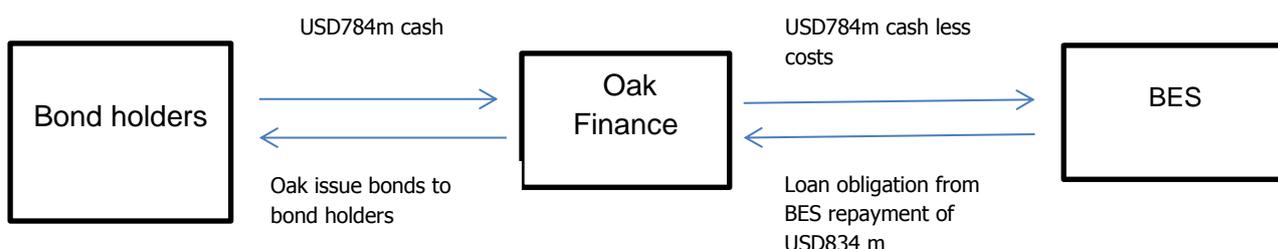


19 February 2015

NZ Super Fund Media Backgrounder - Oak Finance and Banco Espírito Santo (BES)

Goldman Sachs arranged a loan by Oak Finance to Portugal's BES on 3 July 2014. Oak Finance financed the loan by issuing bonds to investors. The bond holders included a range of global institutional investors and pension funds. The US\$784m bonds were secured against a US\$834 million loan obligation from BES.

The structure of the transaction is summarised in the diagram below:



The NZ Super Fund purchased credit protection to provide it with insurance against a default by BES.

BES was at the time of the loan Portugal's largest commercial listed bank and had successfully completed a EUR1 billion equity rights issue in June 2014.

On July 24 2014 BES's Executive Chairman and CEO Ricardo Salgado was detained for questioning and released on EUR 3 million bail on suspicion of fraud, money-laundering and document falsification. Issues that had not been disclosed in the bank's audited accounts were also exposed and the bank was found to be in financial difficulty. In August 2014, the Bank of Portugal (the Portuguese central bank) announced that BES would be reorganised pursuant to Portuguese laws for the recovery and resolution of credit institutions.

The reorganisation involved most of BES's operations and assets, including all senior unsecured debt being transferred to a new state-supported 'good' bank called Novo Banco. Goldman Sachs, as the arranger of the bond issue, received confirmation from Novo Banco that the Oak Finance loan had been transferred to Novo Banco and received confirmation from Bank of Portugal that all senior obligations had been transferred to Novo Banco.

The major shareholder of BES was a family-controlled conglomerate with extensive intercompany linkages of debt and equity. The Bank of Portugal decided that any party or affiliate with such an interaction with BES would remain in BES and not get the benefit of the bailout and transfer to the state-supported Novo Banco. The Bank of Portugal set a threshold for being an affiliate as being those that held a two percent equity holding in BES in the two years preceding transfer of obligations to Novo Banco and passed a rule to this effect on 1 August 2014 with retroactive effect.

On 22 December 2014 the Bank of Portugal announced that it had decided to re-transfer the Oak Finance loan from Novo Banco to BES with retrospective effect. This decision, which was reaffirmed by the Bank of Portugal on 18 February 2015, was based on what is in our view is a misunderstanding of both the nature of the Oak Finance loan and the application of the two percent equity holding rule.