

JUNE 2021

SOCIAL BOND FRAMEWORK



Prodigy
Finance

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INTRODUCTION

Education has long been viewed as an important determinant of economic well-being¹. The theoretical growth literature emphasizes at least three mechanisms through which education may affect economic growth. First, education can increase labour productivity and subsequently output². Second, education can increase the innovative capacity of the economy, and the new knowledge on new technologies, products, and processes promotes growth³. Third, education can facilitate the diffusion and transmission of knowledge needed to understand and process new information and to successfully implement new technologies devised by others, which again promotes economic growth⁴.

Tertiary education is instrumental in fostering long-term growth and boosting shared prosperity in low, middle and high-income countries⁵. Workers with tertiary education are more employable, earn higher wages and cope better with economic shocks⁶.

Prodigy Finance (“Prodigy” or the “Company”) is a leading provider of postgraduate international student loan financing, and was born out of the belief that access to finance should be borderless and merit-based.

Prodigy believes that talented young individuals across the globe should have access to financing to study at a top tier university of their choice and strive to achieve their full potential. Prodigy is able to lend to this group of international students, where traditional lenders are often unable to do so, as it uses its unique origination model of lending based on an applicant’s future earnings potential, rather than requiring collateral, a guarantor or the borrower to have an existing credit history in their country of study.

Prodigy provides loan financing to residents of 186⁷ countries for postgraduate courses at 800+⁸ highly ranked schools within the subjects of Business, Science, Technology, Engineering, Mathematics, Law, Public Affairs and Healthcare Sciences. To date, Prodigy has financed more than 22,500⁹ students from across the world. The Company has funded \$1.2bn+¹⁰ education loans over more than a decade, and more than 80%¹¹ of these borrowers have come from low and middle income countries¹².

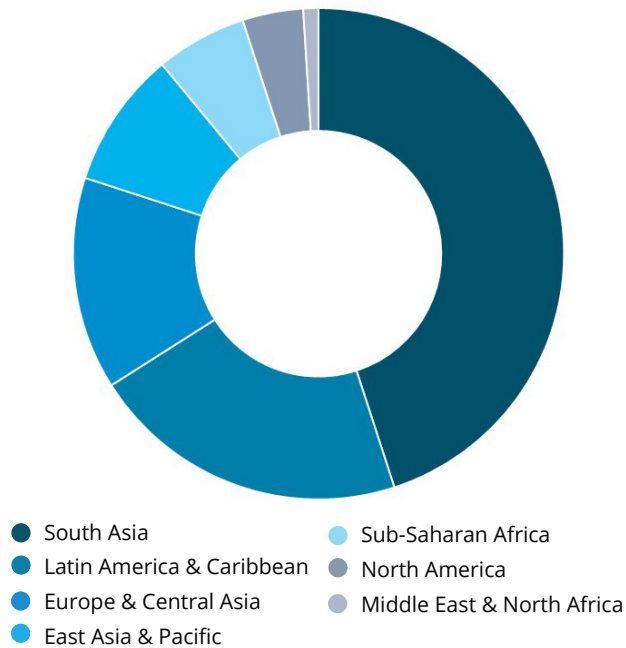
1 Education and Economic Growth (2010) - E A Hanushek, Stanford University, Stanford, CA, USA, L Woßmann, University of Munich, Munich, Germany
2 Mankiw, N. G., Romer, D., and Weil, D. (1992). A contribution to the empirics of economic growth. Quarterly Journal of Economics 107(2), 407–437
3 Lucas, R. E. (1988). On the mechanics of economic development. Journal of Monetary Economics 22, 3–42.
4 Romer, P. (1990). Endogenous technological change. Journal of Political Economy 99(5, pt. II), S71–S102.
5 Aghion, P. and Howitt, P. (1998). Endogenous Growth Theory. Cambridge, MA: MIT Press.
6 Nelson, R. R. and Phelps, E. (1966). Investment in humans, technology diffusion and economic growth. American Economic Review 56(2), 69–75. Benhabib, J. and Spiegel, M. M. (1994). The role of human capital in economic development: Evidence from aggregate cross-country data. Journal of Monetary Economics 34(2), 143–174
7 <https://www.worldbank.org/en/topic/tertiaryeducation>
8 <https://www.worldbank.org/en/topic/tertiaryeducation>

9 Includes countries and foreign territories as of June 2021
10 <https://prodigyfinance.com/student-loans/> for a partial list, as of June 2021 Prodigy supports 834 schools and 4,290 courses
11 As of June 2021
12 As of June 2021
12 As defined by the World Bank classification

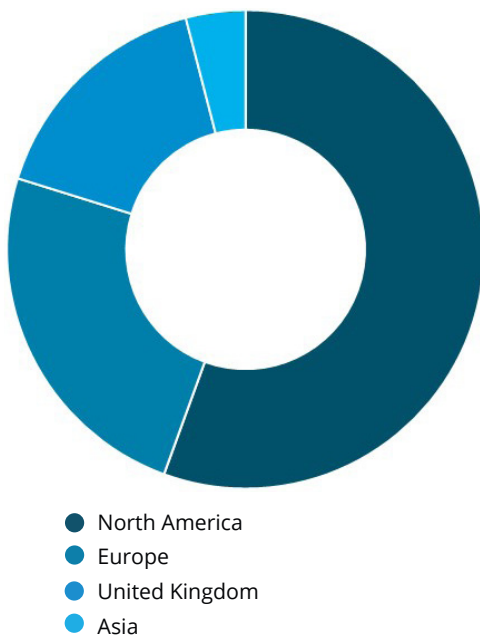


Demographics of Prodigy's Borrowers¹³

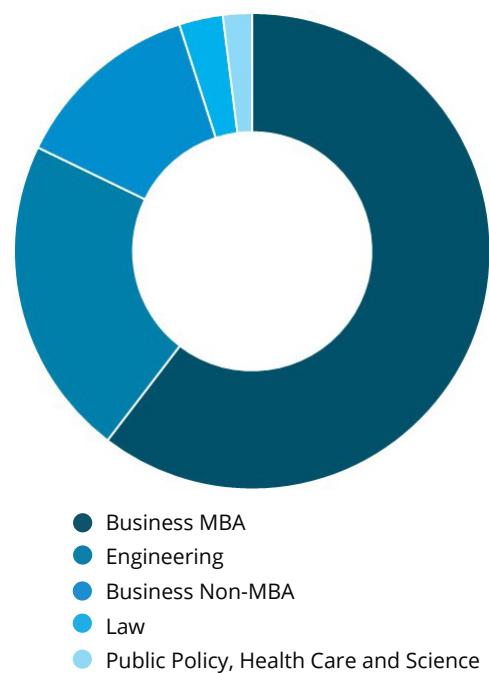
Breakdown by Borrower Nationality



Breakdown by Borrower Country of Study¹⁴



Breakdown by Course Type



Given Prodigy's mission, the Company has social responsibility and social impact embedded deeply within its core. Making postgraduate education affordable and accessible is the driver of its employees and its business operations. Prodigy supports the United Nations' Sustainable Development Goals ("SDGs") and recognizes the key role the private sector needs to play towards their achievement by 2030.

To that end, Prodigy Finance has developed a Social Bond Framework (the "Framework"), which will enable the issuance of Social Asset-Backed Security Bonds ("Social Bonds"). These bonds will be backed by international student loans originated by Prodigy Finance in keeping with the target population and use of proceeds outlined in this Framework.

¹³ All loans disbursed as at June 2021

¹⁴ Includes countries of eligible schools as of June 2021

SOCIAL BOND FRAMEWORK OVERVIEW

1. USE OF PROCEEDS

An amount equivalent to the net proceeds of each Prodigy Social Bond is allocated to finance or refinance a portion of Prodigy's portfolio of student loan assets ("Student Loan Portfolio"), which consists of eligible student loans. These eligible student loans are intended solely to finance student school fees, and in some cases living expenses, for eligible postgraduate courses. To that end, **100% of the proceeds of each Prodigy Social Bond goes towards financing quality postgraduate education, and therefore enabling access to affordable education services.**

Each bond issuance is backed by a segregated pool of eligible student loans and is issued by a newly established or an existing SPV, or by Prodigy Finance (each an "Issuer"). Under Prodigy's Social Bond Framework, the Issuer will finance the purchase of the pool of student loans via a securitisation of the underlying loan portfolio, involving the issuance of securitised Social Bonds to investors. The net proceeds of each Social Bond issued by the Issuer under this Framework will be exclusively applied to finance or refinance the Issuer's purchase of portfolios of loans originated by Prodigy and to pay certain expenses incurred in connection with the issuance of the Social Bonds. Social Bonds issued will not finance or refinance student loans originated prior to 2015.

1.1 Eligible Social Bond Projects in line with the Social Bond Principles 2021

- **Access to essential services - education and financing**
 - 100% of the eligible loans enable access to quality education as 100% of the loans in the pool relate to financing of postgraduate student loans.
 - These loans make high quality international postgraduate programs affordable and accessible for each loan recipient who could not otherwise afford to attend.
- **Socioeconomic advancement and empowerment - equitable access to and control over financial and education services**
 - Through access to financial services and education, socioeconomic advancement and empowerment can be achieved.
 - » Prodigy's borrowers have limited or no other viable financing options for their cost of international postgraduate education. Prodigy enables equitable access to financing and education for borrowers from low and middle income socioeconomic backgrounds, and borrowers who cannot otherwise afford the cost of their education.
 - » In pursuing postgraduate education, these borrowers are able to gain access to an international network, improved career services and opportunities, and improved skills to re-enter the workforce.

Prodigy Finance's Framework has been developed in line with the Social Bond Principles ("SBP") 2021, as administered by the International Capital Market Association, and addresses the following key pillars, in line with the SBP:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External Review



Positive social impact is derived from i) access to financial services in order to make postgraduate education affordable and accessible and ii) socioeconomic advancement and empowerment through equitable access to finance and education services; in both cases by making student loans available to borrowers who are underserved by traditional student loan lenders.

1.2 Alignment to the UN Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs)¹⁵ were adopted in September 2015 and form an agenda for achieving sustainable development by the year 2030. Prodigy's student loan financing activities and the use of proceeds from Prodigy's Social Bond in relation to the Social Project Categories below, are particularly relevant to the following Sustainable Development Goals:

Social Project Category as per the SBP	Summary of core SDGs (and relevant SDG Targets)	Summary of secondary SDGs (and relevant SDG Targets)
Access to essential services - education and financial services	 <p>UN SDG 4: Quality Education</p> <p>SDG Target 4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university</p>	
Socioeconomic advancement and empowerment - equitable access to financial and education services	 <p>UN SDG 10: Reduced Inequalities</p> <p>SDG Target 10.2 By 2030, empower and promote the social, economic and political inclusion of all</p>	 <p>UN SDG 8: Decent Work and Economic Growth</p> <p>SDG Target 8.5 By 2030, achieve full and productive employment and decent work for all women and men</p>

1.3 Target Population

1.3.1 Underserved owing to a lack of quality access to financing in relation to funding loans for education

Prodigy's target population relates to individuals who are resident in any of the 186 eligible countries and foreign territories who are seeking to undertake international postgraduate education¹⁶ to study at one of the 800+ eligible schools and undertake one of the 4,100+ eligible courses.¹⁷

Prodigy's borrowers are unable to afford international postgraduate education without student loan financing. The majority of borrowers who seek student loan financing from Prodigy have limited or no other alternative financing options available to them¹⁸. While high-income students will likely be able to pay for international postgraduate education services themselves, low and middle-income students will typically be unable to do so. Prodigy enables these students to access financial and education services.

Traditional student loan providers will not finance student loans for individuals seeking international postgraduate education for a number of possible reasons:

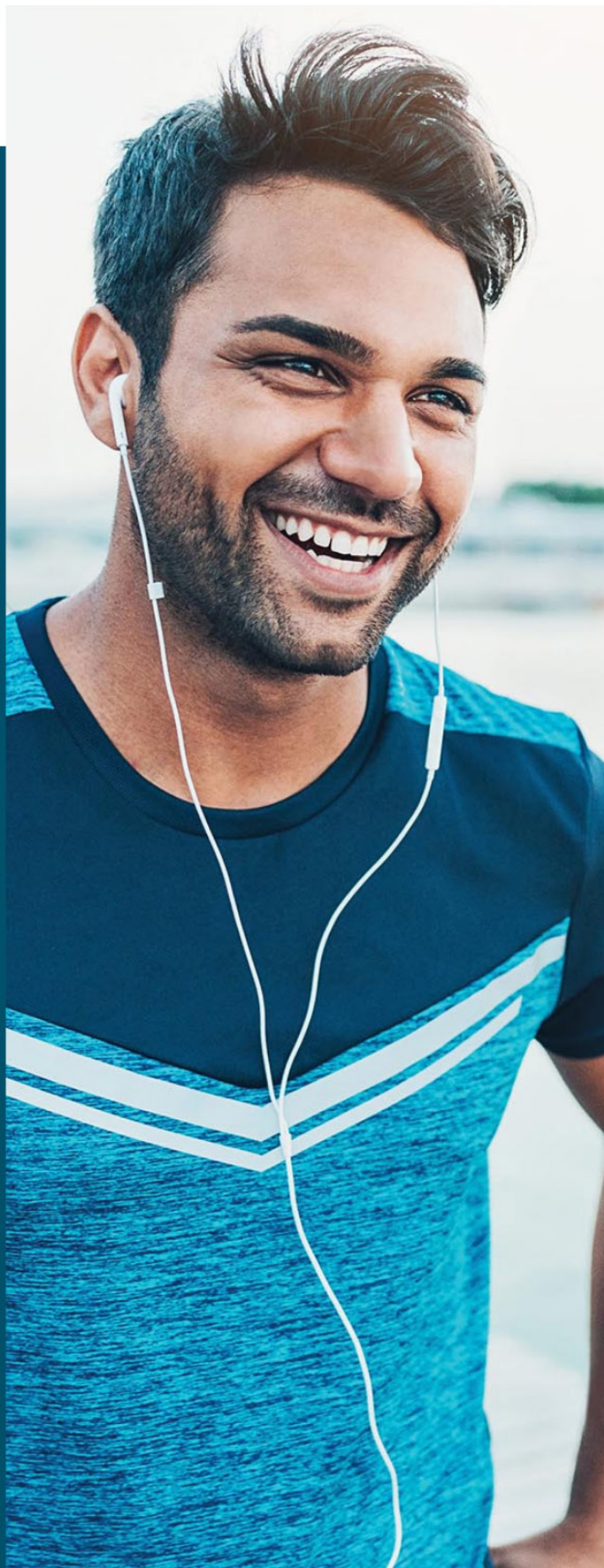
- The borrower has **no guarantor** able to guarantee the loan, **and / or no collateral** with which to back the loan.
 - Most domestic lenders require a guarantor to be able to finance the loan, often a parent or family member. Many of Prodigy's borrowers do not have a guarantor who is able to do this.

¹⁵ <https://sdgs.un.org/goals>

¹⁶ Prodigy is able to lend to UK nationals attending a UK school as Prodigy is FCA regulated and US nationals in certain US states where Prodigy is regulated, but this is not Prodigy's focus and represents a very small proportion of total loans disbursed, 0.2%, in 2021 YTD

¹⁷ See footnote 8 for full list of eligible schools and courses

¹⁸ In Prodigy's 10 year Impact Report (2018), 89% of students who responded to the survey indicated they had no other financing options



- » 9 of the 11 largest traditional domestic lenders in our top markets of India, China, Brazil and Latin America require a guarantor. Those that do not require a guarantor do require collateral from the borrower to back the loan.
- Traditional domestic lenders, such as banks, will often require collateral to back the international student loan. This can be cash collateral, or can be based on an asset such as a home owned by the borrower or borrower's family. For those borrowers without the financial ability to provide this, they cannot access these channels of financing.
 - » 4 out of the 11 largest traditional domestic lenders in our top markets of India, China, Brazil and Latin America require collateral, while the other 7 request collateral in order to provide more favourable conditions.
 - » For those that do not require collateral they do require a guarantor.
- None of the 11 largest traditional domestic lenders in our top markets will finance a student loan without collateral or a guarantor.
- The borrower has **no FICO score or credit history** in the country in which they intend to study.
 - Where borrowers would like to access financing in their country of study, they are often unable to do so since they have no credit history in that country. Prodigy does not need a borrower's credit history to originate a loan. Prodigy will obtain a borrower's credit report from a credit bureau where possible, however, is still able to originate a loan for a borrower where this is not possible.
- Relative to domestic earnings, the **value of the loan is too high**.
 - More than 80% of Prodigy's borrower base comes from low and middle income countries. In many of these countries, salaries are considerably lower than in countries of study, such as the U.S. Therefore the relative comparison of cost of education to annual salary is significant. Banks cannot loan such an amount relative to salary, and so a Prodigy loan may be required instead, or to make up the difference. Since Prodigy lends based on future earnings potential, rather than historic salary, it is able to finance these borrowers.

- **Concerns surrounding regulation and enforcement** given the borrower will be studying internationally.
 - Many domestic banks are unable to lend to international students due to regulatory issues and concerns surrounding enforcement. Where domestic banks can lend, this is often for a smaller loan size than the borrower needs to cover their fees and living expenses.
- The borrower is **deemed a complex borrower** since they are not earning in the currency with which they have to pay their student fees.
 - Traditional lenders may be unable to lend to borrowers in the currency of study and lending in domestic currency means the borrower has to navigate currency risk during their years of study. Prodigy is able to lend in the currency of study, or in a major currency, rather than local domestic currency, which helps to eliminate this risk.

Prodigy is able to lend to these borrowers as it requires no guarantor, collateral or FICO score. Prodigy is able to estimate a borrower's future earning potential using its model based on more than 10 years of existing data, and can then lend against their predicted earnings potential. This model differentiates Prodigy from all traditional lenders, and ensures equitable access to financing for students from all different socioeconomic backgrounds.

Furthermore, unlike traditional lenders, Prodigy focuses on financing postgraduate student loans for international borrowers. This is because Prodigy has a unique regulatory and enforcement framework which allows for lending in this capacity. Many traditional lenders are only able to lend to students who remain within their domestic country of residence. Given this model, and since Prodigy is a platform to match borrowers to funding for student loans rather than a bank itself, interest rates on the loans can on occasion be higher than those from domestic lenders, albeit those rates require collateral or guarantors.

Prodigy tries its best to keep these as low as possible, and rates for borrowers are based on the risk profile of the individuals using a sophisticated Probability of Default origination model. Furthermore, Prodigy will only lend an amount for which it ensures it does not overburden the borrower with debt. Its proprietary Probability of Default and Future Earnings Models will decide the interest rate and lending amount based on a large number of variables and more than a decade of prior borrower and lender data. Prodigy reassesses its interest rates annually.



Exclusion Criteria

- Prodigy will not finance loans for any purpose other than to finance tuition fees, and in certain cases an additional amount for living expenses, for postgraduate degrees for international students in eligible courses at eligible schools¹⁹.
- All loans will be paid directly to eligible schools, never directly to borrowers.
- Social Bonds issued will not finance or refinance student loans originated prior to 2015.

¹⁹ International postgraduate degree defined as a student traveling internationally to undertake their master's degree. See footnote 16 for UK and US exceptions.



2. Process for Project Evaluation and Selection

Prodigy has one business focus and financing product, which is the financing of postgraduate student loans.

The evaluation and selection process will ensure the proceeds of the Social Bonds issued will go towards funding loans for international postgraduate education. Prodigy has a sophisticated origination system which has been in operation for more than 10 years. The system ensures that loans are only offered to borrowers who are looking to undertake postgraduate education courses within the subjects of Business, Science, Technology, Engineering, Mathematics, Law, Public Affairs and Healthcare Sciences, and from an eligible list of Schools. In doing so, the system ensures a borrower falls within the Eligible Social Project target population.

Prodigy will form a Social Bond Working Group comprised of individuals from various teams across the organisation, including from the Capital Markets, Loan Origination and Risk teams.

Prodigy will be responsible for the assessment of applications, origination, underwriting of loans and servicing of the loan portfolio. As aforementioned, Prodigy has extensive experience in all fields given its history of originating postgraduate student loans for over a decade.

3. Management of Proceeds

Prodigy Finance is an established international student loan provider and has been originating and servicing student loans since 2007. Its internal accounting team will track, report and verify whether the net proceeds have been fully allocated to the Eligible Social Project.

At issuance, the Borrower will purchase a pool of loans, previously identified prior to the issuance date, which falls within the Eligible Social Project criteria.

If for any reason the aggregate amount in a Student Loan Portfolio is less than the total outstanding amount of Prodigy Finance Social Bonds issued during the associated reporting period, Prodigy will assign the unallocated balance to cash, cash equivalents and/or other liquid marketable instruments until the amount can be allocated towards the Student Loan Social Bond Asset Portfolio. Prodigy commits to allocate the proceeds within 2 years of the issuance.

4. Reporting

4.1. Allocation Reporting

On an annual basis and on a timely basis, Prodigy Finance will prepare and make publicly available a report disclosing the amount of Social Bonds issued during the reporting period along with the outstanding balance of prior Social Bonds and the average loan size. Prodigy Finance will report annually until maturity or clean-up call of the notes²⁰.

4.2. Impact Reporting

On an annual basis and on a timely basis, Prodigy Finance will prepare and make publicly available a report outlining the social impact metrics of the portfolio of loans. Prodigy Finance will report annually until maturity or clean-up call of the notes.

The relevant impact metrics may include:

- Number of beneficiaries
- Number of women beneficiaries
- Number of beneficiaries from low and middle-income countries²¹
- Number of schools supported
- Number of courses supported
- Confirmation all loans are to eligible beneficiaries and being used to finance postgraduate education



5. External Review

5.1. Second Party Opinion

Prodigy Finance has appointed the independent second-party opinion provider ISS to review the bonds issued under the Social Bond Framework and attest to their alignment to the Social Bond Principles.

The Second Party Opinion will be made publicly available on the Prodigy Finance website.

²⁰ 10% clean-up call is standard in ABS transactions
²¹ Based on World Bank classification

