Performance Report

Q4 2015

rootcapital

OVERVIEW

Overall Performance

From an impact perspective, 2015 was a banner year. Root Capital helped grow prosperity for over two million people in the developing world last year. Through the end of 2015, we had reached 277 businesses that collectively sourced from 550,000 producers, representing over 2.5 million individuals when including family members. We disbursed a total of $154 million in loans to these businesses; they, in turn, connected these small-scale producers to attractive local, regional and world markets, generating $1.2 billion in total revenue, $980 million of which was paid to directly to producers. In addition, we supported the growth of 320 agricultural enterprises by sharing expertise through a range of financial, agronomic and technology-related capacity-building services, making 2015 the highest impact year yet for our Advisory Program.

As we've often said, achieving that kind of reach and impact is as challenging as it is rewarding. In Q4, the confluence of factors that we reported on in previous communiques — **volatile commodity prices, depreciating currencies, the lingering effects of coffee leaf rust and erratic weather patterns** — continued to affect portfolio quality and caused us to incur greater provisioning expenses. Reserves are there for a reason, and as we encourage our clients to save for periods of drought and difficulty, so too have we. As such, after seven consecutive years of surplus, in 2015 Root Capital posted an operating deficit, and drew down on our reserves. Knowing the many risks inherent in our business, our balance sheet is designed for these moments. Despite this operating loss, Root Capital's grant funded net assets in support of our lending program remained at a healthy level of $21.4 million at the end of 2015. In addition, at year end, we had $2.8 million of subordinated, long-term debt (discussed in more detail below). The combination of these two line items equals last year's net asset base of $24.2 million.

Complementing this balance sheet strength, in 2015 we concentrated on several activities to build Root Capital's resilience. This resilience is critical to our ability to push the frontier and work with underserved businesses that connect farmers living in the most difficult conditions to markets that are hungry for their products and can help transform livelihoods and sustain their environment.

> **The Risk Appetite Project:** Early in the year, we launched what we call the Risk Appetite Project, an effort to determine the level of risk we are willing and able to take for a given level of impact — both economic and social and environmental — while optimizing our ability to cover costs through earned income. We have achieved significant milestones of the project, including the development of new risk capacity and loan pricing models. Through the Risk Appetite Project, we are establishing a risk culture and framework that aligns with our risk appetite and are working with a specialized consultant and our board to help us accomplish these goals.
>
> **Lending Platform Improvements:** We are engaged in two important projects to strengthen the efficiency, reliability and scalability of our global platform for loan processing and transaction management. The first is the creation of a cross functional working group on lending operations

process improvements. The working group has a mandate to coordinate across the areas of legal, treasury and credit to optimize our processes for structuring, documenting and servicing loans. The second is a project to migrate to a new core banking software platform, which when implemented will allow us to process a greater number of transactions dependably and at a lower cost.

Subordinated Debt Product: As a registered 501c3, non-profit organization, Root Capital raises grant-funded net assets to serve as the first loss capital (our "equity") to support the lending portfolio. Leveraging this equity base, we borrow capital from investors to on-lend to our clients, managing to a 5:1 debt-to-equity ratio. While grant-funded net assets are undeniably the most catalytic capital we raise (as it increases our risk tolerance and lending flexibility, lowers the cost of capital and protects lenders by providing an additional cushion against losses), it is also the hardest capital to secure. Reliance on this is one of the biggest constraints to the growth of our lending model. Therefore, at the end of 2015, we launched a long-term (seven to ten year) subordinated debt product and successfully raised $8.5 million in committed funds, which as we draw will enable us to raise more than $40 million in additional senior debt in the coming years. Given the terms and tenor of this subordinated debt, we are able to treat this layer of debt as equity-like, and include this as part of our equity base.

Lending for African Farming Company (LAFCo): In Q2 2015, Root Capital launched the Lending for African Farming Company together with the German government's development bank KfW and AgDevCo, a social impact equity fund focused on Africa. Managed by Root Capital, LAFCo provides lines of credit and other flexible debt products in amounts of up to $4 million to agricultural enterprises throughout sub-Saharan Africa to enhance local food security and stimulate inclusive economic growth in the region. LAFCo complements and builds on Root Capital's direct lending, and allows us to channel significantly more capital to domestic market-focused businesses than we would be able to from our own balance sheet alone.

Creation of Chief Operating Officer position: In the first quarter of 2016, Root Capital created a Chief Operating Officer role to oversee our Lending, Risk, Advisory Services and HR functions. Root Capital is pleased to welcome Peter Bernard, currently a member of Root Capital's board of directors, in this role. Peter will join the team on March first. Peter brings over three decades of experience in finance, most recently as the chief risk officer of D.E. Shaw & Company, a global investment and technology development firm with more than $39 billion in investment capital. Having spent almost six years on Root Capital's board, Peter is also intimately familiar with our model and highly aligned with our mission.

Nobody ever said that creating quality jobs and making markets work in the developing world would be easy. Whether in the United States or at the last mile of a long dirt road in the highlands of Guatemala, working in agriculture in particular is not for the faint of heart. We journey on a uniquely bumpy road. Unlike agricultural businesses in the developed world that benefit from billions and billions in government subsidy each year, the enterprises Root Capital works with receive little to no government support. This market failure is at the heart of why we exist. We are profoundly grateful to our community of donors and investors who enhance our ability to confront epic challenges for smallholder farmers in poor countries, from El Niño to narcotrafficking and from currency shocks to terrorism.

Portfolio Performance: Sustainable Trade Fund

The average outstanding portfolio balance of our Sustainable Trade Fund (STF) in Q4 2015 was $87.8 million, exceeding our target and representing a four percent increase year over year. Disbursements for the year were $145 million, including $41 million in the fourth quarter alone. As projected, this 2015 disbursement total was 15 percent lower than 2014 as we intentionally pursued moderate lending growth required for us to responsibly manage risks related to weather, currency and price volatility.

In Latin America, the average outstanding balance for 2015 exceeded targets by eight percent. Disbursements to clients in the region in 2015, though also exceeding annual targets, were 19 percent lower than 2014 results. Disbursements to Latin American clients in Q4 were higher than expected, however, as disbursements originally planned for Q3 shifted to Q4.

The Q4 average balance in Central America and Mexico was 43 percent higher than it was in Q4 2014, surpassing targets by 12 percent. This above-target performance was driven by a delayed coffee harvest — thus delaying the need for pre-harvest loans in the region from Q3, as originally expected, to Q4. Quarterly disbursements in the region, at $20 million, were 36 percent above targets and 20 percent higher than the same time last year. In Honduras, Q4 disbursements to coffee clients were 60 percent above expectations.

In South America, our average portfolio balance for the quarter was $35.7 million, 15 percent over target and growing 11 percent year over year. As in Central America, the coffee harvest season in South America was also later than expected, shifting expected disbursements from Q3 into Q4. Additionally, we focused on continued expansion into Colombia in Q4 as specialty coffee buying patterns continued to shift from Peru to Colombia. As such, both disbursements and balances for the quarter were higher than expected.

In East Africa, our average outstanding balance was $12.8 million, in line with last year's performance, yet 13 percent below target. Disbursements, at $8.7 million, were nearly 70 percent above target due to early coffee harvests in Rwanda and the Democratic Republic of Congo and a strong cocoa harvest in Uganda. Unexpectedly accelerated repayments of longer-term credit lines offset the strong disbursements, leading to lower-than-expected balances in the region.

Our team continues to proceed cautiously with new loan closings in West Africa due to previously reported risk issues associated with the cashew processing sector. To appropriately manage industry and country risk associated with the destabilizing impact of terrorism on regional business and trade, we deliberately slowed our lending in the region and disbursements declined 63 percent year over year.

Portfolio Performance: Frontier Portfolio

During Q4, the average outstanding balance in the Frontier Portfolio was strong at $9.4 million, 33 percent higher than the same period last year. Clients reached through the Frontier Portfolio increased 24 percent year over year to 67 clients in Q4. As the rising value of the US dollar forced us to rein in our local currency lending, disbursements to clients in the Frontier Portfolio during 2015, at $8.9 million, fell short of our $13.1 million target.

Portfolio Quality

Q4 ended with a Portfolio-at-Risk (PAR) greater than 90 days of 5.7 percent in the Sustainable Trade Fund. The total outstanding balance in PAR over 90 days was $5.2 million, compared with $4.8 million in Q3. Three loans totaling $2.2 million were downgraded to PAR over 90 in the quarter, including a $1.7 million loan to a coffee client in Mexico. In the Frontier Portfolio, PAR over 90 days declined from 7.4 percent in Q3 to 5.3 percent in Q4.

During the quarter, we wrote off $1.2 million in the STF and $287,000 in the Frontier Portfolio. While Root Capital has insufficient experience with enforcement of lender's rights to estimate the realizable value of assets pledged as security, we are committed to pursuing legal remedies where possible and we make best efforts to collect on all loans that have been written off. Across both portfolios in Q4, recoveries, including guarantees, amounted to more than $218,000.

Advisory Services

2015 was the most impactful year to date for Root Capital’s Advisory Services program. Our trainers provided over 2,500 days of training to our clients on financial management, agronomic planning and monitoring, loan application support, financial institution (FI) advisory and mobile technology, surpassing 2014’s performance by 37 percent. We exceeded annual targets for both the number of clients trained and days of training provided by ten percent and three percent, respectively.

Our agronomic services, focused for now in Latin America, include training on topics such as the development of farm renovation plans (key to building farmer resilience to climate change) and the monitoring of performance against these agronomic plans. FI advisory activities focus on building the capacity of other financial institutions to lend in the agricultural sector by sharing best practices around structuring and collateralizing loans and conducting social and environmental due diligence, for example.

Catalyze Strategy

Root Capital works at the cross-section of emerging trends in development, investing and business: smallholder farmers, climate resilience, sustainable supply chains, the role of small and growing businesses in economic development and impact investing and blended finance. With 15+ years of experience and a $100 million portfolio, we are well-positioned to continue leveraging our experience and reputation to influence market development.

We are deeply committed to working in partnership with like-minded financial institutions to develop industry standards and best practices for responsible lending and environmental, social and governance issues. We pursue that goal in our capacity as a founding member and coordinator of the Council of Smallholder Agricultural Finance (CSAF). During Q4, we participated in the seventh semi-annual meeting of CSAF in Newcastle, United Kingdom where topics included standards for responsible lending and social and environmental due diligence.

In Q4 2015, we continued to share our learning through a combination of innovative partnerships, events and publications. A highlight of the quarter was the launch of our latest issue brief, entitled "Investing in Resilience: A Shared Value Approach to Agricultural Extension." The brief, the third in a series supported by The Skoll Foundation and the Citi Foundation, explores the role of rural businesses in promoting climate-smart agriculture among smallholder farmers. The brief included forewords by Mark Kramer, founder and managing director of FSG and senior fellow of the CSR Initiative at the Harvard Kennedy School of Government, and by Mark Lundy, agroenterprise development specialist at the International Center for Tropical Agriculture. At the time of this writing, the issue brief has been viewed over 580 times.

Additionally, in November, Root Capital served as a knowledge partner, along with Dalberg, the International Finance Corporation and Rabobank for an Innovation Forum on "Renovation & Rehabilitation" of smallholder tree crops hosted by the Sustainable Trade Initiative (IDH) in Amsterdam, the Netherlands. Senior Vice President of Strategy, Knowledge & Innovation Brian Milder participated on the keynote panel along with senior leaders from ABN-AMRO bank, FMO (the Dutch development bank), IDH, IFC and Rabobank.

Q4 2015 DASHBOARD*

Metric	Result	Target	Results as % of Target	Page
Social and Environmental Metrics				
Number of Producers Reached	587K	920K for 2015	64%	
Producers supplying enterprise	550K	620K for 2015	89%	8
Producers buying inputs	37K	300K for 2015	12%	8
Purchases from Producers	$980M	$1.2B for 2015	85%	8
Total Revenue of Rural SGBs	$1.2B	$1.4B for 2015	87%	9
Sustainable Hectares under Management	624K	785K for 2015	79%	9
Lending Program				
Loan Disbursements	$153.9M	$154.3M for 2015	100%	
Sustainable Trade Fund	$145.0M	$141.2M for 2015	103%	10
Frontier Portfolios	$8.9M	$13.1M for 2015	68%	15
Average Outstanding Portfolio Balance	$97.3M	$96.2M for Q4	101%	
Sustainable Trade Fund	$87.8M	$85.9M for Q4	102%	10
Frontier Portfolios	$9.5M	$10.3M for Q4	92%	15
Number of Clients Reached	277			
Sustainable Trade Fund	210			12
Frontier Portfolios	67			17
Average Outstanding Balance per Active Loan				
Sustainable Trade Fund	$417K			12
Frontier Portfolios	$126K			17
Portfolio-at-Risk Over 90 Days**	5.6%			
Sustainable Trade Fund	5.7%			13
Frontier Portfolios	5.3%			18
Net Write-off Ratio***	4.9%	3.6% for 2015	135%	
Sustainable Trade Fund	4.6%	3.3% for 2015	141%	13
Frontier Portfolios	6.9%	7.2% for 2015	97%	18
Financial Advisory Services (FAS)				
Number of Groups Served by FAS	319	291 for 2015	110%	20
Days of Training Delivered	2576	2,505 for 2015	103%	20
Catalyze Program				
Overview of Catalyze Program	See page 21 for discussion of Catalyze Program			
Operating Results**				
Total Operating Expense	$15.8M	$17.1M for 2015	92%	28
Adjusted Debt to Equity †	4.00	< 5.00	80%	24
Capital Utilization	95%	90%	106%	24
Fundraising Results				
Outstanding Debt Balance	$99.7M			25
Contributions Raised for 2015	11M	$13M for 2015	85%	25

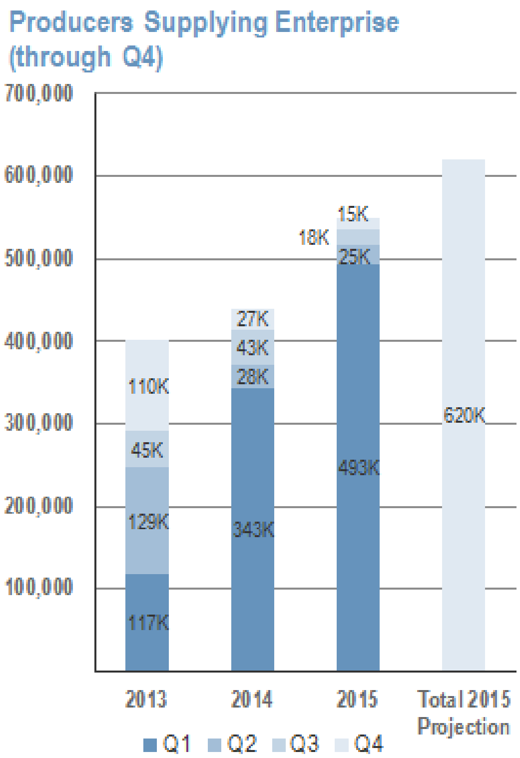
**All figures are representative of total cross-portfolio performance unless otherwise specified*

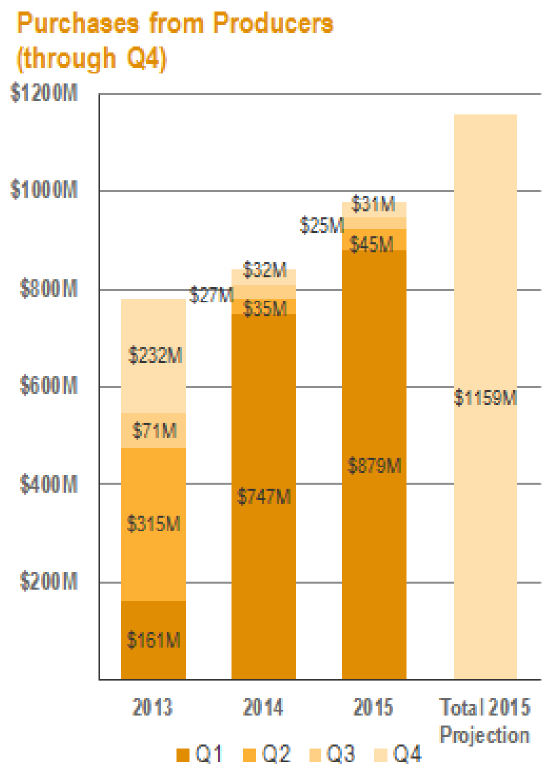
***Figures represent performance at end of quarter*

**** 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.*

†Adjusted Debt-to-equity treats long-term subordinated debt as equity, reflecting its equity-like characteristics

SOCIAL AND ENVIRONMENTAL METRICS

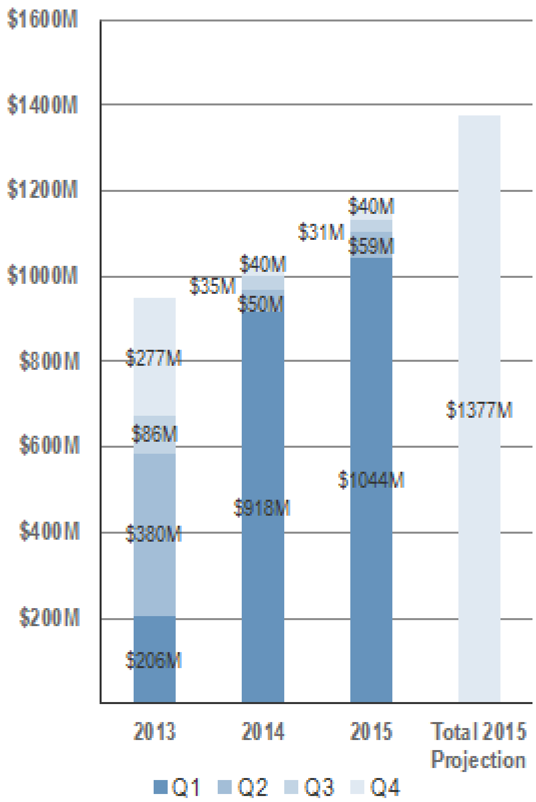




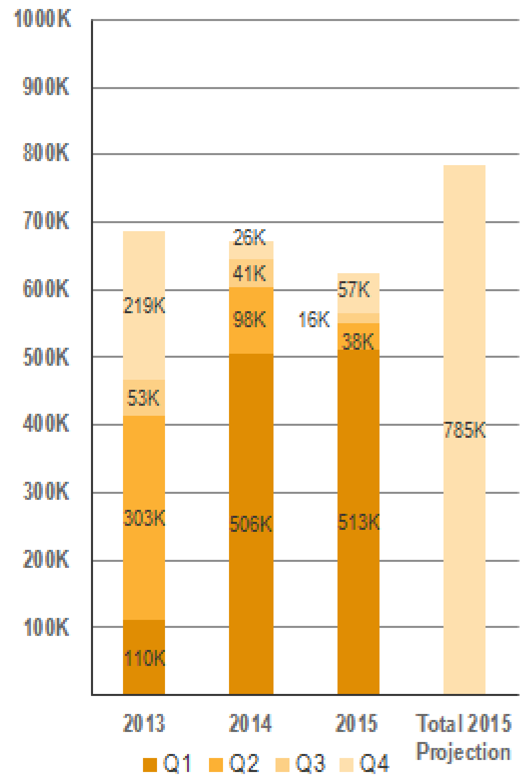
- Through Q4 2015, we reached 277 businesses that collectively sourced from 550K producers, compared to 279 businesses and 441K producers through Q4 2014. Year-end total producer suppliers reached (as well as purchases from producers, total revenue and hectares) is lower than the annual projection largely due to fewer business reached than projected at the start of the year.
- Through Q4 2015, we reached an additional 37K producers who bought inputs such as drought-resistant seed inputs 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, 200K, or 36%, were women compared to 27% in 2014.

- "Purchases from producers" is the total dollar amount that our client enterprises paid to producers.
- Clients reached through Q4 2015 purchased an estimated $980M of agricultural product from producers, which is 16% higher than in the same time period last year.
- The median payment per producer through Q4 2015 was $2K.

Total Revenue of Rural SGBs (through Q4)



Sustainable Hectares Under Management (through Q4)



- Clients reached through Q4 2015 generated an estimated $1.2B in total revenue, which was 13% higher than last year. The median revenue was $1.3M.
- Average revenue was $4.4M, pushed up by the approximately 10% of businesses with revenues over $10M (but that nevertheless source from smallholder farmers).

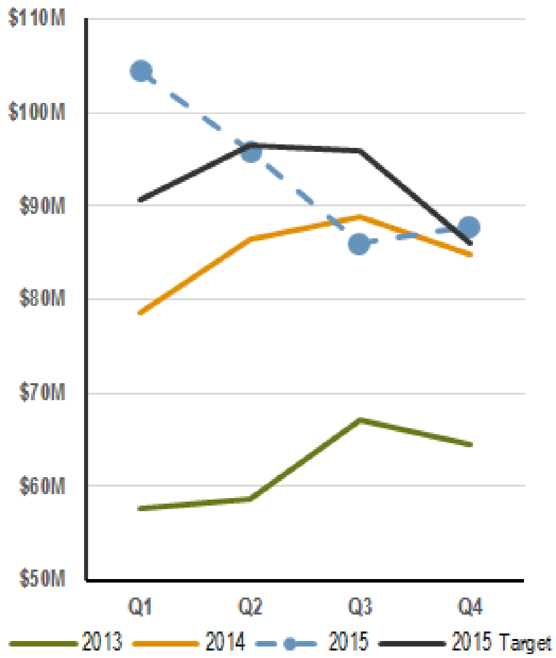
- Through Q4 2015, client enterprises represented an estimated 624K hectares of sustainably managed agroforestry and agricultural lands.
- Producer suppliers on average cultivated 1 hectare. The median was 2 hectares per producers.

Note: We report social metrics for "clients reached" to 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.

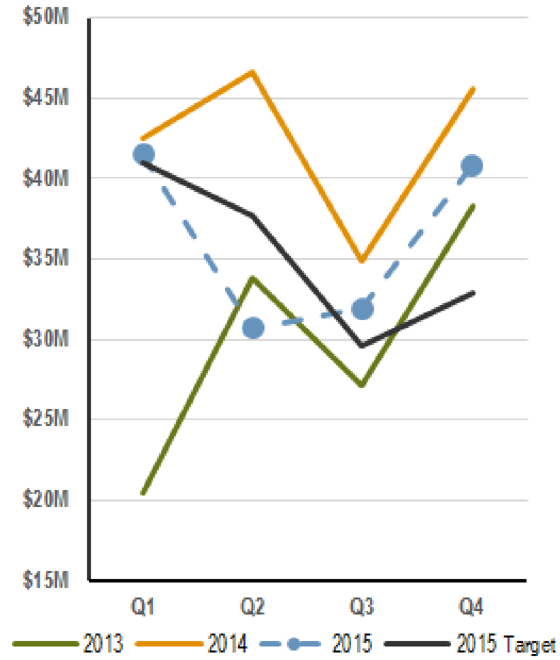
SUSTAINABLE TRADE FUND

Portfolio Performance

Average Balance by Year



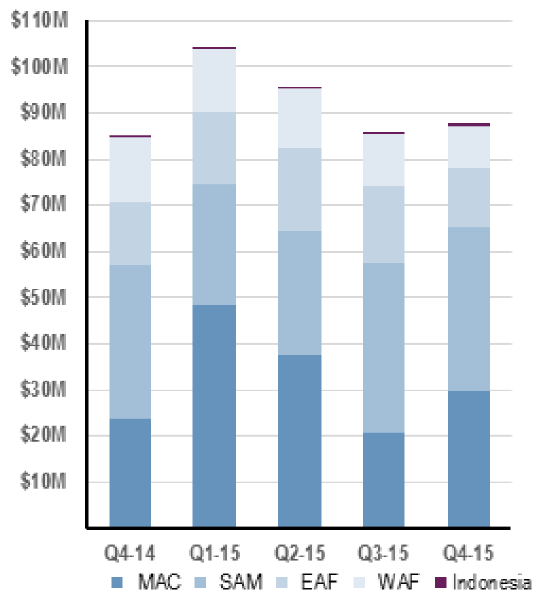
Loan Disbursements by Year



- The Global STF average portfolio balance was $87.8M during Q4 2015, 2% ahead of the 2015 Annual Plan target, growing 4% year over year.
- Average balances by region and industry are discussed in greater detail below.

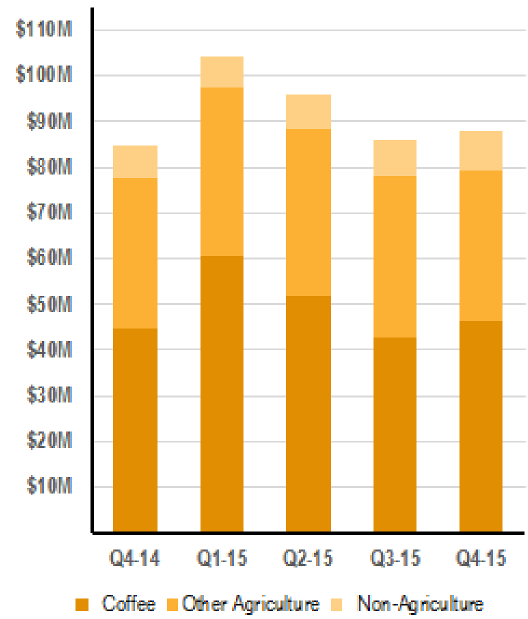
- Cumulative disbursements in the STF for 2015 were $145M, 3% above target, but 15% below 2014's total.
- Fourth-quarter disbursements of $41M were 24% ahead of plan.
- The Central America region's disbursements of $20M exceeded plan by 36%, driven by pre-harvest coffee disbursements in Nicaragua and Honduras which were delayed from Q3 into Q4. Full-year disbursements in the region exceeded plan by 19%, on the strength of coffee disbursements 26% above plan.
- Disbursements in South America totaled $7.8M in Q4, more than twice the quarterly target, driven by later-than-expected disbursements on coffee harvest loans. Year-to-date disbursements of $44M were 3% above last year due to strong growth in Colombia coffee.
- In East Africa we disbursed $8.7M in Q4, exceeding plan due to an earlier-than-expected coffee harvest in Rwanda and the DRC, and a robust cocoa harvest in Uganda.
- Q4 disbursements in West Africa of $3M lagged forecasts by 62% as the team sought to control risk in the region. A strong cocoa harvest in the Ivory Coast provided a boost to the region's performance.

Average Balance by Region (Trailing 5-Quarters)



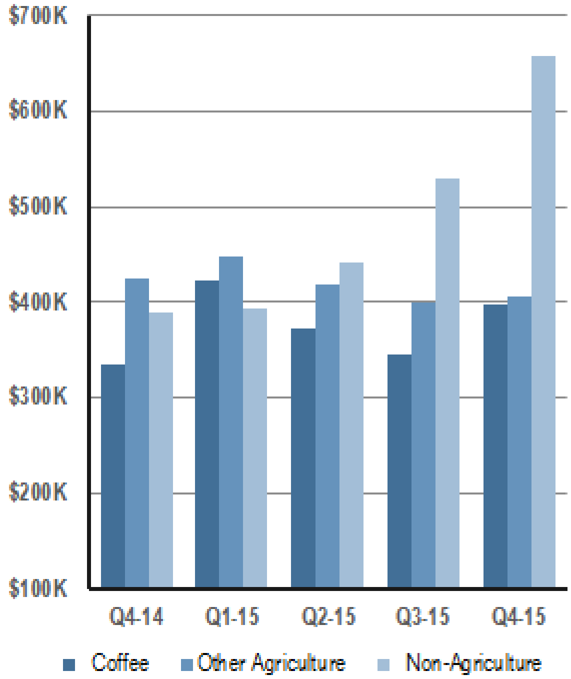
- South America (SAM) had an average balance of $35.7M for Q4, 15% over target, growing 11% year over year. The quarter was particularly strong for balances across multiple sectors in Peru, which comprised 70% of our South American balances. In Peru, only cocoa balances fell below expectations. Higher-than-expected Coffee balances result from a timing shift in the SAM harvest cycle, with cooperatives buying beans later in the season than planned.
- Central America (MAC) had an average balance of $29.5M for the quarter, exceeding plan by 12%, and growing 43% year over year. In Nicaragua, Mexico, Honduras and Guatemala, balances grew a minimum of 36% year over year. Key drivers of stronger balances included coffee lending in Nicaragua and Honduras as pre-harvest loans were shifted from Q3 into Q4. Dried fruits and vegetables in Mexico also exceeded expectations.
- East Africa's (EAF) $12.8M average balance for Q4 was flat year over year, and 13% below targets. An early coffee harvest in Rwanda and Congo, along with a strong cocoa harvest in Uganda, drove higher-than-expected credit utilization, but unanticipated accelerated repayments of longer-term credit lines offset strong disbursements.
- West Africa (WAF) STF balances declined 31% year over year to $9.2M, coming in below plan as the team executed a risk-control strategy, focusing lending efforts on a small subset of clients while pursuing restructurings and workouts for the region's nonperforming credits.

Average Balance by Industry (Trailing 5-Quarter)



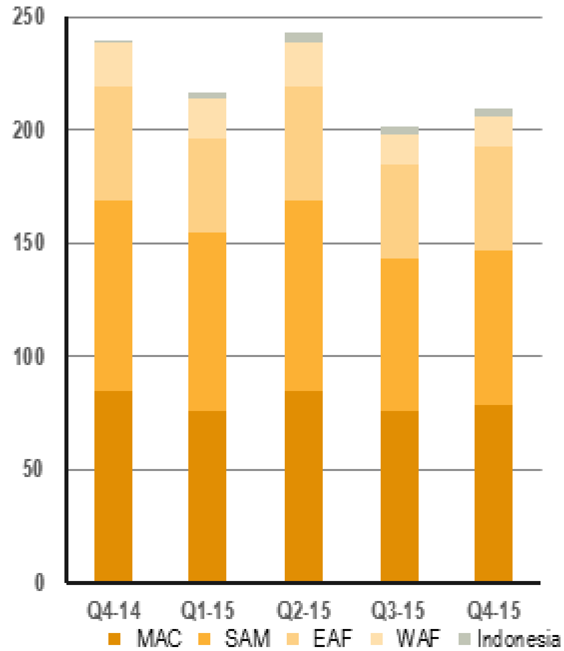
- The industry composition of the STF remained largely unchanged year over year relative to Q4 2014, while expected seasonal shifts boosted coffee balances relative to the third quarter.
- Coffee remains the highest industry exposure in the STF, at $50.3M, 53% of the STF.
- "Other Agriculture" loans made up 38% of the portfolio during Q4, led by cashews ($7.0M), cocoa ($6.3M) and preserved fruits and vegetables ($4.0M).
- The Non-Agriculture sector consists of loans to industries such as aquaculture, handcrafts and local financial institutions that make microloans to farmers. This portfolio remains a small portion of the total portfolio, with $8.5M outstanding, 10% of the STF.

Average Outstanding Balance per Active Loan



- The average balance per active loan increased to $417K during Q4 2015, from $369K in Q4 2014.
- The average loan size in Non-Agriculture (10% of the portfolio) increased to $657K in Q4 2015, a 20% increase year over year as five small loans exited the portfolio.

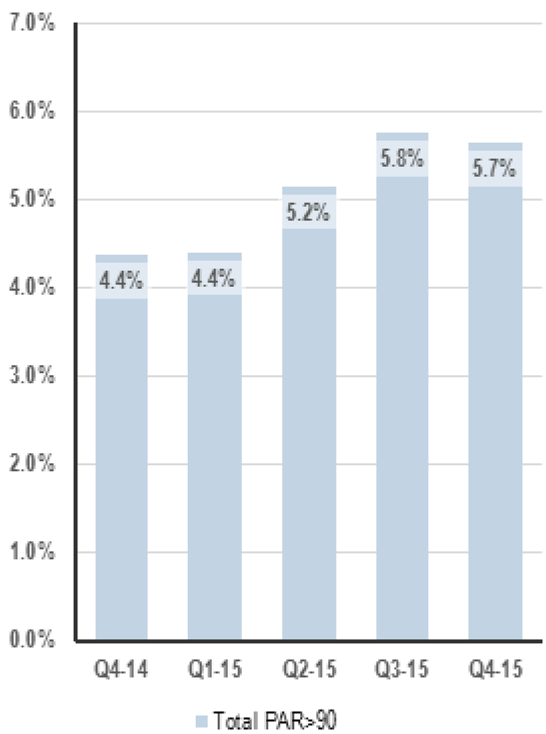
Number of Clients Reached by Region



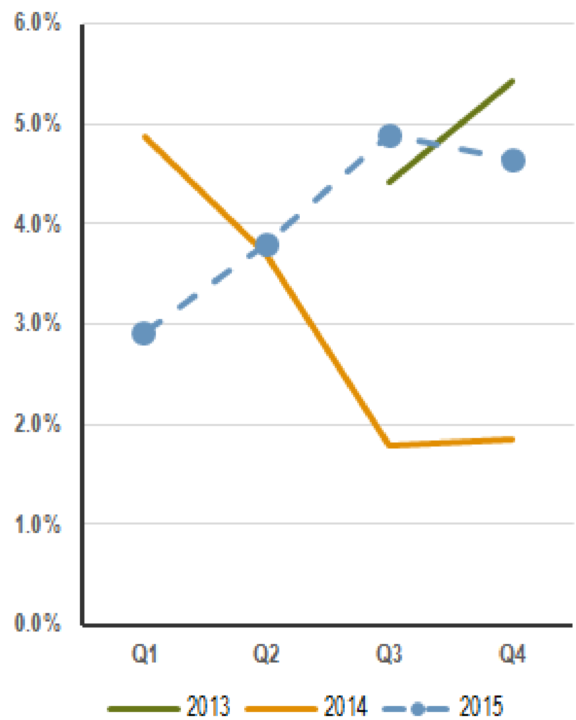
- Root Capital considers a client “reached” if it had an outstanding balance at any point in the quarter and was not at risk as of quarter end.
- Root Capital reached 210 clients in the STF during Q4 2015, a decrease of 13% year over year. During 2015 the lending team elected not to renew a number of loans.

Portfolio Quality

Portfolio at Risk > 90 Days



Net Writeoff Ratio
(Trailing 12-Month Average)



- The Portfolio at Risk (PAR) over 90 days ratio was 5.7% at the end of Q4, up from 4.4% at Q4 2014.
- During the fourth quarter, $2.2M of loans were downgraded into the PAR>90 days category. $1.7M of the downgraded balance resulted from a single Central American client.
- $400K of loans previously in PAR>90 days were either repaid or upgraded.
- $1.2M of loans previously classified as PAR>90 days were written off during Q4.

- The Net Write-off Ratio declined to 4.6% at the end of Q4 from the Q3 level of 4.9%, but write-offs increased year over year from 2014's Q4 level of 1.8%.
- During the quarter, we wrote off $1.2M of loans: $580K in Peru coffee and $670K of East African loans in three sectors (processed peppers, peanuts and coffee).
- Recovery efforts yielded $69K of payments for previously-written-off loans during Q4.

Sustainable Trade Fund Financial Results & Analysis

Statement of Activities *In thousands of USD*	**Sustainable Trade Fund**				
	YTD Results	**YTD Target**	**Variance (%)**	**2014 YTD Results**	**Year Over Year Growth**
Loan Interest and Fees	9,913	10,322	-4%	9,370	6%
Gain (loss) on FX Lending	(230)	0		(48)	380%
Interest & Fee Revenue	**9,683**	**10,322**	**-6%**	**9,322**	**4%**
Portfolio Yield	**10.4%**	**11.2%**		**10.7%**	
Net Interest Expense	2,337	2,069	13%	1,896	23%
Net Funding Expense Ratio	2.5%	2.2%		2.2%	
Net Interest & Fee Revenue	**7,346**	**8,253**	**-11%**	**7,426**	**-1%**
Net Earned Revenue Ratio	**7.9%**	**8.9%**		**8.5%**	
Provisioning Expense	5,243	3,335	57%	4,156	26%
Provisioning Expense Ratio	5.6%	3.6%		4.8%	
Net Revenue after Provisioning	**2,104**	**4,918**	**-57%**	**3,270**	**-36%**
Net Revenue Ratio after Provisioning	**2.3%**	**5.3%**		**3.7%**	
Operating Expense	5,326	6,300	-15%	5,660	-6%
Operating Expense Ratio	5.7%	6.8%		6.5%	
Surplus / (Deficit)	**(3,223)**	**(1,382)**	**133%**	**(2,391)**	**35%**
Operational Self Sufficiency (OSS)	**75%**	**88%**		**80%**	

Summary of STF Performance and Key Drivers

The Sustainable Trade Fund posted a $3.2M deficit for 2015, $1.8M larger than planned, generating a full-year Operational Self-sufficiency (OSS) measure of 75% relative to the projected full-year performance band of 68% to 96%.

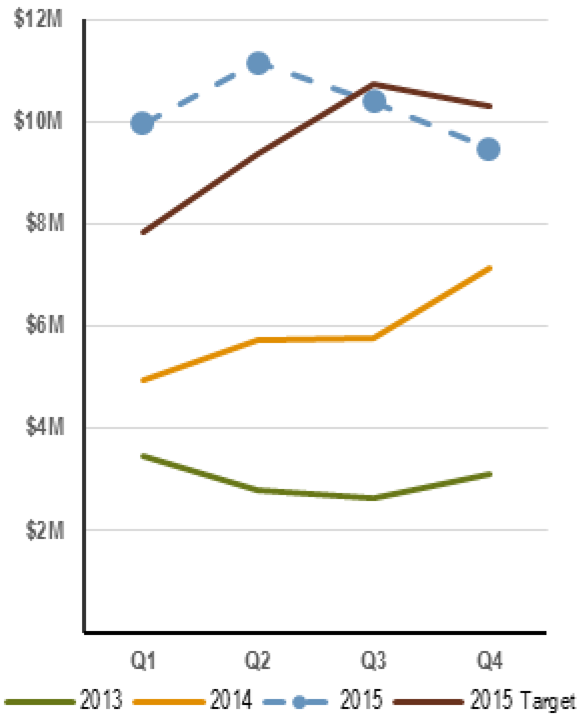
The key drivers of our shortfall to plan included:

- Net Provisioning cost, which came in ($1.9M) worse than expected due to adverse risk events,
- Loan Interest and Fees, which were ($700K) short of full-year target as the portfolio yield dropped due to the impact of nonaccrual loans and reduced fee rates, and
- Funding Expense, which adversely affected results by ($300K) as we brought on higher-cost debt in Q1 to finance an outsized MAC harvest.
- The above challenges were partially offset by $1.0M in Operating Expense savings relative to plan, generated through delayed hires and targeted savings throughout the organization.

FRONTIER PORTFOLIO

Portfolio Performance

Average Balance by Year

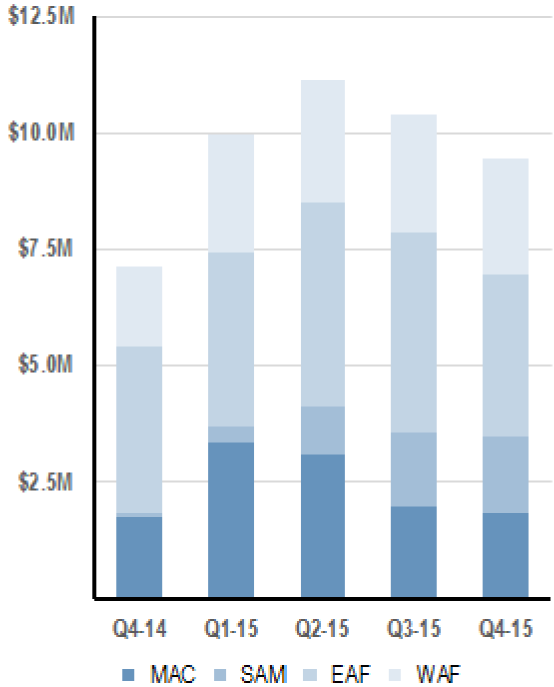


Loan Disbursements by Year

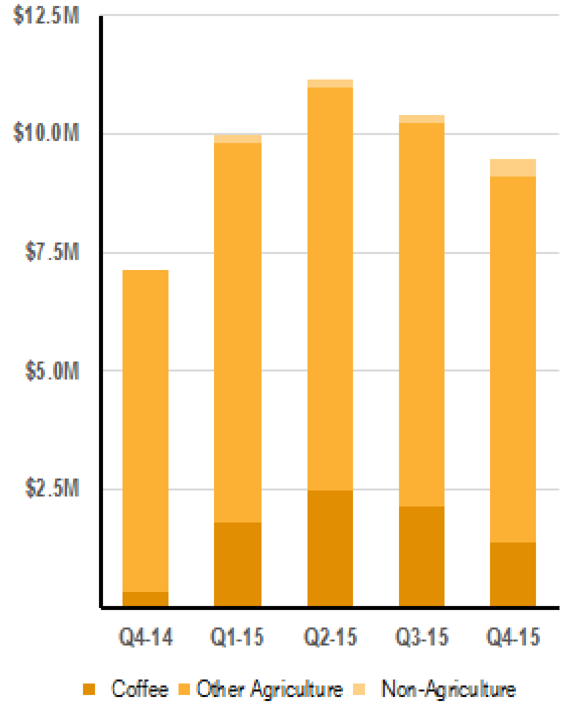
- The overall Frontier average portfolio balance was $9.5M during Q4 2015, growing 33% year over year, and coming in 8% behind the 2015 annual plan's Q4 target balance.
- During the quarter, the Frontier Portfolio continued its focus on generating massive impact through local value chain lending and providing catalyzing capital to smaller export-oriented clients.

- At $1.8M, Frontier Portfolio disbursements for the fourth quarter came in 8% above plan, but full-year disbursements for 2015 fell 32% below initial targets as we deliberately reined in our portfolio risk exposures.
- Aggressive local currency loan pricing by peer lending institutions in East Africa continued to negatively impact the origination of local value chain loans at prices that meet our underwriting standards, so we continued to pivot toward smaller export-oriented clients in the region.

Average Balance by Region (Trailing 5-Quarters)



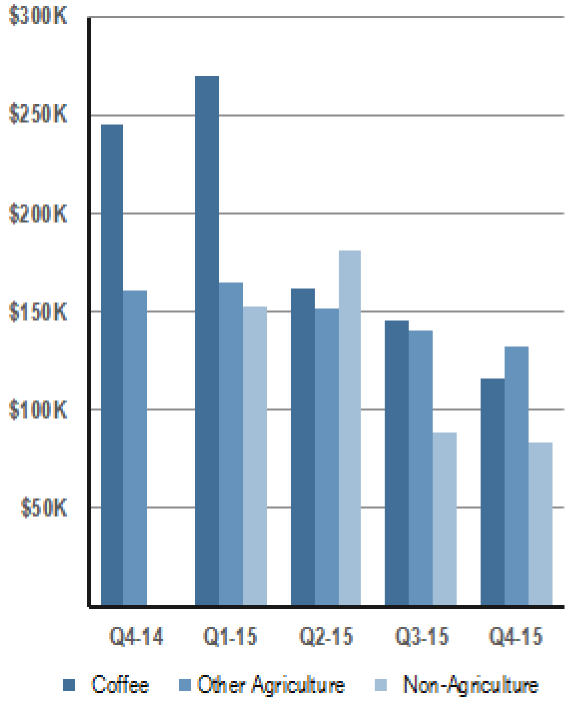
Average Balance by Industry (Trailing 5-Quarter)



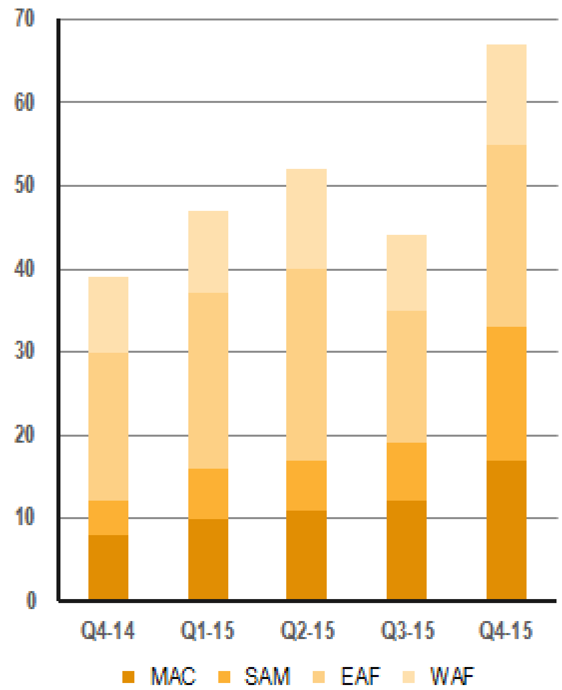
- South America achieved the most significant year-over-year balance growth on widespread strength in coffee, cocoa and low-perishable balances.
- Balances declined year over year in East Africa due to peer lending institutions coming to market with aggressive loan pricing for local currency loans, and regulatory issues stifling our ability to effectively serve certain geographies. The East African team is pivoting strategy to high-impact export-oriented loans and we are developing new strategies to ensure our ability to sustainably serve all of our East African clients.

- The five largest industries in the Frontier Portfolios during Q4 were Arabica coffee (19%), sorghum (13%), soy (12%), maize (10%) and sesame (9%). Together, these industries comprised 64% of the average outstanding balance.
- As discussed in last quarter's QPR, we have begun lending to smaller and particularly high-impact coffee clients in the Frontier Portfolio as a complement to our well-established coffee lending program in the STF.

Average Outstanding Balance per Active Loan



Number of Clients Reached by Region

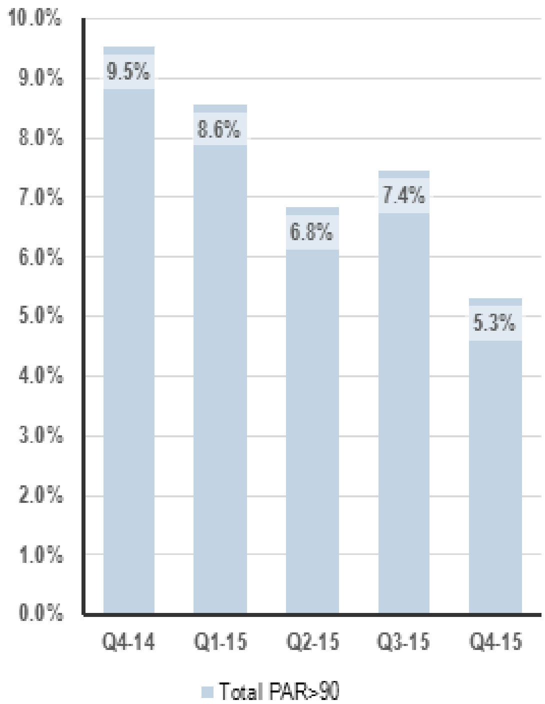


- The average loan size per active client in the Frontier Portfolio declined to $126K during Q4 as we continued to refocus on diversifying our impact to a wider client base through smaller, high-impact loans.

- Clients reached through the Frontier Portfolios increased 24% year over year to 67 clients in Q4 2015, consistent with our strategy of broadening our impact while diversifying our risk exposures.
- Our strongest client growth occurred in Latin America, where we significantly grew our client base in the coffee, cocoa and low-perishable agriculture sectors.

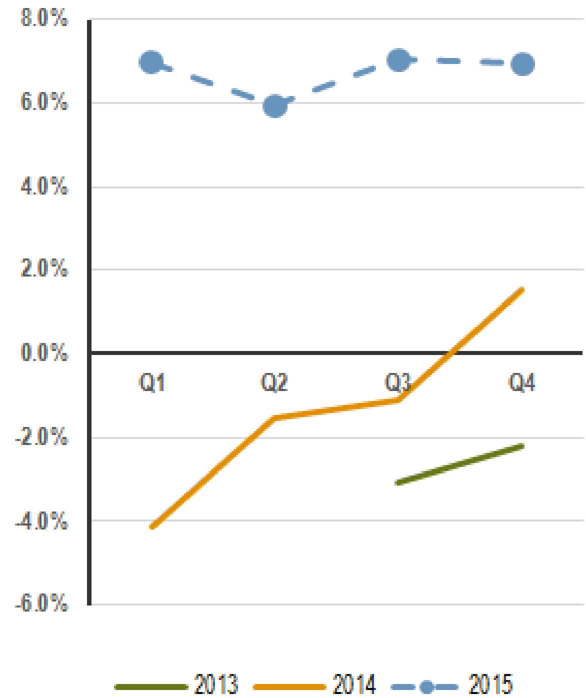
Portfolio Quality

Portfolio at Risk > 90 Days



- The balance classified in PAR>90 days decreased from \$616K to \$435K, driven by a write off of \$287K. During the quarter, two <\$50K loans were downgraded into the PAR>90 days category.

Net Writeoff Ratio (Trailing 12-Month Average)



- The trailing 12-month write off ratio remained elevated during Q4 as we continued to write off a higher-than-average balance of loans in the portfolio.
- A single grain loan was written off in Q4, for \$287K.
- Write offs were partially offset by recoveries and guarantee revenue, which yielded \$149K of payments for previously-written-off loans.

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	1,643			880	87%
Gain (loss) on FX Lending	(1,263)			(574)	120%
Currency Reserve Revenue	169			0	
Interest & Fee Revenue	**549**	**930**	**-41%**	**306**	**80%**
Portfolio Yield	**5.4%**	**9.7%**		**3.0%**	
Net Interest Expense	90	64	41%	32	187%
Net Funding Expense Ratio	0.9%	0.7%		0.3%	
Net Interest & Fee Revenue	**459**	**866**	**-47%**	**274**	**67%**
Net Earned Revenue Ratio	**4.5%**	**9.0%**		**2.7%**	
Provisioning Expense	599	714	-16%	492	22%
Provisioning Expense Ratio	5.8%	7.5%		4.8%	
Net Revenue after Provisioning	**(141)**	**151**	**-193%**	**(218)**	**-35%**
Net Revenue Ratio after Provisioning	**-1.4%**	**1.6%**		**-2.1%**	
Operating Expense	1,949	2,197	-11%	1,472	32%
Operating Expense Ratio	19.0%	23.0%		14.4%	
Surplus / (Deficit)	**(2,090)**	**(2,046)**	**2%**	**(1,689)**	**24%**

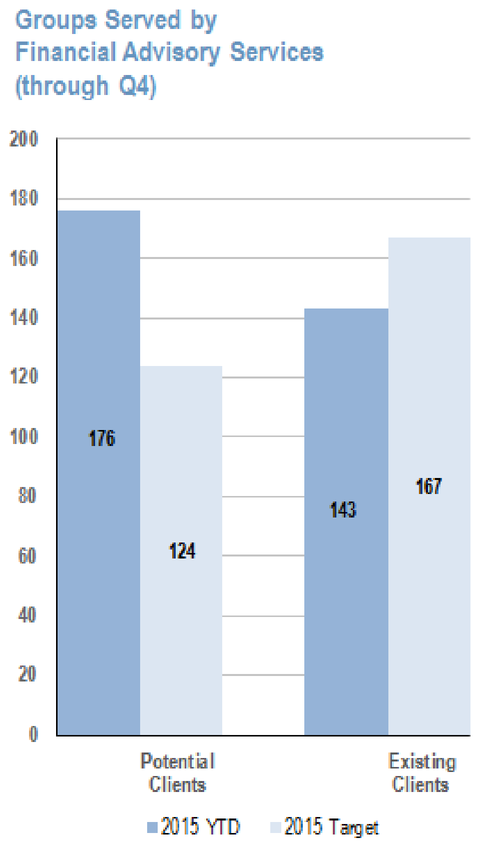
RESULTS SUMMARY AND KEY DRIVERS

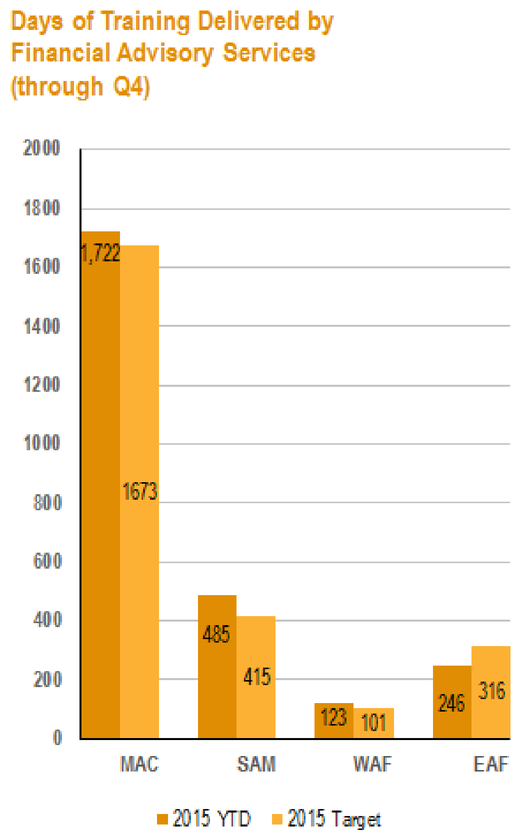
The Frontier Portfolio's 2015 deficit of $2.1M was just 2% larger than expected, a strong result given the panoply of challenges we faced this year.

Loan Interest and Fee Revenue fell significantly below expectations as multi-year foreign exchange market volatility negatively impacted the US Dollar value of our local currency loans, particularly in Ghana and Kenya. We offset some of these losses through releases from our foreign currency reserve, and made strategic shifts in our lending strategy to reduce and hedge our exposures to frontier-market currencies, and enacted local currency premium pricing on new FX loans.

The shortfall in Net Interest & Fee Revenue of $407K was nearly entirely offset by below-plan provisioning expense and operating expense savings resulting from delayed hires and targeted savings.

ADVISORY SERVICES





- 2015 was the most impactful year to date for Root Capital's Advisory Services program, representing 37% growth in days of training delivered versus 2014.
- We surpassed annual targets, providing 319 agricultural enterprises with over 2,500 days of centralized or on-site training. These trainings covered a range of capacity building themes including both core financial advisory services and also nearly 200 days of agronomic planning and monitoring, financial institution (FI) advisory and mobile technology.
- Our agronomic services, focused for now in Latin America, include training on topics such as the development of farm renovation plans (key to building farmer resilience to climate change) and the monitoring of performance against these agronomic plans.
- FI advisory activities focus on building the capacity of other financial institutions to lend in the agricultural sector by sharing best practices including, for example, structuring or social and environmental due diligence.
- Our field trainers provided customized on-site consulting to 245 enterprises in 15 countries – more than 60% of whom also received credit from Root Capital, reflecting an investment in portfolio quality through Advisory Services.
- In addition to tracking the quantity of training delivered in relation to plan, we launched the *Advisory Performance Management Initiative* to expand the suite of tools used to evaluate the enterprise-level effects of our services.
- As part of this initiative, we conducted baseline and endline "Financial Fundamentals" diagnostics with 150 of the clients who received on-site advisory in order to monitor change in financial management capacities resulting from the training.

CATALYZE PROGRAM PERFORMANCE

PUBLICATIONS

- In December, we released our third issue brief, entitled: “Investing in Resilience: A Shared Value Approach to Agricultural Extension.” The brief explores the role of rural businesses in promoting climate-smart agriculture among smallholder farmers. The brief included forwards by Mark Kramer, founder and managing director of FSG and senior fellow of the CSR Initiative at the Harvard Kennedy School of Government; and by Mark Lundy, agroenterprise development specialist at the International Center for Tropical Agriculture.

FIELD BUILDING AND THOUGHT LEADERSHIP

- In October, Root Capital was selected to the ImpactAssets 50 for the fifth consecutive year. ImpactAssets 50 is a publically available database of funds demonstrating positive impact and delivering social and environmental, as well as financial, returns.
- In October, CEO Willy Foote participated in two panels supporting Skoll Foundation President & CEO Sally Osberg and author Roger L. Martin's social entrepreneurship book "Getting Beyond Better," representing the perspective of a practiced social entrepreneur. The first was at the National Press Club in Washington DC, moderated by the UN Foundation President & CEO Kathy Calvin, along with Valeria Budinich of the Ashoka Foundation, Sally Osberg and Roger Martin. Willy was also a panelist at an event for the World Bank, hosted by the World Bank Social Enterprise Innovations Team, with Sally Osberg and Natalie Agapitova, also of the World Bank.
- Also in October, Willy Foote participated in a panel called "Engaging Private Capital in Adaptation and Resilience" at the Secretary's Climate and Clean Energy Forum in Washington DC, hosted by the State Department and Georgetown University. Other panelists included Mike Metzler of USAID's Development Credit Authority Officer (moderator), Jay Koh, Managing Director of Siguler & Guff LP, Kruskaia Sierra-Escalante, Head of Blended Finance for Climate at IFC, and Sally Osberg, President and CEO of the Skoll Foundation.
- In October, Director of Investor Relations Ben Schmerler presented at three panels during the annual SOCAP conference in San Francisco, focusing on shared value approaches to supply chain risk management, funding fair trade gaps and turning the Sustainable Development Goals into action.
- In October, Environmental Performance Officer Elizabeth Teague participated in an expert panel on climate-smart smallholder agriculture at the Massachusetts Institute of Technology Climate CoLab conference, a global competition for innovations in climate change mitigation and adaptation.
- In November, Root Capital served as a knowledge partner, along with Dalberg, the International Finance Corporation, and Rabobank for an Innovation Forum on "Renovation & Rehabilitation" of smallholder tree crops hosted by the Sustainable Trade Initiative (IDH) in Amsterdam, the Netherlands. Senior Vice President of Strategy, Knowledge & Innovation Brian Milder and Director of Investor Relations Ben Schmerler were among the 100 participants from 19 countries to discuss financing and technical assistance needs to support long-term productivity in the coffee, cocoa, palm and tea sectors. Brian Milder participated on the keynote panel along with senior leaders from ABN-AMRO bank, FMO (the Dutch development bank), IDH, IFC and Rabobank.
- In November, CEO Willy Foote, Senior Vice President of Strategy, Advisory & Innovation Brian Milder and Senior Vice President of Lending Nate Schaffran attended the seventh semi-annual meeting of the Council on Smallholder Agricultural Finance in Newcastle, UK to discuss industry standards and best practices with representatives from seven leading social lenders that collectively manage loan portfolios totaling over $500M and reaching over 1.2 million smallholder farmers.

- Willy Foote and and incoming [Chief Operating Officer Peter Bernard] hosted a discussion on impact investing and smallholder agriculture to a small group of investment professionals, consultants and philanthropists over a privately held lunch and dinner in Chicago, IL in November.
- Senior Program & Planning Manager Scott Overdyke, spoke on a plenary panel at the Supply Chain Finance Community Forum in Amsterdam. The Supply Chain Finance Community Forum included senior representatives from large European companies interested in financial innovation within their supply chains. Root Capital's representative spoke about our core lending and advisory model, our impact orientation and our value proposition to both buyers and borrowers.
- Former Financial Advisory Services Coordinator for South America Luis Miguel Ormeno, spoke at a forum on climate change adaptation for coffee and cocoa value chains in Lima, Peru.
- In November, Senior Director of Advisory Services Tyler Clark spoke on a panel at the Latin American impact investing forum (El Foro Latinoamericano de Inversión de Impacto) in Guatemala on preparing the investing landscape for sustainable agriculture.

FINANCIAL RESULTS

Balance Sheet Highlights & Key Ratios

Balance Sheet Growth

The period-ending loan portfolio balance surpassed the year-end target, driven by slower-than-expected repayments, and elevated disbursements during the Central America coffee harvest season of late 2015 and early 2016. This period-end portfolio balance represents a 2% decrease from year-end 2014, with a decrease in net assets resulting in the overall balance sheet declining 7% over the past year. In addition to the operating deficit incurred during the year, a driver of the decline in net assets was a lower level of Grants Receivable and T/R Net Assets. This change, while indicative of the challenges raising new large, multi-year grants, is also driven in part by the accounting treatment of certain grants. To be specific, in addition to the GAAP Net Assets Temporarily Restricted by Purpose or Time (i.e. the remaining balances on restricted grants that are available in future periods and/or as we meet other donor-specified criteria) that stood at $4.5M at quarter-end, Root Capital had an additional $4.7M in conditional grants that were excluded from the Net Assets as required by US GAAP. We believe that Root Capital will satisfactorily meet these grant conditions after 2015, which will allow us to add these grants to the Net Assets to cover future expenses.

Financial Leverage

Debt to equity increased to 4.66x as Lending Net Assets fell short of target and as the organization focused on raising subordinated debt to support Lending Net Asset levels. Please note, however, that during Q4, the Investor Relations team successfully secured covenant modifications with major investors to include subordinated debt as part of the equity calculation (i.e. alongside grant-funded net assets) in their debt-to-equity ratio calculations. Through the end of 2015, we launched and raised a tranche of long-term (7-10 year) subordinated debt, successfully securing $8.5 million in committed funds and drawing on $2.4M in Q4.The adjusted debt-to-equity calculation of 4.0x, which includes subordinated debt in the calculation of equity, falls well within the 5.0x covenant limit.

Capital Utilization

Capital utilization increased to 94% at year-end versus a year-ago rate of 91%, indicating that we utilized more of our available debt and equity capital to fund the lending portfolio than projected. We aim to manage to a capital utilization rate of 90%, but typically expect capital utilization to peak during our largest lending season, the Q4/Q1 Central America coffee harvest.

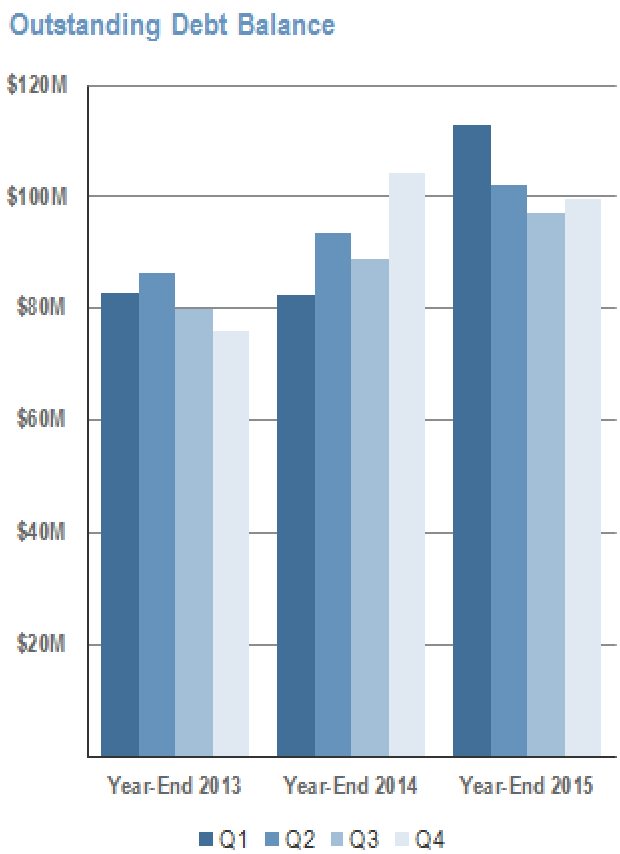
Balance Sheet Highlights *In thousands of USD*	2015 Results	2015 Target	Variance (%)	2014 Results	Yr/Yr Growth
Cash and Short-Term Investments	25,461	37,877	-33%	26,970	-6%
Total Loans Receivable	100,672	93,886	7%	103,415	-3%
Less: Allowance for Credit Losses	(5,406)	(3,985)	36%	(4,624)	17%
Loans Receivable (net)	95,265	89,901	6%	98,504	-3%
Grants Receivable	4,604	10,676	-57%	9,296	-50%
Other Assets	5,559	5,295	5%	6,492	-14%
Total Assets	130,889	143,749	-9%	141,261	-7%
Total Debt	99,774	103,709	-4%	104,053	-4%
Other Liabilities	5,230	4,466	17%	4,549	15%
Total Liabilities	105,003	108,175	-3%	108,602	-3%
Lending Net Assets & Op Reserve	21,406	24,898	-14%	24,270	(0)
T/R Net Assets (Purpose & Time)*	4,479	10,676	-58%	8,389	(0)
Total Net Assets	25,885	35,575	-27%	32,659	-21%
Total Liabilities & Net Assets	130,889	143,749	-9%	141,261	-7%

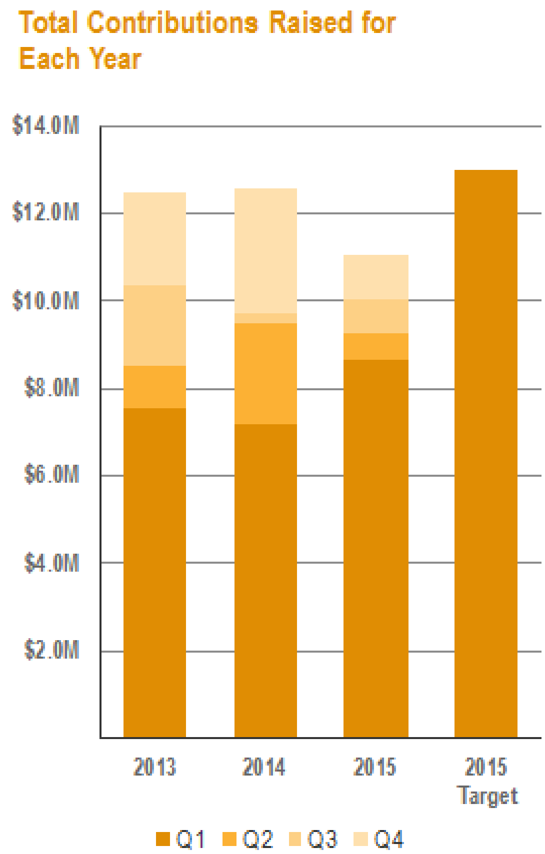
Key Financial Ratios	2015 Results	2015 Target	Variance (%)	2014 Results	year over year Growth
Debt-to-Equity Ratio	4.66	<6.00	N/A	4.29	+37 bps
Adjusted Debt-to-Equity Ratio**	4.00	<5.00	N/A	N/A	N/A
Capital Utilization	95%	90%	N/A	91%	+324 bps

$4.7M of conditional grants are excluded from the T/R Net Assets as required by US GAAP. These grant conditions will be met after 2015, which will allow us to add these grants to the T/R Net Assets. Initial targets for 2015 included these conditional grants within the T/R Net Assets balance. For 2015, the combined T/R net assets and contingent grants balance of $9.2M fell 14% short of target.

****Adjusted Debt-to-equity treats long-term subordinated debt as equity, reflecting its equity-like characteristics.***

Debt & Contribution Fundraising





- We ended the year with just over $99M in debt under management.
- During the quarter we raised over $3M in new notes from investors and just over $22M year to date. As the peak of the Central American harvest in Q1 ended and total outstanding portfolio balance decreased throughout the remainder of the year, we repaid more flexible sources of capital and raised minimal new debt to manage to a more efficient capital utilization rate.
- During 2015, we launched a new long-term subordinated debt product with loan tenors ranging from 7-10 years. We raised a total of $8.5M in commitments, drawing $2.4M in funds in Q4.

- By year-end we raised just under $11M for our 2015 operating needs.
- In addition to funds raised for 2015, we closed the year with nearly $4.2M raised for use in 2016 and beyond.
- Among the new partners we welcomed in 2015 were the IKEA Foundation, supporting our work in Kenya; the Swedish Postcode Foundation, a new contributor to our Coffee Farmer Resilience Initiative; and the Wallace Global Fund, supporting our Women in Agriculture Initiative.
- We are also pleased to have expanded our partnerships with several donors, including the Argidius Foundation, a critical funder of our Last Mile Initiative and USAID, in support of our Climate Smart Agriculture Initiative.

Statement of Activities

In thousands of USD	Consolidated Statement of Activities				
	YTD Results	YTD Target[1]	Variance (%)	2014 YTD	year over year Growth
Loan Interest and Fees	11,557			10,249	13%
Gain (loss) on FX Lending	(1,494)			(622)	140%
Interest & Fee Revenue	**10,063**	**11,252**	**-11%**	**9,627**	**5%**
Net Interest Expense	2,427	2,066	18%	1,927	26%
Net Interest & Fee Revenue	**7,636**	**9,187**	**-17%**	**7,700**	**-1%**
Provisioning Expense	5,842	4,049	44%	4,648	26%
Net Revenue after Provisioning	**1,794**	**5,137**	**-65%**	**3,052**	**-41%**
Operating Expenses	15,784	17,100	-8%	14,800	7%
Other Income	664	0		0	
Contributions for Operations	10,443	13,000	-20%	13,018	-20%
Operating Surplus / (Deficit)	**(2,883)**	**1,037**	**-378%**	**1,270**	**-327%**

Loan Interest & Fee Revenue
Loan Interest & Fees Revenue fell 11% short of targets as foreign exchange volatility lead to historically-rapid devaluations in emerging markets currencies. As discussed in our Frontier Portfolio results section, we took key steps to mitigate our foreign currency exposure during 2015.

Funding Costs
Interest expense was $300K above plan for 2015. A spike in the portfolio early in the year caused us to take on higher-than-planned levels of debt for Q1 and Q2. The portfolio shrank beginning in March, and the organization carried a modest amount of excess capital for the remainder of the year.

Net Provisioning Expense
As detailed further in the STF and Frontier Portfolio sections, full-year net provisioning of $5.8M exceeded the 2015 Annual Plan full-year target by 44% due to a confluence of multiple adverse conditions which negatively impacted the ability of our borrowers to service their debt.

Operating Expense
During 2015, we generated $1.3M of Operating Expense savings relative to plan through targeted expense initiatives and lower-than-planned staffing. Full-year 2015 operating expenses were $15.8M, (8%) less than the original budget of $17.1M.

Contributions for Operations
GAAP Contributions for Operations trailed targets in 2015 for several reasons, including a slowdown in spending that affects the rate of contribution releases on restricted grants, an overall challenging fundraising environment; furthermore, the Investor Relations team shifted priorities during the last quarter of the year to focus on raising subordinated debt rather than net assets for lending, successfully raising $2.4M in 2015 and securing commitments for an additional $6.1M for future draws. $3M of committed subordinated debt has a convertibility clause such that the debt is convertible to net assets in the event of default or at the discretion of the investor.

Operating Deficit
Root Capital ran a $2.9M net deficit for 2015. We are targeting a balanced budget in 2016 due to continuing improvements in foreign exchange and credit risk management, a measured approach to lending growth and carefully scrutinized operating expenses. We are aggressively monitoring results and are prepared to take additional actions on both revenue and expenses as warranted.

Operating Expense by Program

Program *All numbers in thousands, YTD*	Full Year 2015 Operating Expenses			2014 Operating Expense	
	2015 Actual	2015 Target	Variance (%)	2014 Actuals	Yr/Yr Growth
Finance Opex (Sustainable Trade Fund)	5,398	6,300	-14.3%	5,660	-4.6%
Finance Opex (Frontier Portfolios)	1,949	2,197	-11.3%	1,472	32.4%
Advise Opex	5,397	5,478	-1.5%	5,103	5.7%
Catalyze Opex	3,040	3,125	-2.7%	2,823	7.7%
Total Opex	**15,784**	**17,100**	**-7.7%**	**15,059**	**4.8%**

- Full year operating expenses were $15.8M, $1.4M (8%) less than the performance target budget of $17.1M and a modest 5% higher than 2014 full-year operating expenses. Lower-than-budgeted spending on personnel expenses, primarily due to delayed and postponed hires, was the primary reason the year-end expenses were materially lower than the original budget.

- At the end of Q2, the decision to reduce new personnel expenses was made after loan provisioning and foreign exchange expenses came in higher than planned and Root Capital's outlook on risk in our global markets remained high due to multiple macroeconomic factors. Strong control on spending for operations helped mitigate our 2015 operating deficit, but further reductions to offset increased provisioning would not have been prudent for long-term sustainability of operations.

- The total **Finance** program full-year expenses were $7.3M, which was 14% below budget and 3% above 2014 full-year expenses. The lower-than-budgeted expenses were due to delayed hires and strong budget management on travel and professional services to offset lower revenue and higher provisioning expenses.

- The total 2015 operating expenses for the **Advise** program were $5.4M, which was $81K (2%) lower than budgeted. Direct expenses for the Resilience Fund, which provides resources for coffee farmers in Central and South America to overcome the coffee leaf rust crisis, were over $650K, which was materially higher than the original budget of $400K. This was due to increasing the time at which resources are provided to coffee enterprises.

- Total operating expenses for the **Catalyze** program for 2015 were $3.0M, which was 3% below budget. Approximately 40% of Catalyze costs were incurred by Root Capital's impact and social and environmental metrics analysis program, 30% by our research, development and piloting program and 30% by our field building and knowledge sharing activities.

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