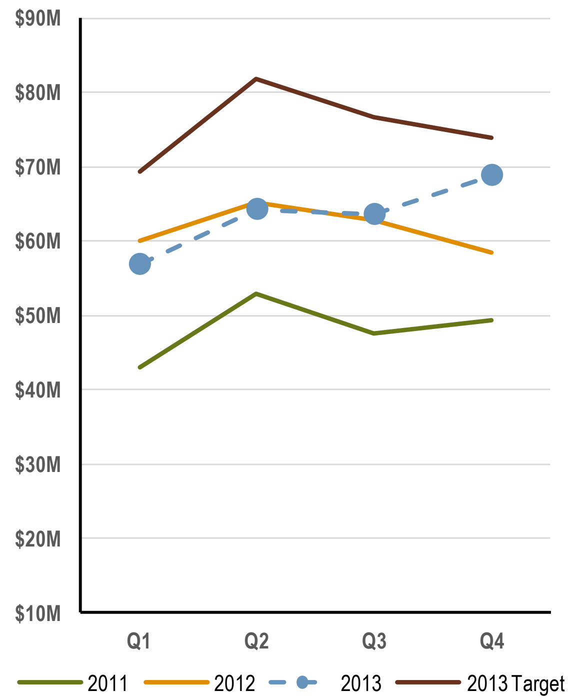
Lending Performance

Loan Disbursements by Year



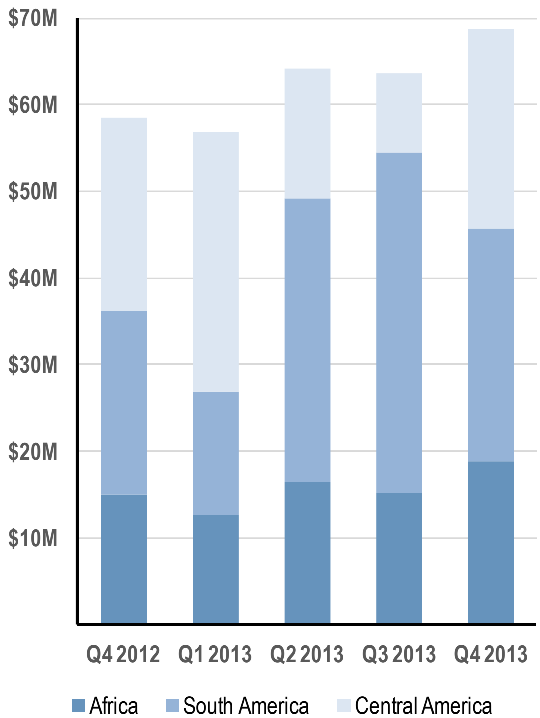
- We disbursed $38.3M in Q4, 17% above the target of $32.8M for the quarter and a 50% increase over the same period last year. Cumulative disbursements for 2013 were $119.7M, 15% below target for the year, but 2% above last year's performance through Q4.
- We continued to catch up to our cumulative disbursement target in Q4. At the end of the quarter, we had disbursed 85% of our cumulative disbursement target, up from 75% at the end of Q3, 66% at the end of Q2, and 53% at the end of Q1.
- South America and West Africa surpassed both their cumulative and Q4 disbursement targets. In total, $55.5M was disbursed in South America in 2013, 1% above target and 8% more than last year. $11.3M was disbursed in West Africa in 2013, 13% over projections and a 155% increase from last year.
- Cumulative disbursements in Central America and East Africa were 24% and 43% below projections, respectively.

Outstanding Portfolio Balance by Year



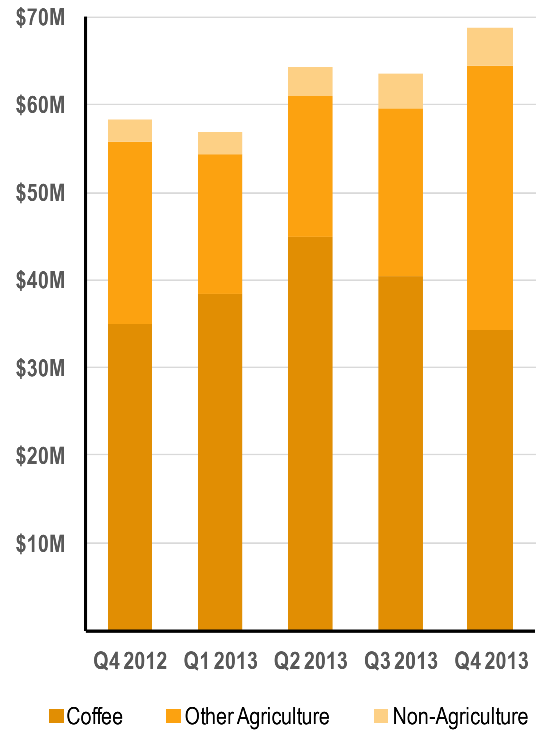
- At the end of Q4, the outstanding balance was $68.8M, 7% below the projection of $73.9M, but 18% above the same time last year.

Outstanding Balance by Region (Trailing 5-Quarter)



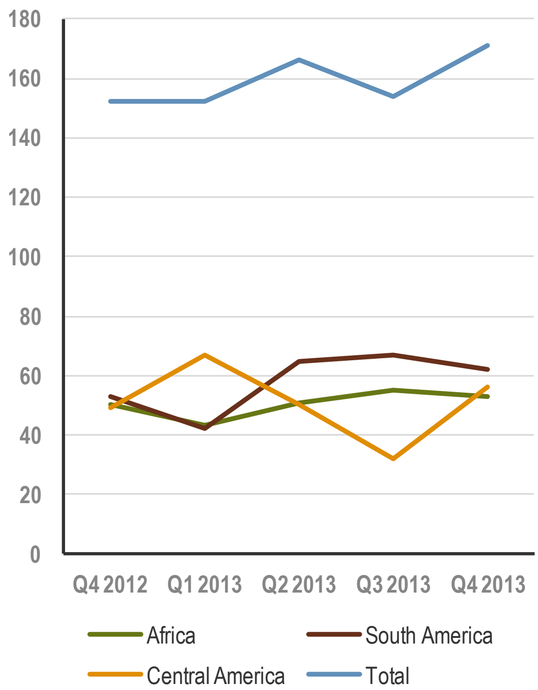
- ➔ The Central America portfolio grew from $9.1M at the end of Q3 to $23.1M at the end of Q4, which was 18% lower than projected, but 3% above the same time last year. The start of the Central American coffee harvest in Q4 was the impetus for the growth in outstanding balance from Q3.
- ➔ The South America portfolio balance decreased by 46% from the end of Q3, from $39.3M to $27M. This decrease is in line with the cyclical pattern in South America, mostly driven by the coffee harvest season. The quarter-end balance was 4% above projections and 27% above the same period last year.
- ➔ West Africa's outstanding balance at the end of Q4 was $9.1M, up from $4.2M at the end of Q3. The quarter-end balance was 33% higher than projected and 126% above Q4 2012. The increase in outstanding balance was due primarily to closing a few large cocoa and cashew loans in Q4.
- ➔ The East Africa portfolio was $9.6M at the end of Q4, 26% below projections and down 11% from the same time last year. A large portion of the East African portfolio is Rwandan coffee, which experienced the same industry-wide issues discussed in previous quarters.

Outstanding Balance by Industry (Trailing 5-Quarter)



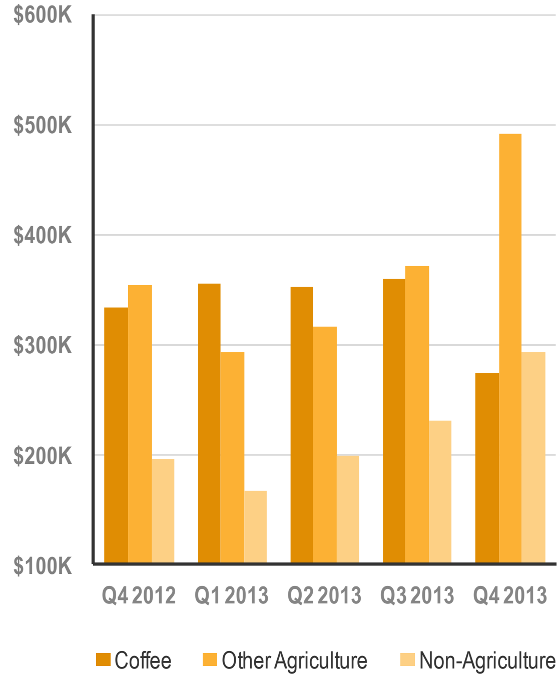
- ➔ Root Capital's coffee portfolio consists of loans made to specialty coffee value chains, such as organic and/or fair trade coffee, which provide higher social and/or environmental impact than most conventional coffee.
- ➔ Coffee loans accounted for 50%, or $34.4M, of the $68.8M portfolio. The percentage of coffee loans in the Sustainable Trade Fund decreased from 60% at the end of 2012 as we continue to diversify into other industries.
- ➔ Other Agriculture loans totaled $30.0M, or 44% of the Sustainable Trade Fund at the end of Q4, up from 36% at the end of 2012. The three largest industries were cocoa ($10.4M), cashews ($2.8M) and quinoa ($2.7M).
- ➔ The Non-Agriculture sector consists of loans to industries like handcrafts and wild fisheries. This portfolio remains a very small portion of the total portfolio, with $4.4M outstanding, or 6% of the portfolio.

Number of Active Clients by Region



- The total number of active clients at the end of Q4 was 171, an increase of 13% from 152 active clients for the same time last year.
- With the onset of the Central American coffee harvest, the number of active clients in the Central American portfolio increased from 32 at the end of Q3 to 56 at the end of Q4. This is an increase of 14% from the 49 active clients at the end of Q4 2012.
- The number of active clients in South America decreased slightly from 67 at the end of Q3 to 62 at the end of Q4.
- The number of active clients in Africa at the end of Q4 was 53, up slightly from 50 for the same time last year.

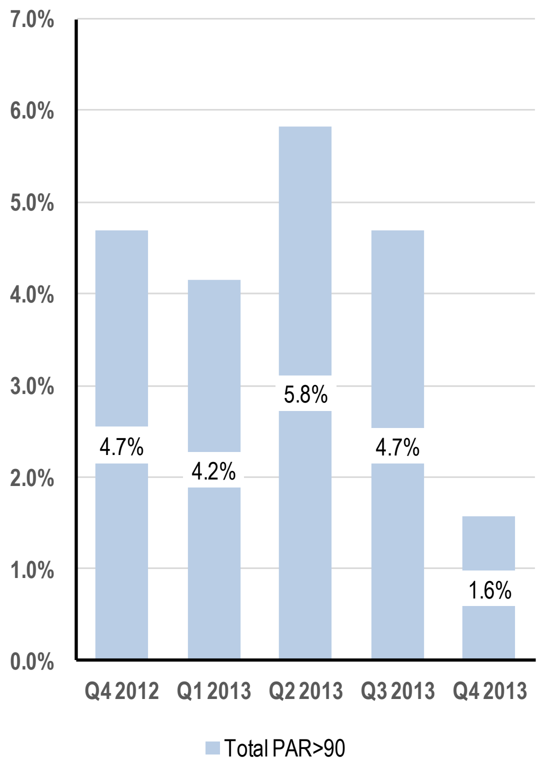
Average Outstanding Balance per Active Loan



- The average coffee loan outstanding decreased by 24% from last quarter to $275K. This is a cyclical decrease driven by the repayments of larger South American coffee loans made earlier in the year.
- The average Other Agriculture loan outstanding increased by 33% from last quarter to $492K per loan. This increase is due primarily to the closing of large loans in cocoa, quinoa, cotton and peas in Q4.
- The size of the average Non-Agriculture loan outstanding was 293K at the end of Q4, a 27% increase from the end of Q3.

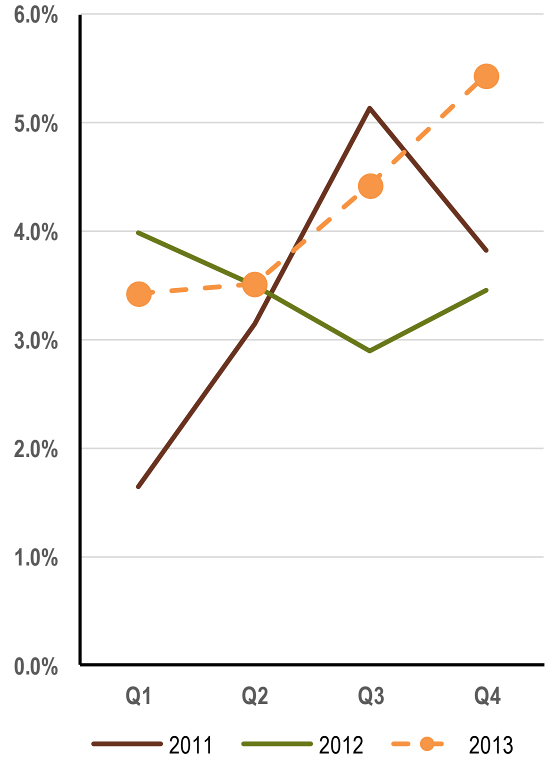
Lending Risk

Portfolio at Risk > 90 Days



- The Portfolio at Risk (PAR) over 90 days was 1.6% at the end of Q4, down from 4.7% at the end of Q3. The total outstanding balance at risk decreased from \$3.0M to \$1.1M.
- PAR in South America was 0.3% or \$88K, at the end of Q4
- PAR in Central America was 1.0%, or \$234K, at the end of Q4, down from 8.5%, or 771K, at the end of Q3. The decrease in PAR is due primarily to the write-off a tomato loan in Mexico and the upgrade in risk classification of a dried fruit loan in Mexico.
- PAR in East Africa was 4.0%, or \$383K, at the end of Q4, down from 8.7%, or \$946K, at the end of Q3. The improvement in PAR is due in part to the upgrade in risk classification of two restructured Rwandan coffee loans.
- PAR in West Africa decreased from 16.8%, or 713K, at the end of Q3 to 4.1%, or \$378K, at the end of Q4. The decrease in PAR was due in large part to the write off of two cashew loans in Q4.

Loan Loss Ratio
(Trailing 12 month average)



- The Loan Loss Ratio increased from 4.4% at the end of Q3 to 5.4% at the end of Q4.
- The Loan Loss Ratio in Central America at the end of Q4 was 8.9%, up from 6.9% at the end of Q3. In Q4, a tomato loan and a textile loan in Central America were written off for a total of \$416K.
- The Loan Loss Ratio in South America was 2.7% at the end of Q4. Three loans of \$547K to coffee, timber and quinoa producers were written off in Q4.
- The Loan Loss Ratio for West Africa was 17.2% at the end of Q4, up slightly from 14.5% at the end of Q3. Two cashew loans totaling \$342K were written off in Q4.
- The Loan Loss Ratio in East Africa was 0.9% at the end of Q4. One loan of \$86K to a pea producer in Kenya was written off in Q4.

Sustainable Trade Fund Financial Results & Analysis

All numbers in thousands	Sustainable Trade Fund 2013			
	Actual	Budget	Variance ($)	Variance (%)
Loan Interest	5,915	7,058	(1,143)	-16%
Fees & Other Revenue	1,140	1,219	(78)	-6%
Gain (loss) on Fx Lending	(16)	0	(16)	N/A
Total Earned Revenue	**7,040**	**8,277**	**(1,237)**	**-15%**
Portfolio Yield	**11.3%**	**11.3%**	**0.1%**	**1%**
Net Allowance for Loan Loss Expense	3,163	2,805	358	13%
Provisioning Expense Ratio	5.1%	3.8%	1.3%	34%
Net Interest Expense	1,561	1,955	(394)	-20%
Net Funding Expense Ratio	2.5%	2.7%	-0.1%	-5%
STF Operating Expense	4,920	5,295	(375)	-7%
Operating Expense Ratio	7.9%	7.2%	0.7%	10%
Total Expenses	**9,644**	**10,055**	**(411)**	**-4%**
Total Expense Ratio	**15.5%**	**13.7%**	**1.9%**	**14%**
STF Surplus / (Deficit)	**(2,604)**	**(1,778)**	**(826)**	**-46%**
Operational Self Sufficiency (OSS)	**73%**	**82%**	**N/A**	**N/A**

EARNED REVENUE

During 2013 there was an average outstanding balance of $62.0M in the Sustainable Trade Fund, with an average portfolio yield of 11.3% earned on that balance. The resulting revenue of $7.0M was in line with 2012 results, but 15% below the 2013 target of $8.3M, due to lower portfolio growth than targeted. As further described in the Lending Performance section above, despite strong lending results in the second half of the year (and during the fourth quarter in particular), we were unable to hit our full-year lending targets due to the lending shortfalls in Central America and Africa during the first half of the year.

ALLOWANCE FOR LOAN LOSS EXPENSE

Net allowance for loan loss expense of $3.2M was $358K (13%) higher than targeted, and this higher risk was largely driven by Central America, which incurred $1.1M in net allowance for loan loss expense (with a provisioning expense ratio of 5.8%), and West Africa, which incurred $0.9M in net allowance for loan loss expense (with a provisioning expense ratio of 17.6%). During 2013, we recovered $299K from previously written-off loans, resulting in a net provisioning expense ratio of 5.1%, approximately one-third higher than targeted.

INTEREST EXPENSE & INTEREST EARNED ON CASH AND INVESTMENTS

Net interest expense of $1.56M was $394K below budget. This variance was primarily driven by a deliberate reduction in debt capital in response to below-target lending volume.

LENDING PROGRAM OPERATING EXPENSE

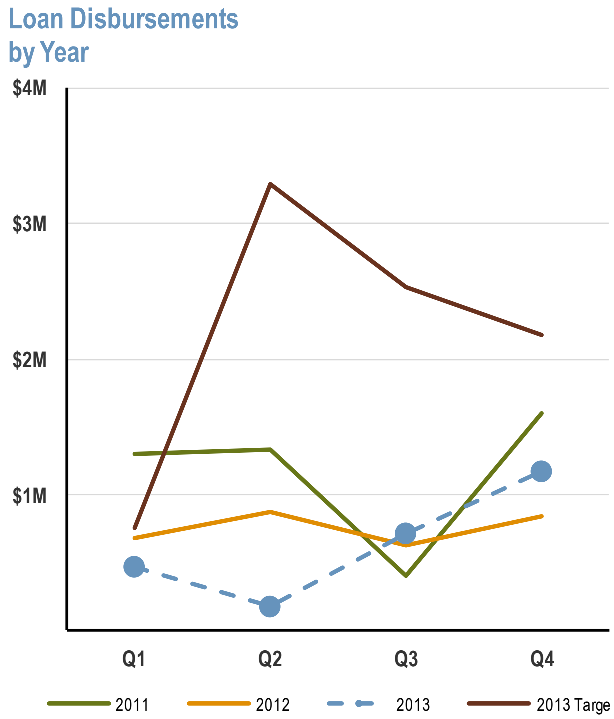
During 2013, operating expenses for the Sustainable Trade Fund were $4.9M, approximately 12% below budget. However, our operating expense ratio of 7.9% was 90 basis points above target due to a lower average portfolio balance.

OPERATIONAL SELF SUFFICIENCY

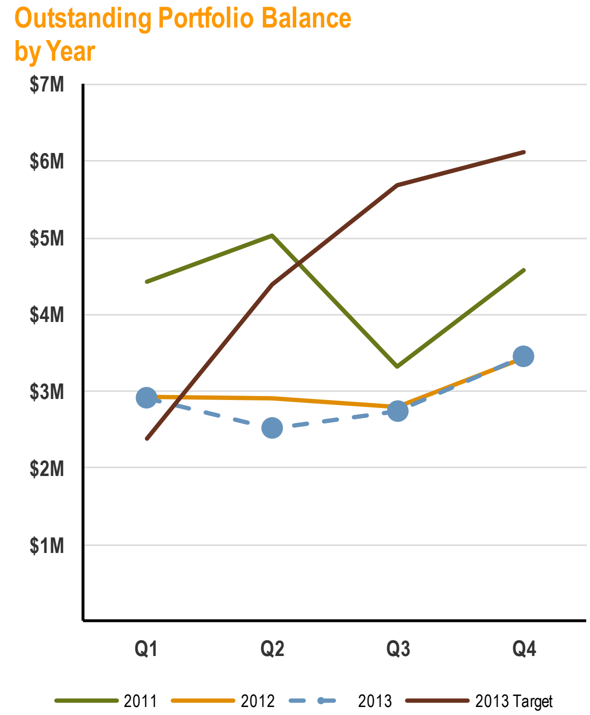
Operational Self Sufficiency (OSS) was 73%, lower than expected due to below-target earned revenue and higher-than-expected allowance for loan loss expense, which were only partially offset by below-target expenses.

FRONTIER PORTFOLIOS

Lending Performance

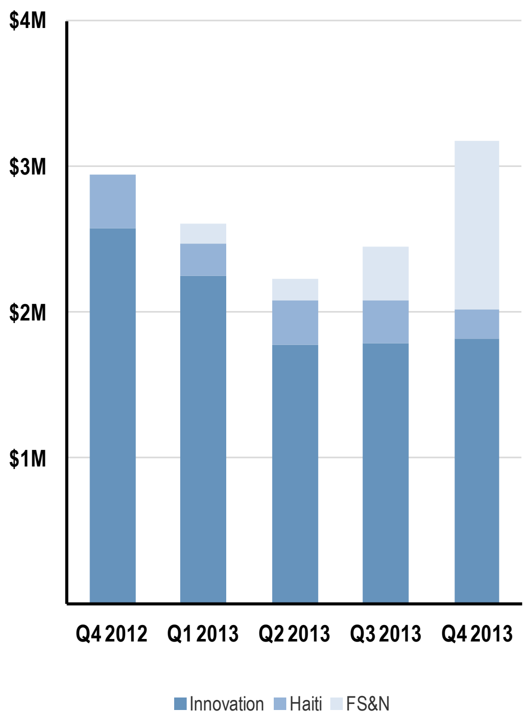


- We disbursed $1.2M in the Frontier Portfolios in Q4. The Frontier Portfolios consist of loans made in the Innovation, Food Security & Nutrition, Haiti and Other Portfolios.
- We disbursed $842K in the Food Security & Nutrition Portfolio in Q4, 34% below the target of $1.3M. Disbursements were made in Ghana, Senegal, Tanzania and Uganda to cassava, millet, seed, maize and sorghum producers.
- We disbursed $334K in the Innovation Portfolio in Q4, 36% below the target of $525K. Disbursements were made in Ghana, Rwanda and Nicaragua to sorghum, soy and dried bean producers.
- No disbursements were made in Q4 in the Haiti portfolio.



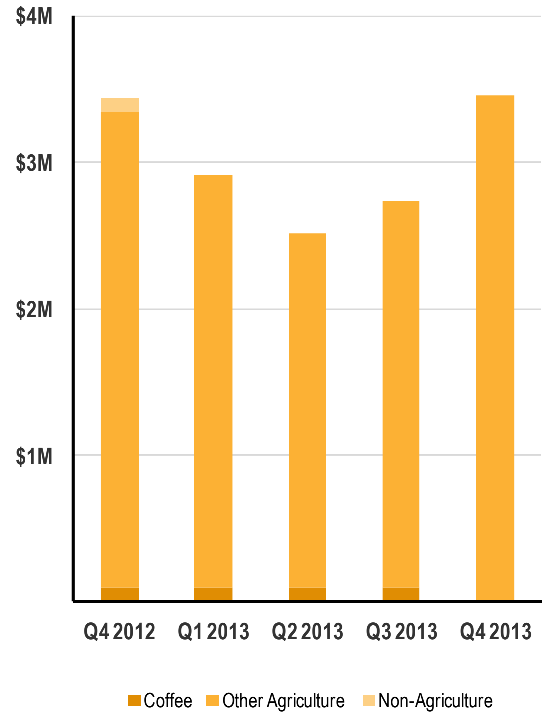
- The outstanding balance was $3.5M at the end of Q4, 44% below the projected outstanding balance of $6.1M.
- The lower-than-expected outstanding balance was due primarily to low disbursements in the Food Security & Nutrition portfolio and, to a lesser extent, below-projection disbursements in the Innovation Portfolio. The lower disbursements were due in part to weather-dependent crop cycles that caused disbursements to be pushed from Q4 2013 to Q1 2014.

Outstanding Balance by Portfolio



- The Innovation Portfolio had $1.8M outstanding at the end of Q4. There are currently 14 active clients in the Innovation Portfolio in seven countries across Africa and Latin America.
- The Food Security & Nutrition Portfolio had $1.2M outstanding at the end of Q4, a 216% increase from the end of Q3. There are currently seven active clients in four countries in East and West Africa. Additionally, four loans totaling $1.7M were approved in Q4 that had not been disbursed by year-end.
- The Haiti Portfolio had two active loans at the end of Q4, totaling 198K outstanding to cocoa and vetiver oil producers.
- The Other Portfolio (formerly our North Portfolio) had two loans outstanding at quarter-end with a combined balance of $271K. The Other Portfolio is intentionally omitted from the graph due to its planned closure.

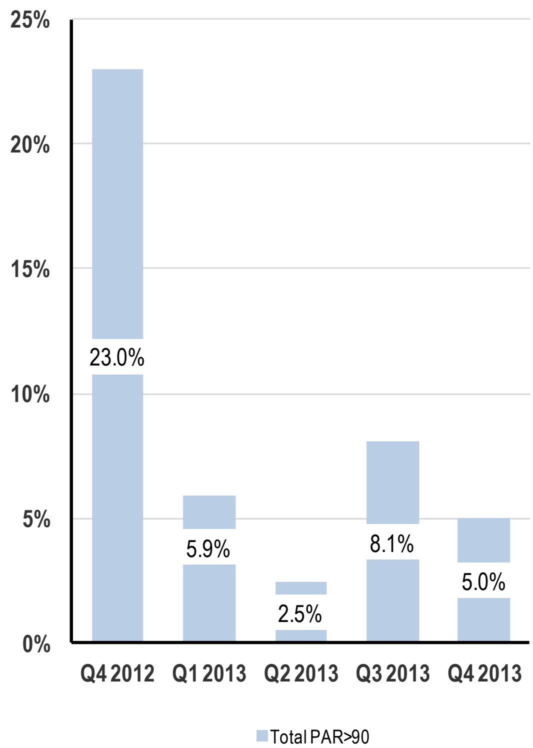
Outstanding Balance by Industry



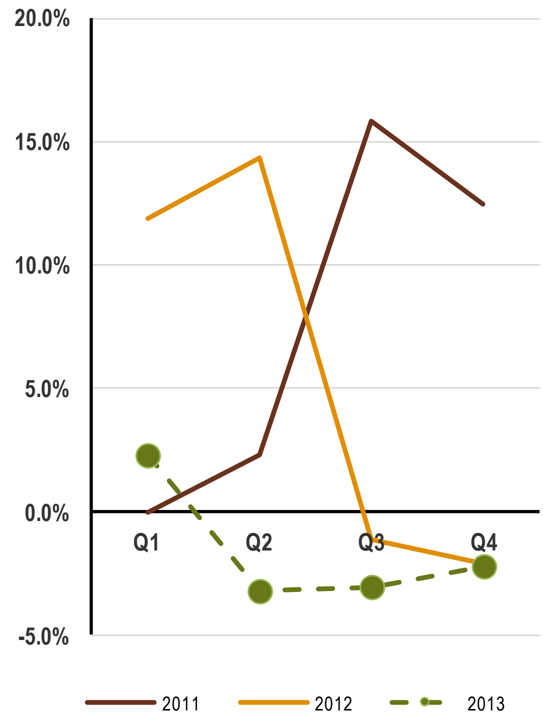
- The three largest industries in the Food Security & Nutrition Portfolio were maize (43%), seeds for farm inputs (19%) and sorghum (18%).
- The three largest industries in the Innovation Portfolio were sorghum (32%), seeds for farm inputs (23%) and rice (15%).
- In addition to the industries listed above, there were active loans in the Food Security & Nutrition Portfolio to cassava and millet producers and active loans in the Innovation Portfolio to egg, honey, dried bean, soy, shea and banana producers.

Lending Risk

Portfolio at Risk > 90 Days



Loan Loss Ratio (Trailing 12-month average)



- The Portfolio at Risk over 90 days (PAR) was 5.0% at the end of Q4. The outstanding balance of the loans at risk was $172K at the end of the quarter.
- The Innovation Portfolio had one loan at risk with a balance of $55K. The PAR for the Innovation Portfolio was 3.0%.
- The Haiti Portfolio had one loan at risk with a balance of 117K. The PAR at quarter end was 58.9%.
- There are no loans currently at risk in the Food Security & Nutrition or Other Portfolios.

- At the end of Q4, the Loan Loss Ratio for the Frontier Portfolios was a negative (2.2%) as the amount recovered in 2013, from loans previously written off in the Frontier Portfolios, was greater than the amount written off during 2013.
- The Haiti Portfolio had a Loan Loss Ratio of 33.5%, driven by the write-off of a vetiver oil loan and a handcraft loan in Q1 2013. The losses equaled $168K.
- The Loan Loss Ratios for the Innovation and Food Security & Nutrition Portfolios were 0.0% at the end of Q4. These portfolios have never had a loss.
- The Other Portfolio had a 0.0% Loan Loss Ratio and $158K was recovered in 2013 for loans written off in the North portfolio from previous years. These recoveries were the main reason for the overall negative Loan Loss Ratio.

Frontier Portfolios Financial Results & Analysis

All numbers in thousands	Frontier Portfolios 2013 Actual	Budget	Variance ($)	Variance (%)
Loan Interest	439	615	(176)	-29%
Fees	30	88	(58)	-66%
Gain (loss) on Fx Lending	(195)	0	(195)	N/A
Total Earned Revenue	**273**	**703**	**(430)**	**-61%**
Portfolio Yield	**9.1%**	**11.4%**	**-2.2%**	**-20%**
Net Allowance for Loan Loss Expense	(324)	329	(653)	-199%
Provisioning Expense Ratio	10.8%	5.3%	5.5%	104%
Net Interest Expense	47	60	(14)	-22%
Net Funding Expense Ratio	1.6%	1.0%	0.6%	60%
Frontier Portfolios Operating Expense	1,496	1,787	(291)	-16%
Operating Expense Ratio	49.9%	28.9%	21.0%	72.9%
Total Expenses	**1,219**	**2,177**	**(958)**	**-44%**
Total Expense Ratio	**62.3%**	**35.1%**	**27.1%**	**77%**
Frontier Surplus / (Deficit)	**(946)**	**(1,473)**	**528**	**36%**

EARNED REVENUE

During 2013, total earned revenue in the Frontier Portfolios was $273K, 61% percent below target. We earned $439K in loan interest, $176K below target. Additionally, reduced disbursements resulted in a $58K variance in fees below target. Revenue was further weakened by a $195K loss on foreign currency lending. This loss was partially realized and largely offset by higher rates charged for local currency loans. The Lending section of this report provides further detail on the lower disbursements in the Frontier Portfolios.

ALLOWANCE FOR LOAN LOSS EXPENSE

Due to the upgrade of a loan previously classified as substandard to current, combined with $232K recovered from previously written-off loans in the North and Haiti Portfolios, the Frontier Portfolios incurred a net allowance for loan loss *benefit* of $324K, compared to a projected *expense* of $329K.

INTEREST EXPENSE & INTEREST EARNED ON CASH AND INVESTMENTS

Through December, we incurred net interest expense of $47K in the Food Security & Nutrition and Haiti Portfolios.

LENDING PROGRAM OPERATING EXPENSE

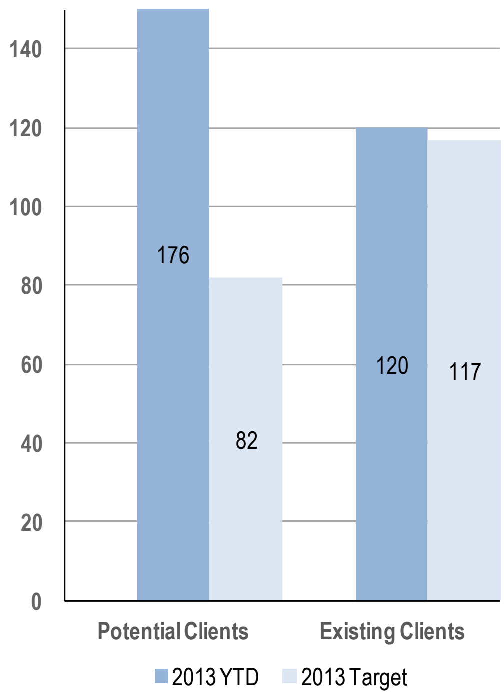
Operating expenses of $1.5M were 16% below budget and represented $291K compared to the board-approved Frontier Portfolios budget of $1.8M.

FRONTIER PORTFOLIOS OPERATING DEFICIT

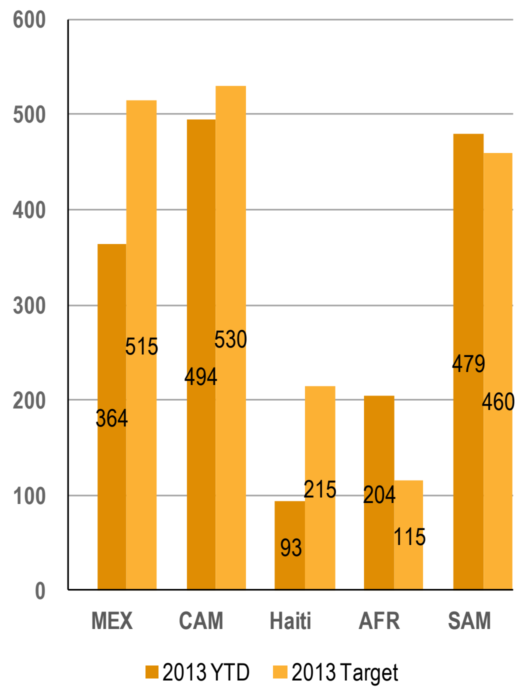
Despite generating materially less earned revenue than targeted, material positive variance in net allowance for loan loss expense and operating expenses resulted in a 2013 operating deficit of $946K in the Frontier Portfolios, 36% less than the budgeted deficit of $1.47M.

FINANCIAL ADVISORY SERVICES

Groups Served by
Financial Advisory Services
(through Q4)



Days of Training Delivered by
Financial Advisory Services
(through Q4)



- We trained 296 businesses in 2013, exceeding our 2013 goal of 199 groups by nearly 50%.
- The positive variance from plan, in terms of businesses trained, reflects placing a higher priority on assisting unbanked businesses to prepare them to access credit. This resulted in a greater number of clients reached but less intensive training on a per client basis. Training for current portfolio clients met the annual target, while the number of potential clients trained was more than double the target.
- We provided financial training in 15 countries across a variety of themes, including: basic accounting, internal credit management, risk management, financial planning and basic support in preparing a Root Capital loan application.

- In 2013, we delivered 1,643 days of financial training, a 40% jump from year-end figures in 2012 but slightly below our target of 1836 days for the year.
- As expected, mainly due to the timing of the coffee harvest, activities in Central America and Mexico accelerated dramatically in the fourth quarter. The two regions combined contributed 70% of the 525 days of training delivered.
- 2013 was a breakout year for both Africa and South America. Targets were exceeded on both fronts with the hire of a FAS coordinator for West Africa and the launch of our Internal Credit Systems module in South America.

CATALYZE PROGRAM PERFORMANCE

During Q4 2013, Root Capital participated in several high-profile events and was featured in media outlets as thought leaders in the fields of sustainable agriculture, impact investing and small business growth in rural Africa and Latin America.

SOCIAL AND ENVIRONMENTAL DUE DILIGENCE TRAINING

Working with Rainforest Alliance, we conducted our third sustainable agriculture training, in this case for loan officers in East Africa. The training focused on providing loan officers with a deeper understanding of the environmental impacts of different agricultural production systems in order to strengthen their capacity to perform effective environmental due diligence, particularly in newer industries for Root Capital. The training consisted of three days: one in the classroom, focused on fundamental concepts of sustainable agriculture and environmental health, followed by two days visiting coffee and tea farms in order to apply learning in a practical setting.

INDUSTRY RECOGNITION

- Senior Loan Officer Richard Tugume received the 2013 East Africa Agribusiness Award for “Best Financier in East Africa” on Root Capital’s behalf during the East Africa Agribusiness Investment Summit in Kampala, Uganda.

THOUGHT LEADERSHIP AND FIELD BUILDING

- In October, CEO Willy Foote delivered the keynote speech at a "Harvard for Change" symposium, focusing on social entrepreneurship as a vehicle to empower young leaders seeking to create global solutions that combine positive impact and economic growth.
- Impact Assessment Officer Asya Troychansky presented "A Client-Centric Approach to Impact Measurement" alongside leaders from Keystone Accountability and the World Bank on a panel about “Beneficiary Feedback and Rapid Evaluative Approaches: Latest Tools and Technologies” for over 50 World Bank Group professionals at the International Finance Corporation in Washington DC.
- CEO Willy Foote presented at the 11th Hour Project's "CONNECT" conference in San Francisco, which brought together partners in the Schmidt Family Foundation community who focus on sustainable agriculture, climate, energy, and human rights.
- Director of Corporate Relations Ben Schmerler presented "Launching the Coffee Farmer Resilience Initiative" on a keynote panel with the Inter-American Development Bank, Green Mountain Coffee Roasters and Sustainable Harvest to 200 attendees from across the coffee industry at Sustainable Harvest's Let's Talk Roya conference in El Salvador.
- Director of Strategy & Impact Mike McCreless was a featured panelist on BBC World Service’s “The Forum” on the topic of Measuring Impact. This feature was also broadcast on National Public Radio, and can be found at: http://www.bbc.co.uk/programmes/p01hnv96
- Senior Vice President of Communications & Marketing Liam Brody served as a guest lecturer for the Corporate Social Responsibility Initiative at the Harvard Kennedy School, discussing the evolution and trajectory of corporate sustainability.
- Director of Corporate Relations Ben Schmerler presented "Blueprint for Resilience," at the Restorative Value Chains event in Amsterdam hosted by Progreso Foundation.
- Impact Assessment Officer Asya Troychansky presented "A Client-Centric Approach to Impact Measurement" at the Sustainable Food Lab Performance Measurement 2.0 Workshop in McLean, Virginia.
- Senior Vice President of Finance Randy Atkin hosted a Harvard Business School Forum at Root Capital on the subject of Strategic Alternatives for Impact and Sustainability.

OVERALL OPERATING RESULTS

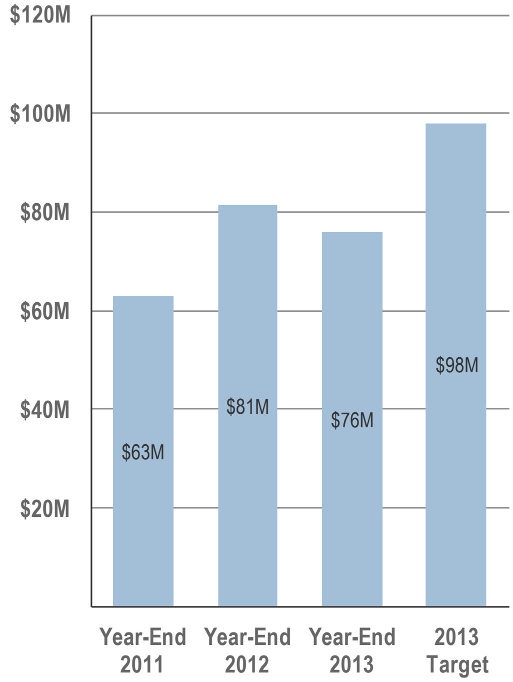
Operating Expense by Program

Program All numbers in thousands	2013 Operating Expenses FY 2013 Actual	FY 2013 Budget	% of Budget Spent	Y/Y Growth FY 2012 Actual	Y/Y Growth
Finance Opex (Sustainable Trade Fund)	4,920	5,295	93%	4,799	3%
Finance Opex (Frontier Portfolios)	1,496	1,787	84%	1,451	3%
Advise Opex	4,606	4,363	106%	2,739	68%
Catalyze Opex	2,730	3,740	73%	2,020	35%
Total Opex	**13,752**	**15,186**	**91%**	**11,008**	**25%**

- ➔ At the close of 2013, total operational expenses were $13.76M, which is an increase of $2.75M (24.9%) from 2012's total operating expenses of $11.0M. Total 2013 spending was 9% below the board-approved budget of $15.2M, representing $1.4M in cost savings.
- ➔ Combined Finance Program operating expenses grew modestly from 2012 at a consolidated rate of 2.6%. This is primarily due to a significant decrease in indirect costs, which were $586K (32%) lower than indirect costs for 2012. The Sustainable Trade Fund and Frontier Portfolio's direct costs increased by 16% and 19%, respectively.
- ➔ Total operating expenses for Advise grew by $1.9M from 2012, for a substantial growth rate of 68%. This growth has led the Advise Program to go from 25% to 33% of total operating expenses. This growth is driven by a significant scaling-up of programmatic activity in Africa, Haiti and Central America.
- ➔ Total operating expenses for Catalyze grew by $710K from 2012. The Catalyze Innovate program (Research & Development and Metrics & Impact) accounted for $542K in new spending (76% of the total programmatic increase).
- ➔ Operating expenses for the Operating Platform (Management and General and Contribution Fundraising) declined by 7.9% from 2012, from $3.1M to $2.9M. This is due to several factors: Investor Relations reallocating a higher percentage of fundraising costs directly to the programs for which they are fundraising and a significant portion of legal, communication and information technology expenses being directly allocated to programs because they provide services that are essential to the operation of those programs.

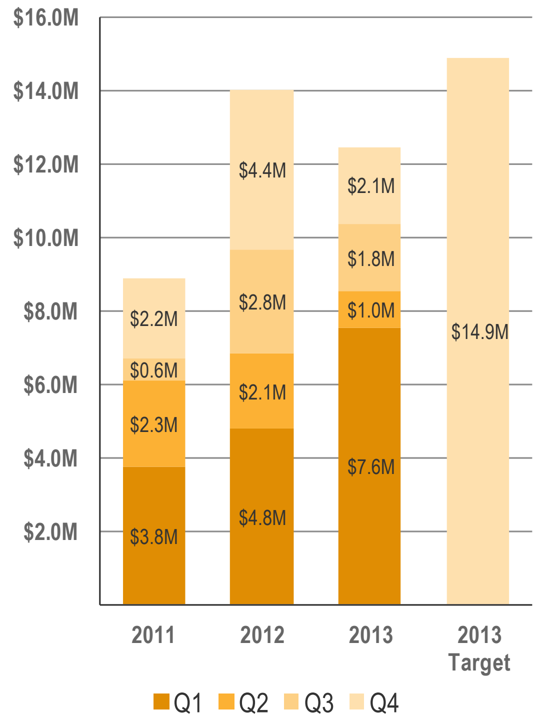
Fundraising Results

Outstanding Debt Balance (through Q4)



- We ended 2013 with a debt balance of $75.9M.
- As noted in communications throughout the year, the debt balance was lower than projected due to lower lending activity.

Total Contributions Raised (through Q4)



- In 2013, we raised a total of $17.2M in new philanthropic support for use in 2013 and future years.
- Fundraising from previous fiscal years through year-end 2013 yielded $12.5M in philanthropic funds for use in 2013. Of this, $1.4M is an expansion of our Loan Loss Reserve and the remainder was used to cover operations expenses.
- Please note that due to adjustments made to revenue schedules throughout the year, quarterly contribution totals have shifted from those shown in previous quarterly reports.
- We ended 2013 with visibility into more than half of our philanthropic fundraising need for 2014.

Balance Sheet Highlights & Key Ratios

Balance Sheet Highlights (All numbers in thousands)	Q4 2013 Actual	Q4 2013 Budget	Variance ($)	Variance (%)	FY 2012 Actuals	Change since 12/31/2012 (%)
Cash and Short-Term Investments	29,750	45,398	(15,649)	-34%	44,425	-33%
Total Loans Receivable	71,876	79,837	(7,961)	-10%	61,773	16%
Less: Allowance for Loan Loss	(1,642)	(2,649)	1,007	-38%	(2,120)	-23%
Loans Receivable (net)	70,234	77,188	(6,954)	-9%	59,653	18%
Other Assets	16,579	16,291	289	2%	17,106	-3%
Total Assets	**116,562**	**138,876**	**(22,314)**	**-16%**	**121,185**	**-4%**
Total Notes Payable & Other Debt	75,148	97,545	(22,397)	-23%	81,462	-8%
Other Liabilities	3,382	1,730	1,651	95%	1,408	140%
Total Liabilities	**78,530**	**99,275**	**(20,745)**	**-21%**	**82,870**	**-5%**
Total Net Assets	**38,033**	**39,601**	**(1,569)**	**-4%**	**38,315**	**-1%**
Total Liabilities & Net Assets	**116,562**	**138,876**	**(22,314)**	**-16%**	**121,185**	**-4%**

Key Financial Ratios	Q4 2013 Actual	Q4 2013 Target	Variance (%)	FY 2012 Actual	Change since 12/31/2012 (%)
Debt-to-Equity Ratio	3.29	3.99	-18%	3.82	-14%
Capital Utilization	83.5%	73.1%	14%	84%	-1%
Current Ratio	4.37	N/A	N/A	4.24	3%

- ➔ Root Capital had $116.6M in total assets as of 12/31/2013. Since year-end 2012, our total debt balance has decreased by $6.3M while our total lending portfolio has increased by $10.1M.
- ➔ At the end of December, we held $29.8M in cash, reserves and short-term marketable securities, approximately $15.6M less than anticipated.
- ➔ Better utilization of cash and debt has improved our year-end capital utilization ratio to 83.5%, an improvement on our projected rate of 73.1%, and up from 68.6% at the end of Q2.
- ➔ Our debt-to-equity ratio at quarter-end was 3.29x, less-leveraged than our 3.99x target. We ended the quarter with a current ratio of 4.37x.

APPENDIX: Q4 2013 FINANCIAL STATEMENTS*

**Other social lenders have agreed to participate in a portion of several loans originated by Root Capital. Based on the advice of our external auditors, we recently changed the way we account for these loans, and are now including the full value of the loan receivable and interest earned on our financial statements, with an offsetting loan participation liability and interest expense. The participation portions of those loans are not included in the Lending Performance sections of this report because the other lenders are entitled to the interest revenue for their participation portion of the loan balance, and are liable for any loan losses on that balance. However, loan participation amounts are included in the Operating Results section to represent our Total Outstanding Debt Balance accurately and for calculating our debt-to-equity Ratio. Our total loan participation balance at the end of Q4 2013 was $29,100.*

Balance Sheet Highlights as of December 31, 2013

in thousands	December 2013			Dec-13 vs Dec-12		December-13 vs Dec-12	
	Actual	Projected	$ Variance	December-12	% Y/Y	December-12	$ Change
Total Loans Receivable	71,876	82,123	(10,247)	61,773	16%	61,773	10,103
Allowance for Loan Losses	1,642	2,518	(876)	2,120	-23%	2,120	(478)
Total Net Loans Receivable	**70,234**	**79,604**	**(9,371)**	59,653	18%	59,653	10,580
Total Notes Payable & Other Debt	75,148	93,174	(18,026)	81,462	-8%	81,462	(6,314)
Cash and Short Term Investments	28,418	35,207	(6,788)	44,425	-36%	44,425	(16,007)
Capital Under Management	93,291	111,337	(18,047)	98,641	-5%	98,641	(5,351)
Total Assets	**116,562**	**132,379**	**(15,817)**	**121,185**	**-4%**	**121,185**	**(4,622)**

Statement of Financial Position as of December 31, 2013

in thousands	December 2013				Dec-13 vs Dec-12		December-13 vs Dec-12	
	Operating	Sustainable Trade Fund	Frontier Portfolios	Total Root Capital	December-12	% Y/Y	December-12	$ Change
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	14	6,580	5,592	12,186	31,940	-62%	31,940	(19,755)
Cash loan loss reserve (10% of gross loans rec.)		6,844	344	7,188	6,177	16%	6,177	1,010
Escrow funds		1,331		1,331	119	1020%	119	1,212
Investments	4,729	317	4,000	9,045	6,307	43%	6,307	2,738
Current loans receivable, net of allowance for loan losses of $1.6 m and $2.1 m		45,508	2,316	47,825	45,319	6%	45,319	2,506
Interest receivable, net of allowance for interest losses of $62k and $108k		1,201	105	1,307	1,040	26%	1,040	267
Collateral on hedge		-		-	21	-100%	21	(21)
Grants receivable and accounts receivable	8,594	2,278	626	11,498	9,176	25%	9,176	2,322
Other current assets	320		-	320	271	18%	271	49
Total current assets	13,657	64,059	12,983	90,699	100,371	-10%	100,371	(9,672)
EQUIPMENT AND IMPROVEMENTS, net	226		-	226	300	-25%	300	(74)
LOANS RECEIVABLE, net of current portion		21,421	988	22,409	14,334	56%	14,334	8,075
GRANTS RECEIVABLE, net of current portion	2,164	811	161	3,136	6,096	-49%	6,096	(2,960)
OTHER NON-CURRENT ASSETS	92		-	92	83	10%	83	9
Total assets	**16,139**	**86,290**	**14,133**	**116,562**	**121,185**	**-4%**	**121,185**	**(4,622)**
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Notes payable, short term		15,777	-	15,777	22,267	-29%	22,267	(6,490)
Notes payable, subordinated		1,650	-	1,650	100	-	100	1,550
Recoverable grant		-		-	-	-	-	-
Loan participation liability		21	-	21	29	-	29	(8)
Escrow funds		1,331	-	1,331	119	1020%	119	1,212
Accounts payable & accrued expenses	1,020		-	1,020	260	292%	260	759
Accrued vacation & salary payable	368		-	368	250	47%	250	118
Accrued interest payable		561	4	565	628	-10%	628	(63)
Total current liabilities	1,388	19,340	4	20,732	23,653	-12%	23,653	(2,920)
DEFERRED RENT LIABILITY	97		-	97	151	-36%	151	(54)
NOTES PAYABLE, Long Term		50,500	6,200	56,700	54,966	3%	54,966	1,734
SUBORDINATED DEBT		-	1,000	1,000	4,100	-76%	4,100	(3,100)
Total liabilities	1,485	69,841	7,204	78,530	82,870	-5%	82,870	(4,340)
NET ASSETS:								
Unrestricted:								
Operating reserve	4,729		-	4,729	4,043	17%	4,043	686
Permanent lending capital - board designated		3,832	589	4,421	4,968	-11%	4,968	(547)
Loan loss reserve - board designated		2,377	344	2,721	2,711	0%	2,711	10
Undesignated unrestricted net assets	-		-	-	-	0%	-	-
Total unrestricted	4,729	6,209	933	11,870	11,721	1%	11,721	149
Temporarily restricted:								
Purpose and time	9,925	4,191	1,046	15,162	16,993	-11%	16,993	(1,831)
Permanent lending capital-donor designated		1,584	4,950	6,534	6,134	7%	6,134	400
Loan loss reserve-donor designated		4,467		4,467	3,467		3,467	1,000
Total temporarily restricted	9,925	10,241	5,996	26,162	26,593	-2%	26,593	(431)
Total net assets	14,654	16,450	6,929	38,033	38,315	-1%	38,315	(282)
Total liabilities and net assets	**16,139**	**86,290**	**14,133**	**116,562**	**121,185**	**-4%**	**121,185**	**(4,621)**

Statement of Activities

December 31, 2013

in thousands	December			YTD Actuals vs. Full-Year Board Approved Budget		Y/Y Growth (%)	
	Sustainable Trade Fund	Frontier Portfolios	Total Root Capital	2013 Budget	Actuals as % of Budget	Dec YTD 2012	*13 YTD vs 12 YTD*
FINANCE							
Loan interest, net of allow for int losses	5,915	439	6,354	7,674	*83%*	6,323	*0%*
Fees	1,140	30	1,170	1,307	*90%*	1,073	*9%*
Co-lending services						6	*-100%*
Gain (loss) on FX lending	(16)	(195)	(211)	-	*n/a*	(21)	*924%*
Total earned revenue	**7,040**	**273**	**7,314**	**8,980**	***81%***	**7,382**	***-1%***
Portfolio Yield	*11.3%*	*9.1%*					
Allowance for loan loss	3,462	(92)	3,370	3,450	*98%*	3,322	*1%*
Less: Revenue on recovered loans and guarantees	(299)	(232)	(531)	(316)	*168%*	(512)	*4%*
Provisioning Expense Ratio	*5.1%*	*-11%*				-	
Interest expense	1,741	55	1,797	2,050	*88%*	1,681	*7%*
Less: Interest and investment income	(180)	(8)	(189)	(34)	*547%*	(310)	*-39%*
Net Funding Expense Ratio	*2.5%*	*1.6%*				-	
FINANCE operating expense	4,920	1,496	6,416	7,083	*91%*	6,250	*3%*
Operating Expense Ratio	*7.9%*	*49.9%*				*26.6%*	
FINANCE surplus / (deficit)	**(2,604)**	**(946)**	**(3,549)**	**(3,252)**	***109%***	**(3,050)**	***16%***
STF Operational Self Sufficiency	*73%*			*82%*		*80%*	
ADVISE and CATALYZE							
ADVISE operating expense			4,606	4,363	*106%*	2,739	*68%*
CATALYZE operating expense			2,730	3,740	*73%*	2,020	*35%*
ADVISE and CATALYZE			**7,335**	**8,103**	***91%***	**4,759**	***54%***
Contributions			**11,027**	11,430	*96%*	8,525	*29%*
Net Operating Surplus / (Deficit)			**143**	**76**	***188%***	**717**	***-80%***

***All comparisons of Actual to Budget refer to Total Root Capital results (Sustainable Trade Fund + Frontier Portfolios)*

Temporarily Restricted Revenue: YTD Results	LLR	PLC	Time & Purpose	**Total**
New T/R revenue		400	8,296	**8,696**
T/R revenue released for opex			(9,127)	**(9,127)**
LLR released	1,000		(1,000)	-
Change in T/R Net Assets	1,000	400	(1,831)	**(431)**

Total Contribution Goal: Budget vs Actual	Actual	Board Approved Budget	Var. %
Unrestricted Operating Contributions	11,027	11,430	96%
PLC and LLR Grants	1,400	3,467	40%
Total	12,427	14,897	83%

Use of Annual Operating Surplus	Actuals	Board Approved Budget	Var. $
Operating Reserve	686	777	(91)
Board Designated Loan Loss Reserve	10	(1,160)	1,171
Board Designated PLC	(554)	459	(1,013)
Operating Surplus	**143**	**76**	67

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.