

## DESCRIPTION OF RISKS ASSOCIATED WITH INVESTING IN THE BONDS

### Terms and Definitions

**Baltic International Bank**, Issuer or the Bank - Baltic International Bank SE, registered in the Commercial Register of the Republic of Latvia under Unified Business Identifier 40003127883, registered address: Kalēju iela 43, Riga, LV-1050

**Bond** - a non-secured bearer debt security with a fixed or floating interest rate, issued under the Baltic International Bank Bonds Offer Programme, entitling the bondholder to interest income and nominal value in accordance with the Base Prospectus of the Bonds Offer Programme and Final Terms for the respective series

**Bondholder** - a private person or legal entity who has purchased the Bonds and has it in ownership

**Investor** - a private or legal entity willing to purchase the Bonds according to the procedure set forth in the Base Prospectus of the Bonds Offer Programme No.2 and Final Terms

This document describes the most significant risks that may arise and be associated with the types of bonds issued by Bank. The investors should thoroughly evaluate the risks since those risks can adversely affect Bank's ability to fulfil its obligations or the possibility to carry out transactions involving the Bonds. Please therefore read carefully the information concerning the risks and the management thereof (the Base Prospectus of the Bond Offer Programme No 2, Section 6).

#### Key risks typical for securities

##### Liquidity risk

Though the Bonds are going to be listed on a regulated market, neither the Bank nor any other entity will guarantee minimum liquidity for the Bonds trading. The Bondholders should keep in mind that it might be hard to sell the Bonds on secondary market for an adequate price; likewise, the Bondholders should keep in mind that selling of the Bonds might be limited due to the lack of interest on the buy side.

##### Price risk

The Bonds will be redeemed at their nominal value, yet, until the maturity, the price may be subject to significant changes on secondary market. Neither the Bank nor any other person will undertake to be a market maker for the Bonds.

#### Key risks typical to the industry and the issuer

The risks listed below affect Bank's ability to fulfil its obligations owed to the Bondholders.

##### Political and macroeconomic risks

Despite the fact that the Republic of Latvia is a European Union member state as well as a NATO member country and its national currency is the euro, the complicated geopolitical situation along with economic sanctions against Russia lately have notably increased the significance of these risks.

##### Credit risk

Credit risk is a risk of incurring losses where the counterparty defaults on or refuses to honour its contractual obligations under the contract with the Bank.

##### Liquidity risk

Liquidity risk is a risk that the Bank may not be able to meet its legally sound claims in a timely manner without suffering substantial losses, and may not be able to face unexpected changes in the Bank's resources and/or market conditions due to lack of liquid assets in sufficient amount.

#### Interest rate volatility risk

When the Bonds are offered at a floating interest rate where the money market index (base rate) is included in the calculations, the Investor should keep in mind that the Bond yield will fluctuate and will depend on the developments of the base rate on the interbank market. When the Bonds are offered at a fixed rate, the yield-to-maturity is constant and is not subject to developments in external market.

#### Collateral risk

The Bonds are non-secured, non-subordinated (except for subordinated bonds if set forth so in the Final Terms) and are not collateralised with any particular asset. Where the Bank fails to timely honour its obligations to the Bondholders, they will become the Bank's unsecured creditors, and their claims will be satisfied only after all secured liabilities have been satisfied.

#### Legislative risk

A risk that is associated with amendments to laws and regulations or implementation of new laws and regulations, and that may result in additional expenses or reduce the return from the Bonds. This risk also includes any potential changes in the tax calculation and withholding procedures.

#### Market price risk

Market price risk is a risk that the Bank's income/expenses (and equity capital) may change in case of adverse developments in the market prices of financial instruments, commodities, in foreign exchange rates and interest rates.

#### Operational risk

Operational risk is a risk of incurring direct or indirect losses due to inadequate or failed internal processes, human actions, functioning of the systems or external circumstances, excluding compliance and strategic risks. Operational risk is inherent in all constituent elements of the Group and the Bank, i.e. processes, products and activities. Compliance and reputation risk

Compliance and reputation risk is a risk that the Bank may incur losses or it may be imposed legal obligations or sanctions, or its reputation may get impaired, where the Bank fails to comply with or violates laws, regulations and standards; as well as a risk that the Bank's customers, business partners, shareholders and supervisory authorities may develop an unfavoured opinion about the Bank.

The bondholders will not enjoy regulatory protection under the Deposit Guarantee Act [Noguldījumu garantiju likums] of the Republic of Latvia.