Margin Income Unwrapped

Headwind becoming tailwind

Mark Davis
Chief Financial Officer

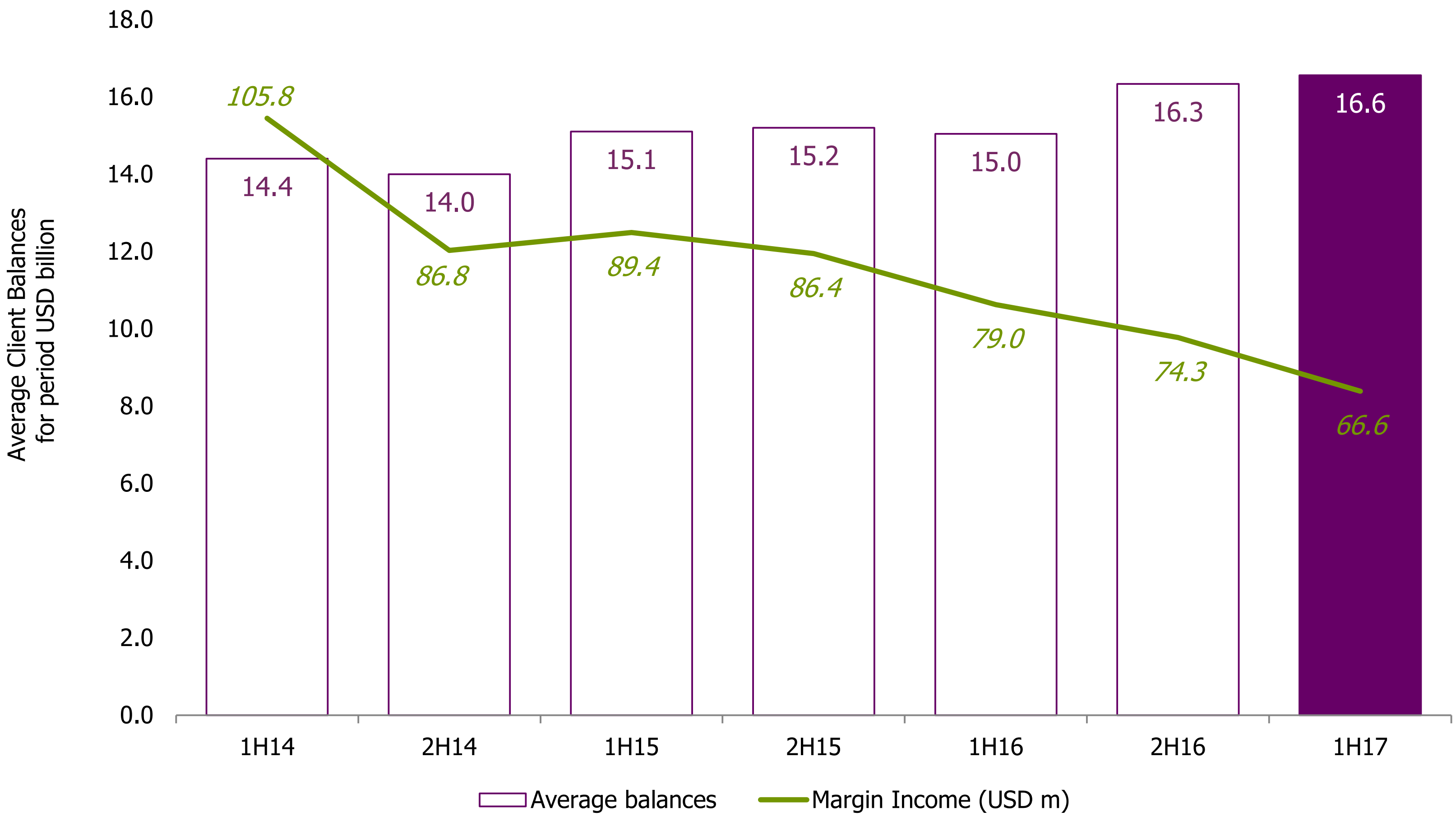
27 April 2017

CERTAINTY | INGENUITY | ADVANTAGE

Computershare

Margin Income

Headwind becoming tailwind, FY18 expected to be higher than pcp



* *References throughout this presentation relate to 1H17 unless otherwise stated*

Computershare

Balances across the business model

Margin income features across a broad spectrum of products in our key markets of US, UK and Canada

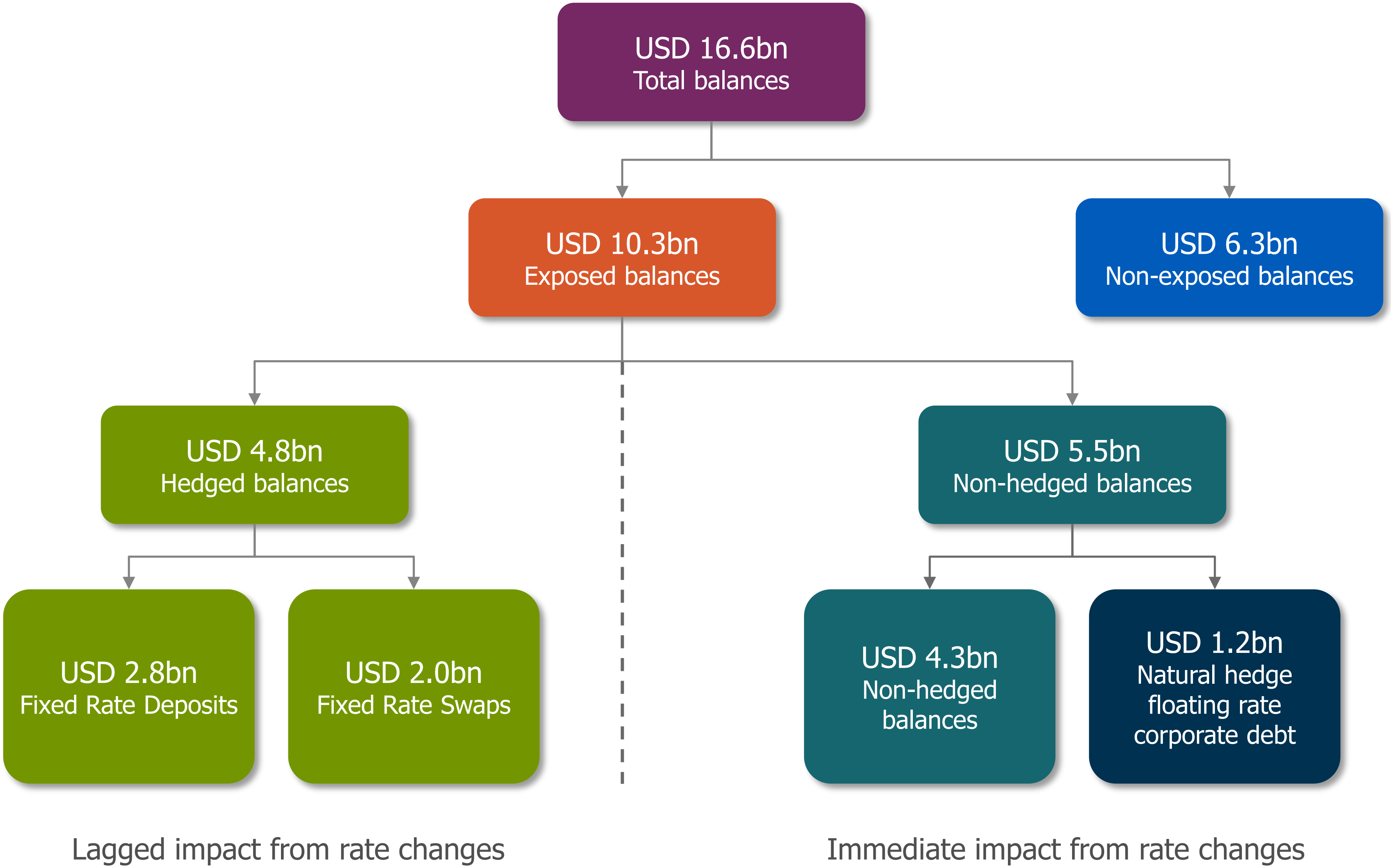
- More than 90% of margin income is generated across 3 key currencies

Business Activity	US	Canada	UK
Register Maintenance	🟠 🔵	🟠 🔵	🟠
Corporate Actions	🟠 🔵	🟠 🔵	🟠 🔵
Employee Share Plans	🟠 🔵	🟠	🟠
Business Services - Class Actions	🟠 🔵	🟠 🔵	
Business Services - Bankruptcy Administration	🟠 🔵		
Business Services - Mortgage Services	🟠		
Business Services - Corporate Trust		🟠 🔵	
Business Services - Deposit Protection Scheme			🟠
Business Services - Voucher Services			🟠

🟠 *denotes exposed balances* 🔵 *denotes non-exposed balances*

Breakdown of balances

Exposed and hedged

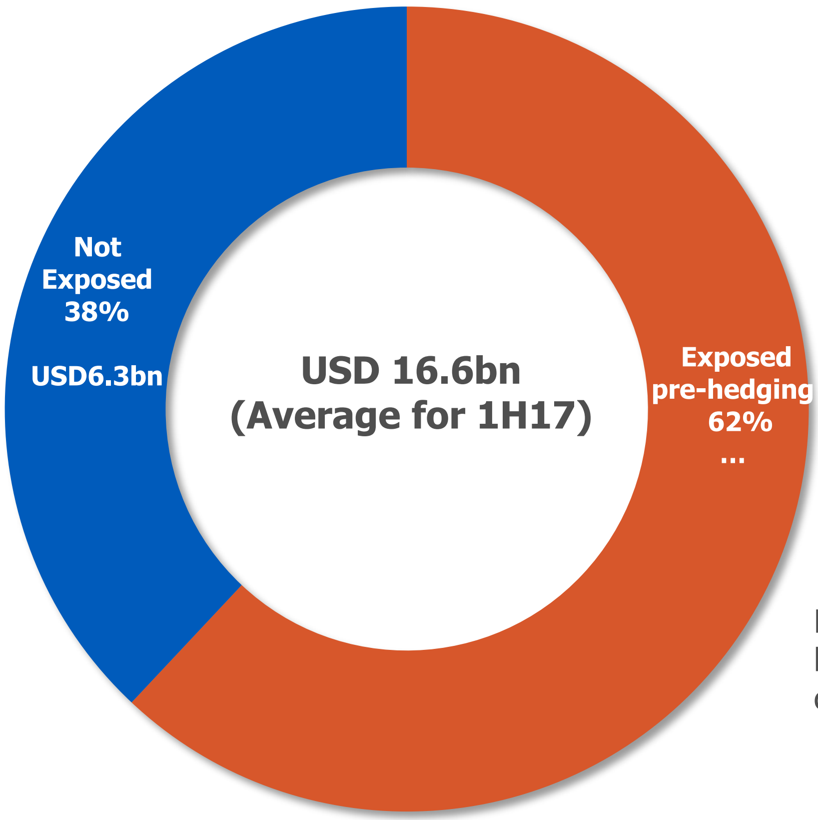


Computershare

Balances analysis

Majority of balances are exposed to interest rate changes

Balances that are not exposed to interest rate changes because either they earn a fixed spread or do not earn interest at all



Balances impacted by interest rate changes

Exposed and non-exposed balances by business

Yield, balances and margin income breakdown

Business Activity	1H17 Balances (USD billions)		Margin Income (USD millions)
	Exposed	Non-exposed	
Register Maintenance	2.0	0.4	10.2
Corporate Actions	2.7	1.2	18.4
Employee Share Plans	1.6	0.3	8.7
Business Services	4.0	4.4	29.3
Totals	**10.3bn**	**6.3bn**	**66.6m**
	16.6bn		
Margin Income	**$52.0m**	**$14.6m**	
Average annualised yield	**1.01%**	**0.46%**	

Computershare

Profile of the non-exposed balances

- In 1H17 non-exposed balances represented USD 6.3bn or 38% of the total book
- Non-exposed balances occur across the product spectrum in multiple geographies but are concentrated more heavily in the US and Canada
- Our fee spread is fixed, 3rd parties remain exposed to movements in interest rates and they, not CPU, will benefit from rising rates
- Typical product examples of non-exposed balances include:
  - Escrows across corporate actions and business services eg. class action administration, bankruptcy administration and corporate trust
  - Business Services corporate trust products where for regulatory reasons clients require us to hold the funds
- By their very nature, the quantum of these types of funds can move around significantly but since FY09 this component of the book has averaged just under 30% of total balances. Balances typically held for < 1 year
- Growth in recent periods has been underpinned by increases in escrow mandates and our class actions business

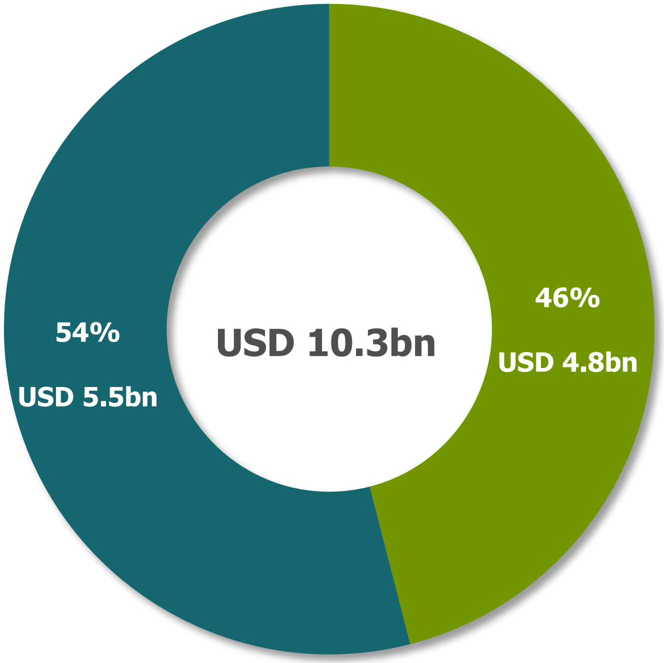
Exposed balances (hedged and un-hedged)

Key driver of margin income upside

Average exposed balance pre-hedging									
	1HFY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10	FY09
Average balances (USD)	10.3bn	9.9bn	10.5bn	10.8bn	11.6bn	9.2bn	7.4bn	6.29bn	4.9bn
% of overall balances	62%	64%	69%	76%	77%	67%	72%	74%	72%

Assuming an increase of 100bps on our exposed balances (USD 5.5bn) CPU would generate an additional $55m annualised EBITDA*

Balances that remained exposed to changes in interest rates



Balances that were fixed via swaps and fixed rate deposits

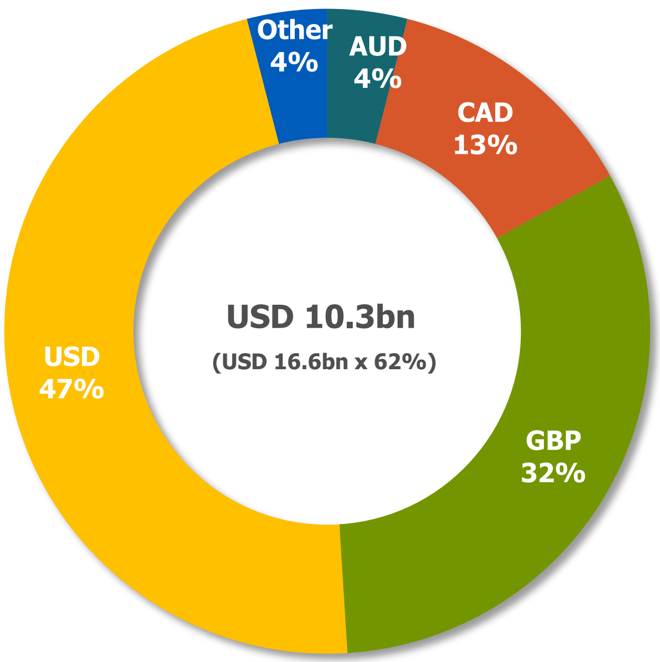
* CPU floating rate debt will operate as a natural hedge against exposed balances, at Profit before Tax the impact is unchanged for 1H17

Computershare

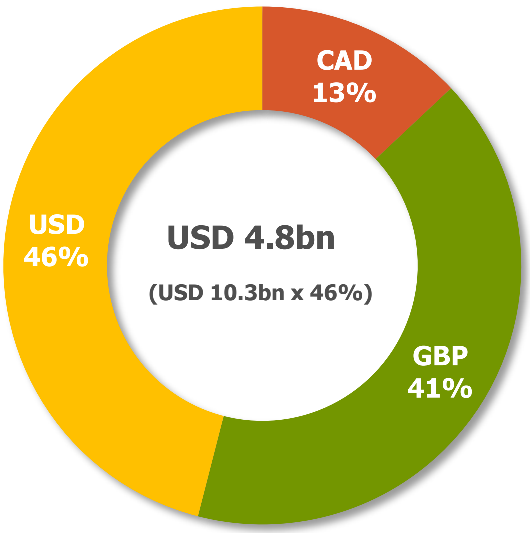
Breakdown of exposed balances by currency

Currently most exposed to USD rates though GBP and CAD remain important

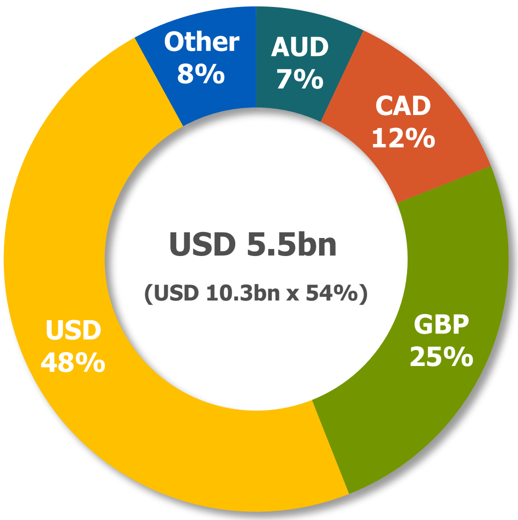
Average exposed balances prior to hedging



Average exposed balances hedged



Average exposed balances un-hedged



Average balances during 1H17

Computershare

Profile of our swap and deposit book

Management of exposed balances

Mark to market commentary

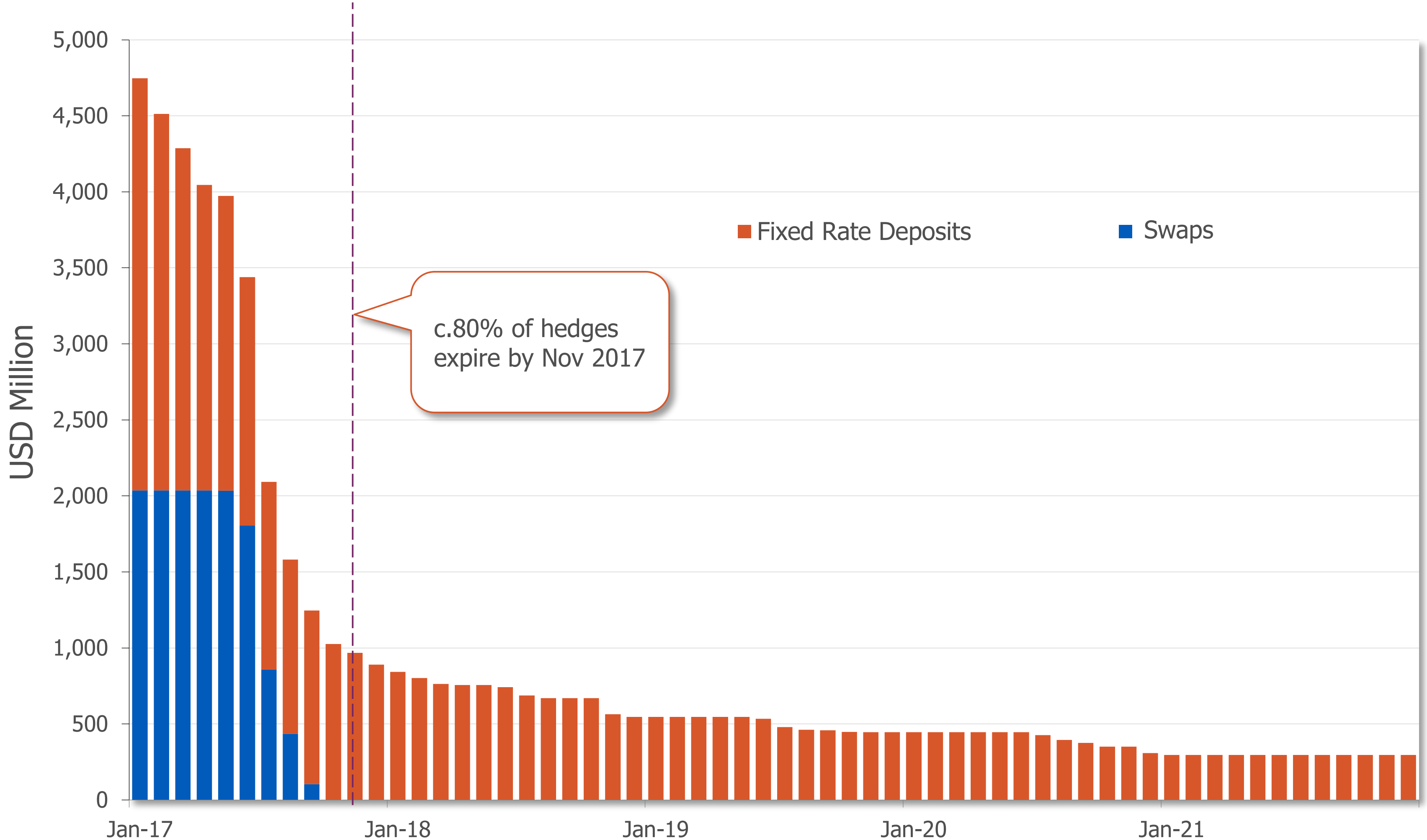
- Swaps: overall positions can be replaced at similar levels – no cliff
- Fixed and floating rate deposits: some reinvestment difference in Canada and the UK but higher rates available in USA
- We expect margin income to increase in FY18 underpinned by US interest rate rises

Treasury management

- Treasury teams are actively managing exposed balances within policy guidelines
- Floating rate term deposits enable us to achieve a premium yield compared to at call rates while retaining exposure to a higher rate environment
- Fixed rate swaps give greater flexibility on liquidity with reduced credit risks
- In a low rate environment (bottom of the cycle) floating rate deposits and short duration swaps will feature more heavily to ensure exposure to a change in cycle
- In a higher rate environment, increased use of fixed rate swaps or fixed rate deposits with longer duration would be typical

Profile of our swap and fixed rate deposit book

Short duration hedging – enhances yield without preventing the benefit of potential rate rises

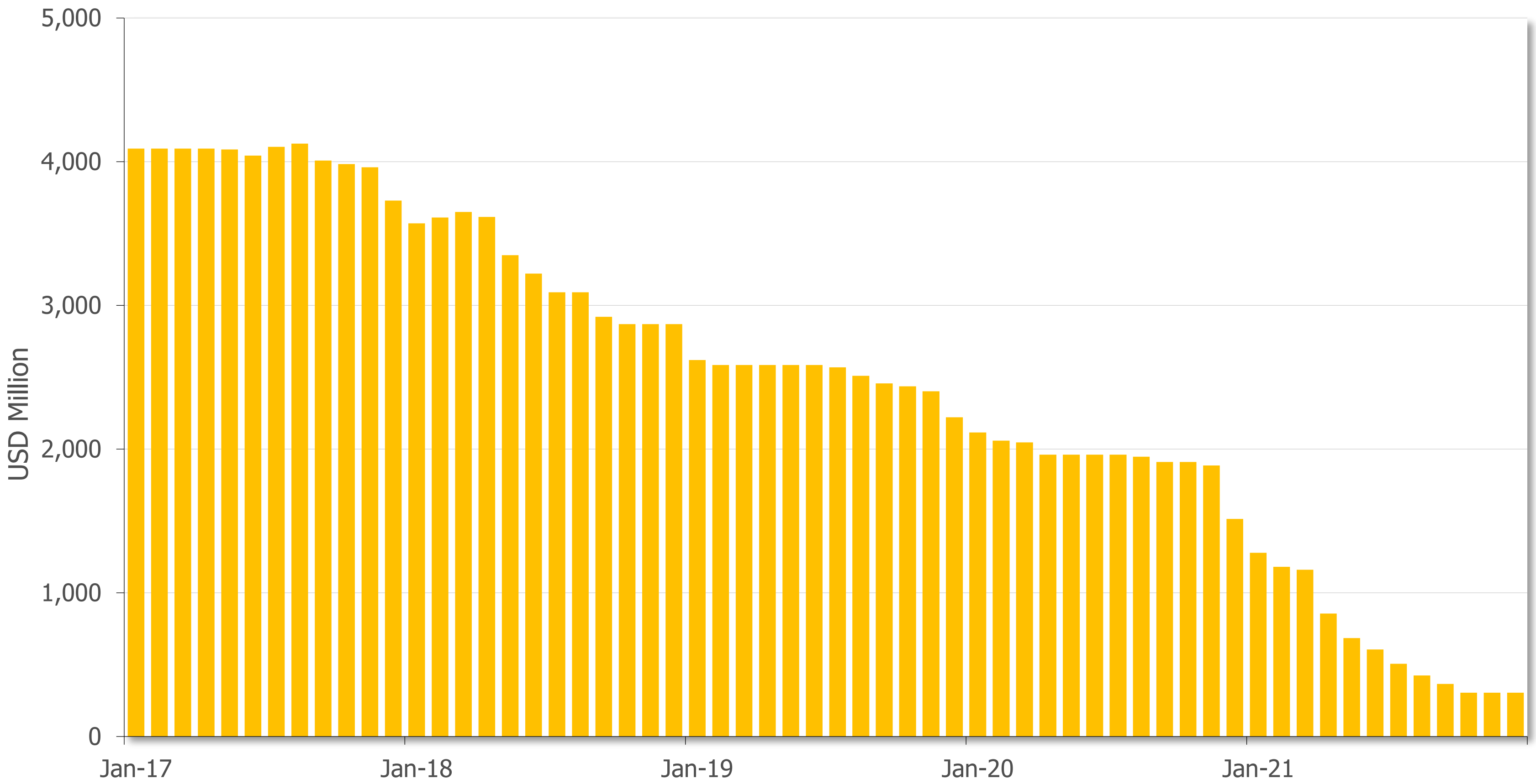


** Position at 31 Dec 2016*

Duration – enhancing yield

Stability of balances facilitates long term depositing

- Floating rate deposits are included in both exposed and non-exposed balances



Computershare

Governance and sensitivities

Our approach to managing balances

Permissible counterparties

Counterparty Universe:

- Either directed or permitted by client (eg. list of approved counterparties or ratings requirement)
- If not directed, policy mandates that funds be held with strong investment grade banks with limits on exposure to individual counterparty with duration limit overlay
- Weekly compliance reporting to senior management detailing all balances by both counterparty and duration

Liquidity management

- All products are managed to ensure all liquidity requirements are met
- Policy mandates minimum amounts that are required to be at call and maximum limits at various durations
- Stability of balances enable terming of balances - majority of these balances have one to two year duration
- Given significant amounts that will be at call at any given time bank overnight deposit rates are important

Governance and sensitivities

Our approach to managing balances

Interest rate movements

- Managed in accordance with board approved policy which amongst other things deals with the minimum and maximum hedging parameters of our "core exposure"
- The core exposure is determined at product level based on the analysis of historical patterns of minimum of predictable exposed balance levels
- Strong governance framework exists for approval of swaps and fixed rate deposit positions

Opportunities and challenges

- Balances have grown substantially over recent years driven by organic growth and new products
- Factors that could impact on balances levels in the future are:
  - Client mandate wins or losses
  - Market activity levels
  - And to a lesser extent faster payment methods in some regions where cheques remain prevalent

Headwind turning into tailwind

After a sustained period of interest rate declines rate curves are now improving

Computershare

Conclusions

$16.6bn
Growing 3rd party balances

Tailwind
FY18 Margin income expected to increase

$10.3bn
Balances exposed to rates; immediate and lagged benefits

Yield enhanced
Disciplined use of swaps and term deposits to enhance yield

No cliff/no lockout
No material impact from expiring hedges. Short duration book ensure benefits as rates rise

1 % = $55m EBITDA
$55m annualised EBITDA benefit from 1% increase on exposed un-hedged balances