INTERSTATE SECURITIES LIMITED

Risk Disclosure Document

July, 2020

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DEFINITION OF TERMS

The term **"Client"** shall mean and include a client, a customer or an investor, who deals with ISL for the purpose of acquiring and/or selling of securities / derivatives contracts and other financial instruments through the mechanism provided by the NSE or other Platforms.

The term **"Other Platforms"**, shall mean a trading floor or Exchange for trading securities, other than the NSE and will include FMDQ, as well as the Over the Counter trading platform, NASD.
The term **"Financial Instruments"** shall mean and include equities, Exchange Traded Products ("ETPs") such as Exchange Traded Funds ("ETFs"), Exchange Traded Commodities ("ETCs"), and Exchange Traded Notes ("ETNs"), Fixed Income such as bonds, derivatives, etc.

1. RISK DISCLOSURE STATEMENT FOR TRADING IN FINANCIAL INSTRUMENTS

This document contains important information for trading in financial instruments listed on the Nigerian Stock Exchange (“NSE” or “the Exchange”), and other trading Platforms, including NASD and FMDQ (“Other Platforms”). All Clients and prospective Clients, should read this document before trading in financial instruments listed on the Exchange or other Platforms

You must know and appreciate that trading in equities or other financial instruments traded on the Exchange and other Platforms, may result in losses as well as in gains. Equities and other financial instruments have varying elements of risks and trading in such instruments on the Exchange or other Platforms is generally not an appropriate avenue for someone of limited resources/limited investment and/or trading experience and low risk tolerance. You should therefore carefully consider whether such trading is suitable for you in the light of your financial condition and knowledge. If you trade on the Exchange or other Platforms whether through a Mandate executed by an authorized dealer in ISL, or by yourself, through our online trading portal and suffer adverse consequences or loss, you shall be solely responsible for the same and Interstate Securities Limited (“ISL”), the Exchange, or other Platforms shall not be responsible, in any manner whatsoever, for any losses or adverse consequences. This exemption from responsibility also applies to the Clearing Houses and Depositories that may be involved in clearing and settlement of trades, including the Central Securities Clearing System Limited (“CSCS”).

It will not therefore be open for you, to claim that adequate disclosure regarding the risks involved was not made, or that sufficient explanation of the full risk involved was not provided by ISL. Clients shall be solely responsible for the consequences of trades and no contract can be rescinded on that account. As a client, you must acknowledge and accept that there can be no guarantee of profits and no exception from losses, while executing orders for purchase and/or sale of equities or other financial instruments being traded on the Exchange or other Platforms.

It must be clearly understood by you that your dealings on the Exchange or other Platforms through a Stockbroker/ISL shall be subject to your fulfilling certain formalities set out by the Stockbroker/ISL, which inter alia, will include your filling the Know Your Client (“KYC”) Form, and that both you and the Stockbroker/ISL are subject to the rules and regulations, byelaws, circulars and guidelines in force from time to time, set by the relevant Competent Market Authority (“CMA”), Self-Regulatory Organizations, Capital Market Trade Groups or Associations such as the Securities and Exchange Commission, the NSE, CSCS, as well as other governmental agencies.

No consideration to trade should be made without thoroughly understanding and reviewing the risks involved in such trading. If you are unsure, you must seek professional advice on the same.

In the light of the risks involved, you should undertake transactions only if you understand the nature of the relationship into which you are entering and the extent of your exposure to risk. This brief statement does not disclose all the risks and other significant aspects of trading. However, in considering whether to trade or authorize someone to trade for you, you should be aware of or must get acquainted with the following;

2. Risk of Higher Volatility

Volatility refers to the dynamic changes in price that a security or financial instrument, undergoes when trading activity continues on the Exchange or other Platform. Generally, the higher the volatility of a security, the greater its price swings. There may be normally greater volatility in thinly traded securities than in active securities. As a result of volatility, your order may only be partially executed or not executed at all, or the price at which your order got executed may be substantially different from the last traded price or change substantially thereafter, resulting in notional or real losses.

3. Risk of Lower Liquidity

Liquidity refers to the ability of market participants to buy and/or sell securities expeditiously at a competitive price and with minimal price difference. Generally, it is assumed that the more the numbers of orders available in a market, the greater the liquidity. Liquidity is important because with greater liquidity, it is easier for investors to buy and/or sell securities swiftly and with minimal price difference, and as a result, investors are more likely to pay or receive a competitive price for securities purchased or sold. There may be a risk of lower liquidity in some securities as compared to active securities. As a result, your order may only be partially executed, or may be executed with relatively greater price difference or may not be executed at all.

Buying or selling securities as part of a day trading strategy may also result into losses, because in such a situation, securities may have to be sold/purchased at low/high prices, compared to the expected price levels, so as not to have any open position or obligation to deliver or receive a security.

4. Risk of Wider Spreads

Spread refers to the difference in best buy price and best sell price. It represents the differential between the price of buying a security and immediately selling it or vice versa. Lower liquidity and higher volatility may result in wider than normal spreads for less liquid or illiquid securities. This in turn will hamper better price formation.

5. Risk-reducing orders

a. The placing of orders (e.g., "stop loss" orders, or "limit" orders) which are intended to limit losses to certain amounts may not be effective many a time because rapid movement in market conditions may make it impossible to execute such orders.

b. A "market" order will be executed promptly, subject to availability of orders on opposite side, without regard to price and that, while the customer may receive a prompt execution of a "market" order, the execution may be at available prices of outstanding orders, which satisfy the order quantity, on price time priority. It may be understood that these prices may be significantly different from the last traded price or the best price in that security.

c. A "limit" order will be executed only at the "limit" price specified for the order or a better price. However, while the customer receives price protection, there is a possibility that the order may not be executed at all.

d. A stop loss order is generally placed "away" from the current price of a stock, and such order gets activated if and when the security reaches, or trades through, the stop price. Sell stop orders are entered ordinarily below the current price, and buy stop orders are entered ordinarily above the current price. When the security reaches the pre-determined price, or trades through such price, the stop loss order converts to a market/limit order and is executed at the limit or better. There is no assurance therefore that the limit order will be executable since a security might penetrate the pre-determined price, in which case, the risk of such order not getting executed arises, just as with a regular limit order.

6. Risk of News Announcements

News announcements that may impact the price of stock may occur during trading hours, and when combined with lower liquidity and higher volatility, may suddenly cause an unexpected positive or negative movement in the price of the security.

7. Risk of Rumours/Market Hearsay

Rumours about companies/currencies at times float in the market through word of mouth, newspapers, websites or news agencies, etc. The investors should be wary of and should desist from acting on rumours.

8. System Risk

8.
High volume trading will frequently occur at the market opening and before market close. Such high volumes may also occur at any point in the day. These may cause delays in order execution or confirmation.

b. During periods of volatility, on account of market participants continuously modifying their order quantity or prices or placing fresh orders, there may be delays in order execution and its confirmations.

c. Under certain market conditions, it may be difficult or impossible to liquidate a position in the market at a reasonable price or at all, when there are no outstanding orders either on the buy side or the sell side, or if trading is halted in a security due to any action on account of unusual trading activity or security hitting circuit filters or for any other reason.

9. System/Network Congestion

Trading on the Exchange, other Platforms and through ISL's online trading portal, is in electronic mode, based on satellite/leased line-based communications, combination of technologies and computer systems to place and route orders. Thus, there exists a possibility of communication failure or system problems or slow or delayed response from system or trading halt, or any such other problem/glitch whereby not being able to establish access to the trading system/network, which may be beyond control and may result in delay in processing or not processing buy or sell orders either in part or in full. You are cautioned to note that although these problems may be temporary in nature, but when you have outstanding or unexecuted orders, these represent a risk because of your obligations to settle all executed transactions.

Other applicable risks include;

10. Non-diversifiable Risk – Also known as systematic risk such as;

a. **Market Risk** – This is the risk that affects the overall performance of the market which cannot be eliminated through diversification of your investment portfolio, though it may be possible to hedge against it.

b. **Exchange Rate Risk** – Also referred to as currency risk is the risk that changes in the relative value of certain currencies will reduce the value of certain investments denominated in foreign currency.

c. **Interest Rate Risk** – Is the probability of a decline in the value of an investment or asset resulting from unexpected fluctuations in interest rates. Interest rate risk is mostly associated with fixed income assets such as bonds rather than with equity investments. The interest rate is one of the primary drivers of a bond's price.

d. **Inflation Rate Risk** – This is the risk that inflation will undermine an investment's returns through a decline in purchasing power. Bond payments are most at inflationary risk because their payouts are generally based on fixed interest rates and an increase in inflation diminishes their purchasing power.

11. Asset Commitment Risk – This is the interval between securities and cash settlement.

12. Counter Party Risk – This is the risk that the counter party will not settle its obligation for full value.

13. Liquidity Risk – Insufficient securities and funds being available to meet commitments.

14. Operational Risk – Risk that occurs due to deficiency in information system, internal controls, human and management errors.

15. Financial Risk – Ability of Central Securities Depositories and clients to operate financially viable.

16. Asset Servicing Risk – The risk that a client may incur loss arising from missed or incorrect executed instruction in respect of corporate action.

17. Asset Safety Risk – Risk associated with safety of the safety of the assets or investment at the CSD and ownership not being at beneficial owners' level.

18. Governance and Transparency Risk – Risk as a result of failures for not adhering to good corporate governance practice and transparency issues.

19. Price Risk – Is the risk that the value of a security or investment will reduce.

20. CLIENT ACKNOWLEDGEMENT

I/We confirm receipt of this Risk Disclosure document and have read, understood and agree to the contents therein;

Name of Account Holder: …………………………………………………

Signature of Account Holder: ……………………………………………...

Name of Joint Account Holder: …………………………………………………

Signature of Joint Account Holder: …………………………………………………

Dated this __________________ day of __________________ 20________