

Transaction Procedures and Letters of Credit

N.B. This document is set out in the order of a proper procedure;

FCO, —> LOI, —> Draft Contract, —> ICPO, —> Contract,
—> PB, —> DL/C, —> Delivery.

Important: Every Official document mentioned below of NIG requires Minimum two Director's Signatures

Procedures

- **Full Corporate Offer (FCO)**

This is the first document to be sent. It should show who the seller is, what he is selling and all the terms and conditions, including procedures. Some intermediaries send us Soft Offers instead of FCOs, this extends the process because we must then issue the LOI and then the Seller will issue the FCO however we may need to reissue the LOI to clearly state what procedures or other details we require in order to proceed if the FCO does not match our requirements. It is preferable to get the FCO even if it is sanitized because then we understand the Seller's position and it saves time.

- **Letter of Intent (LOI)**

Upon receipt of the FCO, and being interested in the offer, we, the buyer, will issue a covering letter and the Letter of Intent. The Letter of Intent will show what further information we require, and if we require a further FCO direct from the seller on their letterhead (where the initial FCO was sanitized, retyped or does not have the seller's coordinates)

Fees & Payment Notices

The **Fee Protection Agreement** will be executed with the **final contract** and lodged by the Buyer at a First Class International Bank. The Bank will issue a **bank endorsed payment order** to the Paymaster for each side Buyer/Seller. **There can only be a single Paymaster for each side, this is a Bank requirement because of repeated abuse by over eager intermediaries.** Intermediaries will have to have executed Payorders with their respective Paymasters.

- **Draft contract**

The Seller returns directly to the buyer a copy of the draft contract and all the additional information requested in the LOI. The seller and buyer enter direct negotiations to reach an agreed final version of the contract, at a mutually acceptable price. The buyer and seller exchange banking details needed to put in place the financial instruments required for the contract to become live.

- **Irrevocable Corporate Purchase Order (ICPO)**

This can only be issued by the buyer after the deal is agreed between the buyer and seller, but before the contract is signed by the buyer. It is issued on a direct buyer to seller communication and is as binding on the buyer as the contract itself.

- **Contract signing**

The signing is normally in accordance with the norms of the country of domicile, i.e. notarised in the USA and Russia, witnessed in Anglophone countries and double signatures in Francophone and Germanic countries. If the buyer or the seller is corporate it will always be sealed.

- 1. Who signs first**

The contract will first be signed by the seller and sent electronically (fax or email) to the buyer who adds his/its signature and returns it. The hard copies are sent by courier signed by the seller and the buyers signs and returns originals to the seller. Spot deals (only): it is acceptable to use electronic documents for the entire transaction.

- 2. Attachments**

Copies of upstream contract(s) and assignment(s) (*all unpriced*), copies of proof of product documents, copies of fee agreement(s), copies of payment notice(s), specifications, draft wording for financial instruments, addenda, appendices, and anything else the buyer and seller agree to attach to the contract such as charter party agreement(s), insurance policies, shipping documents etc.

- **Performance Bond (PB)**

Direct primary contracts from the likes of ARAMCO, NNPC and Governments do not need performance bonds. All secondary contracts do unless the seller assigns the primary contract to us.

- 1. Issuance**

Performance bonds need to be fully funded instruments to guarantee the seller's performance and therefore cannot be issued against an L/C which would mean the buyer is funding his own potential claim. It needs to be issued before the establishment of the payment instrument (FINANCIAL INSTRUMENT - see *below*). It is now normal for the seller's bank to enquire of the buyer's bank if the FINANCIAL INSTRUMENT will be issued immediately upon receipt of the performance bond which allows the seller to borrow against the value of the oil or product he is selling.

- 2. Value**

The value of a performance bond is 2% of the letter of credit value and has been for as long as I can remember. However it is known for it to be for a lesser amount subject to the buyer's acceptance (normally dictated by the buyer's bank). For a term contract it is normally established for the duration of the contract, not the life of the L/C, against the maximum expected value of the letter of credit.

- 3. Timing**

The performance bond will always be issued before the letter of credit. However it is often not issued until the Laycan or loading date has been confirmed or posted on the "Screen" (if applicable), or a verifiable Terminal Confirmation has been issued.

- **Payment**

1. **Documentary Letter of Credit (DL/C)**

Letters of Credit really need a book to themselves and many have been written. Suffice to say, we issue Documentary Letters of Credit for all purchases. A Documentary Letter of Credit is always fully funded and live from the instant it is issued.

- It can be issued; "Confirmed" or "Confirmable"
- It may can be issued: "Revolving"
- It may can be issued: "Divisible" (stating to whom it is divisible)
- It may can be issued : "Non-operative"
- It **cannot** be issued : "Assignable"
- If **cannot** be issued : "Unconditional"
- The banks will **no longer** issue: "Transferable"
- It will not be issued with more than 90 days validity
- It shall only be issued on a shipment by shipment basis
- It can be made "self renewing" after 3 or 4 shipments of a term contract
- It will never be issued to any "Third Party Account" only to the uplifter/supplier or the seller.
- Shipment will always have to be within 30 days of issue.

2. **Letter of Bank Undertaking MT540**

In case of a Spot Deal, the payment can be done as well by Letter of Undertaking. The Buyers Bank pays against presentation of Full set of Shipping documents.

Important Note: Either DLC or Letter of Bank Undertaking cannot be issued "Unconditional", they are **only** payable against the, between Buyer and Seller agreed Conditions. If the Seller fails to provide the agreed documents or if he is not able to deliver the agreed product or quality, the financial instrument cannot withdrawn because there is no contract fulfilment.

- **Delivery**

1. **CIF**

Cargo, Insurance & Freight, means just that. **No charges** for the buyer's account until the crude or product passes the ship's discharge flange at the buyer's nominated discharge port.

2. **FOB**

Free on Board means just that. . **No charges** for the buyer's account until the crude or product passes the ship's loading flange at the seller's nominated loading port. (The buyer and seller might share the independent inspection cost, by agreement)

- **Special Notes**

- 1. Bank Letters of Comfort (or Soft Probe) for Proof of Funds**

No European or US bank will issue these letters. They have not done so for over five years! Don't even consider this. See **Performance Bond Issuance** above

- 2. Russia**

Please let all who are offering know that we do not finance the seller in any way at all. We do not issue Bank Guarantees, Unconditional Standby Letters of Credit etc., and we do not put the cost of the first shipment into the sellers bank account (albeit in our name). However we are more than willing to sign the contract in Moscow and have it notarised by the Embassy , Chamber of Commerce or Ministry of Justice, and understand the "Political Connection and the 3% rule"! Even if you don't know about this "connection and rule" just sound as though you do, and let the offerer know that we, the buyer, do understand this side of the business. Surprisingly this sorts out a lot of the impossible deals from the real ones! *Again it would need a book to explain what this is about and I have no intention of writing that book.*

- **Not Possible - EVER**

All the following are **totally unacceptable**: Abstracted Bank Guarantees, Bank Letters of Comfort, Soft Probes and "up front" Proof of Funds, Bunkering and revictualling fees, Deposits in the Seller's bank, Letters of Credit that are transferable, Pre-payments, Reassignment fees, Abstracted Standby Letters of Credit and the like.

*Banking has tightened a lot since September 11th, and especially within the European banks after the Swiss were caught out over Jewish funds and the Marcos, Suhato and Sukano fortunes, **and** a lot of others things we are not being told about. As we are dealing in dollars you can't do anything without the Federal Reserve being told of your actions. Any deal we write is now looked at **by three different bank compliance teams**, one before the L/C is written, one after it is and the one the bank does to look after its own exposure.*

And as for procedures, if we don't get this right we don't get the banking right. Take, for instance, the requests for ICPOs before the FCO! Think about it! Yes, it is actually ridiculous