Performance Report
Q1 2013

root capital

OVERVIEW

In the first quarter of 2013, Root Capital hit a major milestone, topping $500 million in cumulative lending to rural small and growing businesses since our founding 14 years ago. Yet as we celebrate this important moment, challenging market dynamics are slowing loan disbursements and, more importantly, impacting our clients and the farmers whose sustainable prosperity is at the heart of our mission.

Portfolio Performance

In Q1 we disbursed $21 million in loans, globally, to 84 small and growing businesses that are improving livelihoods for 117,000 producers in Africa and Latin America. Disbursements were 47 percent below our Q1 target of $40 million. The shortfall occurred in part because the global price for coffee has plummeted to $1.35 per pound, half of what it was in Q1 2012, and yet, paradoxically, buyer demand is low. We are experiencing a period in which many of the coffee market fundamentals that experts rely on do not seem to hold. This market dynamic means that, for now, clients either are not requesting financing from Root Capital as anticipated or are not drawing on loans that have been approved. An additional driver, though not as dominant as low price and demand, is competition for our stronger clients in our most established geographies. This factors into the disbursement slowdown, as does a severe outbreak of the coffee fungus known as rust, or *roya*, which has reduced harvests by an average of 25 percent across Central America and southern Mexico.

Despite the disbursement shortfall during Q1, other drivers of our financial performance are strong. We are in line with our Q1 targets for both operating expense and interest expense, and loan loss expense was 23 percent below projections. Portfolio at Risk (PAR) was 4.2 percent for our Sustainable Trade Fund, down from 4.7 percent at the end of 2012. We believe this lower level of risk reflects the ongoing improvements to our underwriting standards and other risk management policies.

We ended the quarter just shy of $83 million in total debt under management. Significantly, we closed on a five-year, $10 million investment from the International Finance Corporation, which will support new lending in the coming years. We raised $3.2 million in new philanthropy in Q1.

Total disbursements in the Frontier Portfolios were $473,000, which was 38 percent below the Q1 target. Within the portfolios, however, we made some important advances. Most significantly, we launched the Food Security & Nutrition Portfolio and made our first disbursement to a Ugandan seed company, for $151,000. Lending to companies that produce high-yield, drought-resistant grain seeds for distribution to small-scale farmers has substantial potential to boost food security among the world's poorest farmers. Furthermore, disbursements to Innovation loans were 67 percent over target at, $309,000. The disbursements were for loans closed in 2012; newer Innovation loans continue to move through the pipeline.

PAR improved significantly in the Frontier Portfolios, from 23 percent at the end of 2012 to 5.9 percent in Q1. Risk dropped due to the repayment of an at-risk rice loan of $450,000 in Senegal and the write-off of two smaller Haitian loans. Lending in Haiti reached $12,000 for Q1 and will remain low throughout the year as our Financial Advisory Services team implements our training-led strategy.

Sustainable Trade Fund Challenges

Many of the issues slowing disbursements in our Sustainable Trade Fund are likely temporary. For example, disbursements in Africa, at $3 million, lagged targets by $5.4 million due to the stalled coffee market in East Africa and to a decision to delay a few cocoa loans in Ivory Coast until August's main crop, rather than funding the more risky "fly crop" now. In South America, disbursements were $3.5 million, behind by $5 million, partially due to the challenging dynamics in the coffee market. We believe that we will largely recover for the year as the market improves, and as we continue to diversify beyond coffee, expand to new geographies and offer larger and longer-term loans with competitive terms—all with the necessary amount of prudence.

Central America and southern Mexico, however, posed a tougher situation. Disbursements totaled $13.9 million, which was 36 percent below target and 28 percent less than Q1 last year. Based on industry projections about the extent of damage to the region's coffee trees from the rust epidemic, it is clear that we will not show growth in loan disbursements in the region at the same level we predicted coming into the year.

We are working on enabling our clients to rebound from the crisis over the medium to longer term; at the same time, we are addressing the overall shortfall in our lending with the appropriate, mission-critical approaches that include a combination of technical assistance, industry diversification, and product innovation. We are not making loans that do not meet our criteria, nor spending beyond what is reasonable. We are also not cutting costs unnecessarily when we have invested so carefully in building a best-in-class, scalable social enterprise.

Since 2005, Root Capital has built our increasingly global and robust Financial Advisory Services (FAS) with the overarching aim of building our clients' resilience challenges such as market volatility and climate change. In Central America, for example, our Root Link project works with cooperatives to strengthen their internal credit systems. In today's challenging context, micro-lending (e.g., loans from $500–$1,000) helps farmers and their families launch side businesses to diversify their income and reduce their reliance on coffee. Internal credit can also be used to purchase agricultural inputs like organic fertilizer and fungicide to fortify coffee trees vulnerable to rust.

During Q1, FAS reached 101 agricultural businesses across all the regions, exceeding our quarterly projections by nearly 30 percent. We provided a total of 262 days of financial training in 10 countries, across multiple regions. We performed especially strongly in Africa, providing more than double the number of projected days of training to 15 organizations across three countries. In addition, we reached a diverse group of enterprises—including producers of vegetables, dried fruits, bananas, cocoa and textiles—and are leveraging our field presence to vet these businesses and develop a stronger pipeline of lending clients.

Industry diversification, our second approach for responding to market challenges, has been an organizational priority for several years. In 2010, we launched our Innovation Portfolio as a vehicle for pilot-testing loans in new markets, evaluating new industries and developing new loan products. Our efforts to experiment with lending in new industries, such as agricultural inputs or post-harvest handling, are beginning to bear fruit. FY2012 was our most diverse year to date, with $34 million of $117.7 million, or 29 percent, in disbursements going to non-coffee clients.

Last, we are innovating new products as a response to the headwinds we are facing. To support our clients' need to replace aging, vulnerable coffee trees with more resilient varietals, we are developing a new long-term loan product. Thus far, we have identified several clients in Central America, southern Mexico and Peru with needs for such "renovation loans" and are currently working to structure those deals.

While the challenges we are facing in our Sustainable Trade Fund are real, it is important to note we have been here before. In the early 2000s, just as we were starting out as an impact-first agricultural lender, the coffee industry experienced its biggest crisis in a generation. Root Capital's financing to coffee cooperatives and the commitment of buyers and other value chain partners helped our clients weather that storm, and we believe that we can overcome the current set of challenges as well. We are confident that Root Capital's three-pronged strategy of Finance, Advise and Catalyze is the right path forward for responding to the evolving market dynamics and for growing rural prosperity in the developing world.

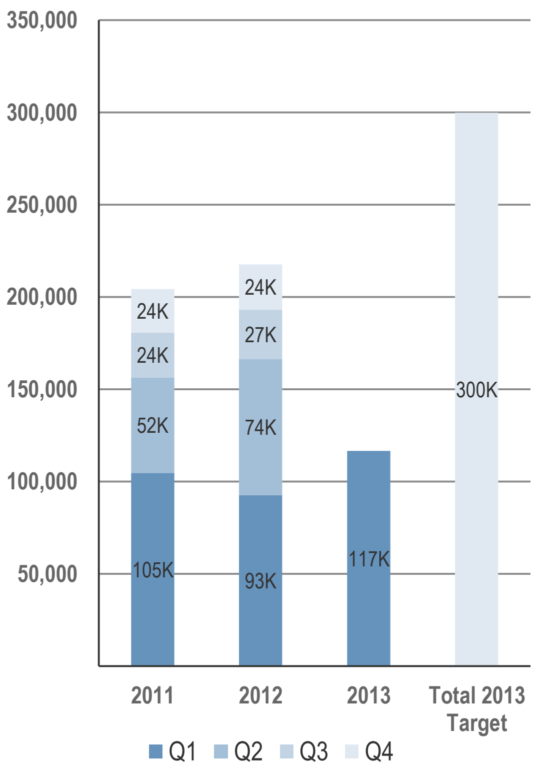
Q1 2013 DASHBOARD*

Metric	Result	Target	Results as % of Target	Page
Social and Environmental Metrics				
Number of Producers Reached	171K	540K for 2013	32%	5
Producers reached directly	117K	300K for 2013	39%	5
Producers reached indirectly	54K	240K for 2013	23%	5
Purchases from Rural Producers	$151M	$379M for 2013	40%	5
Total Revenue of Rural SGBs	$198M	$518M for 2013	38%	6
Sustainable Hectares under Management	116K	651K for 2013	18%	6
Lending Program				
Loan Disbursements	$21M	$40M through 2013	53%	
Sustainable Trade Fund	$20M	$39M through 2013	53%	7
Frontier Portfolios	$473K	$759K through 2013	62%	12
Outstanding Portfolio Balance	$60M	$72M through 2013	83%	
Sustainable Trade Fund	$57M	$69M through 2013	82%	7
Frontier Portfolios	$3M	$2M through 2013	120%	12
Number of Active Clients	171	N.A.		
Sustainable Trade Fund	152	N.A.		9
Frontier Portfolios	19	N.A.		13
Average Outstanding Balance per Active Loan	$305K	N.A.		
Sustainable Trade Fund	$321K	N.A.		9
Frontier Portfolios	$153K	N.A.		13
Portfolio-at-Risk Over 90 Days	4.20%	4.8% for 2013	88%	
Sustainable Trade Fund	4.16%	4.4% for 2013	95%	10
Frontier Portfolios	5.91%	18.2% for 2013	32%	14
Loan Loss Ratio	3.40%	4.0% for 2013	85%	
Sustainable Trade Fund	3.43%	3.6% for 2013	95%	10
Frontier Portfolios	2.30%	13.7% for 2013	17%	14
Financial Advisory Services (FAS)				
Number of Groups Served by FAS	101	197 for 2013	51%	16
Days of Training Delivered	262	277 for 2013	95%	16
Catalyze Program				
Overview of Catalyze Program	See page 17 for discussion of Catalyze Program			
Operating Results				
Operating Expense	$2.9M	$15.2M for 2013	19%	18
Debt to Equity	3.65:1	3.51:1 through Q1	104%	20
Capital Utilization	63%	79% through Q1	79%	20
Fundraising Results				
Outstanding Debt Balance	$83M	$98M for 2013	84%	19
Contributions Raised	$10.8M	$14.9M for 2013	73%	19

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

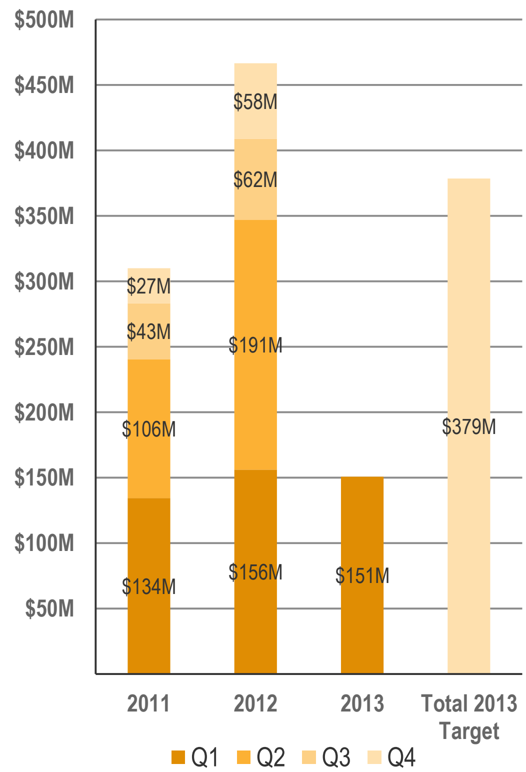
SOCIAL AND ENVIRONMENTAL METRICS

Number of Producers Reached Directly (through Q1)



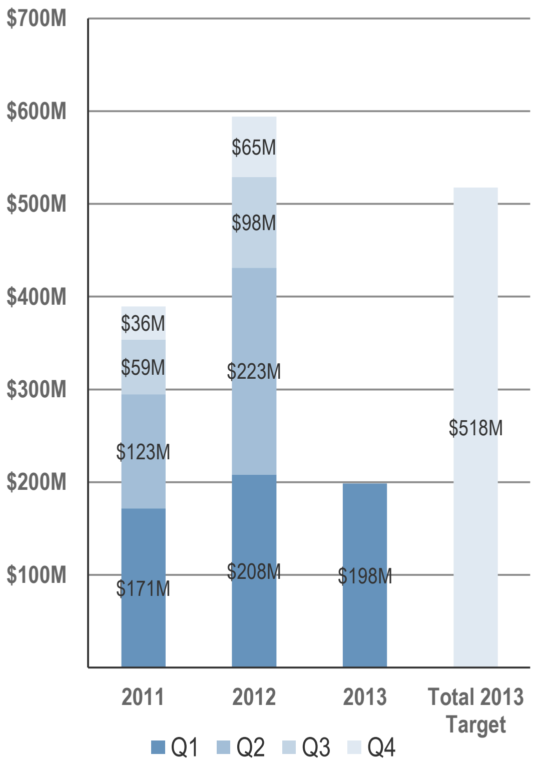
- In Q1 2013, we reached 117K producers directly. By "directly," we mean that producers sell their harvest to the enterprise, as has been the case for the majority of our clients historically.
- In Q1 2013, we reached 54K producers indirectly. By "indirectly" we mean that producers purchased agro-inputs or post-harvest handling services from the enterprise. Through our Frontier Portfolios we are increasingly lending to such enterprises; hence beginning in 2013 we will include producers reached indirectly in our quarterly reporting. 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 will report on producers reached indirectly separately from producers reached directly.
- Of all the producers reached directly this year, 27K, or 23%, were women.

Purchases from Producers (through Q1)



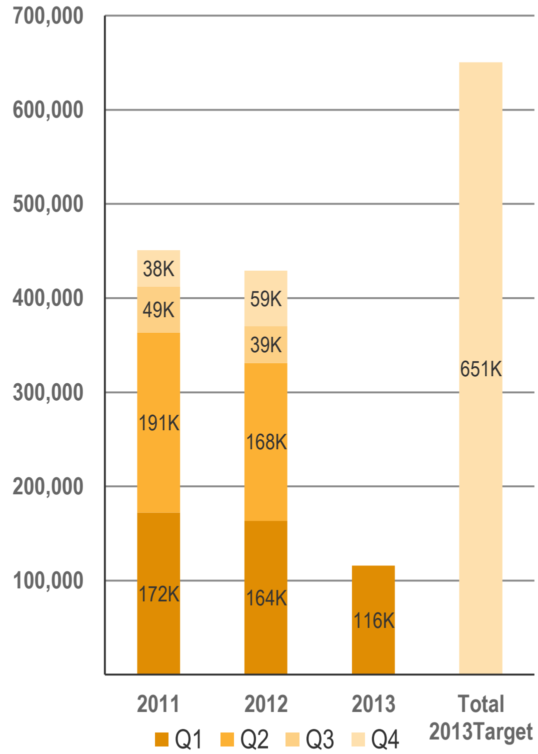
- "Purchases from producers" is the total amount that our client enterprises paid to their small-scale suppliers.
- In aggregate, our Q1 2013 clients purchased an estimated $151M of agricultural product from their producers. Enterprise payments to producers have decreased somewhat after higher amounts in 2012, as the effects of the decrease in commodity prices filter through our portfolio.
- On average, client enterprises receiving loans in Q1 purchased $1,297 worth of product from each of their producers, versus a projected $1,263.

Total Revenue of Rural SGBs (through Q1)



- The rural enterprises in Root Capital's Q1 2013 portfolio generated $198M in total revenue.
- As with payments to producers, enterprise revenues decreased somewhat after higher amounts in 2012, as the effects of the decrease in coffee commodity price filter through our portfolio. We anticipate that both revenues and payments to producers per enterprise will decline in the coming year, following the path of commodity prices.

Sustainable Hectares Under Management (through Q1)



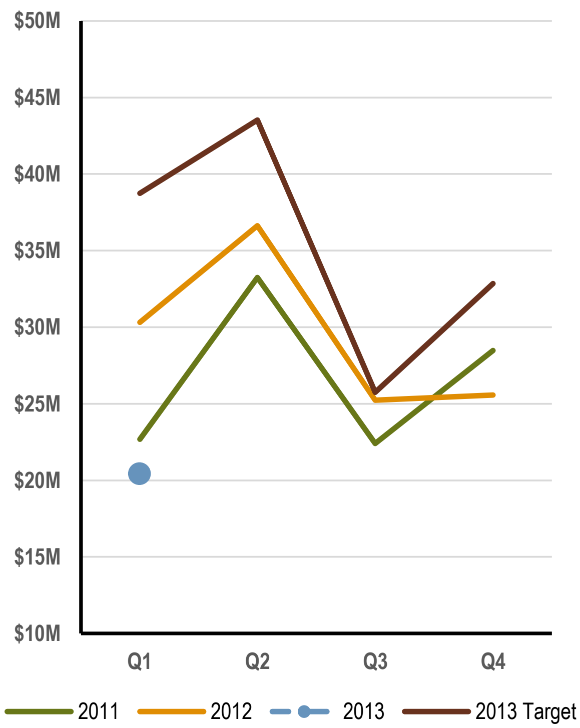
- In Q1 2013, client enterprises represented more than 116K hectares of sustainably managed agroforestry and agricultural lands.
- On average, each producer in the portfolio owns 1.15 hectares of land (only considering enterprises that track hectares under management). This figure is strongly influenced by one enterprise with a large number of producers, without which the portfolio average would be 1.70 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 producers reached; this helps to limit the volatility of this metric over time that is associated with the entry and exit of large clients from the portfolio. Beginning in 2013, we will no longer cap the number of producers per client at 5,000, as we wish 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 and have historically capped it at 5,000 even though the enterprise has 40,000 producers. Given that we have been providing about 50 percent of their financing, comparable to what we provide for many of our other clients, beginning in 2013 we will include the full 40,000 producers.

SUSTAINABLE TRADE FUND

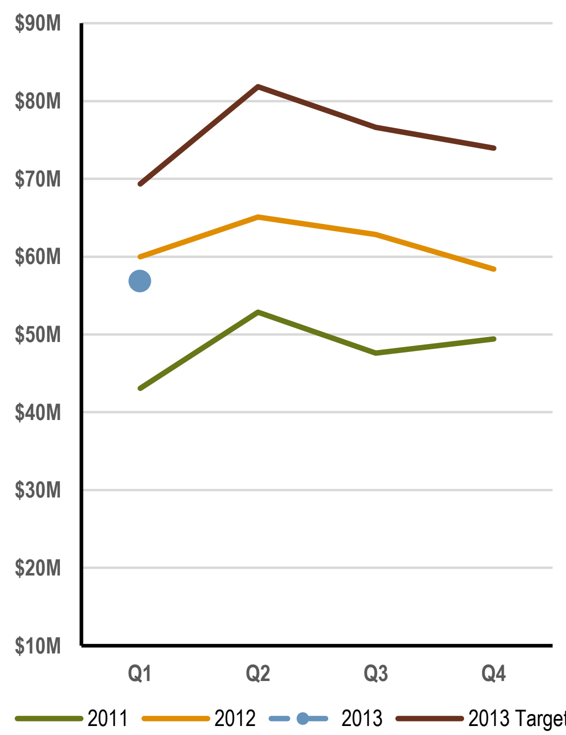
Lending Performance

Loan Disbursements by Year



- We disbursed $20.4M in Q1, 47% below the target of $38.7M for the quarter and 33% less than the same period last year.
- A major factor in the disbursement slowdown across the regions is the stalled coffee market. Buyers are purchasing far less this year due to aggressive buying in previous seasons.
- Central American disbursements were $13.9M, down 28% from last year and 36% below projections.
- East African year-to-year disbursements decreased by 56%, and the region fell short of its disbursement projections by 55%. $2.7M was disbursed in East Africa during Q1.
- West African disbursements were $312K, down 79% from last year and 87% below projections.

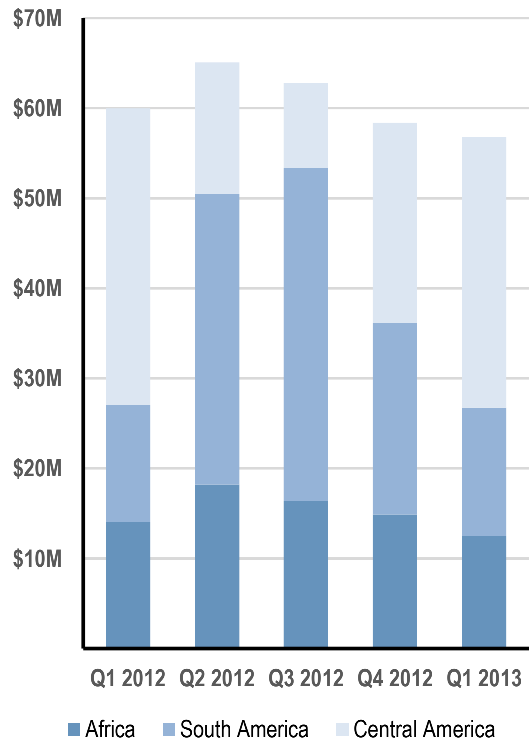
Outstanding Portfolio Balance by Year



- At the end of Q1, the outstanding balance was $56.8M, 18% below the projection of $69.3M and 5% below the same time last year.
- The outstanding balance level reflects the amount of dollars our clients are currently using. When disbursements are lower than expected, outstanding balance is lower as well.

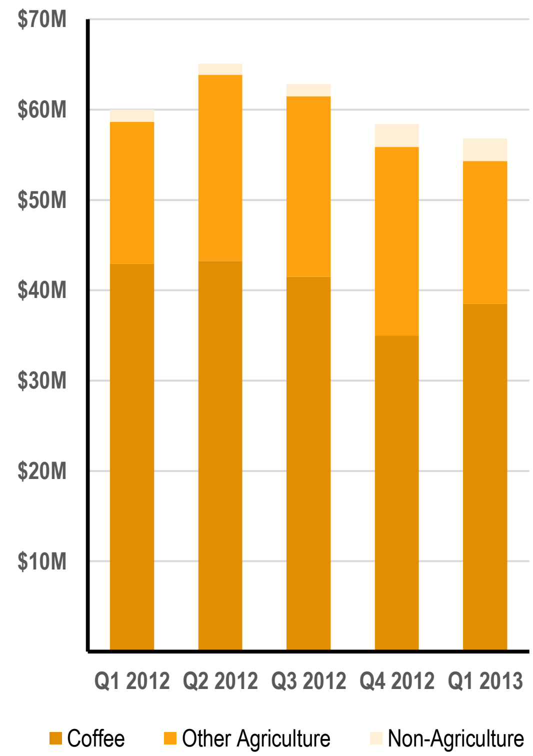
- South American year-to-year disbursements grew by 3%, though they fell short of projections by 59%. $3.5M was disbursed in South America during Q1.

Outstanding Balance by Region (Trailing 5-Quarter)



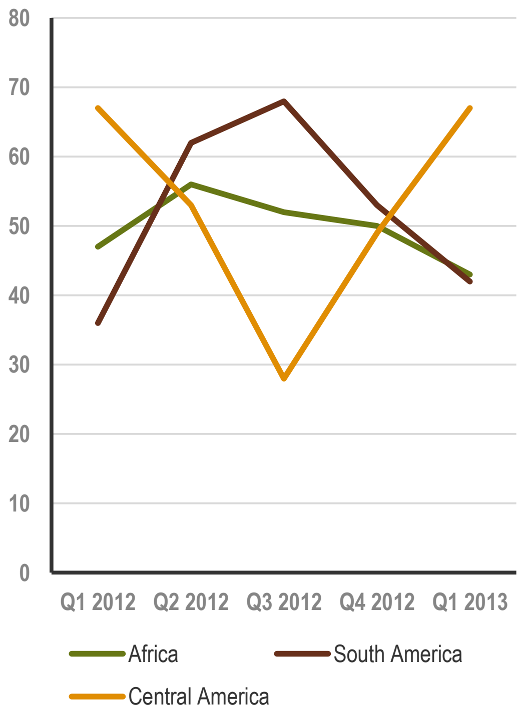
- The South American portfolio balance was $14.3M at the end of Q1, 31% below projections. The end of the first quarter is typically when the outstanding balance in South America is lowest.
- The Central America portfolio reached $30.1M at the end of Q1, which was 9% lower than last year and 8% below projections. This portfolio is at its peak in Q1 and therefore this relatively modest deviation from the target will have a strong impact on the portfolio's 2013 performance. Decreased demand from coffee buyers and coffee rust disease were key factors in the lower-than-expected outstanding balance.
- West Africa had an outstanding balance of $2.6M at the end of Q1, 38% below projections.
- The East Africa portfolio was $9.9M at the end of Q1, 14% below projections and down 4% 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 above.

Outstanding Balance by Industry (Trailing 5-Quarter)



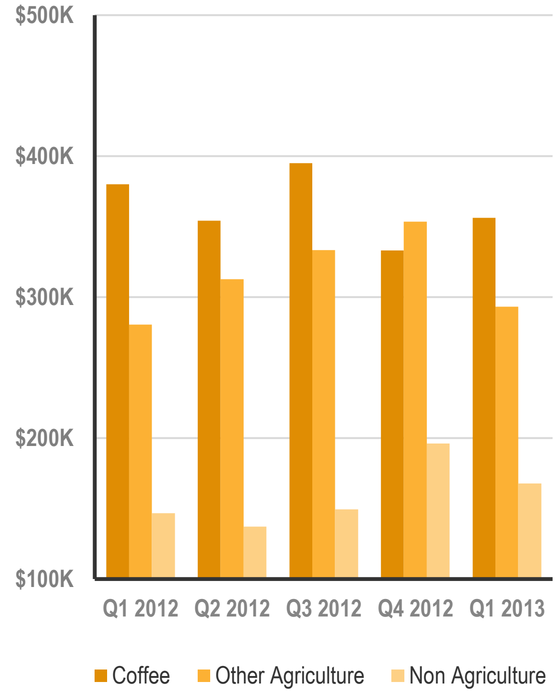
- Root Capital's coffee portfolio consists of loans made to specialty coffee value chains, such as organic and/or fair trade coffee, which provide higher social and/or environmental impact than most conventional coffee.
- Coffee loans continue to be the mainstay of the Sustainable Trade Fund, accounting for 68%, or $38.5M, of the $56.8M portfolio.
- Other Agriculture loans totaled $15.8M, or 28% of the Sustainable Trade Fund Portfolio at the end of Q1. The two largest industries were cocoa at $2.5M and canned/bottled fruits and vegetables at $2.1M. The portfolio is spread widely across the different regions in which Root Capital operates.
- The Non-Agricultural sector consists of loans to industries like handcrafts and aquaculture. This portfolio remains a very small portion of the portfolio, with $2.5M, or 4%, outstanding.

Number of Active Clients by Region



- The total number of active clients at the end of Q1 was 152, the same number as last quarter and two clients more than at the same time last year.
- The Central American portfolio spiked upward with the onset of the coffee season. The number of active clients climbed from 49 at the end of Q4 to 67 at the end of Q1. While this is the same number of clients as in Q1 2012, the average loan size per coffee client fell from last year at the same time.
- The South American portfolio moves in the opposite direction from the Central American portfolio because of the opposite harvest cycle in the Southern Hemisphere. The number of active clients dropped from 53 in Q4 to 42 at the end of Q1, a 17% increase in the number of clients from the same time last year.
- The number of active clients in Africa at the end of Q1 was 43, down from 47 for the same time last year.

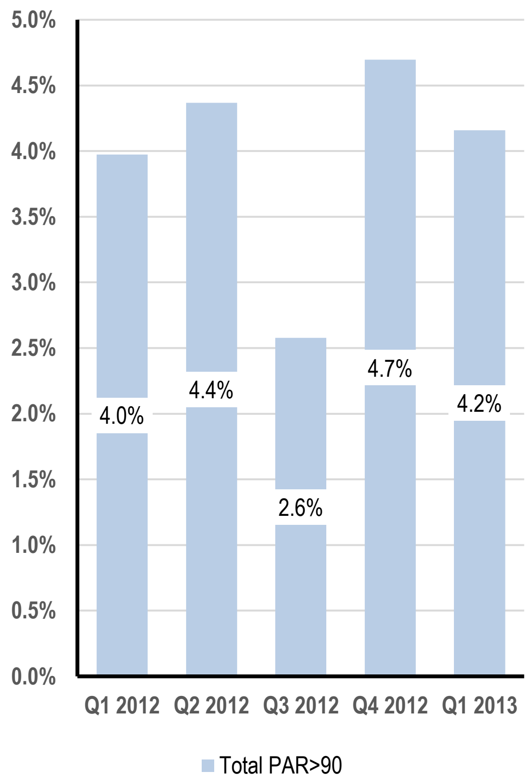
Average Outstanding Balance per Active Loan



- The average coffee loan outstanding increased from $333K last quarter to $356K at the end of Q1. The average size of coffee loans is driven in large part by the timing of the coffee seasons. Early in each season, average loan sizes are higher; as the seasons wind down, payments are received and the average loan size decreases.
- The average Other Agriculture loan outstanding decreased 17% from last quarter to $293K per loan. Compared to this time last year, however, it increased 4%, from $280K to $293K outstanding per loan.
- The average loan size of the Non-Agriculture sector was $168K per loan, with 15 loans outstanding at quarter end.

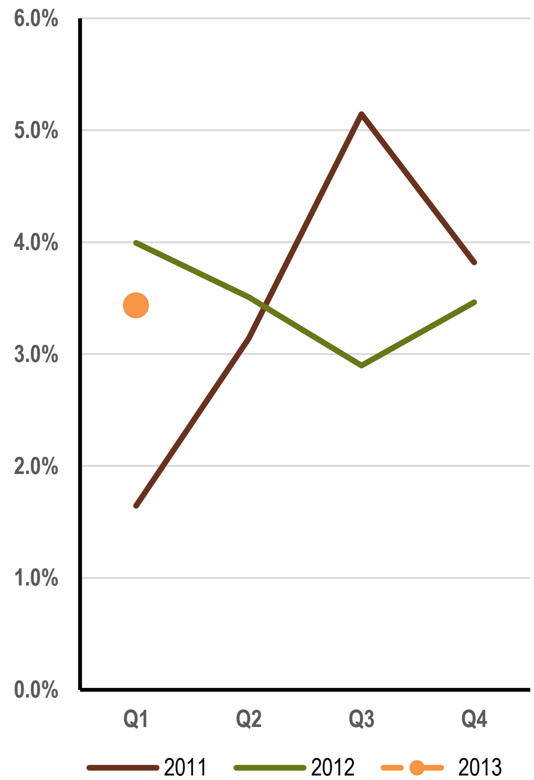
Lending Risk

Portfolio at Risk > 90 Days



- The Portfolio at Risk over 90 days (PAR) was 4.2% at the end of Q1, down from 4.7% at the end of 2012. The total dropped from $2.7M to $2.4M.
- South America had 0% PAR at the end of Q1.
- Central American PAR was 4.9% or $1.5M at period end. The risk was driven by a long-time Nicaraguan coffee client with $1.2M outstanding.
- PAR was highest in West Africa (19.5%) due to the small size of the portfolio. Only two loans were in PAR, a $288K mango loan and a $216K sesame loan.
- PAR in East Africa was 3.9%, or $400K at the end of Q1.

Loan Loss Ratio (Trailing 12 month average)



- The Loan Loss Ratio was 3.4% at the end of Q1, down from 3.5% last quarter.
- The Loan Loss Ratios for East Africa, South America and Central America were low at 1.4%, 1.9% and 3.6%, respectively.
- The Loan Loss Ratio for West Africa was 17%. Three loans were written off in Q1 for a combined loss of $223K. The largest loan loss was for $166K for a 2011 shea trade credit loan in Burkina Faso. $41K from a cocoa loan in Sierra Leone and $16K from a honey loan in Ghana were also written off.

Sustainable Trade Fund Financial Results & Analysis

All numbers in thousands	Sustainable Trade Fund Q1 YTD 2013			
	Actual	Budget	Variance ($)	Variance (%)
Loan Interest	1,354	1,483	(128)	-9%
Fees & Other Revenue	185	348	(163)	-47%
Gain (loss) on Fx Lending	(37)	0	(37)	N/A
Total Earned Revenue	**1,503**	**1,831**	**(328)**	**-18%**
Portfolio Yield	**10.4%**	**11.8%**	**-1.5%**	**-13%**
Net Allowance for Loan Loss Expense	339	440	(101)	-23%
Provisioning Expense Ratio	2.3%	2.8%	-0.5%	-18%
Net Interest Expense	338	436	(97)	-22%
Net Funding Expense Ratio	2.3%	2.8%	-0.5%	-17%
STF Operating Expense	1,088	1,324	(236)	-18%
Operating Expense Ratio	7.5%	8.6%	-1.1%	-12%
Total Expenses	**1,766**	**2,200**	**(434)**	**-20%**
Total Expense Ratio	**12.2%**	**14.2%**	**-2.1%**	**-14%**
STF Surplus / (Deficit)	**(263)**	**(369)**	**106**	**29%**
Operational Self Suffiency (OSS)	**85%**	**N/A**	**N/A**	**N/A**

EARNED REVENUE

Through the first quarter of 2013, the Sustainable Trade Fund earned interest and fee revenue of $1.5 million, 18 percent below target. This result was primarily driven by a lower portfolio balance and a lower yield on that balance. Reduced disbursements resulted in an average balance of $58 million, 10 percent below target. Portfolio yield was 10.4 percent, approximately 1.5 percentage points below our 11.8 percent projection. Factors contributing to the shortfall in balance and yield include lower coffee prices, higher buyer inventory, competition and roya.

ALLOWANCE FOR LOAN LOSS EXPENSE

During Q1, we provisioned $339K in loan loss expense, net of $2K in recoveries. This increase is primarily driven by two loans to coffee producers in Mexico and Peru, respectively. Compared to target, our net allowance for loan loss expense was 23 percent below budget and represented 2.3 percent of our average portfolio balance.

INTEREST EXPENSE & INTEREST EARNED ON CASH AND INVESTMENTS

Net interest expense through March was $97K below budget. This variance was primarily driven by a reduction in debt capital required to manage our lending needs. Additionally, we achieved higher-than-expected returns from short-term investments made in response to excess cash held through the quarter.

LENDING PROGRAM OPERATING EXPENSE

Through Q1, operating expenses for the Sustainable Trade Fund were $1.09 million, approximately 18 percent below our budget of $1.32 million. As a result, our operating expense ratio was 7.5 percent as compared to our Q1 target of 8.6 percent.

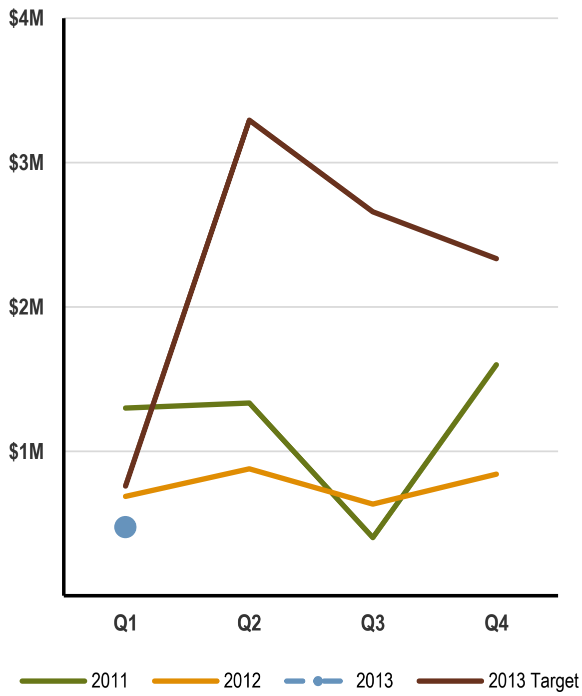
OPERATIONAL SELF SUFFICIENCY

Despite below-budget earned revenue, Operational Self Sufficiency (OSS) increased to 85 percent in Q1 2013 from 80 percent for full-year 2012 (audited). Lower provisioning, operating and net interest expenses helped offset lower-than-expected interest and fee revenue, resulting in an OSS in line with our full-year 2013 target of 82 percent.

FRONTIER PORTFOLIOS

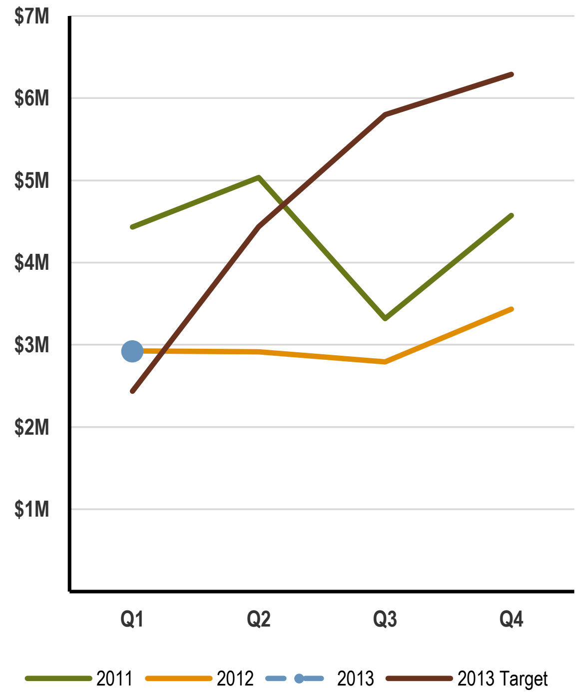
Lending Performance

Loan Disbursements by Year



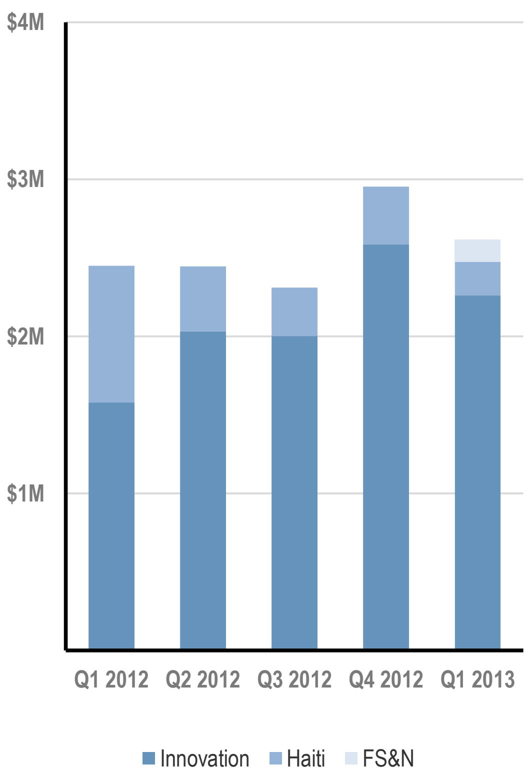
- We disbursed $473K in the Frontier Portfolios in Q1. The Frontier Portfolios consist of loans made in the Innovation, Food Security & Nutrition, Haiti and Other Portfolios.
- We disbursed $309K in the Innovation Portfolio in Q1, 67% over projections. Disbursements were made to five clients in four countries in Africa and Latin America.
- The first disbursement in the new Food Security & Nutrition Portfolio (i.e., not within the Innovation Portfolio) was made in Q1 to a seed company in Uganda.
- We disbursed $12K in the Haiti Portfolio in Q1. The portfolio will remain small in 2013 as Root Capital's Financial Advisory Services team implements our training-led lending strategy.

Outstanding Portfolio Balance by Year



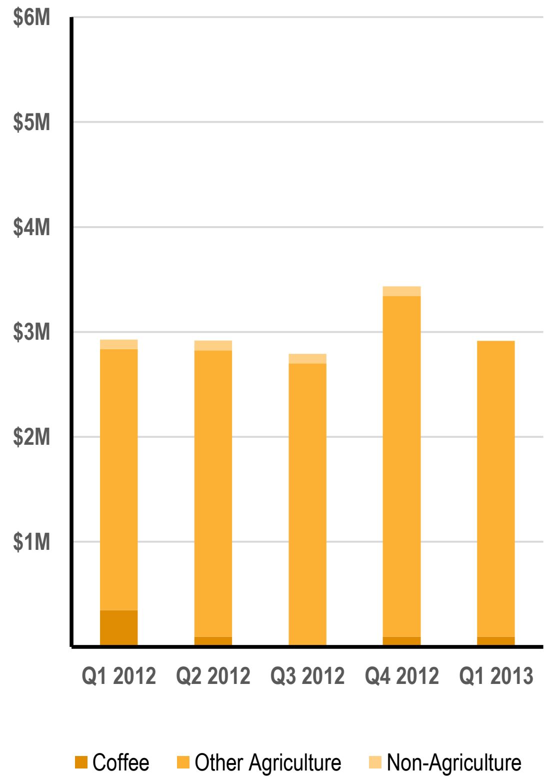
- The outstanding balance was $2.9M at the end of Q1, 20% above the projected outstanding balance of $2.4M.
- The higher-than-expected outstanding balance was due to strong disbursements in the Innovation Portfolio, a few delayed repayments and an aggressive repayment projection.

Outstanding Balance by Portfolio



- The Innovation Portfolio had $2.3M outstanding at the end of Q1, a 43% increase from $1.6M outstanding at the same time last year. There are currently 14 active clients in the Innovation Portfolio in eight countries across Africa and Latin America.
- The new Food Security & Nutrition Portfolio had $141K outstanding at the end of Q1.
- The Other Portfolio (formally our North Portfolio) had two loans outstanding at quarter end with a combined balance of $302K. The Other Portfolio is intentionally omitted from the graph due to its small size and planned closure this year.
- The Haiti Portfolio decreased by 76%, from $870K last year at this time to $213K outstanding at the end of Q1.

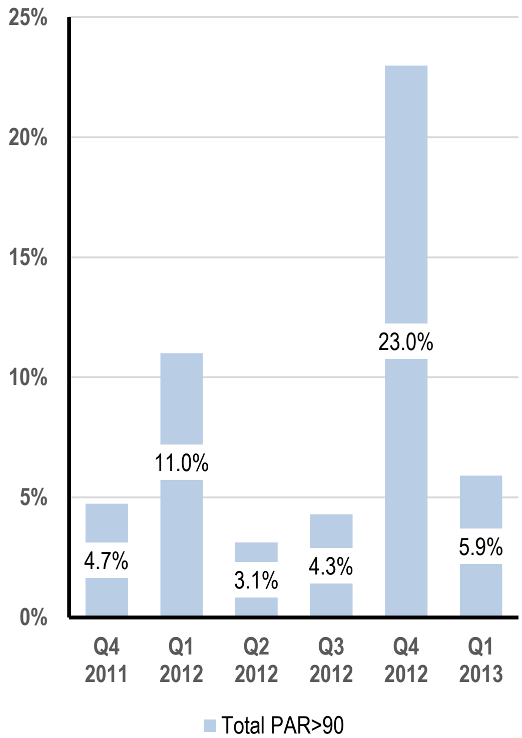
Outstanding Balance by Industry



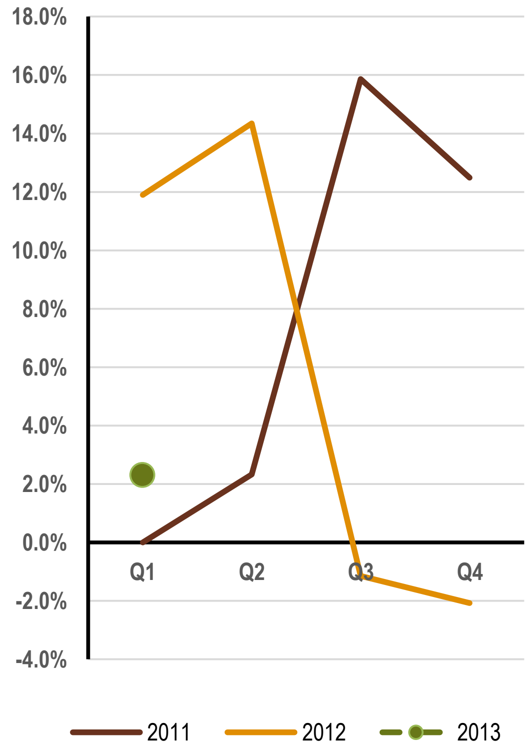
- The three largest industries in the Frontier Portfolios were; 1) rice at 31%, 2) seeds for farm inputs at 26% and 3) animal feed at 8%.
- The Innovation Portfolio is by far the largest portfolio of the Frontier Portfolios, and as such its industry concentration is reflected in the Frontier concentrations as a whole.

Lending Risk

Portfolio at Risk > 90 Days



Loan Loss Ratio (Trailing 12-month average)



- ➔ The Portfolio at Risk over 90 days (PAR) was 5.9% at the end of Q1, down from 23% at the end of last year. The PAR dropped significantly due to the repayment of an at-risk $450K rice loan in Senegal and the write-off of two loans in Haiti totaling $168K. The outstanding balance of the loans at risk was $172K.
- ➔ The Innovation Portfolio had one loan at risk with a balance of $29K. The PAR for the Innovation Portfolio is 1.3%.
- ➔ One of the two loans in the Other Portfolio (formally our North Portfolio loans) is at risk with an outstanding balance of $144K. The loan is for a rice company located in the United States.
- ➔ There are no loans currently at risk in the Haiti and Food Security & Nutrition Portfolios.

- ➔ At the end of Q1 the Loan Loss Ratio was 2.3%.
- ➔ The Haiti Portfolio had a Loan Loss Ratio of 59.7%, driven by the write-off of two mango loans in Q2 2012 and the write-off a vetiver oil loan and a handcraft loan in Q1 2013.
- ➔ The Loan Loss Ratios for the Innovation Portfolio and the Food Security & Nutrition Portfolio were 0.0% at the end of Q1. Neither portfolio has experienced a loss.

Frontier Portfolios Financial Results & Analysis

All numbers in thousands	Frontier Portfolios Q1 YTD 2013			
	Actual	Budget	Variance ($)	Variance (%)
Loan Interest	110	99	11	11%
Fees	7	9	(1)	-15%
Gain (loss) on Fx Lending	(17)	0	(17)	N/A
Total Earned Revenue	**101**	**108**	**(7)**	**-7%**
Portfolio Yield	**11.6%**	**7.0%**	**4.7%**	**67%**
Net Allowance for Loan Loss Expense	(264)	(188)	(76)	40%
Provisioning Expense Ratio	-30.5%	-26.8%	-3.7%	14%
Net Interest Expense	13	13	(1)	-6%
Net Funding Expense Ratio	1.4%	1.9%	-0.5%	-24%
Frontier Portfolios Operating Expense	359	447	(88)	-20%
Operating Expense Ratio	41.5%	63.5%	-22.0%	-34.6%
Total Expenses	**108**	**272**	**(164)**	**-60%**
Total Expense Ratio	**12.4%**	**38.6%**	**-26.2%**	**-68%**
Frontier Surplus / (Deficit)	**(7)**	**(164)**	**157**	**96%**

EARNED REVENUE

Through Q1 2013, total earned revenue in the Frontier Portfolios was $101K, seven percent below target. We earned $110K in loan interest, 11 percent above Q1 estimates. However, reduced disbursements resulted in a $1K variance in fees below target. In addition, we posted a $17K loss on foreign currency (Fx) lending. The Lending section of this report provides further detail on the rationale for lower disbursements in the Frontier Portfolios.

ALLOWANCE FOR LOAN LOSS EXPENSE

During Q1, net provisioning for loan losses within the Frontier Portfolios decreased by $264K. This result was driven by a $112K reduction in allowance for loan loss expense primarily associated with the repayment of an at-risk rice loan of $450K in Senegal and the recovery of $152K in loan principal previously written off.

INTEREST EXPENSE & INTEREST EARNED ON CASH AND INVESTMENTS

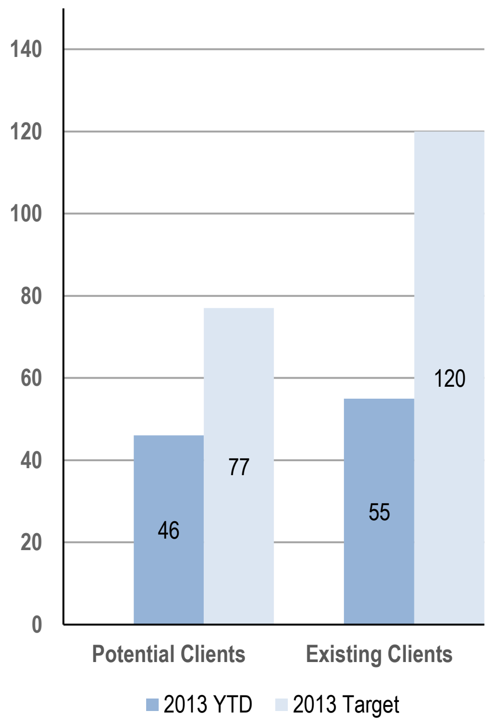
We incurred $13K in net interest expense during Q1, in line with our target. This result was primarily driven by a near-zero effective interest rate on Frontier Portfolio debt and higher-than-expected yields on cash investments. Prior to interest on cash and investments, our interest expense was $16K.

LENDING PROGRAM OPERATING EXPENSE

Through March 2013, we spent $359K on operating expenses, representing 20 percent of the full-year 2013 operating expense budget.

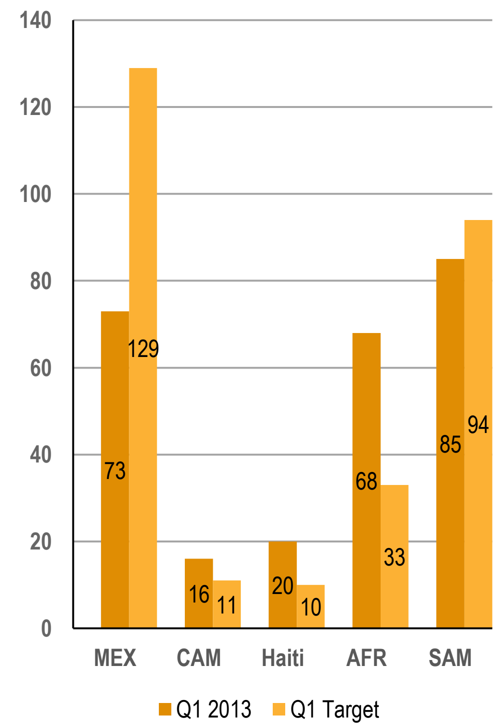
FINANCIAL ADVISORY SERVICES

Groups Served by Financial Advisory Services (through Q1)



- We reached 101 small and growing businesses (SGBs) in Latin America and Africa in Q1, exceeding our quarterly projections by nearly 30%.
- Through a combination of on-site training and centralized workshops, we were able to reach a cross-section of organizations, including vegetables, dried fruits, bananas, cocoa and textiles. We are leveraging the field presence of our consultants to gather information about these industries and are developing a stronger pipeline of lending clients outside of the coffee sector.
- The Africa region performed strongly in Q1; we provided more than double the projected number of days of training to 15 SGBs across three countries, including our first centralized workshop in Tanzania.
- We continue to expand our presence in South America with the hiring of trainers in Ecuador and Colombia.

Days of Training Delivered by Financial Advisory Services (through Q1)



- In Q1 2013 we provided a total of 262 days of financial advisory training across 10 countries in five regions.
- We have several initiatives with industry partners in the pipeline for 2013. As part of the Root Link project in partnership with the Inter-American Development Bank, we plan to provide 375 days of training to 25 SGBs located in Central America, with the specific aim of strengthening internal credit systems at the cooperative level. In addition, we are working with the International Finance Corporation in Mexico on identifying and training 60 clients across several sectors and plan to provide 480 days of on-site training within this new pipeline.
- We fell short of our days of training goals in South America and Mexico but plan to make up for this shortfall during the course of the year.

CATALYZE PROGRAM PERFORMANCE

During Q1 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.

STRATEGY, KNOWLEDGE & INNOVATION

- ➔ Lending and Strategy Officer Jesse Last joined the Business Working Group of the Landscapes for People, Food and Nature Initiative. The partners involved aimed to understand and support integrated agricultural landscape approaches to simultaneously meet goals for food production, ecosystem health and human well-being. The group informed a recently released report, "Reducing Risk: Landscape Approaches to Sustainable Sourcing." http://landscapes.ecoagriculture.org/global_review/reducing_risk.

THOUGHT LEADERSHIP & FIELD BUILDING

- ➔ Root Capital engaged with our peer social lenders, including Alterfin, Oikocredit, responsAbility, Rabobank's Rabo Rural Fund, Shared Interest and Triodos Sustainable Trade Fund, to discuss metrics for measuring social and environmental impact and best practices for conducting due diligence.
- ➔ Root Capital welcomed Funke Oyewole to its Board of Directors. Funke currently serves as the Deputy Program Manager of the World Bank's Climate Investment Fund Administrative Unit.
- ➔ Root Capital moved from 36th to 12th place on the Global Journal's second annual list of the Top 100 NGOs worldwide. The Global Journal recognizes the significant role of NGOs as influential agents of change on a global scale, increasingly at the forefront of development shaping the lives of millions of people around the world.
- ➔ Investor Relations Officer Rachel Serotta was featured on two panels, "Asset Class Overview: Opportunities for Returns through Impact" and "Program-Related Investments," at the IMN Impact Investing Summit conference in Huntington Beach, CA.
- ➔ Root Capital CEO and Founder Willy Foote contributed a chapter to the book *Creating Good Work*, which features leading social innovators' thoughts, experiences and wisdom about how to create positive change in the world. Willy's contribution focused on the world of social impact financing and how to catalyze growth in this sector.
- ➔ Willy Foote attended a roundtable discussion and public panel in London on Bridging the Financing Gap in Agricultural Value Chains. This event was hosted by Business Fights Poverty, the Aspen Network for Development Entrepreneurs (ANDE) and Citi.
- ➔ The International Finance Corporation FinNet Conference welcomed Willy Foote in Washington, D.C. in February to a session, "Unlocking the Potential of Agrifinance for Financial Institutions."

INDUSTRY RECOGNITION AND PUBLICATIONS

- ➔ With nearly 20,000 views, Willy Foote's following has grown on 'Creative Disruptions,' a Forbes blog chronicling his journey as a social entrepreneur growing rural prosperity.
- ➔ Root Capital tops $500 million in cumulative lending to rural enterprises in Africa and Latin America; this milestone reflects the growing power of impact investing.
- ➔ Root Capital published our Impact Snapshots which illustrate core impacts—such as the impact of our finance on our clients' ability to grow, to reach more farm families and to pay higher prices. While some illustrate impact on individual clients, they are representative of the type of impact we see across our portfolio.
- ➔ Root Capital published our Roadmap for Impact which lays out our evolving approach to measuring our impact.

OVERALL OPERATING RESULTS

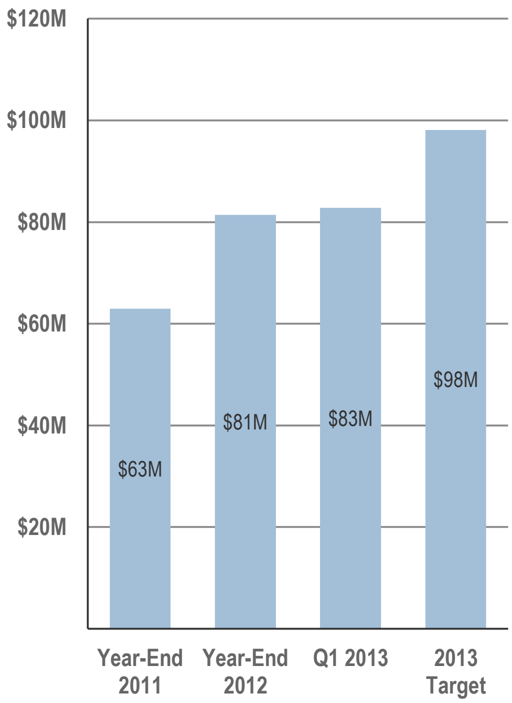
Operating Expense by Program

Program All numbers in thousands	2013 Operating Expenses Q1 YTD 2013 Actual	FY 2013 Budget	% of Budget Spent	Y/Y Growth Q1 YTD 2012 Actual	Y/Y Growth
Finance Opex (Sustainable Trade Fund)	1,088	5,295	21%	1,067	2%
Finance Opex (Frontier Portfolios)	359	1,787	20%	342	5%
Advise Opex	902	4,363	21%	487	85%
Catalyze Opex	581	3,740	16%	488	19%
Total Opex	**2,931**	**15,186**	**19%**	**2,384**	**23%**

- ➔ We incurred $2.9 million in total operating expenses during Q1, representing approximately 19 percent of our FY2013 budget of $15.19 million. This result is in line with performance through Q1 2012 in which we spent 20 percent of our $12.51 million budget.
- ➔ Advise operating expenses of $902K represent 21 percent of the $4.36 million Advise operating budget. Year-over-year Advise operating expenses have grown by 85 percent as a result of the Root Link project in Central America fully ramping up, along with strong growth in our Advise activities in South America, Africa, and Haiti.
- ➔ Catalyze operating expenses of $581K represent 16 percent of the total Catalyze budget. The Q1 under spending is primarily due to lower consultant and travel costs due to delays in Catalyze activities being initiated during 2013.

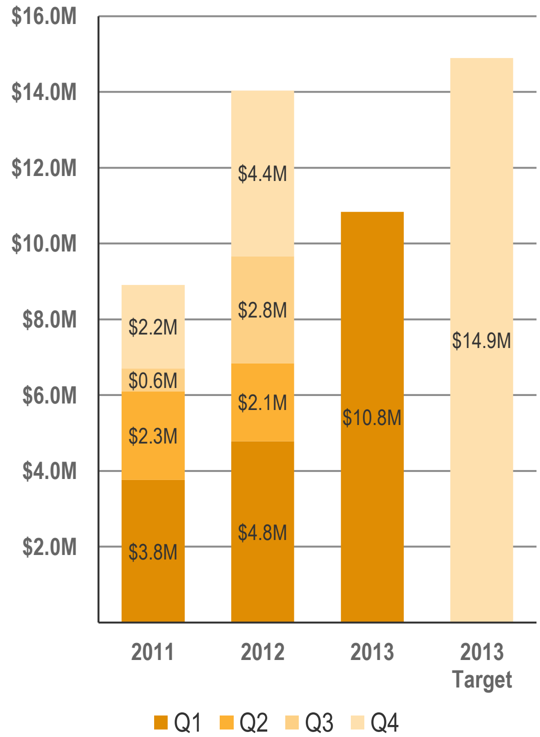
Fundraising Results

Outstanding Debt Balance (through Q1)



- We ended Q1 with just under $83M in total debt under management.
- Thanks to strong debt fundraising at the end of 2012 and slower growth projected for 2013, Root Capital chose to keep our debt balance essentially flat.
- During the quarter, however, we closed on a $10M, five-year investment from the International Finance Corporation (IFC), which will help support our lending in the coming years.

Total Contributions Raised (through Q1)



- Root Capital raised and released $3.2M in contributions for use in the first quarter of 2013.
- At the close of the first quarter, we had raised $10.8M against the $14.9M fundraising goal for 2013. This represents funding raised in previous years, as well as year-to-date, for use this year.
- It should be noted that this total includes almost $3M raised for balance sheet reserves (or first loss philanthropic capital) for the Sustainable Trade Fund. The remainder supports program and operating costs, and includes larger multi-year grants secured at the end of 2012.

Operating Results Summary

As we have mentioned earlier, reduced earned revenue on our lending portfolios was offset by reduced expenses in risk, interest and operations. Advise and Catalyze operations are below budget as well. At the same time, contributions and debt fundraising are on track. Therefore, as we manage through the headwinds we face, our income statement and balance sheet remain strong.

Balance Sheet Highlights & Key Ratios

Balance Sheet Highlights (All numbers in thousands)	Q1 2013 Actual	Q1 2013 Budget	Variance ($)	Variance (%)	FY 2012 Actuals	Change since 12/31/2012 (%)
Cash and Short-Term Investments	47,385	32,556	14,829	46%	44,425	7%
Total Loans Receivable	59,791	71,526	(11,735)	-16%	61,773	-3%
Less: Allowance for Loan Loss	(1,957)	(2,105)	148	-7%	(2,120)	-8%
Loans Receivable (net)	57,834	69,421	(11,587)	-17%	59,653	-3%
Other Assets	18,186	17,448	738	4%	17,106	6%
Total Assets	**123,405**	**119,425**	**3,980**	**3%**	**121,185**	**2%**
Total Notes Payable & Other Debt	82,845	79,315	3,529	4%	81,462	2%
Other Liabilities	1,795	1,452	344	24%	1,408	28%
Total Liabilities	**84,640**	**80,767**	**3,873**	**5%**	**82,870**	**2%**
Total Net Assets	**38,765**	**38,658**	**108**	**0%**	**38,315**	**1%**
Total Liabilities & Net Assets	**123,405**	**119,425**	**3,980**	**3%**	**121,185**	**2%**

Key Financial Ratios	Q1 2013 Actual	Q1 2013 Target	Variance (%)	FY 2012 Actual	Change since 12/31/2012 (%)
Debt-to-Equity Ratio	3.65	3.51	4%	3.82	-4%
Capital Utilization	63.0%	79.0%	-20%	84%	-25%
Current Ratio	3.33	N/A	N/A	4.24	-21%

- ➔ During Q1 2013, our balance sheet grew by 2 percent to $123.4 million.
- ➔ At the end of March, we held approximately $47.39 million in cash, reserves and short-term marketable securities, approximately $14.83 million more than anticipated; the increase was primarily due to a 46 percent variance in disbursements from target.
- ➔ Our Q1 capital utilization was 63 percent, a 20 percent variance to target. As described above, this variance primarily results from 2012 debt fundraising completed in anticipation of a larger lending portfolio balance.
- ➔ Our debt-to-equity ratio at quarter end was 3.65x, in line with our 3.51x target. We ended the quarter with a current ratio of 3.33x, indicating a strong ability to meet our short-term liability obligations.

APPENDIX: Q1 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 Q1 2013 was $29,100.*

Statement of Financial Position as of March 31, 2013

in thousands	March 2013				March-13 vs March-12		Mar-13 vs Dec-12	
	Operating	Sustainable Trade Fund	Frontier Portfolios	Total Root Capital	March-12	% Y/Y	December-12	$ Change
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	1,566	1,036	5,809	8,411	4,398	91%	31,940	(23,529)
Cash loan loss reserve (10% of gross loans rec.)		5,687	293	5,979	6,517	-8%	6,177	(198)
Escrow funds		459		459	568	-19%	119	340
Investments	2,000	25,535	5,000	32,535	6,191	426%	6,307	26,228
Current loans receivable, net of allowance for loan losses of $1.9 m and $2.1 m		39,605	2,456	42,061	56,047	-25%	45,319	(3,258)
Interest receivable, net of allowance for interest losses of $137k and $190k		1,165	77	1,242	1,114	12%	1,040	202
Collateral on hedge		14	7	21	91	-77%	21	-
Grants receivable and accounts receivable	10,514	17	252	10,783	5,094	112%	9,176	1,607
Other current assets	367		-	367	110	235%	271	96
Total current assets	14,447	73,518	13,893	101,859	80,129	27%	100,371	1,488
EQUIPMENT AND IMPROVEMENTS, net	282		-	282	332	-15%	300	(18)
LOANS RECEIVABLE, net of current portion		15,419	354	15,773	6,997	125%	14,334	1,439
GRANTS RECEIVABLE, net of current portion	5,400	-	-	5,400	1,899	184%	6,096	(697)
OTHER NON-CURRENT ASSETS	92		-	92	82	11%	83	8
Total assets	**20,221**	**88,938**	**14,247**	**123,405**	**89,440**	**38%**	**121,185**	**2,221**
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Notes payable, short term		24,780	600	25,380	20,318	25%	22,267	3,114
Notes payable, subordinated		2,500	-	2,500	-	-	100	2,400
Recoverable grant		1,000		1,000	-	-	-	1,000
Loan participation liability		29	-	29	2,102	-	29	-
Escrow funds		459	-	459	568	-19%	119	340
Accounts payable & accrued expenses	222		-	222	141	57%	260	(38)
Accrued vacation & salary payable	379		-	379	272	39%	250	129
Accrued interest payable		576	20	596	456	31%	628	(32)
Total current liabilities	601	29,345	620	30,566	23,857	28%	23,653	6,913
DEFERRED RENT LIABILITY	139		-	139	175	-21%	151	(12)
NOTES PAYABLE, Long Term		46,136	6,200	52,336	38,446	36%	54,966	(2,631)
SUBORDINATED DEBT		600	1,000	1,600	4,200	-62%	4,100	(2,500)
Total liabilities	740	76,080	7,820	84,640	66,678	27%	82,870	1,770
NET ASSETS:								
Unrestricted:								
Operating reserve	4,043		-	4,043	3,169	28%	4,043	-
Permanent lending capital - board designated		5,400	569	5,969	2,285	161%	4,968	1,000
Loan loss reserve - board designated		1,220	293	1,512	6,517	-77%	2,711	(1,198)
Undesignated unrestricted net assets		587	-	587	(740)	0%	-	587
Total unrestricted	4,043	7,207	861	12,111	11,231	8%	11,721	389
Temporarily restricted:								
Purpose and time	15,438		616	16,054	7,398	117%	16,993	(939)
Permanent lending capital-donor designated		1,184	4,950	6,134	4,134	48%	6,134	0
Loan loss reserve-donor designated		4,467		4,467			3,467	1,000
Total temporarily restricted	15,438	5,651	5,566	26,654	11,532	131%	26,593	61
Total net assets	19,481	12,857	6,427	38,765	22,762	70%	38,315	450
Total liabilities and net assets	**20,221**	**88,938**	**14,247**	**123,405**	**89,440**	**38%**	**121,185**	**2,222**

Statement of Activities

March 31, 2013

in thousands	March Actual Results: Sustainable Trade Fund	March Actual Results: Frontier Portfolios	March Actual Results: Total Root Capital	YTD Actuals vs. YTD Board Approved Budget: Board Approved Q1 Budget	YTD Actuals vs. YTD Board Approved Budget: $ Var.	YTD Actuals vs. Full-Year Board Approved Budget: 2013 Budget	YTD Actuals vs. Full-Year Board Approved Budget: Actuals as % of Budget	Y/Y Growth (%): March YTD 2012	Y/Y Growth (%): *13 YTD vs 12 YTD*
FINANCE									
Loan interest, net of allow for int losses	1,354	110	1,464	1,582	(118)	7,674	*19%*	1,480	*-1%*
Fees	185	7	193	357	(164)	1,307	*15%*	281	*-31%*
Co-lending services	-	-	-	-	-	-		6	*-100%*
Gain (loss) on FX lending	(37)	(17)	(53)	-	(53)	-	*n/a*	340	*-116%*
Total earned revenue	**1,503**	**101**	**1,604**	**1,939**	**(335)**	**8,980**	***18%***	**2,108**	***-24%***
Portfolio Yield	*10.4%*	*12%*							
Allowance for loan loss	341	(112)	229	324	(95)	3,450	*7%*	1,028	*-78%*
Less: Revenue on recovered loans and guarantees	(2)	(152)	(154)	(72)	(82)	(316)	*49%*	(93)	*65%*
Provisioning Expense Ratio	*2%*	*-31%*							
Interest expense	408	16	424	460	(37)	2,050	*21%*	381	*11%*
Less: Interest and investment income	(70)	(3)	(73)	(11)	(62)	(34)	*211%*	(93)	*-22%*
Net Funding Expense Ratio	*2.3%*	*1%*							
FINANCE operating expense	1,088	359	1,447	1,324	124	7,083	*20%*	1,408	*3%*
Operating Expense Ratio	*7.5%*	*42%*							
FINANCE surplus / (deficit)	**(263)**	**(7)**	**(270)**	**(533)**	**263**	**(3,252)**	***8%***	**(522)**	***-48%***
STF Operational Self Sufficiency	*85%*					*82%*		*82%*	
ADVISE and CATALYZE									
ADVISE operating expense			902	1,091	(189)	4,363	*21%*	487	*85%*
CATALYZE operating expense			581	935	(354)	3,740	*16%*	488	*19%*
ADVISE and CATALYZE			**1,483**	**2,026**	**(542)**	**8,103**	***18%***	**975**	***52%***
Contributions			**2,142**	2,965	(823)	11,430	*19%*	1,724	*24%*
Net Operating Surplus / (Deficit)			**389**	**407**	**(17)**	**76**	***512%***	**226**	***72%***

***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			2,206	**2,206**
T/R revenue released for opex			(2,145)	**(2,145)**
LLR released	1,000		(1,000)	**-**
Change in T/R Net Assets	1,000	-	(939)	**61**

Total Contribution Goal: Budget vs Actual	Actual	Board Approved Budget	Var. %
Unrestricted Operating Contributions	2,142	11,430	19%
PLC and LLR Grants	1,000	3,467	29%
Total	3,142	14,897	21%

Use of Annual Operating Surplus	Actuals	Board Approved Budget	Var. $
Operating Reserve	587	777	(190)
Board Designated Loan Loss Reserve	(1,198)	(1,160)	(38)
Board Designated PLC	1,000	459	541
Operating Surplus	**389**	**76**	313

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.