Performance Report

Q2 2015

root capital

OVERVIEW

Over the course of Q2 2015, Root Capital reached yet another record-high average portfolio balance: $107 million, up 16 percent from Q2 2014 and in line with overall performance projections for the quarter. We made exciting progress with our Advisory and Catalyze activities, and through the quarter we reached over 450,000 farm families who collectively earned more than $880 million for their crops from our 242 clients. Yet as we celebrated these achievements, challenges in three of the regions where we operate precipitated lower-than-expected disbursements. Management and governance issues with a small handful of clients, coupled with changing buyer patterns in South America, late harvests and falling commodity prices in East Africa and cashew industry risk in West Africa slowed our disbursement activity for the quarter. We continue to monitor these situations and are developing strategies to mitigate the impacts as needed.

Portfolio Performance: Sustainable Trade Fund

In Q2, the average outstanding balance of the Sustainable Trade Fund was $96 million, up 11 percent from the same time last year and in line with our mid-year target. Throughout the quarter, we disbursed $31 million to 220 clients reaching an additional 24,000 producers in Africa, Asia and Latin America, bringing the total number of clients and producers reached year-to-date to 242 and 463,000, respectively.

In Central America, buoyed by an exceptional coffee harvest and resulting performance in Q1, our average balance was nearly 20 percent above target, with lending to coffee clients increasing by 26 percent from Q2 2014. We disbursed $5.6 million to clients in Central America in Q2, surpassing the quarterly target by 75 percent. Notably, our average portfolio balance in Nicaragua throughout Q2 2015 exceeded targets by almost 50 percent.

Despite continued strong performance in Central America, we were shy of our quarterly balance and disbursement targets for the portfolio overall, due to a combination of factors affecting lending activity in other regions.

In South America, our average portfolio balance for the quarter was $31.5 million, seven percent below our target. Disbursements in the region were 40 percent below our Q2 target of $21 million. The lending shortfall occurred in large part due to challenges with coffee clients in Peru, our biggest market and where coffee remains at least half of the portfolio. In addition to slowing demand for Peruvian specialty coffee, management and governance weaknesses have also adversely affected four large coffee clients in Peru. Key-person losses, production shocks like coffee leaf rust, and commodity price volatility all stress the management and governance capability of producer organizations. During these times we do our best to stand by our clients and the farming families they serve, restructuring loans where viable and providing financial management training to strengthen capabilities. Unfortunately when those are not viable solutions, as in this case, we are forced to discontinue our lending to those businesses. We know that good governance is a linchpin of sound financial management, so as we diversify into new industries, we will continue working with new clients in a measured way. Through Q2, our average portfolio balance in non-coffee industries in Peru was $10.8 million, up 60 percent compared to Q2 2014. However, diversification into new industries takes time, as we need to ensure our lending is done in a responsible, prudent and impactful way that is commensurate with risk expectations.

In Africa, average portfolio balance and disbursements also lagged behind targets. As discussed in previous reports, risk concerns in West Africa linked to cashew production and quality have slowed our lending activity in the region. Thus, we saw a 14 percent decrease in our average outstanding balance in West Africa this quarter over last year and disbursements were 33 percent short of our quarterly target. These slowdowns were expected, as we continued to place more emphasis on portfolio quality than portfolio growth. In East Africa, average portfolio balance was slightly below target due to a shortfall in lending activity in Rwanda, where lower coffee prices and a late harvest have contributed to lower-than-expected demand for finance.

Portfolio Performance: Frontier Portfolio

In Q2, the average outstanding balance of the Frontier Portfolio reached $11 million–an all-time high for the portfolio and 94 percent above Q2 2014. Central America and West Africa contributed to this strong performance, with both regions doubling their year-over-year growth, though delayed repayments on several loans currently being restructured also played a role. Through the quarter, we disbursed $2.4 million through the Frontier Portfolio, up substantially from the $197,000 disbursed in Q2 2014, but still 38 percent below target as disbursements in South America, East Africa and West Africa were lower than expected.

Much of the local value chain lending we do through our Frontier Portfolio is done in local currencies. Losses on foreign currency lending were significantly higher than anticipated this quarter, as the U.S. dollar appreciated at its fastest pace in 40 years. In order to mitigate associated risks, we have established exposure limits, revised interest rate premium pricing and brought on currency hedges in two of Root Capital's largest local currency portfolios: Ghana and Kenya. Year to date through Q2, hedges offset $180,000 of gross foreign currency losses, local currency premiums offset $430,000 and local currency reserve releases offset $170,000. Net of these offsets, foreign currency losses in the Frontier Portfolio totaled $340,000 in the first half of the year.

We are currently re-assessing our tolerance for foreign currency risk, as well as determining acceptable levels of credit risk (for more on how we approach risk, read Managing Risk – All Part of a Day's Work). We know that foreign currency lending is a critical piece to helping us achieve our mission, and are undergoing this exercise to determine our boundaries for operating in uncertain environments. When we began lending to high-impact, high-potential clients in local currencies in 2011, we put in place measures like local currency premiums to help us mitigate risk. We have continued to develop and adopt these measures and implement new measures in order to serve businesses like Classic Foods, a woman-led food company in Kenya sourcing from 2,500 farmers, with capital they needed but could not otherwise access.

Today we serve 40 clients across more than 20 industries representing 70,000 smallholders with critical loans provided in local currency. Providing this kind of financing is challenging, but with few other lenders willing to provide affordable, local-currency credit to early-stage enterprises in local value chains, we know the opportunity for impact is substantial. Continued and additional support from our donors and investors is essential as we continue serving the needs of these underserved high-impact agricultural businesses.

Portfolio Quality

In the Sustainable Trade Fund, the total outstanding balance in Portfolio at Risk (PAR) over 90 days decreased from $4.6 million in Q1 to $4.4 million in Q2. However, due to a decline in average portfolio balance, the percentage of the portfolio in PAR over 90 increased slightly to 5.2 percent. Throughout the quarter, we downgraded a $786,000 loan to a cocoa client in Peru and a $162,000 loan to a coffee client in Uganda. Readers will recall that several cashew clients in West Africa have faced production and quality issues and, in Q4 2014, we began to restructure several loans in the cashew sector. We continued to actively restructure cashew loans in Q2 2015 based on cash flow and export projections, but due to the cyclicality of the cashew harvest, these businesses will not be generating additional income for the remainder of the year. Additionally, we are in the process of restructuring two loans to a vegetable processor in Peru. In the Frontier Portfolio, PAR over 90 was 6.8 percent, down from 8.6 percent in Q1.

During the quarter, we wrote off $1 million in the Sustainable Trade Fund, down 20 percent from $1.2 million last quarter. A vast majority of that amount ($719,000) was due to the write-off of three loans to two coffee businesses in Rwanda that have struggled with quality issues, challenging market conditions and lower-than-expected demand from international buyers since 2013. Recoveries across portfolios, including guarantees, amounted to more than $138,000 in Q2.

Root Capital continues to makes best efforts to collect on all loans that have been written off.

Advisory Services

Our Advisory Services program provided 800 days of training to 160 small and growing agricultural businesses throughout Q2, representing 20 percent year-over-year growth. This represents 32 percent of the full-year target. Engagements will pick up over the next two quarters, especially in Central America, now that the coffee harvest is over.

Though financial management training is the core offering of our Advisory program, we have also been piloting other complimentary non-financial services, such as partnership-based training in agronomy. Readers will recall that Root Capital began extending short- and long- term financing for coffee renovation, rehabilitation and other resilience-related investments in 2013 under the Coffee Farmer Resilience Initiative (CFRI). Within that Initiative, we have been providing highly targeted agronomic advisory services to de-risk our lending by helping our clients with the technical elements of coffee renovation (e.g., varietal selection, nursery management and fertilizer application). Through Q2 2015, we provided 38 days of agronomic advisory services to clients in Latin America. Our Advisory team has seen a growing appetite for agronomic trainings, and we are planning to contract two additional agronomists in Latin America by the end of the year to meet the demand.

Catalyze Strategy

In addition to an increase in external field building engagements in our lending markets, Q2 brought several exciting milestones to our Catalyze strategy. In May, Root Capital was recognized by the Obama Administration for excellence in international development, receiving the Overseas Private Investment Corporation (OPIC) Impact Award for Renewable Resources–Agriculture. The awards ceremony, held at the U.S. Chamber of Commerce in Washington, D.C., was keynoted by National Security Advisor Susan Rice.

In June, KfW, the German Development Bank on behalf of the German Ministry of Economic Cooperation and Development (BMZ), along with AgDevCo and Root Capital, announced the launch of the Lending for African Farming Company (LAFCo). The company will finance agricultural enterprises throughout sub-Saharan Africa that enhance local food security and stimulate inclusive economic growth in the region. With a first close of $15 million in committed funds, LAFCo was initiated by AgDevCo and received an anchor investment from KfW, with funds from the German government. It will be managed by Root Capital and will accommodate the unique working capital needs of agricultural enterprises by providing lines of credit and other flexible debt products. This presents an opportunity for Root Capital to expand our reach and impact through off-balance sheet growth and serve clients in local and regional food markets in a way that adds to our existing lending.

In Q1 2014, we announced the launch of the Council on Smallholder Agricultural Finance (CSAF), an industry council committed to promoting the development of a financial market to serve the financing needs of small and growing agricultural businesses. CSAF recently released its annual “state of the union” report, citing that total lending among CSAF members increased by 56 percent from just one year ago. In 2014, our seven members collectively lent $564 million to small and growing agricultural businesses, thereby connecting 1.2 million smallholders to formal markets.

Q2 2015 DASHBOARD*

Metric	Result	Target	Results as % of Target	Page
Social and Environmental Metrics				
Number of Producers Reached	496K	920K for 2015	54%	
Producers supplying enterprise	463K	620K for 2015	75%	6
Producers buying inputs	33K	300K for 2015	11%	6
Purchases from Producers	$879M	$1.2B for 2015	76%	6
Total Revenue of Rural SGBs	$1.05.B	$1.4B for 2015	77%	7
Sustainable Hectares under Management	399K	785K for 2015	51%	7
Lending Program				
Loan Disbursements	$77.6M	$86.7M through Q2	90%	
Sustainable Trade Fund	$72.2M	$78.7M through Q2	92%	8
Frontier Portfolios	$5M	$8M through Q2	68%	13
Average Outstanding Portfolio Balance	$107M	$106M for Q2	101%	
Sustainable Trade Fund	$95.9M	$96.6M for Q2	99%	8
Frontier Portfolios	$11M	$9M for Q2	119%	13
Number of Clients Reached	242			
Sustainable Trade Fund	189			10
Frontier Portfolios	53			15
Average Outstanding Balance per Active Loan				
Sustainable Trade Fund	$395K			10
Frontier Portfolios	$155K			15
Portfolio-at-Risk Over 90 Days**	5.3%			
Sustainable Trade Fund	5.2%			11
Frontier Portfolios	6.8%			16
Net Write-off Ratio***	4.0%	3.6% for 2015	111%	
Sustainable Trade Fund	3.8%	3.3% for 2015	115%	11
Frontier Portfolios	5.9%	7.2% for 2015	82%	16
Financial Advisory Services (FAS)				
Number of Groups Served by FAS	160	291 for 2015	55%	18
Days of Training Delivered	456	2,375 for 2015	19%	18
Catalyze Program				
Overview of Catalyze Program	See page 19 for discussion of Catalyze Program			
Operating Results**				
Total Operating Expense	$7.5M	$8.6M through 2015	86%	22
Debt to Equity	4.2	4.38 through Q2	96%	20
Capital Utilization	85%	90% through Q2	95%	20
Fundraising Results				
Outstanding Debt Balance	$102M			21
Contributions Raised for 2015	$9.5M	$13M for 2015	73%	21

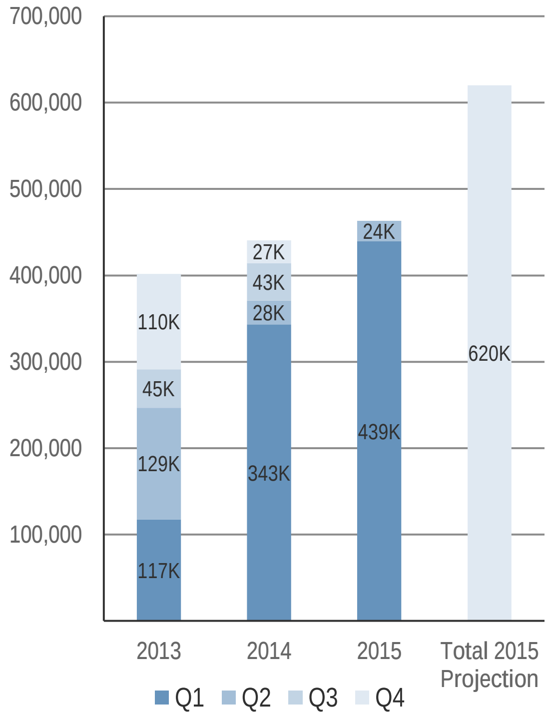
**All figures are representative of total cross-portfolio performance unless otherwise specified*

***Figures represent performance at end of quarter*

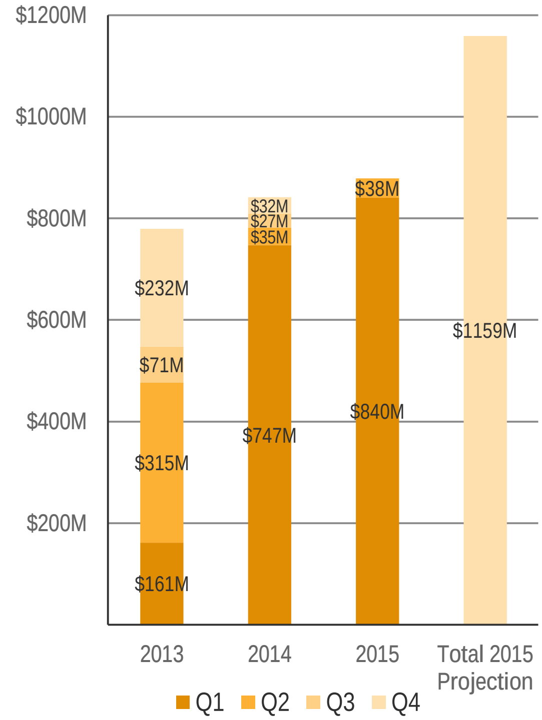
**** Prior to Q1 2015, "Net Write-Off Ratio" was reported as "Loan Loss Ratio." This is a change in nomenclature only; the ratio calculation has not changed. This calculation is a trailing 12-month figure representing the previous 12 months' write-offs, net of recovered funds, as a percentage of the average outstanding balance during the same period. We feel the change in metric nomenclature more appropriately reflects the composition of this metric.*

SOCIAL AND ENVIRONMENTAL METRICS

Producers Supplying Enterprise (through Q2)



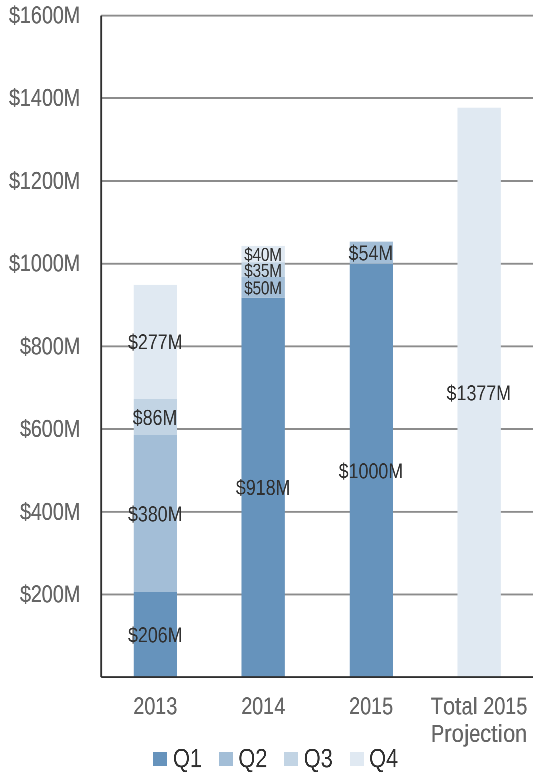
Purchases from Producers (through Q2)



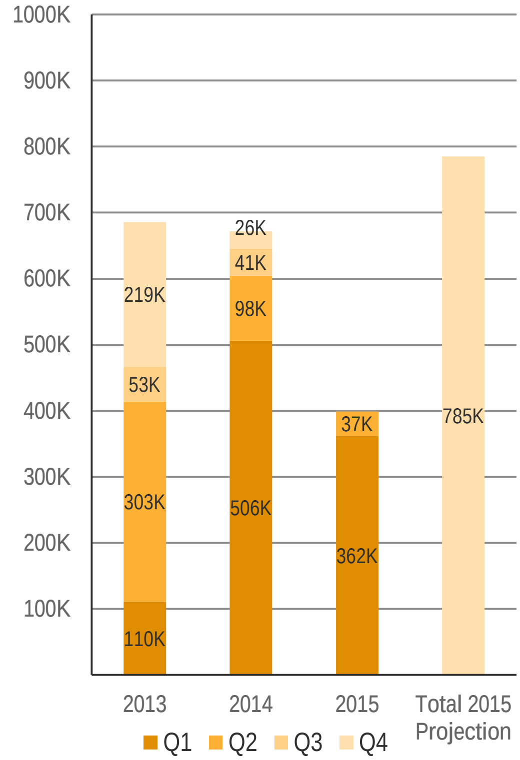
- Through Q2 2015, we reached 242 businesses, compared to 241 in the same time period last year. These businesses purchased from 463K producers.
- Through Q2 2015, we reached an additional 33K non-supplier producers who bought inputs such as drought-resistant seed or post-harvest handling services from the enterprise. These numbers are not included in the chart above, which only represents producers selling to the enterprise.
- Of all the producers supplying to the enterprises Root Capital financed through Q2 2015, 144K, or 31%, were women.

- "Purchases from producers" is the total dollar amount that our client enterprises paid to producers.
- Clients reached through Q2 2015 purchased an estimated $879M of agricultural product from producers, which is 12% higher than in the same time period last year.
- The median payment per producer through Q2 2015 was $2K.

Total Revenue of Rural SGBs (through Q2)



Sustainable Hectares Under Management (through Q2)



➔ Clients reached through Q2 2015 generated an estimated $1.1B in total revenue, which was 9% higher than in the same time period last year. Although revenue for the average client was $4.3M, this figure was upwardly distorted by approximately 10% of larger-scale businesses (who nevertheless source from smallholder farmers) with revenues over $10M; the median revenue per enterprise was $1.4M.

➔ Through Q2 2015, client enterprises represented an estimated 399K hectares of sustainably managed agroforestry and agricultural lands, with a median of 2 hectares per producer.

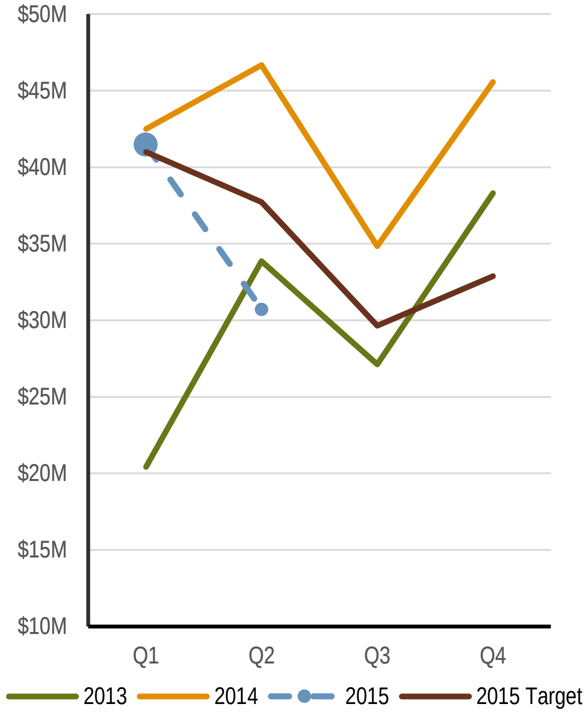
Note: We report social metrics for "clients reached" to more accurately capture the number of businesses reached by our capital. Clients reached are clients that had an outstanding balance at any point in the quarter and that were not at-risk. This includes clients that did not receive a disbursement in the quarter. This is a cumulative metric; clients are added to the annual total in the quarter they are first reached.

In Q1 2015, we surpassed the 2014 total for number of producers supplying to the enterprise because we reached two disproportionately large clients who we consider outliers, having never before reached businesses of that size. The client in Central America reported $300M in revenue and 35K producers; the client in East Africa reported $6M in revenue and 85K producers. In last year's QPR, we did not include their social metrics against the annual projections because they diverged too significantly from historical averages. However, we decided to factor their social metrics into the calculation of the 2015 projections because, after financing them in 2014, we had more visibility into the likelihood of these clients remaining in our portfolio.

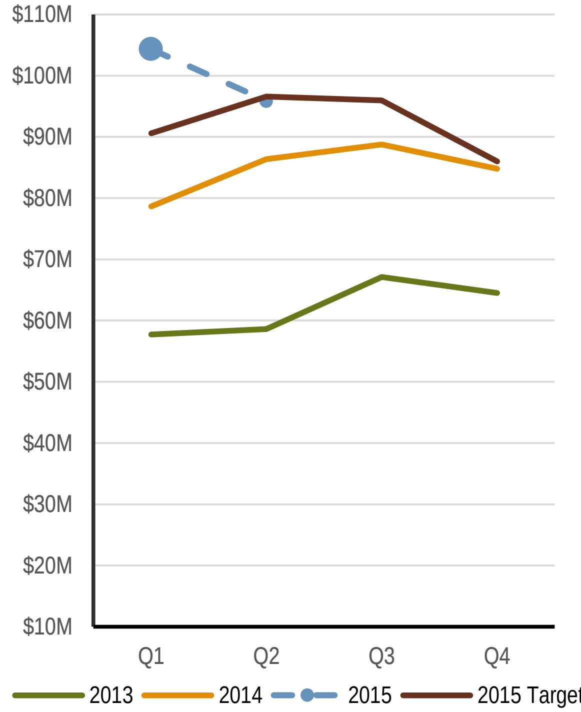
SUSTAINABLE TRADE FUND

Portfolio Performance

Loan Disbursements by Year



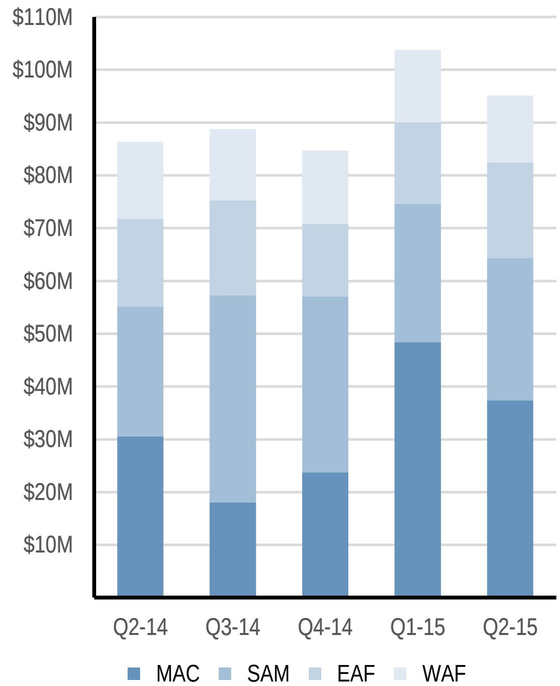
Average Balance by Year



- ➔ Root Capital disbursed $30.7M globally during Q2 2015, 19% below target and a 34% decrease from Q1 2014.
- ➔ Disbursements in Central America exceeded targets by 75%, while South America, East Africa and West Africa were below target (-40%, -10% and -33% respectively). We disbursed $1.9M in Indonesia, our most recent geographic expansion.
- ➔ Disbursements during Q2 2015 were dominated by coffee clients in South America and East Africa, which together comprised 49% of global disbursements, though they fell short of targets by 27% and 5%, respectively.
- ➔ Total West African disbursements were 64% lower than this period in 2014, as Root Capital deliberately slowed lending amid risk concerns.

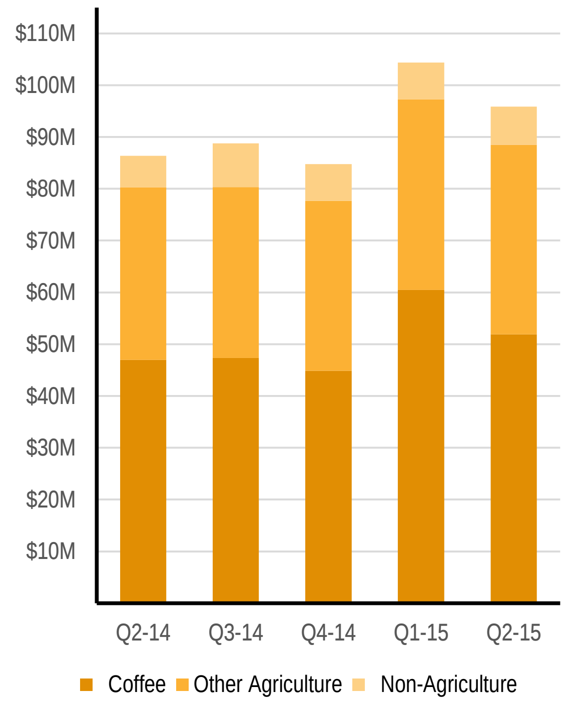
- ➔ Root Capital's global average outstanding balance of $96M was in line with Q2 targets, as the portfolio grew 11% year-over-year.
- ➔ Central America coffee led annual portfolio growth, increasing 26% year-over-year and exceeding targets by 23% on the strength of a surprisingly strong harvest season in Q1.
- ➔ Loan balances shrank 14% in West Africa due in large part to risk concerns and a deliberate slowdown in underwriting.
- ➔ South America and East Africa were also modestly below projections, by 7% and 3% respectively.

Average Balance by Region (Trailing 5-Quarters)



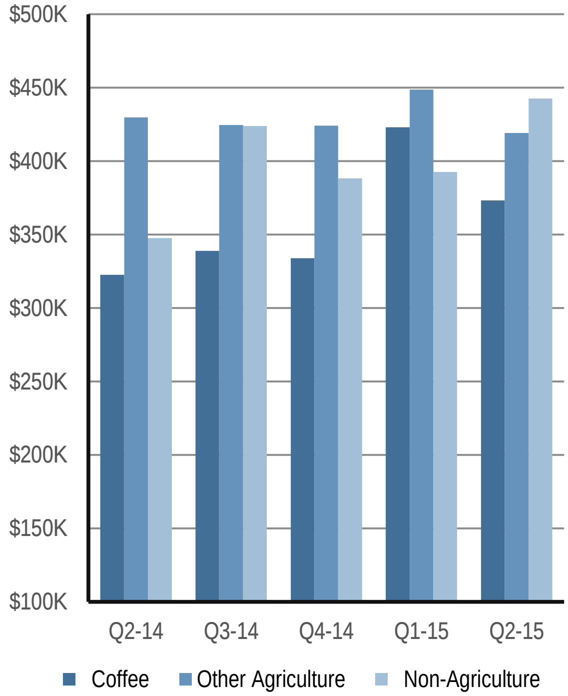
- Average balance in Central America was $31.5M during Q2, 18% above target, and 22% higher than Q2 2014. Coffee alone was 23% above target with 26% year-over-year growth, exceeding targets in each Central American country.
- Average balance in South America was $27M this quarter, growing 10% over last year, but falling 7% short of target.
- Average balance in East Africa was $18.7M for the quarter, up 9% from Q2 2014, but 3% short of Q2 targets. Uganda and Kenya, respectively comprising 25% and 18% of the portfolio, exhibited dramatic growth, increasing by 64% and 46% year over year, while Rwandan coffee balances fell 18% short of targets, with flat year-over-year growth due to lower global coffee prices.
- Average balance in West Africa was $12.6M, 15% below target and declining 14% from Q2 2014. Benin and Burkina Faso both exceeded targets on the strength of other low-perishable agriculture (e.g., nuts, canned/bottled fruits and vegetables), but the remaining 47% of the portfolio shrank.

Average Balance by Industry (Trailing 5-Quarter)

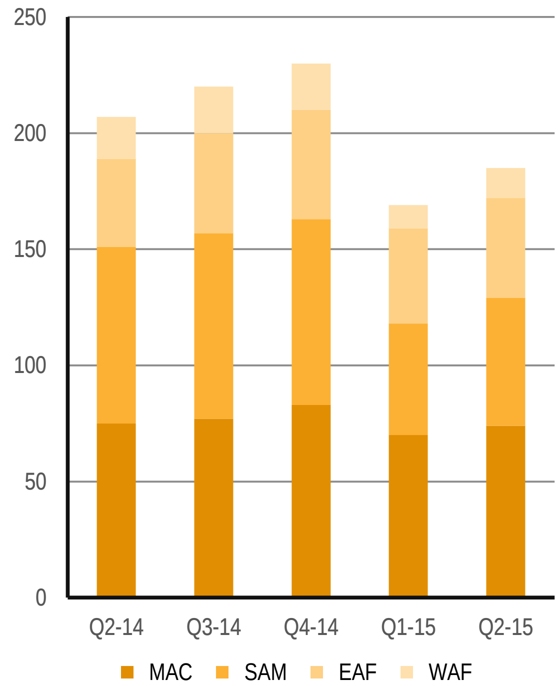


- 52% of the global portfolio was concentrated in coffee during Q2 2015, down 6% from Q1 as portfolio diversity increased quarter to quarter.
- High-perishable agriculture (e.g., fresh fruits and vegetables) and non-agriculture segments (e.g., timber) increased their share of our portfolio year over year as we continue to diversify into non-coffee industries, including low-perishable agriculture industries.

Average Outstanding Balance per Active Loan



Number of Clients Reached by Region

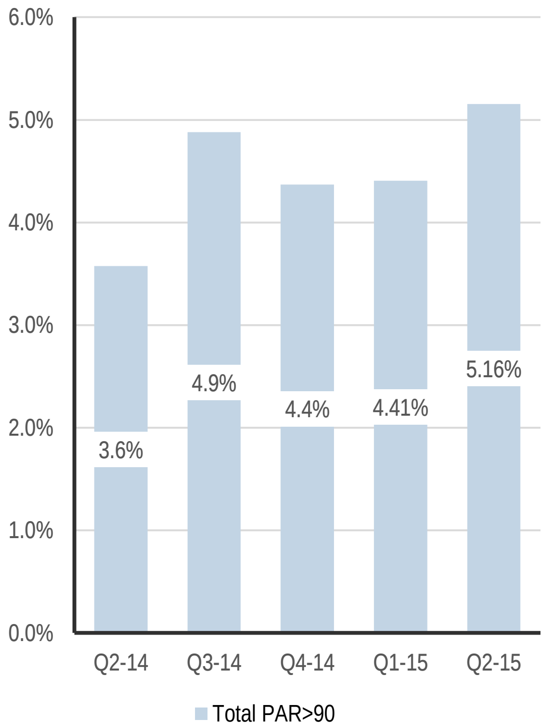


- ➔ Average balance per active loan to coffee clients decreased to $373K, a decrease from Q1's $423K, but higher than other recent quarters as clients increased credit utilization.
- ➔ Average balance per active loan to cocoa clients decreased from Q2 2014 and Q1 2015, while non-agriculture balances, 8% of our STF portfolio, grew on a per-loan basis.

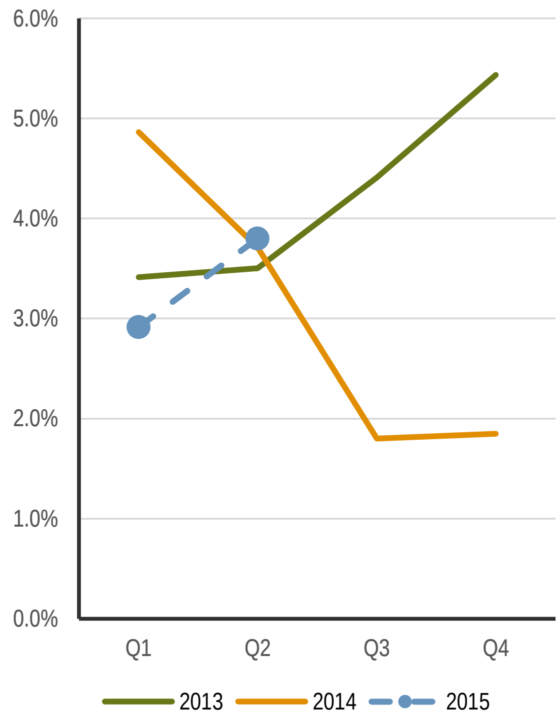
- ➔ Root Capital reached 189 clients in Q2, increasing our reach from Q1, but falling below our Q2 goal.
- ➔ In Central America we reached 74 clients, slightly below the 77 clients we reached in Q2 2014.
- ➔ In South America we reached 55 clients, 37 of which were in Peru. We added four clients in Bolivia, but our client count decreased in other South American countries.
- ➔ In East Africa the number of clients we reached grew 5% from Q2 2014 to 43, just shy of our target.
- ➔ In West Africa, the number of clients reached decreased from 18 in Q2 2014 to 13 in Q2 2015.

Portfolio Quality

Portfolio at Risk > 90 Days



Net Write-Off Ratio (Trailing 12-Month Average)



- The Portfolio at Risk (PAR) over 90 days ended the quarter at 5.2% of the total STF balance, as the decline in our average portfolio balance offset a $102K decrease in PAR since the first quarter.
- In Central America, no loans were classified in PAR>90 days at the end of the quarter; one loan within PAR>90 at the end of Q1 was written off, while the other repaid.
- In South America, the PAR>90 balance increased $732K during the second quarter due to a downgraded cocoa loan. We are currently restructuring the loan.
- In East Africa the balance classified in PAR>90 days decreased by $789K to $937K as we wrote off loans to coffee clients adversely affected by the decline in coffee prices, which revealed management deficiencies. An additional coffee client was downgraded into PAR>90.
- In West Africa, the PAR>90 balance decreased by $40K during the period, and no loans were written off in Q2.

- The STF's trailing 12 month net write-off ratio increased to 3.8% at the end of Q2 2015, up from 2.9% in Q1.
- In Central America, one $28K loan was written off during the quarter and we recovered $13K from a previously written off loan. The region's net write-off ratio stood at 2.2% at period end.
- In South America, we wrote off one loan for a total of $45.5K and recovered $18K. The region's net write-off ratio stood at 1.2% at period end.
- In East Africa, we wrote off coffee loans totaling $948K during the quarter, and recovered $22K. The region's net write-off ratio stood at 14.8% at period-end, and will remain elevated for the upcoming quarter due to lingering effects of a large loan written off in Q4 2014.
- We wrote off no loans in West Africa during the second quarter, nor did we have any recoveries. The region's net write-off ratio stood at 0.6% at period end.

Sustainable Trade Fund Financial Results & Analysis

Statement of Activities All numbers in thousands	Sustainable Trade Fund				
	YTD Results	YTD Target	Variance (%)	2014 YTD Results	Yr/Yr Growth
Loan Interest and Fees	5,682	5,327	7%	4,687	21%
Gain (loss) on FX Lending	(158)	0		21	-858%
Interest & Fee Revenue	5,524	5,327	4%	4,708	17%
Portfolio Yield	11.0%	11.4%		10.8%	
Net Interest Expense	1,232	1,038	19%	848	45%
Net Funding Expense Ratio	2.5%	2.2%		2.0%	
Net Interest & Fee Revenue	4,292	4,289	0%	3,860	11%
Net Earned Revenue Ratio	8.6%	9.2%		8.9%	
Provisioning Expense	2,457	1,418	73%	1,172	110%
Provisioning Expense Ratio	4.9%	3.0%		2.7%	
Net Revenue after Provisioning	1,835	2,871	-36%	2,688	-32%
Net Revenue Ratio after Provisioning	3.7%	6.1%		6.2%	
Operating Expense	2,608	2,999	-13%	2,730	-4%
Operating Expense Ratio	5.2%	6.4%		6.3%	
Surplus / (Deficit)	(772)	(128)	504%	(41)	>1000%
Operational Self Suffiency (OSS)	88%			99%	

NET EARNED REVENUE

Interest and fee revenue continued to accrue at their above-target pace through Q2, up 21% year over year and 7% ahead of target, as average portfolio balances remained larger than projected as a result of the strength of a robust Central American coffee harvest. Net interest expense was slightly above target as we took on additional debt to cover the unexpectedly high lending demand, negatively impacting our net interest expense ratio and our earned revenue ratio relative to the first half of 2014 and current-year targets.

Foreign exchange proved to be a modest headwind as U.S. Dollar strengthening eroded returns in the Euro-denominated portion of the STF. During the first half of 2015, we hedged 98% of foreign currency exposures in the STF; hedges offset $1.2M of a gross foreign currency loss of $1.4M.

Note that this period's results include a favorable GAAP adjustment to loan fees of $327K, which requires that loan origination fees be amortized over the life of the loans. This guidance allows for offset of loan origination costs against the fees, with only the net being amortized over the life of the loans. This new accounting treatment was suggested by our auditors at the completion of the 2014 audit, and is included in these results for the first time. The accounting change is not included in existing performance targets.

NET PROVISIONING EXPENSE

Provisioning expense of $1.1M in Q2 was a significant improvement over the $1.5M incurred in Q1. The year-to-date measure is still higher than projected to date as increased provisioning in Q1 weighed on results. We continue to actively monitor and address ongoing and emerging sources of risk across our portfolios.

LENDING PROGRAM OPERATING EXPENSE

Year-to-date operating expenses for the STF lending program came in 13% below budget on well-controlled personnel expenses, which drove our Operating Expense Ratio to 5.2%, below target and Q2 2014's ratio.

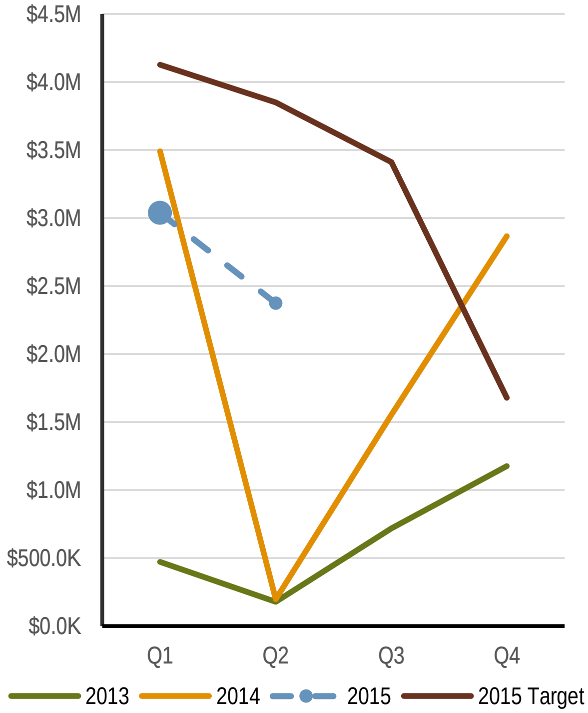
OPERATIONAL SELF-SUFFICIENCY

Operating self-sufficiency (OSS), a measure of an organization's ability to self-fund operations, was 88% for the year to date, in line with our full-year targets.

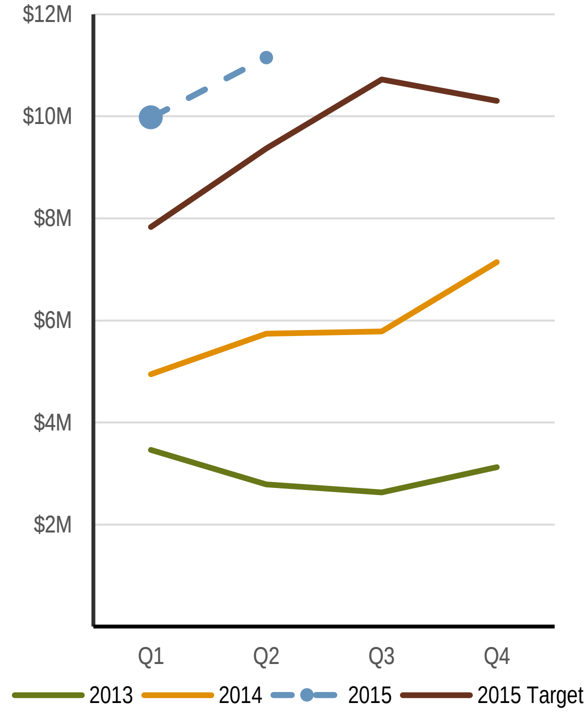
FRONTIER PORTFOLIO

Portfolio Performance

Loan Disbursements by Year



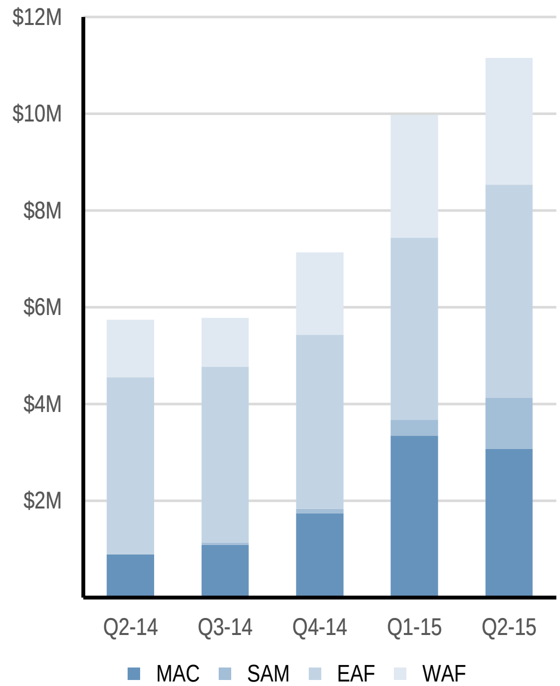
Average Balance by Year



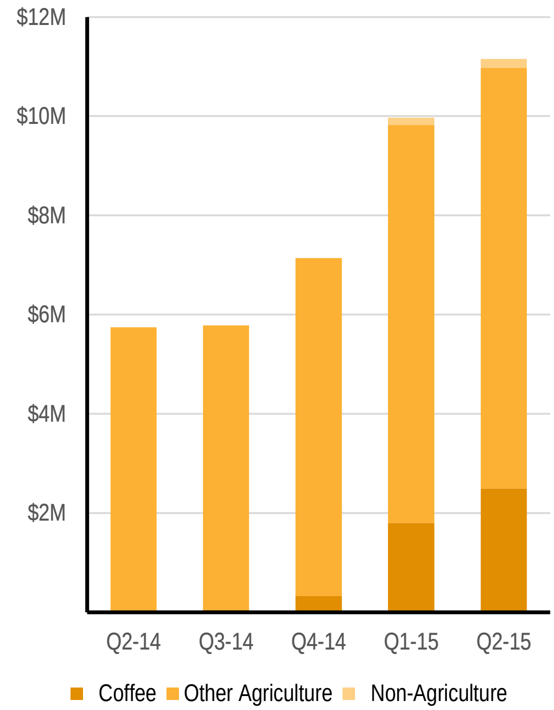
- The Frontier Portfolio disbursed $2.4M globally during Q2, well above Q2 2014's performance, but behind targets as non-coffee and cocoa disbursements fell short of targets in South America, East Africa and West Africa.
- In South America, total disbursements almost doubled our targets as strong demand in coffee, cocoa and other low-perishables exceeded targets by $575K year to date.
- In Central America, disbursements increased $549K year over year to $694K as strong demand in Mexican coffee and Honduran low perishables drove regional disbursements as we continue to grow this portfolio.
- In East Africa, disbursements grew by over $600K year over year as we continued to grow this portfolio, led by an increase in Ugandan low perishables.
- In West Africa, there were no disbursements during Q2 as our nine clients in the region drew loan balances in prior periods.

- The Frontier Portfolio average outstanding balance of $11.1M represents the highest balance ever reached in this portfolio.
- Year-over-year growth of 94% was led by rapid expansion in Central America and West Africa, each of which more than doubled, while East Africa increased 20% over Q2 2014. A portion of the increased balances was the result of delayed repayments for loans currently being restructured.

Average Balance by Region
(Trailing 5-Quarters)



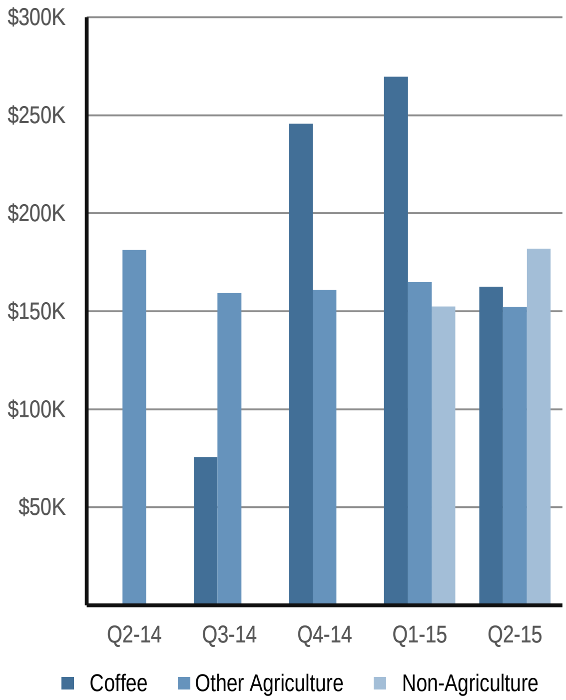
Average Balance by Industry
(Trailing 5-Quarter)



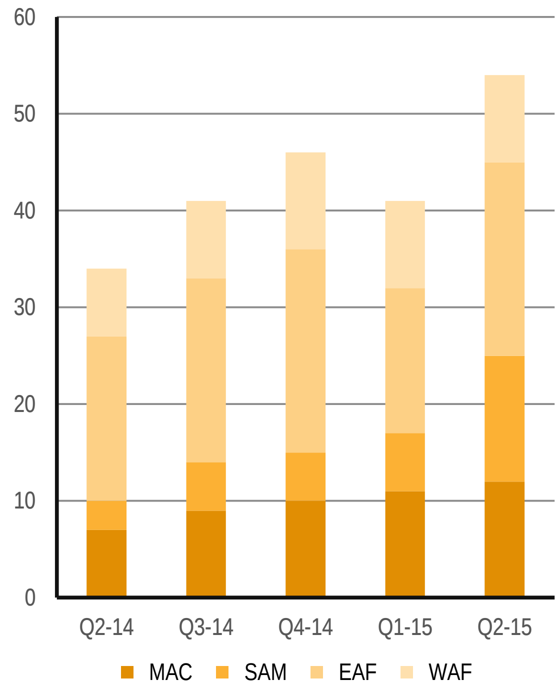
- In Central America the average balance was $3.1M, 70% above target, and 244% higher than Q2 2014. Guatemalan coffee was the most significant driver of growth above target, where we averaged $1.2M in loans during the quarter.
- In South America the average balance was $1.1M, 8% above target. Q2 was the second significant quarter of activity for this region.
- In East Africa the average balance was $4.4M, 14% above target, and 20% higher than the same period last year.
- In West Africa the average balance was $2.6M, 1% above target, and 121% higher than Q2 2014. A vast majority (82%) of the regional balance is within the Ghana other low-perishable agriculture segment (e.g., soy, sorghum), which exceeded targets by 63% during Q2, as it grew 112% from the same period last year.

- Globally the other low perishable agriculture segment makes up the vast majority (70%) of our Frontier Portfolio. The top industries of this segment are maize, sorghum and soy.
- Coffee has recently become a more integral part of our Frontier Portfolio in Central America ($1.6M), South America ($500K) and East Africa ($400K). The Central American Frontier Portfolio also serves a large sesame segment.
- South America also includes few smaller industries such as timber and other low perishable industries like nuts and canned/bottled fruits and vegetables.

Average Outstanding Balance per Active Loan



Number of Clients Reached by Region

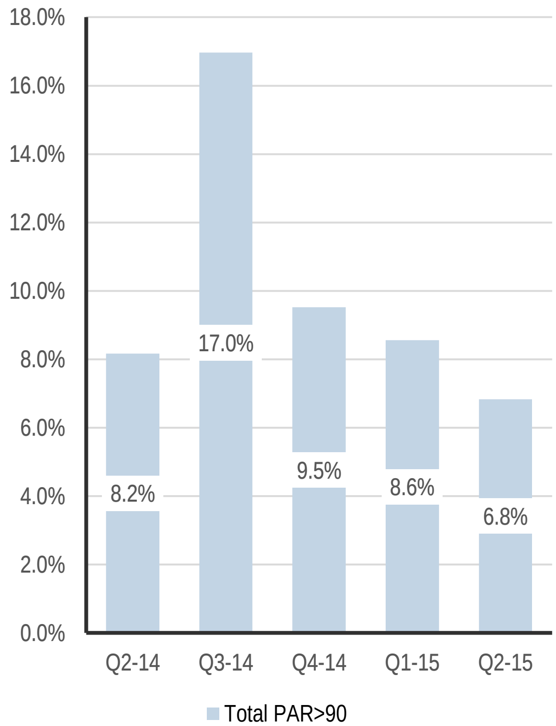


- ➔ Coffee balances came down on a per-client level during Q2 as the Central American harvest season waned, and average per-client balances fell in line with the other Frontier Portfolio segments.
- ➔ In Q4 2014, we honed the criteria by which we allocate loans to the STF or Frontier Portfolio; these criteria are now based on the risk profile of the client, industry and transaction (including exchange rate risk), rather than just industry and value chain. We expect the average balance per loan to decrease during 2015 as the new portfolio criteria take effect and certain larger legacy loans move into the STF.

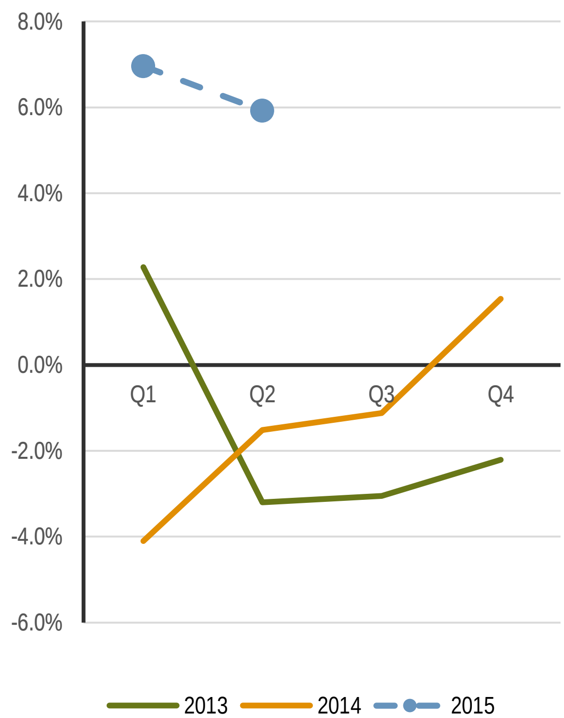
- ➔ The Frontier Portfolio continues to increase its reach, with 53 clients reached in Q2, 50% over Q2 2014's total, and two clients shy of our target.
- ➔ The Frontier Portfolio has been adding clients in each geography and segment, with particularly strong growth in coffee, where we are targeting small, particularly high social impact producers.

Portfolio Quality

Portfolio at Risk > 90 Days



Net Write-Off Ratio (Trailing 12-Month Average)



- The Portfolio at Risk (PAR) over 90 days continued to decline as a percentage of the portfolio during Q2.
- The composition of loans classified in PAR>90 days changed during Q2 as a $146K East African sorghum loan was written off and a $51K sunflower oil loan.

- The net write-off ratio in the Frontier Portfolio declined as we wrote off one $146K sorghum loan and recovered $39.5K from four loans in the Americas and UK.

Frontier Portfolio Financial Results & Analysis

Statement of Activities All numbers in thousands	Frontier Portfolio				
	YTD Results	YTD Target[1]	Variance (%)	2014 YTD	Yr/Yr Growth
Loan Interest and Fees	897			437	105%
Gain (loss) on FX Lending	(932)			(356)	162%
Currency Reserve Revenue	169			0	
Interest & Fee Revenue	(35)	399	-109%	81	-143%
Portfolio Yield	-0.7%	9.3%		1.5%	
Net Interest Expense	44	24	88%	15	200%
Net Funding Expense Ratio	0.8%	0.5%		0.3%	
Net Interest & Fee Revenue	(79)	376	-121%	66	-219%
Net Earned Revenue Ratio	-1.5%	8.7%		1.3%	
Provisioning Expense	349	222	57%	217	61%
Provisioning Expense Ratio	6.6%	5.2%		4.1%	
Net Revenue after Provisioning	(428)	153	-379%	(151)	184%
Net Revenue Ratio after Provisioning	-8.1%	3.6%		-2.9%	
Operating Expense	894	1,050	-15%	792	13%
Operating Expense Ratio	16.9%	24.4%		15.0%	
Surplus / (Deficit)	(1,322)	(897)	47%	(943)	40%

NET EARNED REVENUE

Net of foreign exchange effects (discussed below), interest and fee revenue vastly outperformed targets on unexpectedly large portfolio growth. While foreign exchange losses had a significant impact on returns, the earned revenue of the Portfolio (excluding FX performance) outperformed internal targets.

FOREIGN EXCHANGE

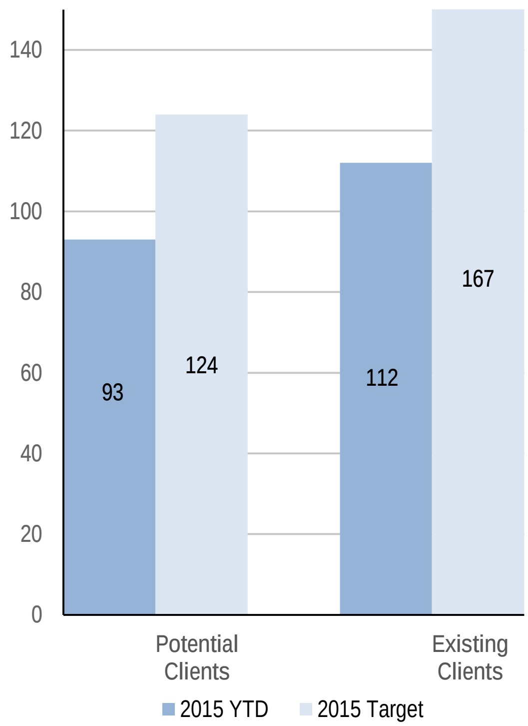
As we continued to build out our local value chain lending products, which are necessarily denominated in local currencies, we increased our exposure to changes in foreign exchange rates. This year has seen the US Dollar appreciate at its fastest pace in 40 years, putting significant downward pressure on emerging market currencies. In order to mitigate associated risks, we established exposure limits, revised interest rate pricing for local currency loans and brought on hedges in two of Root Capital's largest local currency portfolios, Ghana and Kenya, at the end of the first quarter. During Q2 we incurred $188K in FX losses in the Frontier portfolio net of our mitigation strategies. Gross foreign exchange losses were $511K, offset by $124K of foreign exchange gains from hedging and local currency pricing premiums of $199K.

FRONTIER PORTFOLIO OPERATING DEFICIT

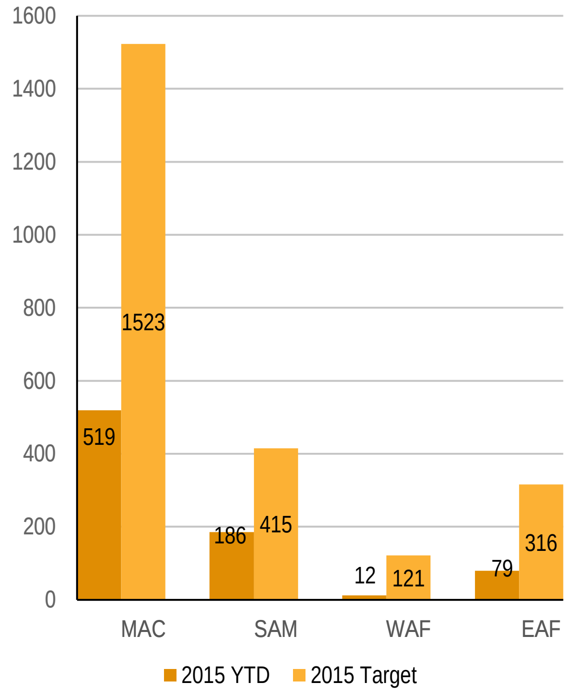
The Frontier Portfolio exceeded its projected operating deficit despite well-controlled operating expenses. As discussed above, the largest component of the increased deficit was the unexpected additional foreign currency losses. We continue to explore additional methods to increase our services in the underserved local value chain market while controlling foreign currency risk.

ADVISORY SERVICES

Groups Served by
Financial Advisory Services
(through Q2)



Days of Training Delivered by
Financial Advisory Services
(through Q2)



- Our Advisory team gained momentum in Q2, reaching 160 rural enterprises through capacity-building workshops and on-site financial management consulting. This represents 20% growth over the prior year and puts the Advisory program on strong pace to hit full-year targets for businesses served.
- 60% of the businesses trained in Q2 were also Root Capital borrowers. This is representative of our continuing efforts to improve portfolio quality through Advisory Services.
- We continue to explore new tools to measure the effects of Advisory Services on client capacity and Root's loan portfolio. A suite of new impact evaluation tools is being piloted this year which includes a baseline and end-line diagnostic to accompany all onsite consulting, post-engagement Loan Officer surveys and workshop participant testing.

- Through Q2, we provided 800 days of capacity building through our Financial, Internal Credit, Agronomic and Mobile Advisory services.
- The Advisory team has completed 32% of the full-year work plan in terms of days of financial training delivered. This is consistent with prior years in that the effect of harvest timing on client availability typically drives a peak in activity during Q3 and Q4.
- We have provided 38 days of Agronomic Advisory in Latin America, monitoring enterprise-level coffee renovation efforts and supporting potential resilience fund applicants. Working closely with the Lending team, we've ensured the smooth processing of loans that require technical agronomic evaluation–totaling $6.9M in disbursements cumulatively as of the end of Q2. We plan to contract two additional agronomists in Latin America by year end.

CATALYZE PROGRAM PERFORMANCE

In addition to the launch of the Lending for African Farming Company (LAFCo) with Germany's KfW Development Bank and AgDevCo and recognition from the Overseas Private Investment Corporation (OPIC) for "excellence in international development," Root Capital staff continued to make contributions to the development of the smallholder agriculture finance sector. During Q2, Root Capital staff was invited to share our experience and learning at a growing number of events in Africa and Latin America. Team members participated in the following events:

FIELD BUILDING AND THOUGHT LEADERSHIP

- Investor Relations Officer Vincent Lagacé participated as a panelist on "Linking Small Producers to Value Chains" at the Base III Forum focused on opportunities at the base of pyramid and convened in Mexico City by the Inter-American Development Bank.
- Financial Advisory Services Coordinator South America Luis Miguel Ormeño presented a case study of Chirinos, a Peruvian coffee cooperative and Root Capital client, as part of the "Financial Innovation for Rural SMEs" at the Let's Talk Coffee event in Garzón, Colombia.
- Impact Coordinator Alexandra Newcomb and ACCDER General Manager Daniel Rivera presented on "Learning from Coffee Renovation in Peru" at the XVIII National Convention of the Peruvian Coffee and Cocoa Chamber of Commerce in Lima, Peru.
- Director of Strategy and Impact Mike McCreless was a plenary panelist on the topic of "Measuring Outcomes and Impacts on the Path to Scale" at the Scaling Development Ventures conference at MIT.
- Accepting the 2015 Overseas Private Investment Corporation (OPIC) Impact Award on behalf of Root Capital, Founder and CEO Willy Foote and Senior Vice President Liam Brody attended a ceremony at the U.S. Chamber of Commerce keynoted by National Security Advisor Susan Rice. Root Capital received the 2015 OPIC Impact Award for Renewable Resources–Agriculture.
- Mike McCreless facilitated a plenary panel on the topic of "Right-sized and Lean: Getting the most out of metrics and evaluation" at the Annual Metrics Conference of the Aspen Network for Development Entrepreneurs in Washington, DC.
- Matt Sparkes, corporate counsel, presented on the "Role of Lawyers in Impact Investing" at the Legal Issues in Impact Investing at Home and Abroad, sponsored by Morgan Lewis LLP and the Impact Investing Legal Working Group in Washington, D.C.
- Impact Officer Asya Troychansky presented in Spanish at the Fair Trade USA producer forum at SCAA on client-centric data collection to an audience of over 200, including many Root Capital clients.
- Director of Business and Product Development Elicia Carmichael led a workshop on "Navigating the Gray Areas of your Responsible Sourcing Plan" at the American Spice Trade Association's Annual Meeting in April in Charleston, SC.
- Willy Foote, Senior Vice President of Investor Relations and Operations Catherine Gill and Senior Vice President of Strategy, Advisory & Innovation Brian Milder attended and were panelists at the Skoll World Forum in Oxford, England. Willy participated on a plenary panel called "Food, Farming and the Future: How Can We Feed a Growing Global Population Responsibly?" featuring leaders from Stanford University, World Wildlife Fund, Wal-Mart, and IDEO.org; Catherine discussed "Entrepreneur Alignment" as part of the Impact Investing Colloquium; and Brian co-organized a session on "Mobilizing Technical Assistance to Catalyze Inclusive Markets."
- In April, at the Global Impact Investors Network's Investors' Council Annual Meeting, Catherine Gill participated in a session entitled "Achieving Scale and Efficiency through Industry Alliances."
- Senior Associate for Environmental Performance Elizabeth Teague was a plenary panelist on the topic of "Private Sector and Development Organizations' Approaches to Extension Service Provision" at the Modernizing Extension and Advisory Services Symposium in Washington, DC, organized by USAID.

- Presenting at a private dinner for The Philanthropy Workshop, Willy Foote and Congressman Joe Kennedy discussed public-private collaboration for positive policy change.
- At the Global Philanthropy Forum Conference in Washington, DC, Willy Foote facilitated a panel called "Betting on Small-Scale Producers" that included leaders from Acumen, Alliance for Responsible Mining and Gahaya Links, a handcrafts social business in Rwanda.

PUBLICATIONS

- In June, Root Capital published a working paper written by Mike McCreless, sharing our initial perspectives on how to evaluate impact in ways that create value for researchers and research participants alike, without proportionately increasing the cost. Guided by Root Capital's impact assessment efforts over the past five years, the working paper includes principles and practical recommendations for organizations that are engaged in similar work.
- In the April issue of The Specialty Coffee Chronicle, Willy Foote explored the issue of rural migration and how investments in youth can build long-term resilience in the coffee lands.
- In the April issue of Coffee Talk Magazine, Liam Brody wrote a piece on impact investing, celebrating the early innovators in the coffee industry.
- Brian Milder and Senior Vice President of Lending Nate Schaffran attended the sixth bi-annual meeting of the Council on Smallholder Agricultural Finance, an alliance of social lenders that seeks to create a thriving, sustainable and transparent market to serve the financing needs of small and growing agricultural businesses in low- and middle-income countries worldwide. CSAF recently released its 2014 Year in Review, including lending and impact data from eight social lenders and observations about opportunities and challenges to growing the market.

FINANCIAL RESULTS

Balance Sheet Highlights

Root Capital's balance sheet remains strong, as we actively reduced leverage to withstand portfolio shocks and increase our buffers around certain investor covenants.

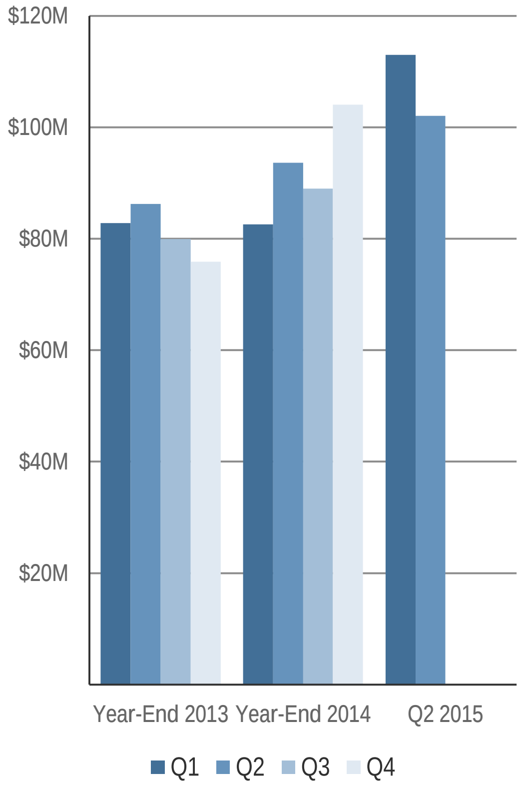
- ➔ Period-end net loans receivable declined slightly year over year as the strong Central American coffee harvest passed and we entered a seasonally lighter period of loan demand. Additionally, we proactively managed potential risks in West Africa and East Africa which had the effect of slowing loan growth.
- ➔ Total liabilities declined during the quarter as we deployed excess cash to pay down lines of credit over the period and to settle accounts payable.
- ➔ Capital utilization came in below target as we remained in a slightly cash-heavy position. We continue to explore options for prudent deployment of excess liquidity in periods where capital utilization is lower than target.

Balance Sheet Highlights All numbers in thousands	6/30/2015 Actual	6/30/2015 Target	Variance (%)	6/30/2014 Results	Yr/Yr Growth
Cash and Short-Term Investments	32,334	30,129	7%	31,677	2%
Total Loans Receivable	95,948	107,757	-11%	95,597	0%
Less: Allowance for Credit Losses	(4,753)	(3,123)	52%	(2,801)	70%
Loans Receivable (net)	91,195	104,634	-13%	92,931	-2%
Grants Receivable	5,538	10,676	-48%	10,681	-48%
Other Assets	5,519	4,673	18%	4,629	19%
Total Assets	134,586	150,112	-10%	139,918	-4%
Total Debt	102,269	110,114	-7%	99,725	3%
Other Liabilities	2,603	4,155	-37%	3,753	-31%
Total Liabilities	104,871	114,269	-8%	103,478	1%
Lending Net Assets & Op Reserve	24,280	25,167	-4%	24,774	(0)
T/R Net Assets (Purpose & Time)	5,434	10,676	-49%	11,665	(0)
Total Net Assets	29,715	35,844	-17%	36,440	-18%
Total Liabilities & Net Assets	134,586	150,112	-10%	139,918	-4%

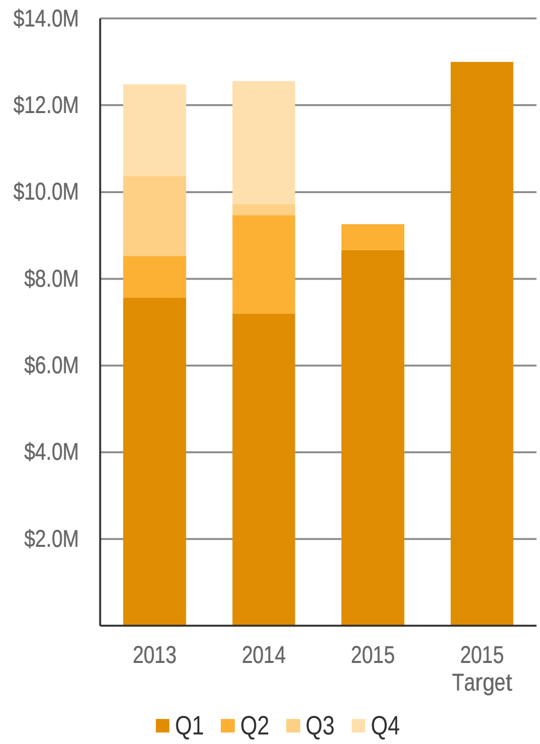
Key Financial Ratios	6/30/2015 Actual	6/30/2015 Target	Variance (%)	6/30/2014 Results	Yr/Yr Growth
Debt-to-Equity Ratio	4.21	4.38	-4%	4.03	5%
Capital Utilization	85%	90%	-5%	87%	-1%

Debt & Contribution Fundraising

Outstanding Debt Balance



Total Contributions Raised for Each Year



- We ended the quarter with just over $102M in total debt under management.
- During the quarter, we raised over $6.8M in new debt from investors. At the end of 2014 and through Q1, we worked with investors to increase our total debt balance, including more flexible capital, to enable us to support the strong lending need during the Central American harvest. Throughout Q2, as the Central American harvest ended and total outstanding portfolio balance decreased, we repaid more flexible sources of capital to manage to a more efficient capital utilization rate.
- Root Capital manages to approximately 90% capital utilization to manage liquidity and volatility in our lending portfolios. In Q2, we achieved an 85% capital utilization rate.

- By the end of the first quarter, $9.5M in contributions had been raised toward our total 2015 fundraising target of $13M, which includes operating need and balance sheet funding.
- As part of this, we raised $5.9M in contributions against our Q2 operating need of $6.1M.
- To date, we have raised $4.1M for Root Capital's operations in 2016.
- The total value of new gifts and grants closed in Q2, for use in current or future periods, was $1.15M.

Statement of Activities

All numbers in thousands	Statement of Activities				
	YTD Results	YTD Target[1]	Variance (%)	2014 YTD	Yr/Yr Growth
Loan Interest and Fees	6,579			5,124	28%
Gain (loss) on FX Lending	(1,089)			(335)	225%
Interest & Fee Revenue	5,490	5,727	-4%	4,789	15%
Net Interest Expense	1,276	1,030	24%	862	48%
Net Interest & Fee Revenue	4,213	4,697	-10%	3,926	7%
Provisioning Expense	2,806	1,641	71%	1,389	102%
Net Revenue after Provisioning	1,407	3,056	-54%	2,538	-45%
Operating Expenses	7,469	8,651	-14%	7,099	5%
Contributions for Operations	5,940	6,900	-14%	7,156	-17%
Operating Surplus / (Deficit)	(122)	1,306	-109%	2,594	-105%

NET EARNED REVENUE

On a consolidated basis, loan interest and fee revenue continued to accrue a 28% year-over-year pace through Q2 as average balances remained ahead of pace in both the STF and Frontier portfolios.

We continue to enhance our abilities to offset foreign currency volatility and note that in-place measures including local currency premiums (booked in interest revenue), FX market hedging and releases from our foreign exchange reserve offset over $2M of gross FX losses year-to-date.

Funding expense was slightly ahead of target as we took on additional funding sources to cover unexpectedly high loan demand, negatively impacting our funding expense ratio for the period as interest expense grew at a faster rate than the overall portfolio.

Note that this period's results include a favorable GAAP adjustment to loan fees of $366K across our portfolios, which reflects the deferred portion of loan costs net of fees. This new accounting treatment was suggested by our auditors at the completion of the 2014 audit, and is included in these results for the first time. The accounting change is not included in existing performance targets.

PROVISIONING EXPENSE

Provisioning expense of $1.0M in Q2 was a significant improvement over the $1.8M incurred in Q1, but still came in at an elevated level year to date as increased provisioning in Q1 weighed on results. We continue to actively monitor and address ongoing and emerging sources of risk across our portfolios.

LENDING PROGRAM OPERATING EXPENSES

Year-to-date operating expenses came in 14% below budget on well-controlled personnel expenses, below target and growing just 5% over the year-ago period. Operating expenses are further detailed below.

OPERATING SURPLUS

Root Capital's year-to-date operating deficit stands at $122K, $1.4 million below our targeted surplus, largely due to losses on local currency exposures and elevated provisioning during the first quarter.

Operating Expense by Program

Program *All numbers in thousands, YTD*	Second Quarter 2015 Operating Expenses			Q2 2014 Operating Expense	
	2015 Actual	2015 Target	Variance (%)	2014 Actuals	Yr/Yr Growth
Finance Opex (Sustainable Trade Fund)	2,608	2,999	-13.0%	2,730	-4.5%
Finance Opex (Frontier Portfolios)	894	1,050	-14.9%	792	12.9%
Advise Opex	2,427	3,035	-20.0%	2,072	17.2%
Catalyze Opex	1,565	1,566	-0.1%	1,521	2.9%
Total Opex	7,494	8,651	-13.4%	7,114	5.3%

- ➔ Year-to-date operating expenses for Root Capital were $7.5M, which is 1.2M (13%) below budget and a modest $380K (5%) above 2014 operating expenses at the end of Q2. Lower-than-budgeted personnel expenses, primarily due to delayed and postponed hires, accounted for almost 40% of the underspending.
- ➔ After lower-than-forecasted revenue and higher provisioning expenses in Q1, Root Capital underwent a budget revision, reducing the full 2015 budget by over $800K by reducing select planned hires, travel and professional services. The revised 2015 operating budget is $16.2 million.
- ➔ The total Finance program year-to-date expenses were $3.5M, which is 13% below budget and 1% below 2014 year-to-date expenses. The declining expenses are due to delayed hires and strong budget management on travel and professional services to offset lower revenue and higher provisioning.
- ➔ The total year-to-date operating expenses for Advise were $2.4M, which was $0.61M (20%) lower than budgeted, partially due to lower-than-projected releases of the Resilience Fund, the strategic companion to our existing Coffee Farmer Resilience Initiative, and partially due to lower-than-projected costs for Advisory trainings, especially in Central America and Mexico.
- ➔ Total operating expenses for Catalyze through Q2 2015 were $1.5M, which was exactly on budget. Expenses were $44K (3%) from midyear 2014. This nominal increase continues to reflect the stabilization in growth of the Catalyze program as the program team structure has remained consistent over the past year.

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.