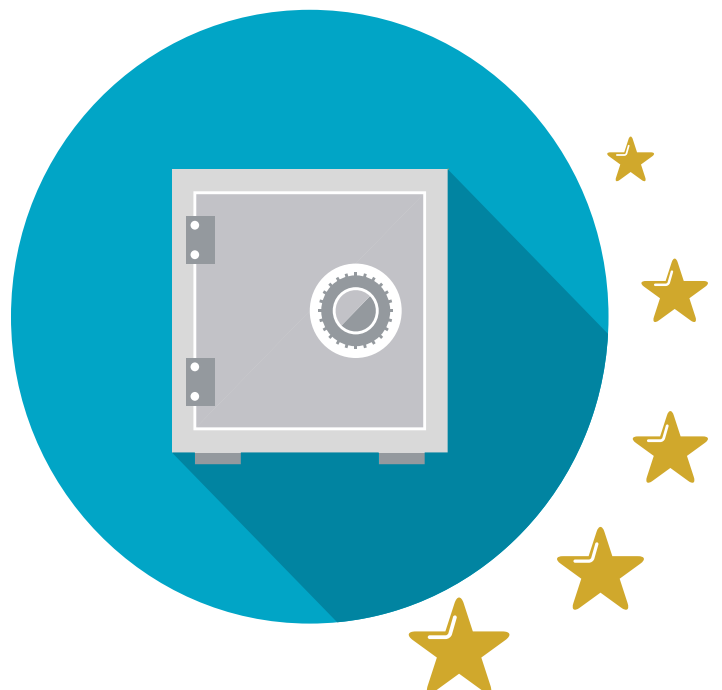
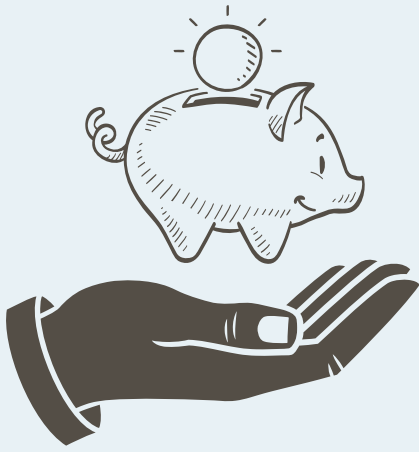


2016 ANNUAL REPORT



Term Deposits





THE CURRENT SAVINGS CHALLENGE

Canstar has rated term deposits from 9 providers in New Zealand for the 2016 Bank of the Year Award – Term Deposits.

There's no denying that making a profit on your savings is currently a challenge, but it's not all bad news. Here's why.

State of the economy

This time last year, the cash rate was at 3.50%; however over the past twelve months the cash rate has lowered by 100 basis points. The cash rate now remains at a low 2.50% – the lowest it has been in nearly two years.

The Bank of New Zealand highlighted several reasons for recent cashrate movements:

- Global inflation remains low
- Increase in financial market volatility
- Weakened growth in developing world
- Ongoing concerns about China
- Uncertainty in emerging markets
- Low prices for commodities such as oil
- House price inflation in Auckland
- Unemployment has risen to 6% ([Statistics New Zealand](#)), the first increase in three years, and it is expected to rise further this year
- Low dairy prices

Our dollar isn't strong right now, but our domestic economy is expected to grow in 2016 thanks to our strong immigration, tourism, and construction industries. Consumer and business confidence is also on the rise, and the rate cuts have kept CPI inflation low and stable.

A positive attitude for savers

Despite low interest rates, a term deposit is still offers a safe haven investment for savers, particularly given the current share market volatility. The good news is that even though term deposit rates are low, so is our inflation rate. So at least savers are still ahead on their money!

Financial institutions are also making the process of opening a term deposit easier, with full online applications or the ability to open an account via phone available. The hard work starts when weighing up your options and comparing which products provide you with the best return.

Dive on in to the rest of our report to find out which term deposits will offer you the best value for your savings in today's market.

HOW HAVE TERM DEPOSIT RATES CHANGED?

The cash rate has gone down a lot in the past year. Will it affect the rate you can get for your term deposit? CANSTAR finds out.

The [Reserve Bank](#) has reduced the cash rate four times over the past twelve months, bringing it down by a total of 100 basis points (or 1.00%). With the official rate now sitting at a low of 2.50% and savings accounts rates having dropped accordingly, can you still get a good interest rate on a term deposit?

Canstar has rated term deposits from 9 providers in New Zealand for the 2016 Bank of the Year– Term Deposits Award.

Our amazing research analysts have

crunched the numbers, and the table below outlines the rates from February 2015 matched against the rates you'll see in February 2016, for a term deposit with a \$50,000 balance.

As you can see, rates have closely followed the official cash rate and have dropped significantly – by about 1.00%.

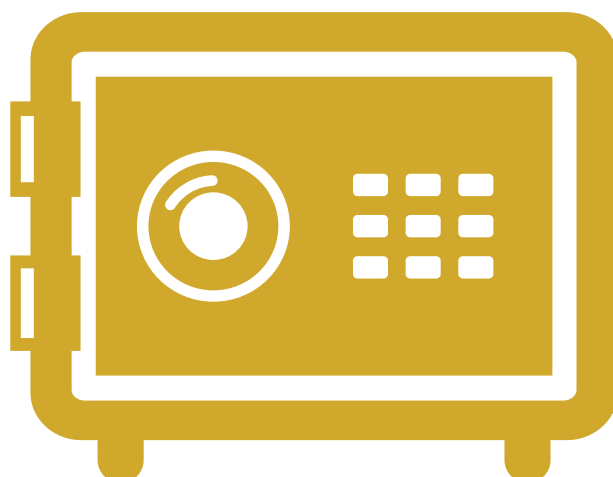
Interestingly, maximum and average rates on 2 and 5-year term deposits have dropped by significantly more than the cut in official cash rate, indicating that our

financial institutions are possibly seeing further official cash rate cuts ahead.

Currently, a \$50,000 investment on a 12-month term deposit would pay \$1,875 at maturity with the maximum interest rate currently available (3.75%), but only \$1,500 on the minimum rate (3.00%), a difference of \$375. In the current low interest rate environment, it is wise to shop around for a good value term deposit.

Term	2015			2016		
	Minimum	Maximum	Average	Minimum	Maximum	Average
1 Year	4.20%	4.80%	4.48%	3.00%	3.75%	3.48%
2 Year	4.40%	5.20%	4.67%	3.25%	3.80%	3.58%
5 Year	4.55%	5.85%	5.14%	3.50%	4.00%	3.84%

Source: www.Canstar.co.nz. Rates were taken as at 2 February 2015 and 2 February 2016.



INTEREST RATES: ALL BLACKS VS. WALLABIES

If there's one thing Kiwis and Aussies are famous for, it's our fierce trans-Tasman rivalry. Whether it's in rugby, cricket, or the race to invent the jandal and the meat pie, we've been battling it out across the ditch for a good couple of centuries now.

Now, obviously Kiwis are winning. After all, we have the same incredible scenery without all the venomous snakes, our All Blacks have won the Bledisloe Cup every year since 2002, and [we bake a better meat pie](#).

[But just to settle the score once and for all...](#)

New Zealand vs. Australia term deposit interest rates

At 2.00%, Australia's cash rate is 0.50% lower than that of New Zealand's 2.50%. But their rate has stayed the same over the past 9 months, whereas ours has dropped four times in the past 12 months. So are our term deposit interest rates still better?

We were curious, so we asked our research team to dig into the data. Here's what they found.

The table below outlines the rates we saw in Australia and New Zealand in February 2015 compared to 2016, for a term deposit with a \$50,000 balance.

	2015			2016		
Term	Minimum	Maximum	Average	Minimum	Maximum	Average
New Zealand						
1 Year	4.20%	4.80%	4.48%	3.00%	3.75%	3.48%
2 Year	4.40%	5.20%	4.67%	3.25%	3.80%	3.58%
5 Year	4.55%	5.85%	5.14%	3.50%	4.00%	3.84%
Australia						
1 Year	2.24%	3.65%	3.27%	1.70%	3.20%	2.67%
2 Year	2.03%	3.75%	3.38%	1.43%	3.00%	2.75%
5 Year	2.12%	4.20%	3.77%	1.49%	3.45%	3.00%

Source: www.Canstar.co.nz and www.Canstar.com.au. Rates were taken as at 2 February 2015 and 2 February 2016.

As you can see, the Green & Gold rates are looking pretty pitiful against the All Blacks!

Take your \$50,000 investment on a 2 year term deposit at the maximum interest rates currently available. It would pay \$3,800 at maturity in New Zealand (3.80%), compared to only \$3,000 in Australia (3.00%), an \$800 difference. The exchange rate at the time of writing (\$1.00 NZD buys \$0.93 AUD) levels the playing field somewhat, but the Kiwis still come out ahead.

The moral of the story is that home is where the heart is – and that's where you should park your term deposit as well!

We are the champions, my friends

More good news: According to the [OECD as of December 2015](#), our long-term interest rates (government bonds maturing in ten years) of 3.55% are still well ahead of other first world countries, such as:

- Australia 2.85%
- Canada 1.46%
- France 0.94%
- Sweden 0.93%
- Germany 0.55%
- Japan 0.27%

We're also thankfully not in the position of having interest rates that are too high, unlike Greece (8.20%) and Russia (12.24%).

Well done, New Zealand. Keep up the good work.

ARE PEOPLE BREAKING EVEN ON THEIR SAVINGS?

Are your savings working hard for you? We looked at the interest rate you'll need to break even after tax, and what it takes to make a profit.

The days of having a cash rate as high as 8.25% are only a faint memory now. While this is fantastic for those paying off a home loan, it's bad news for those trying to find a healthy return on their savings. Of course, such a low inflation rate leaves plenty of room for your wealth to grow.

The table below shows the gross before-tax return that is needed from a term deposit in order to break even, across the various income tax thresholds.

Our CPI increased 0.1% from the December 2014 quarter to the December 2015 quarter.

The end result is good news for savers. With such a shockingly low inflation rate, you do not have to turn to riskier investments to break even. A nice, safe term deposit could do just fine.

The combination of cash rate and inflation makes it important to choose a term deposit that offers outstanding value for money across rates, fees and features.

CANSTAR has crunched the numbers on term deposits from 9 institutions across New Zealand to determine which products offer outstanding value for money. Compare your options on our website to see which institutions are the cream of the crop for 2016.

Marginal tax rate	Inflation rate	Gross before-tax return needed to break even
10.40%	0.10%	0.11%
17.50%	0.10%	0.12%
30.00%	0.10%	0.14%
33.00%	0.10%	0.15%

Sources: [Inland Revenue](#), [Statistics New Zealand CPI movements](#), [Reserve Bank of New Zealand](#), [Canstar Communications Team](#).



WHAT TO LOOK FOR IN A TERM DEPOSIT

Looking for a great rate to increase your savings? Remember to look at the rest of the features, fees, and conditions.

Picking a term deposit means more than just looking for the highest interest rate. We know that's the main thing you're looking for, but we also have to consider the other factors that make good value.

If you've never had one before, a term deposit is a cash investment that you place in a special account in a financial institution for a fixed time period (the term), in exchange for receiving a fixed rate of interest on your money. The money can usually only be withdrawn at the end of the term, unless you pay a fee to withdraw it early.

Term deposits are popular with investors who want a guaranteed return but also want to protect their capital from riskier strategies like the fluctuating share market.

We research many features of the term deposits we rate, including the following.

Length of term

What terms are available? What rates apply to different terms?

We rate the range of terms from short-term deposits of 1 month to 5-year term deposits. Institutions should offer a wide range of term lengths in order to cater for different appetites.

For example, short-dated terms of 1-12 months might be suitable for those who don't want to risk missing out on a rise

in interest rates by tying up their money. Meanwhile, long-dated terms of 2-5 years could be ideal for those who would prefer to keep their money safe from short-term dips in interest rates.

This is not personal advice - you need to decide what the ideal tenure is for your personal situation before opening a term deposit.

Application process

We consider how easy it is to apply for a term deposit, and whether you need to open a separate account with the institution before starting a term deposit.

Applying for a term deposit should be the same as applying for a normal bank account - the same need to prove your identity, naturally, but not too many time-consuming forms.

It's even easier if you already do your banking with that institution. You should be able to decide how much to invest, lock in an interest rate, and fill in a form online. It should be quick and easy and not require you to take time off to visit a branch in person.

If an institution requires you to open a deposit account in order to start a term deposit, check what the fees and other costs would be for that deposit account. Any account-keeping fees would just eat away the interest you receive from your term deposit.

Early exit or partial withdrawal availability

We consider how easy it is to make partial or full withdrawals of your term deposit from that institution, and whether any pre-payment or early withdrawal fees are charged. In our database across term deposits available in NZ, only **3 out of 32** term deposits allow you to withdraw part of your deposit (partial withdrawal) without charging any penalty. So it's a good idea to shop around.

What if you need to access your money before the end of the term? No one plans to get caught in an emergency financial situation, but you don't want your banking institution to rub salt in the wound. Thankfully, our database shows that a solid **19 out of 32** allow you to withdraw early for hardship without a penalty.

Maturity and renewal

We consider how your term deposit maturing is communicated, and whether your term deposit renews automatically or not.

Automatic renewal of your investment can be a common pitfall, particularly if you assume that your money will be automatically renewed onto a similar interest rate. To avoid automatic renewal and instead shop around for a good rate, you should know whether or not your



institution will notify you when the term is about to expire. Then you can make a note in your diary and do your research before it automatically rolls over.

We also consider how easy it is to rollover your term deposit if you decide that the renewal interest rate will suit. It should be easier than applying for a whole new term deposit from scratch.

The *real* rate of return

Term deposits are by their nature not a high-growth, high-risk investment option. So it's important to work out what your "real" rate of return is by subtracting inflation from the interest rate you're expecting.

For example, if your term deposit pays 4% and inflation is still sitting at 3%, your "real" rate of return before tax is

only 1%. This is why it's so important that we look around for a good rate for you.

We also consider what different options there are for how often you wish to receive interest pay-outs. You can usually receive interest either annually, or at the maturity of your term.

Finally, the overall return you get on your investment will be affected by any fees attached to a deposit account or the term deposit itself. Whether you pay these fees at setup or at maturity, they can add up to a fair chunk.

Read the Product Disclosure Statement (PDS)

As with all financial products, it is vital that you read the Product Disclosure

Statement (PDS) so that you know exactly where you stand on a number of issues. Even if you have taken out a term deposit with the same bank before, make sure you still read the latest PDS, as terms and conditions can change and you don't want to be caught out. When reading, look out for the features we've highlighted – maturity conditions, pre-payment penalties, and fees.

Check the credit rating

Check the credit rating of your chosen financial institution and ensure that you are comfortable with it. This year's winner of our Term Deposits Award, Kiwibank, has an A+ rating.

For more information about how CANSTAR rates term deposits, read the Methodology section of our report.



KIWIBANK: 2016 BANK OF THE YEAR FOR TERM DEPOSITS

CANSTAR congratulates Kiwibank on winning our 2016 Award for Bank of the Year in Term Deposits.

Why Kiwibank is our 2016 winner

Kiwibank is our term deposits winner for the third year in a row – well done, Kiwibank!

Kiwibank has a strong offering of interest rates across the board and CANSTAR's analysis finds its average rate consistently above the market average across all maturities. In particular Kiwibank's 1 to 4 month rates were 0.20% above the market average and 0.10% above the closest competitor, and 5 year rates were 0.15% above the market average and 0.01% above the closest competitor. Overall, Kiwibank's rates compared as follows against the market average:

Term	Market Average	Kiwibank Rate
1 to 4 months	3.20%	3.60%
5 to 7 months	3.47%	3.48%
8 to 13 months	3.63%	3.70%
18 months to 2 years	3.76%	3.77%
3 to 4 years	3.94%	4.07%
5 years	4.05%	4.20%

- Other reasons for Kiwibank's win include:
- You can move your term deposit to another institution after the maturity date (direct credit) without paying any penalty.
- Kiwibank holds an institution credit rating of A+.
- Kiwibank provides a 7 day cooling off period and also allows the ability to apply for early withdrawal due to hardship.
- Full online application process for new and existing customers.
- 7-day variation period.

Whilst it did not enter into our calculations, it's worth noting that Kiwibank also offers the Access Term Deposit which allows you to withdraw up to 20% of your principal without incurring a penalty. If you exceed 20% a pre-payment penalty of 0.02% is applied.

About Kiwibank

Kiwibank was founded in 2002 and now has nearly 900,000 customers – an impressive 20% of the Kiwi population. Kiwibank is 100% New Zealand owned and you can find them in more than 250 PostShops nationwide.

In an impressive feat, Kiwibank has now won the Term Deposits Award three years in a row, and they have previously won several other CANSTAR banking awards.

Kiwibank have been helping Kiwis get money-savvy for years now, with their [heaps!](#) free, online, personal financial management tool, and their [Goal Tracker](#) for achieving your financial goals. Kiwibank's [Home Hunter app](#) – a mobile app that helps you



find a house on your smartphone or tablet, get the estimated sale price, and apply for pre-approval in minutes – won a CANSTAR [Innovation Excellence Award](#) in 2014.

Kiwibank is also a provider of banking products, home loans, personal loans and car loans, insurance, investment products, KiwiSaver, credit cards, overdrafts, business accounts, loans, and services, and foreign currency exchange.

How Kiwibank supports the community

Helping where it's needed most

Kiwibank wants to make sure all Kiwis get a fair shot. They back microfinance loans for small, interest-free loans and debt relief loans so people can get back on their feet:

- Their [Canterbury: tools for living](#) team is dedicated to helping Christchurch home loan customers affected by the earthquakes.
- Their Auckland and Waikato-based Nga Tangata Microfinance Trust has won a [joint award](#) for sustainable business.
- They partner with Aviva in Christchurch to provide microfinance loans to those affected by family violence.
- They partner with [Good Shepherd Microfinance](#) to establish and support the microfinance industry in New Zealand.
- They offer special [accounts for non-profit organisations](#), so non-profits can get on with helping as many people as they can.

Kiwibank also makes banking accessible and easier for the elderly and disabled. They're even developing text-to-speech capability in new ATMs that will be installed over the next few years.

Making New Zealand a better place to live

- Kiwibank works with the [Ākina Foundation](#), a social enterprise incubator, to enable new solutions to social and environmental challenges.
- They present [the Kiwibank New Zealander of the Year Awards](#) and the [Kiwibank Local Heroes Awards](#).
- All Kiwibank staff get a day of paid leave each year to volunteer with a community organisation they care about. They also have a workplace giving program.
- Their work with [Pure Advantage](#) gets more affordable sustainable housing into the market.

How Kiwibank protects the environment

- Winner of various NZI Sustainable Business Network Awards in 2013 and 2009.
- They offer [Sustainable Energy Loans](#) for customers to install solar, wind power or hydro power systems in their home.
- They use Nightwatchman to power off their computers overnight.
- Kiwibank ATM shells are recycled when they die, and they donate and recycle other obsolete electronic equipment.
- Kiwibank is part of the New Zealand Post Group's Sustainability Governance Committee and reports annually on their sustainability efforts in the [NZ Post Group annual report](#).



Term Deposits



METHODOLOGY

TERM DEPOSITS AWARD

What is the CANSTAR *Term Deposit* award?

The CANSTAR *Term Deposit* award involves a sophisticated award methodology unique to CANSTAR that compares a shortlist of term deposit products in New Zealand, and awards the institution that offers a superior combination of both price and features.

What types of products are evaluated in CANSTAR Bank of the Year Term Deposit?

To be eligible for the Bank of the Year Term Deposit award, institutions must have a credit rating of at least Standard & Poor BBB+ or an equivalent with other agencies.

How is the CANSTAR Bank of the Year Term Deposit award calculated?

Each term deposit product reviewed for the CANSTAR Bank of the Year Term Deposit award is awarded points for its comparative pricing and for the array of positive features attached to the product. Points are aggregated to achieve a Pricing score and a Features score.

To arrive at the total score on which to base the awards, CANSTAR applies a weighting against the product Pricing and Features. This weighting of Price and Features reflects the relative importance to the consumer of either price or features when looking to purchase the product. This method can be summarised as:

TOTAL SCORE =
PRICING + FEATURES SCORE

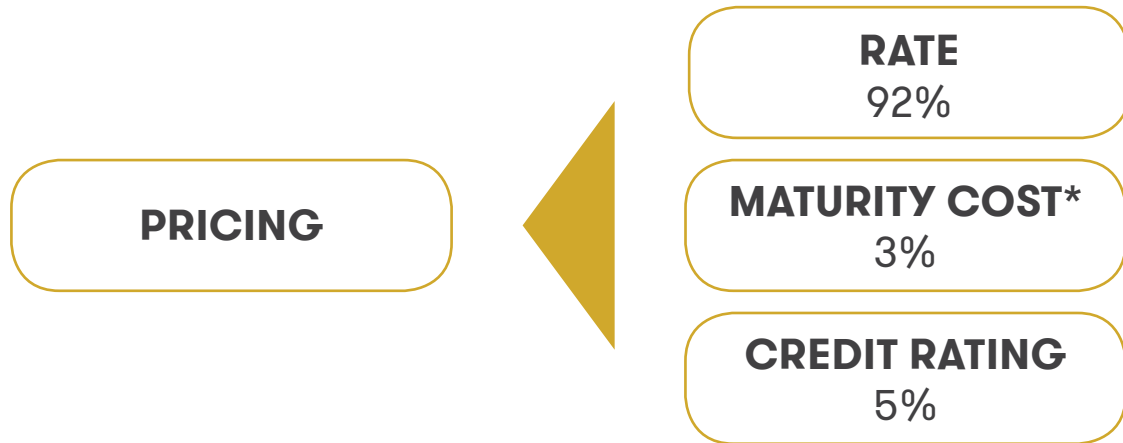


PRICING
80%

FEATURES
20%

Pricing score

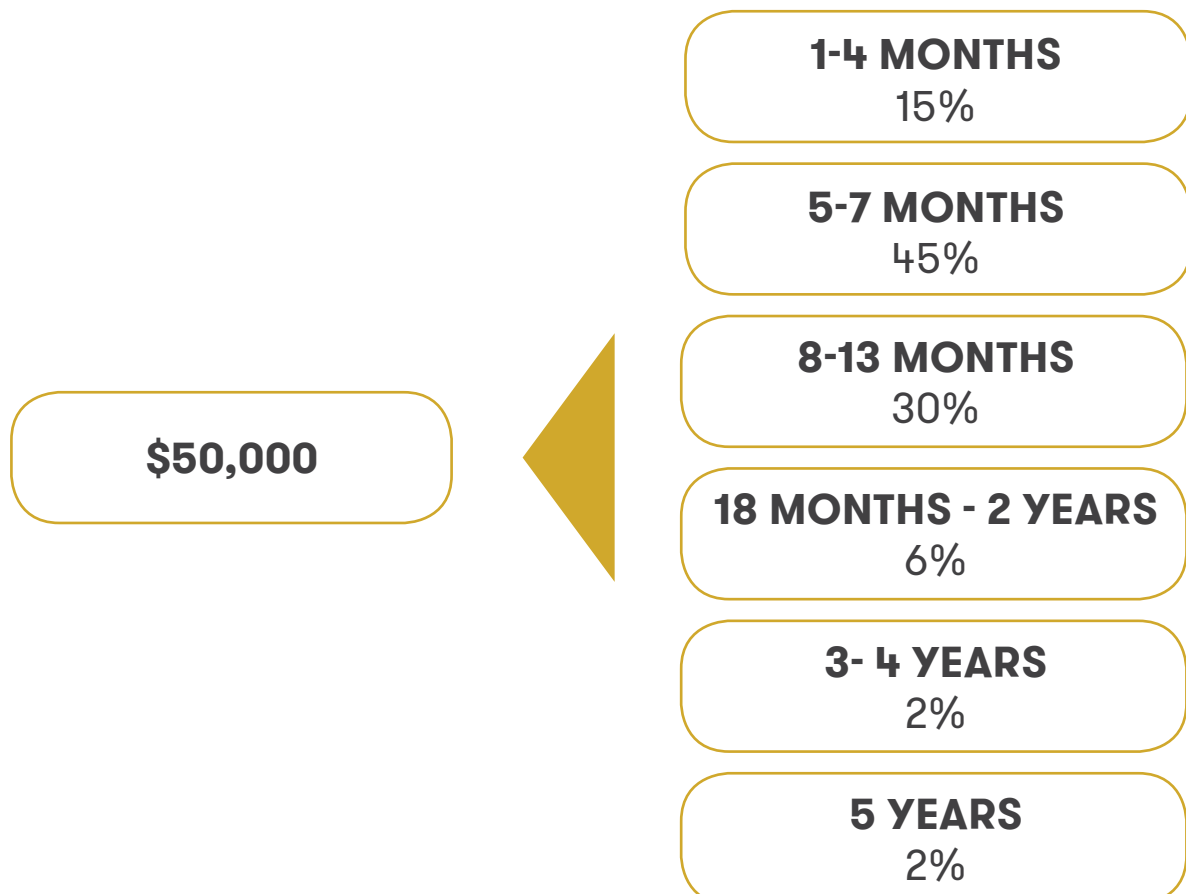
CANSTAR incorporates three components into the overall pricing score these include: historical interest rates, terms, maturity costs and credit rating.



*Maturity Cost identifies the cheapest option for consumers to transfer money to another financial institution at the end of term.

Rate

The Rate Score is calculated by taking the rate of each term deposit product over a span of twenty-six weeks where observations are made each week. The rates are based on a term deposit amount of \$50,000. From each term deposit product, the best rate will then be captured for any length of maturity between the periods outlined below. These rates are averaged, indexed against the term deposit product offering the highest average rate available and then weighted.



Maturity cost

The Maturity Cost Score considers costs to transfer the deposit balance at maturity through cheque or direct credit. The cheaper the cost, the more points institutions will receive for this component. Nil fee options will achieve full score.

Credit Rating

Based on institutions credit worthiness, this component allocates points based on the institutions S&P, Fitch or Moody credit rating, the higher the credit rating, the higher the score.

Feature Score

More than 40 product features of each term deposit are scored and put into six different categories in the following table. Based on the points received in each category, the scores are weighted against each of the category weights provided in the table below for their respective total feature score. The total feature score is then indexed to provide final feature score.

Category	Description	Weight
Account options	Open account, maturity reminder, maturity instruct, variation period	40%
Bonus/discounts	Rollover bonus, free bank cheque, free direct credit	15%
Early withdrawals	Prepayment interest penalty, Notice Periods	15%
Interest options	Interest penalties, interest payment options, interest options available	10%
Statement options	Third party reporting, tax reporting	5%
Term options	Account facilities, deposit amounts, rollover facilities	15%

How many products and financial institutions are analysed?

In order to calculate the award, CANSTAR analysed nine financial institutions in New Zealand.

Does CANSTAR rate all products available in the market?

We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However, this process is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to you.

How often are products reviewed for award purposes?

This award is recalculated every 12 months, based on the latest submissions from each institution. CANSTAR also monitors changes on an ongoing basis.



Does CANSTAR rate other product areas?

CANSTAR researches, compares and rates the suite of banking and insurance products listed below. These star ratings use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers, who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANSTAR website at www.canstar.com.au if you would like to view the latest star ratings reports of interest.



- Business deposits
- Term Deposit
- Credit cards
- Credit card rewards
- Home loans
- Kiwisaver
- Online banking
- Personal loans
- Savings accounts
- Transaction accounts

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Term Deposits

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Term Deposits Summary

Company	Product	Investment Terms (as at 01/02/2016)						Maturity Instruct via Email	Auto Rollover Facility	Early Withdrawal for Hardship	Partial Withdrawal No Penalty
		3 Months	6 Months	1 Years	2 Years	3 Years	5 Years				
ANZ Bank NZ	Term Investments	2.75%	3.30%	3.45%	3.60%	3.70%	3.80%	✗	✓	✓	✗
ASB Bank NZ	Term Investments	2.70%	3.30%	3.40%	3.60%	3.75%	4.00%	✓	✓	✓	✗
BNZ	Term Investments	2.75%	3.30%	3.50%	3.60%	3.75%	4.00%	✓	✓	✓	✗
HSBC Premier NZ	Term Deposits	2.50%	2.90%	3.00%	3.25%	3.35%	3.50%	✗	✓	✗	✗
Kiwibank NZ	Access Term Deposits				3.60%	3.70%	3.90%	✓	✓	✓	✓
Kiwibank NZ	Term Deposits	2.90%	3.50%	3.50%	3.60%	3.70%	3.90%	✓	✓	✓	✗
RaboDirect NZ	Term Deposits	2.95%	3.45%	3.60%	3.70%	3.85%	3.95%	✗	✓	✗	✗
TSB Bank	Term Investments	2.90%	3.30%	3.50%*	3.60%*	3.65%*	3.85%*	✗	✓	✓	✗
UDC Finance NZ	Secured Term Investments	2.95%	3.50%	3.65%	3.70%	3.75%	4.05%	✗	✓		✗
Westpac NZ	Fixed Term Investments	2.70%	3.15%	3.40%	3.45%	3.50%	3.60%	✓	✓	✓	✓