

dbInvestor Solutions 2 plc

**Directors' report and
financial statements**

**For the year ended
30 June 2019**

Registered number 539687

dbInvestor Solutions 2 plc

| Contents | Page |
|---|-------------|
| Directors and other information | 1 |
| Directors' report | 2 – 7 |
| Statement of Directors' responsibilities in respect of Directors' report and the financial statements | 8 |
| Independent auditor's report | 9 – 14 |
| <i>Financial Statements</i> | |
| Statement of Financial Position | 15 |
| Statement of Comprehensive Income | 16 |
| Statement of Cash Flows | 17 |
| Statement of Changes in Equity | 18 |
| Notes to the Financial Statements | 19 – 63 |

dbInvestor Solutions 2 plc

Directors and other information

| | |
|--|--|
| Directors | Niall O'Carroll (Irish) - <i>Independent</i> Brian Brady (Irish) - <i>Independent</i> Bronagh Hardiman (Irish) |
| Registered office | Block A, George's Quay Plaza George's Quay Dublin 2, Ireland |
| Trustee | Deutsche Trustee Company Limited Winchester House 1 Great Winchester Street London EC2N 2DB United Kingdom |
| Administrator & Company Secretary | Vistra Alternative Investments (Ireland) Limited Block A, George's Quay Plaza George's Quay Dublin 2, Ireland (Appointed on 15 July 2018) |
| | Deutsche International Corporate Services (Ireland) Limited 6 th Floor, Pinnacle 2 Eastpoint Business Park Dublin 3, Ireland (Until 14 July 2018) |
| Independent auditor | Ernst & Young Harcourt Centre Harcourt Street Dublin 2, Ireland |
| Arranger, Custodian, Banker & Swap Counterparty | Deutsche Bank AG, London Branch Winchester House 1 Great Winchester Street London EC2N 2DB United Kingdom |
| Listing Agent | Irish / Vienna / Cayman Listing Agent Deutsche Bank AG, London Branch Winchester House 1 Great Winchester Street London EC2N 2DB United Kingdom |
| Solicitor | Matheson 70 Sir John Rogerson's Quay Dublin 2, Ireland |

dbInvestor Solutions 2 plc

Directors' Report

The Directors present the Directors' Report and audited financial statements of dbInvestor Solutions 2 plc (the "Company") for the year ended 30 June 2019.

Principal activities, business review and future developments

The Company was incorporated on 17 February 2014 under the Companies Act 2014 as amended (the "Act") as a public limited company with the intention of, inter alia, carrying on the business of a securitisation company to include all activities ancillary thereto.

The Company has established a Multi-Issuance Programme (the "Programme") to issue debt securities and/or other secured limited recourse indebtedness (the "Alternative Investments"). Debt securities are issued in series (each a "series") and the terms and conditions of the debt securities of each series are set out in a Supplemental Programme Memorandum (SPM) for such series. Debt securities issued by the Company are generally listed on the primary market of the Irish Stock Exchange (trading as Euronext Dublin), the Vienna Stock Exchange or the Cayman Islands Stock Exchange. Details of series listed on specific exchanges are disclosed in note 8.

The Programme offers investors the opportunity to invest in a portfolio of investments, the "investment securities", that includes derivative instruments that mitigate the interest rate risk and credit risk associated with the portfolio.

Each series of debt securities issued is secured by a first fixed charge over certain collateral, primarily in the form of investment securities or cash, as set out in the relevant SPM and a first fixed charge over funds held by the Agents under the Agency Agreement (each as defined in the terms and conditions of the debt securities issued). Refer to note 22 for the profile of debt securities issued. Each series may also be secured by an assignment of the Company's rights under a Swap Agreement and/or Option Agreement and/or Repurchase Agreement and/or Credit Support Document (each as defined in the terms and conditions of the debt securities issued) and any additional security as may be described in the relevant SPM. For details about the investments held by the Company refer to note 6. The Company's obligation to the holders of debt securities of a particular series is limited to the net proceeds upon realisation of the collateral of that series. Refer to note 21(b)(ii) for further details on liquidity risk.

As at 30 June 2019, the Company holds cash and investment securities. Refer to notes 4 and 6 for more information.

The credit risk of the investment securities is borne by either the Company's swap counterparty (in case were a default swap transaction has been entered into for that particular series) and/or the Company's holders of debt securities issued. Refer to note 21(b)(i) for further details about how the Company manages credit risk.

For every new issuance of debt securities, Deutsche Bank AG, London Branch ("DB"), as arranger, transfers to the Company an amount of EUR 500 as corporate benefit (income). This income is taxable under Irish law at a current rate of 25% and the net amount is retained as the profit for the year.

As arranger, DB also agreed to reimburse the Company against any costs, fees, expenses or out-goings incurred. DB is also the swap counterparty for all series where derivatives are held. Refer to note 5 for details of the derivative financial instruments.

dbInvestor Solutions 2 plc

Directors' Report (continued)

Principal activities, business review and future developments (continued)

The Company made a net gain on investment securities of EUR 4,949k for the year (2018: EUR 1,017k gain) and a net loss on derivative financial instruments of EUR 399k (2018: EUR 1,208k loss). Due to the limited recourse nature of the debt securities issued and as the return on those issued securities is directly linked to the performance of the investment securities and derivative financial instruments, the Company made a corresponding net finance loss on debt securities issued of EUR 4,550k (2018: EUR 191k gain) for the year resulting in a net profit of nil for the year ended 30 June 2019 (2018: nil). Refer to notes 12, 13 and 14 of the financial statements for further information.

As at 30 June 2019, the fair value of the Company's total debt securities issued was EUR 98,303k (2018: EUR 93,817k). There were no new series issued during the year (2018: nil). Refer to note 8 for further details.

No series have matured nor redeemed during the year (2018: nil).

The following series are currently in issue as at year end date: Series 1, 3, 4, 5, 6, 7, 8 and 9 (2018: Series 1, 3, 4, 5, 6, 7, 8 and 9).

The Company will continue to be actively taxed at a current rate of 25% in accordance with Irish law.

As at reporting date, there are no expected changes to the Company's level and type of operations in the foreseeable future.

Political donations

The Company made no political donations during the year (2018: nil).

Results and dividends for the year

The results for the year are set out on page 16. The Directors do not recommend the payment of a dividend for the year under review (2018: nil).

Changes in Directors

The name of the persons who were Director during the year are set out below. Except where indicated, they served as Directors for the entire year:

Niall O'Carroll (Irish)

Brian Brady (Irish)

Bronagh Hardiman (Irish)

Changes in administrators during the year

Deutsche International Corporate Services (Ireland) Limited (DICSIL) agreed to sell its corporate services business to Vistra Alternative Investments (Ireland) Limited ("VAIIL") pursuant to a business transfer agreement dated 14 September 2017. As part of the sale, the rights and obligations of DICSIL under the corporate services agreement entered into between the Company and DICSIL were novated to VAIIL pursuant to a Deed of Novation dated 15 July 2018. In connection with the novation, VAIIL was appointed as the new administrator and corporate secretary with effect from 15 July 2018. The registered office of the Company also changed as disclosed in page 1.

Risks and uncertainties

The principal risks and uncertainties facing the Company relate to the debt securities issued, the investment securities and derivative financial instruments held by the Company. The principal financial risks and uncertainties facing the Company (other than operational risk) and the risk management framework in place to deal with these risks are explained in notes 21 of the financial statements.

dbInvestor Solutions 2 plc

Directors' Report (continued)

Risks and uncertainties (continued)

The overall macro-economic impact of the United Kingdom's (UK) exit negotiation with the European Union "EU" is difficult to predict. In the absence of clarity regarding the ratification of the withdrawal agreement and the availability of a transition period, the Company expects a prolonged period of uncertainty regarding the UK's future status with the EU. Therefore, weaker investment and thereby slower economic growth are expected to persist during the exit negotiations. As a consequence, the Company is closely monitoring the developments and their impact on the business and its operating model including a contingency plan to make DB Frankfurt as the main swap counterparty for existing and future derivative transactions. This is based on the assumption that the UK will lose its current passporting rights which as per regulations might restrict majority of transactions with European Economic Area (EEA) clients through London.

Directors, secretary and their interests

The Directors and secretary who held office on 30 June 2019 did not hold any beneficial interest in the shares and debentures of the Company at that date, or during and at the beginning of the year. There were no contracts of any significance in relation to the business of the Company in which the Directors had any interest, as defined in the Act at any time during the year.

Collateral default events

There have been no collateral default events during the year (2018: nil).

Subsequent events

Since the end of the reporting period the Company has not issued any new series of debt securities. No maturities and no repurchases have been made after the year end. There were no events after the reporting date up to the date of the approval of the financial statements, which require adjustment to or disclosure in the financial statements.

Annual Corporate governance statement

Introduction

The Company is subject to and complies with Irish Statute, comprising the Act and the Listing Rules of Euronext Dublin, the Vienna Stock Exchange and the Cayman Islands Stock Exchange. Each of the service providers listed on page 1 engaged by the Company are subject to their own corporate governance requirements.

Financial Reporting Process

The Board of Directors (the "Board") is responsible for establishing and maintaining adequate internal control and risk management systems for the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss and reports to the Board any control issues as they arise.

The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. These include appointing the administrator to maintain the accounting records of the Company independently of DB who is the Arranger and Custodian of the collateral in respect of the debt securities issued by the Company. The administrator is contractually obliged to maintain proper accounting records and to that end performs reconciliations of its records to those of the Arranger and the Trustee. The administrator is also contractually obliged to prepare the annual report including financial statements for review and approval by the Board the annual report including financial statements intended to give a true and fair view.

dbInvestor Solutions 2 plc

Directors' Report (continued)

Annual Corporate governance statement (continued)

Financial Reporting Process (continued)

The Board evaluates and discusses significant accounting and reporting issues as the need arises. From time to time, the Board also examines and evaluates the administrator's financial accounting and reporting routines and monitors and evaluates the external auditor's performance, qualifications and independence. The administrator has operating responsibility for internal control in relation to the financial reporting process and reports to the Board.

Risk Assessment

The Board is responsible for assessing the risk of irregularities whether caused by fraud or error in financial reporting and ensuring that the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting. The Board has also put in place processes to identify changes in accounting rules and recommendations and to ensure that these changes are accurately reflected in the Company's financial statements. More specifically:

- The administrator has a review procedure in place to ensure errors and omissions in the financial statements are identified and corrected.
- Regular training on accounting rules and recommendations is provided to the accountants employed by the Administrator.

Control Activities

The administrator is contractually obliged to design and maintain control structures to manage the risks which the Board judges to be significant for internal control over financial reporting. These control structures include segregation of responsibilities and specific control activities aimed at detecting or preventing the risk of significant deficiencies in financial reporting for every significant account in the financial statements and the related notes.

Monitoring

The Board has an annual process to ensure that appropriate measures are taken to consider and address the shortcomings identified and measures recommended by the independent auditors.

Given the contractual obligations on the administrator, the Board has concluded that there is currently no need for the Company to have a separate internal audit function in order for the Board to perform effective monitoring and oversight of the internal control and risk management systems of the Company in relation to the financial reporting process.

Capital Structure

No person has a significant direct or indirect holding of securities in the Company. No person has any special rights of control over the Company's share capital.

There are no restrictions on voting rights.

With regard to the appointment and replacement of Directors, the Company is governed by its Constitution and Irish Statute comprising the Act. The Constitution themselves may be amended by special resolution of the shareholders.

dbInvestor Solutions 2 plc

Directors' Report (continued)

Annual Corporate governance statement (continued)

Powers of Directors

The Board is responsible for managing the business affairs of the Company with accordance with the Constitution. The Board may delegate certain functions to the administrator and other parties subject to the supervision and direction by the Board. The Board have delegated the day to day administration of the Company to the administrator.

Audit committee

Under Section 1551(1) of the Act as amended, all public-interest entities are required to establish an audit committee, subject to certain exemptions. Section 167 of the Act also requires the directors of PLC's or large companies (as such term is defined in the Act) to establish an audit committee or to state the reasons for not establishing such a committee.

Given the contractual obligations of the administrator and the limited recourse nature of the securities issued by the Company, the Board have concluded that there is currently no need for the Company to have an audit committee in order for the Board to perform effective monitoring and oversight of the internal control and risk management systems of the Company in relation to the financial reporting process and the monitoring of the statutory audit and the independence of the statutory auditors. The Company has also availed itself of an exemption under Section 1551(11)(c) of the Act not to establish an audit committee.

Accounting records

The Directors believe that they have complied with the requirements of Sections 281 to 285 of the Act with regard to adequate accounting records by engaging a service provider who employs accounting personnel with the appropriate expertise and by providing adequate resources to the finance function. The accounting records of the Company are maintained at Block A, George's Quay Plaza, George's Quay, Dublin 2, Ireland.

Directors' compliance statement

The Directors, in accordance with Section 225(2) of the Act, acknowledge that they are responsible for securing the Company's compliance with certain obligations specified in that section arising from the Act, market abuse regulations and prospectus regulations and tax laws ('relevant obligations'). The Directors confirm that:

- a compliance policy statement has been drawn up setting out the Company's policies with regard to such compliance;
- appropriate arrangements and structures that, in their opinion, are designed to secure material compliance with the Company's relevant obligations, have been put in place and;
- a review has been conducted, during the financial year, of the arrangements and structures that have been put in place to secure the Company's compliance with its relevant obligations.

dbInvestor Solutions 2 plc

Directors' Report (continued)

Independent auditor

In accordance with Section 383(2) of the Act, Ernst & Young, Chartered Accountants have expressed the willingness to continue in office.

Disclosure of Relevant Information to Auditors

In accordance with Section 330(1), each of the persons who is a Director at the date of approval of this report confirms that:

- so far as he/she is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

Approved and authorised for issue on behalf of the Board on 30 Oct 2019



Brian Brady
Director



Bronagh Hardiman
Director

dbInvestor Solutions 2 plc

Statement of Director's responsibilities in respect of Directors' report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. Irish Company Law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the EU. Under Company Law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company at the financial year end date and of the profit or loss of the Company for the financial year and otherwise comply with the Companies Act 2014.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards and note the effect and the reasons for any material departure from those standards.

The Directors are responsible for ensuring that the Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy, enable them to ensure that the financial statements and Directors' Report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements comply with the aforementioned requirements approved and authorised for issue on behalf of the Board on 30 Oct 2019


Brian Brady
Director


Bronagh Hardiman
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DBINVESTOR SOLUTIONS 2 PUBLIC LIMITED COMPANY

Opinion

We have audited the financial statements of dbInvestor Solutions 2 plc ('the Company') for the year ended 30 June 2019, which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity and notes to the financial statements, including the summary of significant accounting policies set out in Note 3. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2014.

In our opinion, the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 30 June 2019 and of its result for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014;
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard as applied to public interest entities issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters, in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DBINVESTOR SOLUTIONS 2
PUBLIC LIMITED COMPANY (continued)**

Key audit matters (continued)

| Risk | Our response to the risk | Key observations communicated to the Board of Directors |
|---|---|---|
| <p>Management override of controls over the estimations, inputs and assumptions involved in the valuation of the underlying Higher Estimation Uncertainty (HEU) financial instruments. (Amount in '000)</p> <p>Derivative liabilities (2019 - All: €7,446) (2018 Level 3: €9,201)</p> <p>The audit team has identified a risk of management override of controls over the valuation of HEU Financial Instruments. This includes all derivative instruments (2018: Level 3 derivative instruments) and the associated unrealised gains and losses. This is primarily as a result of the use of complex assumptions and judgements in the valuation of derivative positions that reference illiquid asset classes.</p> <p>Refer to Notes 3(b), 5 and 23 in the financial statements.</p> | <p>We have performed the following procedures in response to the identified risk:</p> <ul style="list-style-type: none"> • We assessed the appropriateness of policies governing the accounting treatment and valuation of financial instruments. • We obtained an understanding, evaluated and tested the design effectiveness of key controls over the valuation of the HEU financial instruments, including appropriate governance procedures and management review. • We tested the valuation of financial instruments using independent models and market data. Where client data was relied upon, we assessed reasonableness of the data used. • Tested the design effectiveness of key controls over the valuation adjustment process, including Credit Valuation Adjustments, Debit Valuation Adjustments, and Funding Valuation Adjustments (collectively 'XVA' balances), including appropriate governance procedures and management review. • We confirmed the valuation of swaps with the Swap counterparty as at 30 June 2019. • We tested the completeness of the recording of valuation adjustments within the financial statements. | <p>Our planned audit procedures were completed and no material exceptions were noted.</p> |

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DBINVESTOR SOLUTIONS 2 PUBLIC LIMITED COMPANY (continued)

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

Materiality is the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be €983,030 (2018: €938,170) which equates to 1% (2018: 1%) of the Noteholder's liability of the Company. We believe that noteholder's liability provides us with the most appropriate basis for materiality having considered the expectation of the users of the financial statements and the overall business environment.

During the course of our audit, we reassessed initial materiality and concluded that our initial determination of materiality was still appropriate.

Performance materiality

Performance materiality is the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2018: 50%) of our planning materiality, namely €491,515 (2018: €469,085). We have set performance materiality at this percentage based on our knowledge of the entity and industry, effectiveness of the control environment, our assessment of the risks associated with the engagement.

Reporting threshold

Reporting threshold is the amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Board of Directors that we would report to them all uncorrected audit differences in excess of €49,152 (2018: €46,910), which is set at 5% (2018: 5%) of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

An overview of the scope of our audit report

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. Taken together, this enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of entity-wide controls, including controls and changes in the business environment and other factors such as controls within the administrator when assessing the level of work to be performed.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DBINVESTOR SOLUTIONS 2 PUBLIC LIMITED COMPANY (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- in our opinion, the information given in the Directors' report is consistent with the financial statements; and
- in our opinion, the Directors' report has been prepared in accordance with the Companies Act 2014.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion, the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made. We have nothing to report in this regard.

Respective responsibilities

Responsibilities of directors for the financial statements

As explained more fully in the Directors' report and the Statement of Directors' responsibilities in respect of Directors' report and the financial statements set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DBINVESTOR SOLUTIONS 2 PUBLIC LIMITED COMPANY (continued)

Responsibilities of directors for the financial statements (continued)

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are in relation to compliance with Irish Companies Act 2014 and IFRS as adopted by the European Union.
- We understood how the Company complies with the framework established by understanding the entity level controls. The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. The internal control process includes the appointment of the Administrator to maintain the accounting records of the Company independently of the arranger and the custodian.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by performing substantive procedures in relation to the financial statement close process and valuation of financial instruments.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such applicable laws and regulations.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DBINVESTOR SOLUTIONS 2
PUBLIC LIMITED COMPANY (continued)**

Auditor's responsibilities for the audit of the financial statements (continued)

In relation to the key audit matter; Risk of Management override of controls over the estimations, inputs and assumptions involved in the valuation of the underlying HEU financial instruments, further discussion to it is set out in the Key Audit Matters section of our report.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA's website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf.

This description forms part of our auditor's report.


Other matters which we are required to address

We were appointed by the Board of Directors on 31 October 2018 to audit the financial statements for the year ended 30 June 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years.

The non-audit services prohibited by IAASA's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit. Our audit opinion is consistent with the additional report we have provided to the Board of Directors.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Ramakrishnan Ramanathan
for and on behalf of

Ernst & Young Chartered Accountants and Statutory Audit Firm

Office: Dublin

Date: 31 October 2019

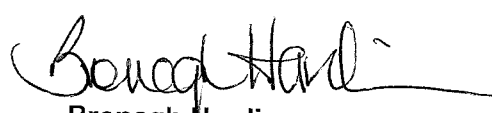
dbInvestor Solutions 2 plc

Statement of Financial Position As at 30 June 2019

| | Note | 2019 €'000 | 2018 €'000 |
|--|------|----------------|----------------|
| Assets | | | |
| Cash and cash equivalents | 4 | 35 | 35 |
| Other assets | 7 | 1,458 | 1,464 |
| Investment securities designated at fair value through profit or loss | 6 | 104,359 | 102,382 |
| Total assets | | <u>105,852</u> | <u>103,881</u> |
| Liabilities | | | |
| Derivative liabilities | 5 | 7,446 | 9,955 |
| Debt securities issued designated at fair value through profit or loss | 8 | 98,303 | 93,817 |
| Other liabilities | 9 | 61 | 67 |
| Total liabilities | | <u>105,810</u> | <u>103,839</u> |
| Share capital | 10 | 38 | 38 |
| Retained earnings | | 4 | 4 |
| Total equity | | <u>42</u> | <u>42</u> |
| Total liabilities and equity | | <u>105,852</u> | <u>103,881</u> |

The Financial Statements were approved by the Board, authorised for issue and signed on its behalf by


Brian Brady
Director


Bronagh Hardiman
Director

Date: 30 Oct 2019

The notes on pages 19 to 63 form an integral part of these financial statements.

dbInvestor Solutions 2 plc

Statement of Comprehensive Income For the year ended 30 June 2019

| | Note | 2019 €'000 | 2018 €'000 |
|---|-------------|-----------------------|-----------------------|
| Net gain from investment securities | 12 | 4,949 | 1,017 |
| Net loss from derivative financial instruments | 13 | (399) | (1,208) |
| Net finance (loss) / gain on debt securities issued | 14 | (4,550) | 191 |
| | | <hr/> | <hr/> |
| Operating income | | - | - |
| Other income | 15 | 70 | 77 |
| Other expenses | 16 | (70) | (77) |
| | | <hr/> | <hr/> |
| Profit before taxation | | - | - |
| Income tax expense | 17 | - | - |
| | | <hr/> | <hr/> |
| Result for the year | | - | - |
| Other comprehensive income | | - | - |
| | | <hr/> | <hr/> |
| Total comprehensive income for the year | | <hr/> <hr/> | <hr/> <hr/> |

All items dealt with in arriving at the above profit for the year ended 30 June 2019 and 30 June 2018 are related to continuing operations.

The notes on pages 19 to 63 form an integral part of these financial statements.

dbInvestor Solutions 2 plc

Statement of Cash Flows

For the year ended 30 June 2019

| | | 2019 €'000 | 2018 €'000 |
|---|----|----------------|----------------|
| Cash flows from operating activities | | | |
| Profit after taxation | | - | - |
| Adjustments for: | | | |
| Interest income on investment securities | 12 | (2,972) | (2,959) |
| Interest expense on debt securities issued | 14 | 63 | 166 |
| Net (gain) / loss on investment securities | 12 | (1,977) | 1,942 |
| Net loss / (gain) on debt securities issued | 14 | 4,487 | (357) |
| Net loss on derivative financial instruments | 13 | 399 | 1,208 |
| Changes in: | | | |
| Other assets | | 6 | 12 |
| Other liabilities | | (6) | (12) |
| Cash generated from operating activities | | <u>-</u> | <u>-</u> |
| Net payments in respect of derivative financial instruments | | (2,909) | (2,781) |
| Net Cash used in operating activities | | <u>(2,909)</u> | <u>(2,781)</u> |
| Cash flow from investing activities | | | |
| Interest received from investment securities | | 2,972 | 2,947 |
| Net cash generated from investing activities | | <u>2,972</u> | <u>2,947</u> |
| Cash flow used in financing activity | | | |
| Interest paid on debt securities issued | | (63) | (166) |
| Net cash used in financing activity | | <u>(63)</u> | <u>(166)</u> |
| Net increase / (decrease) in cash and cash equivalents | | - | - |
| Cash and cash equivalents as at 1 July | | 35 | 35 |
| Cash and cash equivalents at 30 June | | <u>35</u> | <u>35</u> |

The notes on pages 19 to 63 form an integral part of these financial statements.

dbInvestor Solutions 2 plc

Statement of Changes in Equity

For the year ended 30 June 2019

| | Share capital €'000 | Retained earnings €'000 | Total €'000 |
|--|---------------------------|-------------------------------|----------------|
| Balance as at 1 July 2017 | 38 | 4 | 42 |
| Profit for the year - 2017 | - | - | - |
| Other comprehensive income | - | - | - |
| Total comprehensive income for the year | - | - | - |
| Balance as at 30 June 2018 | 38 | 4 | 42 |
| Profit for the year - 2018 | - | - | - |
| Other comprehensive income | - | - | - |
| Total comprehensive income for the year | - | - | - |
| Balance as at 30 June 2019 | 38 | 4 | 42 |

The notes on pages 19 to 63 form an integral part of these financial statements.

dbInvestor Solutions 2 plc

Notes to the Financial Statements

For the year ended 30 June 2019

1 General information

dbInvestor Solutions 2 plc (the "Company") was incorporated on 17 February 2014 in Ireland with a registered number of 539687. The registered office of the Company is Block A, George's Quay Plaza, George's Quay, Dublin 2.

The Company is a special purpose vehicle that has been established to issue debt securities under a multi-issuance note programme.

The programme offers investors the opportunity to invest in a portfolio of investments, (the "investment securities") that includes derivative instruments that mitigate the interest rate risk and credit risk associated with the portfolio.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with IFRS as adopted by the EU and in accordance with the Act.

The accounting policies set out below and in the succeeding pages have been applied in preparing the financial statements for the year ended 30 June 2019. The comparative information for 2018 presented in these financial statements have been prepared on a consistent basis.

The Company's debt funding has been provided by the holders of debt securities, whose recourse to the assets of the Company are limited to those aggregate net assets designated as underlying assets (assets acquired and other agreements) for the particular series of notes held and who have no right to petition for insolvency proceedings against the Company in the event that the aggregate proceeds from the realisation of the underlying assets are insufficient to repay the principal amount of the notes. From a Noteholder's point of view, defaults on any one particular series should not impact any other series.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

(b) Changes in accounting policies

There were no changes in accounting policies which would have a financial impact on the Company's financial statements during the year.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

2 Basis of preparation (continued)

(c) New standards, amendments or interpretations

(i) New standard adopted during the year

The Company has adopted all relevant accounting standards applicable for accounting periods beginning on or after 1 July 2018. The nature and the effect of these changes are disclosed below:

IFRS 9 Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") effective date was determined as accounting period beginning on or after 1 January 2018. This specifies how an entity should classify and measure financial assets and financial liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The standard applies a new impairment model, applicable to financial assets at amortised cost, which requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as is the case under IAS 39. Retrospective application is required but comparative information is not compulsory.

The Company applied IFRS 9 retrospectively, with an initial application date of 1 July 2018. The Company has not restated the comparative information, which continues to be reported under IAS 39.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

2 Basis of preparation (continued)

(c) New standards, amendments or interpretations (continued)

(i) New standard adopted during the year (continued)

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 July 2018.

| As at 1 July 2018 | IFRS 9 measurement category | | | Amortised cost |
|--|-----------------------------------|---|----------------|----------------|
| | Fair value through profit or loss | Designated at fair value through profit or loss | | |
| IAS 39 measurement category | €'000 | €'000 | €'000 | €'000 |
| Financial assets at amortised cost | | | | |
| Cash and cash equivalents | 35 | - | - | 35 |
| Other assets | 1,458 | - | - | 1,458 |
| Total financial assets at amortised cost | 1,493 | | | 1,493 |
| Financial assets designated at fair value through profit or loss | | | | |
| Investment securities | 104,359 | - | 104,359 | - |
| Total assets | <u>105,852</u> | <u>-</u> | <u>104,359</u> | <u>1,493</u> |
| Financial liabilities at amortised cost | | | | |
| Other liabilities | 61 | - | - | 61 |
| Financial liabilities designated at fair value through profit or loss | | | | |
| Debt securities issued | 98,303 | - | 98,303 | - |
| Financial liabilities at fair value through profit or loss | | | | |
| Derivative liabilities | 7,446 | 7,446 | - | - |
| | <u>105,810</u> | <u>7,446</u> | <u>98,303</u> | <u>61</u> |

In line with the characteristics of the Company's financial instruments as well as its approach to their management, the Company neither revoked nor made any new designations on the date of initial application. IFRS 9 has not resulted in changes in the carrying amount of the Company's financial instruments due to changes in measurement categories. All financial assets that were classified as fair value through profit or loss ("FVTPL") under IAS 39 are still classified as FVTPL under IFRS 9. All financial assets that were classified as loans and receivables and measured at amortised cost continue to be.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

2 Basis of preparation (continued)

(c) New standards, amendments or interpretations (continued)

(i) New standard adopted during the year (continued)

In addition, the application of the expected credit loss (ECL) model under IFRS 9 has not significantly changed the carrying amounts of the Company's amortised cost financial assets. No loss allowance has been recognised because the ECL calculated is not material.

The following accounting standards for the accounting period beginning on or after 1 July 2018 are considered not relevant to the Company and therefore have no impact on the financial performance or financial position of the Company.

- IFRS 15, Revenue from contracts with customers.
- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions.
- Amendments to IAS 40: Transfer of Investment Property.
- IFRIC 22: Foreign Currency Transactions and Advance Consideration
- IAS 28: Investments in Associates
- Annual Improvements to IFRS Standards 2014-2016 Cycle

(ii) Effective for annual periods beginning on or after 1 July 2019

The Directors have set out the upcoming EU endorsed and un-endorsed accounting standards, amendments or interpretations as up until the balance sheet (30 June 2019) as set out below.

| Description | Effective date (period beginning)* |
|--|--|
| Amendments to IFRS 9: Prepayment Features with Negative Compensation | 1 July 2019 (early adoption permitted**) |
| IFRS 16: <i>Leases</i> | 1 July 2019 (early adoption permitted**) |
| IFRS 17: <i>Insurance Contracts</i> | 1 July 2021 (early adoption permitted) |

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

2 Basis of preparation (continued)

(c) New standards, amendments or interpretations (continued)

(ii) Effective for annual periods beginning on or after 1 July 2019 (continued)

The Directors have set out the upcoming EU endorsed and un-endorsed accounting standards, amendments or interpretations as up until the balance sheet (30 June 2019) as set out below.

| Description | Effective date (period beginning)* |
|--|------------------------------------|
| IFRIC 23: Uncertainty over Income Tax Treatment | 1 July 2019 ** |
| Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures | 1 July 2019 |
| Amendments to IAS 19: Plan Amendment, Curtailment or Settlement | 1 July 2019 |
| Amendment to IFRS 3: Business Combinations | 1 July 2020 |
| Amendments to IAS 1 and IAS 8: Definition of Material | 1 July 2020 |
| Annual Improvements to IFRS Standards 2015-2017 Cycle | 1 July 2019 |
| Amendments to References to the Conceptual Framework in IFRS Standards | 1 July 2020 |

*Where new requirements are endorsed the EU effective date is disclosed. For un-endorsed standards and interpretations, the IASB's effective date is noted. Where any of the upcoming requirements are applicable, the Company will apply them from their EU effective date.

** EU endorsed

The Directors have considered the new standards, amendments and interpretations as set out in the table and have concluded that they are not relevant to the Company and does not intend to adopt any of the new standards before their effective date.

(d) Basis of measurement

The financial statements are prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Investment securities designated at fair value through profit or loss are measured at fair value; and
- Debt securities issued designated at fair value through profit or loss are measured at fair value.

The methods used to measure fair values are discussed further in note 3(b).

(e) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

2 Basis of preparation (continued)

(e) Use of estimates and judgments (continued)

(i) Assumptions and estimation uncertainties - Measurement of fair values

The estimates and associated assumptions are reviewed on an ongoing basis and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 23.

(ii) Involvement with unconsolidated structured entities

The Company has concluded that investments in certain entities in which it invests, but that it does not consolidate, meet the definition of structured entities because:

- the voting rights are not dominant rights in deciding who controls them because they relate to administrative tasks only;
- each of the investment's activities are restricted by its prospectus; and
- the investments have narrow and well-defined objectives to provide investment opportunities to investors.

Refer to the table on note 24 for the disclosure of the nature, purpose, size and activities of the structured entity and how it is financed.

(iii) Estimation of expected credit loss

The Company will recognise expected credit loss resulting from default events that are possible within the next 12 months for both the homogenous and non-homogenous performing loan pools.

(f) Functional and presentation currency

The financial statements are presented in Euro, which is the Company's functional currency. The issued share capital of the Company is denominated in Euro and the debt securities issued are also primarily denominated in Euro. The Directors of the Company believe that Euro most faithfully represents the economic effects of the underlying transactions, events and conditions.

Except as otherwise indicated, all financial information presented in Euro have been rounded to the nearest thousand.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

3 Significant accounting policies

The accounting policies set out below and in the succeeding pages have been applied consistently to all years presented in these financial statements.

(a) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes; (a) restricted activities, (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors, (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Company considers some of its investments to be investments in structured entities which are unconsolidated. See note 24 for details of these investments.

The Company accounts for its investments in structured entities as investment securities designated at FVTPL and recognises any gains and losses arising from changes in the FVTPL in the Statement of Comprehensive Income in the period in which they arise.

(b) Financial instruments

The Company classifies its financial instruments in accordance to IFRS 9 (2018: IAS 39). Refer to note 2 (c) for details of the change and impact to the Company.

The financial instruments held by the Company at FVTPL include the following:

- Investment securities;
- Derivative financial instruments; and
- Debt securities issued.

Designation at FVTPL upon initial recognition

The Company has designated financial assets and financial liabilities at FVTPL if any of the following criteria are met:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

3 Significant accounting policies (continued)

(b) Financial instruments (continued)

Classification

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI"), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income ("FVTOCI");
- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at fair value through profit and loss ("FVTPL").

However, the Company may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option). No such designations were made in the financial year ended 30 June 2019.

A financial asset or financial liability at FVTPL is a financial asset or liability that is classified as held-for-trading or designated as at FVTPL. Other financial instruments are carried at amortised cost.

Derivative financial instruments are carried at FVTPL. The Company has designated the investment securities as well as debt securities issued at FVTPL upon initial recognition

Investment securities

Investment securities held by the Company are designated at FVTPL on initial recognition because they do not meet the requirements to be classified at amortised cost or fair Value through other comprehensive income ("FVOCI"). Investment securities include corporate and sovereign bonds.

Derivative financial instruments

Derivative financial instruments held for risk management purposes include derivative assets and liabilities that are used to economically hedge the derivatives at each series from interest rate or market fluctuations affecting the relevant collateral assets. Such derivatives are not formally designated into a qualifying hedging relationship and therefore all changes in their fair value are recognised through profit or loss in the statement of comprehensive income.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

3 Significant accounting policies (continued)

(b) Financial instruments (continued)

Debt securities issued

The debt securities issued are initially measured at fair value and are designated as liabilities at FVTPL when they either eliminate or significantly reduce an accounting mismatch or contain an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract, in accordance with its documented investment strategy.

Financial assets and financial liabilities that are not at FVTPL

Financial assets that are not at FVTPL and are not quoted in an active market include cash at bank, deposits with credit institutions and other assets and are classified and measured at amortised cost.

Financial liabilities that are not at FVTPL include coupon payable on debt securities issued, accrued expenses and other payables. These are classified and measured at amortised cost.

Impairment of financial assets

The impairment rules under IFRS 9 will apply to financial assets that are measured at amortized cost. The determination of impairment losses and allowances will move from an incurred credit loss model whereby credit losses are recognized when a 'trigger' event occurs under IAS 39 to an expected credit loss model, where provisions are taken upon initial recognition of the financial asset based on expectations of potential credit losses at that time.

Under IFRS 9 expected credit loss approach, the Company will recognize expected credit losses resulting from default events that are possible within the next 12 months for both the homogeneous and non-homogeneous performing loan pools (stage 1).

IFRS 9 also requires the recognition of credit losses expected over the remaining life of the assets ('lifetime expected losses') which have significantly deteriorated in credit quality since origination or purchase but have yet to default (stage 2) and for assets that are credit impaired (stage 3). Under IFRS 9 expected credit losses are measured by taking into account forward-looking information, including macroeconomic factors.

Recognition and measurement

The Company initially recognises all financial assets and financial liabilities at fair value on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instruments. For financial assets and financial liabilities, which will subsequently be carried at fair value, initial direct cost are expensed. For financial asset and liabilities not at FVTPL, cost directly attributable to the acquisition or issue of financial assets or financial liabilities is included in the initial cost.

From trade date, any gains or losses arising from changes in the fair value of the financial assets or financial liabilities being measured at FVTPL are recorded through profit or loss are recorded through profit and loss in the statement of comprehensive income.

Financial assets and financial liabilities not categorised as at FVTPL are subsequently measured at amortised cost using the effective interest rate method.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

3 Significant accounting policies (continued)

(b) Financial instruments (continued)

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards.

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access. The fair value of a liability reflects its non-performance risk. The determination of fair values of financial assets and financial liabilities are based on quoted bid market prices or dealer price quotations for financial instruments traded in active markets, where these are available.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Company measures instruments quoted in an active market at bid price. For all other financial instruments fair value is determined by using valuation techniques.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. Valuation techniques include discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

The Company uses widely recognised valuation models for determining the fair value of common and simpler financial instruments like call options, interest rate and currency swaps.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

3 Significant accounting policies (continued)

(b) Financial instruments (continued)

Fair value measurement principles (continued)

For more complex instruments, the Company uses proprietary models, which usually are developed from recognised standard industry valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions.

The Company recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

(c) Financial liabilities and equity

The financial instruments issued by the Company are treated as equity (i.e. forming part of shareholder's funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that these conditions are not met, the proceeds of issue are classified as a financial liability.

Finance payments associated with financial liabilities are dealt with as part of the ongoing remeasurement of debt securities to fair value. Any payments associated with financial instruments that are classified as equity are distributions from the net income attributable to equity holders and are recorded directly in equity.

(d) Operating segments

The Company has applied IFRS 8 Operating Segments which puts emphasis on the "management approach" to reporting on operating segments.

The Company is engaged as one segment. It involves the repackaging of bonds and other debt instruments, on behalf of investors, which are bought from the market and subsequently securitised to avail of potential market opportunities and risk-return asymmetries. Each transaction is entered into on its own merit, as such, no cross-sectional review is performed per geography for the entity by the Board who are regarded as the Company's Chief Operating Decision Maker. No revenue per geographical location has been disclosed because this information is not prepared and is not regularly provided to nor used by the Board. The financial results for this segment are equivalent to the financial statements of the Company as a whole

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

3 Significant accounting policies (continued)

(d) Operating segments (continued)

The Board are responsible for managing the business of the Company including the outcome of day to day operating decisions. It achieves this by appointing on an arms length basis established service providers with competence and expertise in their respective areas. It reviews the terms of their engagement and monitors the output from these services to ensure they fully satisfy what is required of them in operational, legal and regulatory terms.

(e) Cash and cash equivalents

Cash and cash equivalents consist of current cash held on deposit for which the original maturity is less than three months. These are subject to insignificant risk of changes in their fair value and are unrestricted as to use of the Company.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(f) Foreign currency transaction

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Non monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised through profit or loss in the statement of comprehensive income and are included under net gain / (loss) from investment securities, derivative financial instruments or debt securities issued, as appropriate.

(g) Net gain from investment securities

Net gain from investment securities relates to realised income (including coupon receipts and accrued interest income) arising on investment securities and unrealised fair value changes including foreign exchange differences arising on investment securities.

(h) Net loss from derivative financial instruments

Net loss from derivative financial instruments relates to the fair value movements on derivatives held by the Company and includes realised and unrealised fair value changes, settlements and related foreign exchange differences.

(i) Net finance (loss) / gain on debt securities issued

Net finance (loss) / gain on debt securities issued relates to debt securities issued and includes financing costs (including coupon payments and accruals) realised and unrealised fair value changes and related foreign exchange differences

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

3 Significant accounting policies (continued)

(j) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised through profit or loss, in other comprehensive income or directly in equity consistent with the accounting for the item to which it is related.

Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable to the Company's activities enacted or substantively enacted at the reporting date, and adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company is an Irish registered company is structured to qualify as a securitisation company under Section 110 of the Taxes Consolidation Act, 1997 (as amended). The Company generates minimal net income for Irish corporation tax purposes which is liable to Irish corporation tax at 25%.

(k) Other income and expenses

All other income and expenses are accounted for on an accrual basis.

(l) Share capital and dividend

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as deduction from the proceeds, net of tax.

Dividends are recognised as an expense and as a liability in the period in which they are approved.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

4 Cash and cash equivalents

| | 2019 €'000 | 2018 €'000 |
|--------------|---------------|---------------|
| Cash at bank | 35 | 35 |

Cash at bank balance is held with DB. The cash at bank is on demand and can be used at any time.

Refer to note 21(b)(i) for credit rating for cash at bank counterparty.

5 Derivative financial instruments

| | 2019 Total €'000 | 2018 Total €'000 |
|-------------------------------|------------------------|------------------------|
| <i>Derivative liabilities</i> | | |
| Less than one year | 302 | - |
| One to five years | 7,144 | 9,955 |
| | 7,446 | 9,955 |

The Company has entered into asset swaps for each series of debt securities issued to eliminate the mismatch between the amount payable in respect of those debt securities issued and the return from the investment securities held by the Company. There were no asset swap agreements that matured nor redeemed during the year (2018: nil).

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

5 Derivative financial instruments (continued)

Fair value adjustment for credit risk

The adjustments comprised Counterparty Credit Valuation Adjustments (CVA), Debit Valuation Adjustments (DVA) and Funding Valuation Adjustments (FVA). The impact of adjustments are incorporated into the fair value of the note issuances.

CVA covers expected credit losses relating to non-performance risk of the derivative counterparty, DB. For DVA, that relates to derivative liabilities, the Company considers own credit-worthiness by assessing counterparty potential future exposure with reference to the associated collateral, the expected loss given default and the probability of default. FVA incorporates the market implied funding costs into the fair value of the derivative positions and reflects a discounting spread applied to uncollateralised and partly collateralised derivatives.

As at 30 June 2019, the combined value of adjustments amounted to EUR 35k (2018: EUR 5k) comprised of CVA and FVA amounting to EUR 42k and EUR 7k, respectively. This was consistent with the valuation policies adopted by the derivative counterparty, DB.

The notional of the derivatives as at 30 June 2019 were as follows:

| Series | Notional | |
|--------|----------|--------|
| | Receive | Pay |
| | €'000 | €'000 |
| S0001 | 16,000 | 16,000 |
| S0003 | 4,391 | 4,391 |
| S0004 | 17,016 | 17,016 |
| S0005 | 17,016 | 17,016 |
| S0006 | 19,927 | 19,927 |
| S0007 | 13,241 | 13,241 |
| S0008 | 7,142 | 7,142 |
| S0009 | 8,995 | 17,990 |

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

6 Investment securities designated at fair value through profit or loss

| | 2019 €'000 | 2018 €'000 |
|------------------|----------------|----------------|
| Corporate bonds | 62,593 | 63,372 |
| Government bonds | 41,766 | 39,010 |
| | <u>104,359</u> | <u>102,382</u> |

Maturity analysis of investment securities designated at FVTPL

| | 2019 €'000 | 2018 €'000 |
|--------------------|----------------|----------------|
| Less than one year | 8,396 | - |
| One to five years | 95,963 | 102,382 |
| | <u>104,359</u> | <u>102,382</u> |

Maturities of investment securities are cash settled transactions, which are shown in the statement of cash flows. Redemptions of investment securities in full or partial are non-cash settled transactions, which are not reflected in the statement of cash flows. During the year, there were no matured nor redeemed investment securities (2018: Nil).

The carrying value of the assets of the Company represents their maximum exposure to credit risk. The credit risk is eventually transferred to the holders of debt securities. The investment securities are held as collateral for debt securities issued by the Company.

The Company holds investment in unconsolidated structured entities with fair value amounting to EUR 13,807k (2018: EUR 14,153k). Refer to note 24 for disclosure on interest on other entities.

Refer to note 21(b)(i) for credit risk disclosures relating to the investment securities

7 Other assets

| | 2019 €'000 | 2018 €'000 |
|---|---------------|---------------|
| Coupon income receivable from investment securities | 1,390 | 1,390 |
| Other receivables | 68 | 74 |
| | <u>1,458</u> | <u>1,464</u> |

All of the above other assets are current

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

8 Debt securities issued designated at fair value through profit or loss

| | 2019 €'000 | 2018 €'000 |
|---------------------|---------------|---------------|
| Designated at FVTPL | 98,303 | 93,817 |

Maturity analysis of the debt securities issued designated at FVTPL

| | 2019 €'000 | 2018 €'000 |
|--------------------|---------------|---------------|
| Less than one year | 8,111 | - |
| One to five years | 90,192 | 93,817 |
| | 98,303 | 93,817 |

The Company's obligations under the debt securities issued and related derivative financial instruments as disclosed in note 5 are secured by collateral investments purchased as noted in note 6. The investors' recourse per series is limited to the assets of that particular series.

Liabilities arising from financing activities relate to debt securities issued. The below table shows the changes in liabilities arising from financing activities:

| | 2019 €'000 | 2018 €'000 |
|--|---------------|---------------|
| Opening balance | 93,817 | 94,173 |
| Net loss / (gain) loss on debt securities issued | 4,550 | (191) |
| Coupon payments on debt securities issued | (63) | (165) |
| Closing balance | 98,304 | 93,817 |

In the event that accumulated losses prove not to be recoverable during the life of the debt securities issued, then the obligation to the holders of the debt securities issued by the Company will reduce to the extent of the accumulated losses.

The debt securities for Series 1 and 3 are listed on Euronext Dublin. Debt securities for Series 4, 5, 6, 7, 8 and 9 are listed on Vienna Stock Exchange and Cayman Islands Stock Exchange. Series 1 is a variable-rated security with an interest rate of .79% during the year (2018: 2.07%). Series 3, 4, 5, 6, 7, 8 and 9 are zero-rated securities.

The fair value of financial liabilities designated at FVTPL as at 30 June 2019 was EUR 2,575k less than its nominal of EUR 95,728k (2018: EUR 1,806k less than its nominal of EUR 95,623k) the contractual amount at maturity excluding interest.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

9 Other liabilities

| | 2019 €'000 | 2018 €'000 |
|------------------|---------------|---------------|
| Accrued expenses | 34 | 39 |
| Other payables | 27 | 28 |
| | <u>61</u> | <u>67</u> |

All other liabilities are current.

10 Share capital

| | 2019 €'000 | 2018 €'000 |
|--|---------------|---------------|
| <i>Authorised</i> 40,000 ordinary shares of €1 each | <u>40</u> | <u>40</u> |
| <i>Issued and paid up</i> 38,100 ordinary shares of €1 each | <u>38</u> | <u>38</u> |

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

11 Accounting categorisations and fair values of financial assets and financial liabilities

| | 2019 Carrying value €'000 | 2019 Fair value €'000 | 2018 Carrying value €'000 | 2018 Fair value €'000 |
|--|------------------------------------|--------------------------------|------------------------------------|--------------------------------|
| Financial assets at amortised cost | | | | |
| Cash and cash equivalents | 35 | 35 | 35 | 35 |
| Other assets | 1,458 | 1,458 | 1,464 | 1,464 |
| Total financial assets at amortised cost | 1,493 | 1,493 | 1,499 | 1,499 |
| Financial assets designated at FVTPL | | | | |
| Investment securities | | | | |
| Bonds | 104,359 | 104,359 | 102,382 | 102,382 |
| | <u>105,852</u> | <u>105,852</u> | <u>103,881</u> | <u>103,881</u> |
| Financial liabilities at amortised cost | | | | |
| Other liabilities | 61 | 61 | 67 | 67 |
| Financial liabilities designated at FVTPL | | | | |
| Debt securities issued | 98,303 | 98,303 | 93,817 | 93,817 |
| Financial liabilities at FVTPL | | | | |
| Derivative liabilities | 7,446 | 7,446 | 9,955 | 9,955 |
| | <u>105,810</u> | <u>105,810</u> | <u>103,839</u> | <u>103,839</u> |

The financial instruments not accounted for at FVTPL are short-term financial assets and financial liabilities whose carrying amounts approximate their fair values.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

12 Net gain from investment securities

| | 2019 €'000 | 2018 €'000 |
|---|---------------|---------------|
| Net gain from investment securities designated at FVTPL: Interest income (including accruals) | <u>2,972</u> | <u>2,959</u> |
| Net gain from investment securities designated at FVTPL analysed as follows: | | |
| Net unrealised gain / (loss) on investment securities | 1,977 | (1,942) |
| | <u>4,949</u> | <u>1,017</u> |

13 Net loss from derivative financial instruments

| | 2019 €'000 | 2018 €'000 |
|--|---------------|----------------|
| Net loss from derivative financial instruments carried at FVTPL | | |
| - Asset swaps | <u>(399)</u> | <u>(1,208)</u> |
| Analysed as follows: | | |
| Net coupon payments | (2,909) | (2,782) |
| Net unrealised gain on derivative financial instruments | 2,510 | 1,574 |
| | <u>(399)</u> | <u>(1,208)</u> |

14 Net finance (loss) / gain on debt securities issued

| | 2019 €'000 | 2018 €'000 |
|--|----------------|---------------|
| Net finance (loss) / gain on debt securities issued at FVTPL | | |
| Interest expense (including accruals) | <u>(63)</u> | <u>(166)</u> |
| Net finance (loss) / gain on debt securities issued at FVTPL analysed as follows: | | |
| Net unrealised fair value (loss) / gain on debt securities issued | (4,487) | 357 |
| | <u>(4,550)</u> | <u>191</u> |

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

15 Other income

| | 2019 €'000 | 2018 €'000 |
|-----------------|---------------|---------------|
| Arranger income | 70 | 77 |

As per Service Agreement, DB as the arranger bears all the expenses of the Company. Arranger income is the total expenses incurred by the Company during the year which are paid by the arranger on the Company's behalf.

16 Other expenses

| | 2019 €'000 | 2018 €'000 |
|--|---------------|---------------|
| Administration fee | (33) | (39) |
| Auditor remuneration and tax advisory services | (25) | (26) |
| Director's emoluments | (12) | (12) |
| | (70) | (77) |

The amounts presented are VAT inclusive.

The Company is administered by VAILL and has no employees. In 2018, when the Company was administered by DICSIL the latter also has no employees.

Auditor remuneration (excluding VAT)

| | 2019 €'000 | 2018 €'000 |
|---|---------------|---------------|
| Audit of Company's Statutory financial statements | (15) | (15) |
| Tax advisory services | (6) | (6) |
| | (21) | (21) |

Pursuant to Section 305A(1)(a) of the Companies Act 2014, requires disclosure that VAILL received EUR 1,000 included in administration fees as consideration for the making available of an individual, Bronagh Hardiman to act as Director of the Company. The terms of the corporate services agreement in place between the Company and VAILL (the "CSP") provide for a single fee for the provision of corporate administration services (including the making available of an individual to act as Director of the Company). As a result, the allocation of fees between the different services provided is a subjective and approximate calculation. For the avoidance of doubt, Bronagh Hardiman did not receive any remuneration for acting as Director of the Company. The Company paid Directors fees of EUR 12k (2018: EUR 12k) to Niall O'Carroll and Brian Brady during the year as they are not employees of VAILL.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

17 Income tax expense

| | 2019 €'000 | 2018 €'000 |
|---|---------------|---------------|
| Corporate tax | - | - |
| Factors affecting tax charge for the year | | |
| Corporation taxation has been calculated based on the results for the period and the resulting taxation charge is as follows: | | |
| Profit before tax | - | - |
| Current tax at standard rate of 25% | - | - |
| Current tax charge | - | - |

The Company will continue to be actively taxed at 25% in accordance with Section 110 of the Taxes Consolidation Act, 1997. The Directors are not aware of any factors that may affect the future tax charge.

18 Ownership of the Company

The issued shares are held in trust by Registered Shareholder Services No. 3, Company Limited by Guarantee (12,699 shares), Registered Shareholder Services No. 2, Company Limited by Guarantee (12,699 shares), and Registered Shareholder Services No. 1 Company Limited Guarantee (12,702 shares), together (the "Share Trustees"), each of whom own a share under the terms of a declaration of trust dated 17 February 2014, under which the relevant Share Trustee holds an issued share of the Company in trust for charity. The Share Trustees have appointed a Board to run the day-to-day activities of the Company.

The Board have considered the issue as to who is the controlling party of the Company. It has determined that the control of the day-to-day activities of the Company rests with the Board. The Board is composed of three Directors, one of whom, is an employee of VAILL (DICSIL until 15 June 2018), being the entity that acts as the administrator of the Company. From 1 July 2018 to 14 July 2018, Brian Brady and Niall O'Carroll were considered independent of the Deutsche Bank Group. From 15 June 2018, Bronagh Hardiman is considered independent of the Deutsche Bank Group.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

19 Charges

The debt securities issued by the Company are secured by way of charge over the collateral purchased in respect of each of the debt securities issued, and by the assignment of a fixed first charge of the Company's rights, title and interest under the respective swap agreement for each series.

20 Transactions with related parties including administrator and arranger

Transactions with Key Management Personnel

During the year, the Company incurred a total administration fee of EUR 29k (2018: EUR 30k) relating to administration fee provided by VAAIL. On 15 July 2018, DICSIL ceased to be a related party due to the Deed of Novation Contract entered between DICSIL, VAAIL and the Company, wherein, VAAIL was appointed as the new administrator of the Company. As at 30 June 2019, there were no outstanding payables related to administration services (2018: nil).

Directors' fees of EUR 12k (2018: EUR 12k) were incurred during the year. Bronagh Hardiman being a VAAIL employee does not receive any Director's fee. As at 30 June 2019, there were no outstanding Directors' fees (2018: Nil). Other than Director's fees, there are no other benefits, emoluments or compensations paid to the Directors.

Other Transactions

Under a Series Proposal Agreement entered into for each series by the Company and DB, as Arranger for each Series, will pay the Company a series fee of EUR 500 per series on commencement of the series and agree to reimburse the Company against any costs, fees, expenses or out-goings incurred. Series fee outstanding at year end amounted to EUR 3k (EUR 2018: 3k).

DB is also the swap counterparty for all series containing asset swap agreements. The fair values relating to these swaps are disclosed in note 5, associated income and expenses in note 13.

Refer to note 8 for fair value of debt securities and related credit risk exposure in note 21(b)(i).

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

20 Transactions with related parties including administrator and arranger (continued)

Other Transactions (continued)

As at 30 June 2019, DB has interests in the following debt securities issued by the Company:

| Series | ISIN* | Currency | 2019 | 2018 |
|--------|--------------|----------|------------------|------------------|
| | | | Nominal €'000 | Nominal €'000 |
| S0001 | XS1061847718 | EUR | 6,248 | 5,937 |
| S0004 | XS1218091251 | EUR | 4,934 | 3,848 |
| S0005 | XS1218093380 | EUR | 4,144 | 3,342 |
| S0006 | XS1227220404 | EUR | 5,528 | 4,450 |
| S0007 | XS1227225460 | EUR | 3,443 | 2,763 |
| S0008 | XS1252976508 | EUR | 1,788 | 1,342 |
| S0009 | XS1300573067 | EUR | 2,253 | 1,701 |
| | | | <u>28,338</u> | <u>23,383</u> |

*International Securities Identification Number ("ISIN")

None of the investment securities held by the Company are issued by DB as at 30 June 2019 (2018: Nil).

22 Financial risk management

(a) Introduction and overview

The Company was set up as a segregated multi issuance Special Purpose Entity (SPE). This ensures that if one series defaults, the holders of that series are unable to reach other assets of the issuer, which might otherwise have resulted in the issuer's bankruptcy and the default of the other series of debt securities issued. The segregation criteria include the following:

- The Company is a bankruptcy remote SPE, organized in Ireland.
- Debt securities are issued in separate series.
- Assets relating to any particular series of debt securities issued are held separate and apart from the assets relating to any other series.
- Any swap transaction entered into by the Company for a series is separate from any other swap transaction for any other series.
- For each series of debt securities, only the trustees are entitled to exercise remedies on behalf of the holders of debt securities.
- Each series of issued debt securities is reviewed by a recognised rating agency prior to issuance regardless of whether it is to be rated or not.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

21 Financial risk management (continued)

(a) Introduction and overview (continued)

The net proceeds from the issue of the debt securities are paid to DB as the swap counterparty or as agent in the case of pass-through notes to purchase a portfolio of investments securities plus any interest accrued thereon on behalf of the Company or to enter into total return swap arrangements with the swap counterparty.

The Company has entered into asset swap agreements with DB, wherein the swap counterparty delivers the investment securities to the account of the Company and the Company pays the holders of debt securities the amount equal to the interest payable on the debt securities issued. The Company pays to the swap counterparty amounts equal to the interest received in respect of the investment securities, and on the maturity date of the investment securities will deliver the portfolio or the proceeds of its redemption to the swap counterparty. In return, the swap counterparty will pay to the Company amounts equal to the coupon payments payable on the debt securities issued as well as the notional outstanding upon maturity. Refer to note 5 for the details of the swap agreements entered by the Company.

The swap counterparty delivers the collateral to the account of the Company and pays the Company amounts equal to the interest payable under the debt securities, and if the swap agreement has not terminated prior to the maturity date of the respective notes, a sum equal to the redemption amount payable on the debt securities. The credit quality details of the investment securities held by the Company are disclosed in Note 21(b)(i).

The debt securities issued are initially recorded at fair value which equates to the proceeds received in Euro and are subsequently carried at FVTPL. The ultimate amount repaid to the holders of these debt securities will depend on the proceeds from the investment securities and any payment the swap counterparty is obliged to make under the terms of the swap agreement.

(b) Risk management framework

The Board has overall responsibility for the establishment and oversight of the Company's risk management framework.

The risk profile of the Company is such that market, credit, liquidity and other risks relating to the investment securities and derivative financial instruments are borne fully by the holders of debt securities issued.

The Company has exposure to the following risks from its use of financial instruments:

- (i) Credit risk;
- (ii) Liquidity risk;
- (iii) Market risk; and
- (iv) Operational risk;

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

21 Financial risk management (continued)

(b) Risk management framework (continued)

(i) Credit risk

Credit risk is the risk of the financial loss to the Company if the counterparty to a financial asset fails to meet its contractual obligations. Credit risk arises principally from the Company's investment securities and also from the derivative contracts which the Company has entered into.

The Company limits its exposure to credit risk by investing in bonds and other securities detailed in note 6 with counterparties that have a credit rating defined in the documentation of the relevant series.

The risk of default on these assets and on the underlying reference entities is borne by the swap counterparty and/or the holders of the debt securities as designated in the priority of payments described in the SPM of the relevant series.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to the credit risk at the reporting date was:

| | 2019 €'000 | 2018 €'000 |
|---------------------------|----------------|----------------|
| Cash and cash equivalents | 35 | 35 |
| Investment securities | 104,359 | 102,382 |
| Other assets | 1,458 | 1,464 |
| | <u>105,852</u> | <u>103,881</u> |

At the reporting date the credit quality of the Company's financial assets were as follows:

Cash and cash equivalents:

The Company's cash and cash equivalents are held with DB which is rated BBB+ by S&P as at 30 June 2019 (2018: BBB+).

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

21 Financial risk management (continued)

(b) Risk management framework (continued)

(i) Credit risk (continued)

Investment securities:

At the reporting date, the credit quality and the assets concentration of the Company's investment securities are as shown in the table below based on carrying amount in statement of financial position.

| Classification based on debt securities issued | Collateral type | Country of issuance | Rating Agency | Rating 2019 | Rating 2018 | 2019 €'000 | 2018 €'000 |
|--|------------------|---------------------|---------------|-------------|-------------|---------------|---------------|
| Equity linked secured notes | Corporate bonds | Denmark | Moody | Baa2 | Baa2 | 28,449 | 28,513 |
| | | Mexico | S&P | BBB+ | BBB+ | 20,337 | 20,706 |
| | | Luxembourg | S&P | BBB+ | BBB | 13,807 | 14,153 |
| | Government bonds | Italy | Moody | Baa3u | Baa2 | 28,702 | 25,657 |
| | | | | | | 91,295 | 89,029 |
| Index linked notes | Government bonds | Portugal | Moody | Baa3 | Ba1 | 8,396 | 8,772 |
| | | Lithuania | S&P | A | A- | 4,668 | 4,581 |
| | | | | | | 13,064 | 13,353 |
| Grand Total | | | | | | 104,359 | 102,382 |

During the year, no defaults occurred in respect of the bonds held and interests were received when paid, accordingly.

As per the terms and conditions of the SPM, some debt securities can only hold collateral of a certain rating. If the rating of the collateral for these specific debt securities goes below the required level, DB as swap counterparty will replace the collateral for those notes with eligible collateral.

Other assets:

The other assets mainly include income receivable from corporate and government bonds held by the Company as at the year end. The credit ratings where applicable, and concentration of the investments securities at the year end are disclosed under investment securities in the above table.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

21 Financial risk management (continued)

(b) Risk management framework (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligation will have to be settled in a manner disadvantageous to the Company.

The Company's obligation to the holders of debt securities of a particular series is limited to the net proceeds upon realisation of the collateral of that series, i.e. investment securities and derivatives. Should the net proceeds be insufficient to make all payment obligations in respect of a particular series of debt securities, the other assets held as collateral for remaining series of the Company are not contractually required to be made available to meet payment and the deficit is instead borne by the holders of debt securities and/or the swap counterparty according to established priority of payment on any particular payment date.

The timing and amount of proceeds from realising the collateral of each series is subject to market conditions.

There were no liquidity issues experienced by the Company or the swap counterparty in respect to meeting its obligations to holders of debt securities issued or to swap counterparty. The Company or the swap counterparty did not default on any of its contractual commitments during the year.

The following are the contractual maturities of financial assets and financial liabilities including undiscounted interest payments and excluding the impact of netting agreements:

| | 2019 | | | | |
|---------------------------|------------------------------|---|--------------------------------|-------------------------------|----------------------------------|
| | Carrying amounts €'000 | Gross contractual cash flows €'000 | Less than one year €'000 | One to five years €'000 | More than five years €'000 |
| Cash and cash equivalents | 35 | 35 | 35 | - | - |
| Investment securities* | 104,359 | 101,649 | 11,008 | 90,641 | - |
| Other assets | 1,458 | 1,458 | 1,458 | - | - |
| Derivative liabilities** | (7,446) | (9,738) | (3,018) | (6,720) | - |
| Debt securities issued*** | (98,303) | (95,890) | (8,162) | (87,728) | - |
| Other liabilities | (61) | (61) | (61) | - | - |
| | 42 | (2,547) | 1,260 | (3,807) | - |

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

21 Financial risk management (continued)

(b) Risk management framework (continued)

(ii) Liquidity risk (continued)

| | 2018 | | | | |
|---------------------------|------------------------------|---|--------------------------------|-------------------------------|----------------------------------|
| | Carrying amounts €'000 | Gross contractual cash flows €'000 | Less than one year €'000 | One to five years €'000 | More than five years €'000 |
| Cash and cash equivalents | 35 | 35 | 35 | - | - |
| Investment securities* | 102,382 | 104,468 | 2,988 | 101,480 | - |
| Other assets | 1,464 | 1,464 | 1,464 | - | - |
| Derivative liabilities** | (9,955) | (10,139) | (3,041) | (7,098) | - |
| Debt securities issued*** | (93,817) | (95,953) | (168) | (95,785) | - |
| Other liabilities | (67) | (67) | (67) | - | - |
| | 42 | (192) | 1,211 | (1,403) | - |

*The gross contractual cash flow (GCF) of investment securities includes the notional amount of existing investment securities and the undiscounted interest receipt. As of statement of financial position date, GCF of investment securities is lower by EUR 2,710k (2018: EUR 2,086k) compared to its carrying value. In the event of maturity, difference will be accounted as net asset swap receivable from swap counterparty.

**To the extent that there is a shortfall on the gross contractual cash flow after paying the holders of debt securities, this shortfall will be borne by the derivative counterparties or by the holders of debt securities in series which do not have derivatives attached.

***GCF of the debt securities issued includes the notional amount of the existing debt securities issued and the undiscounted fixed and variable interest payable on debt securities issued. As of balance sheet date, GCF of debt securities is lower by EUR 2,413k (2018: EUR 2,316k) compared to its carrying value. In the event of maturity, difference will be accounted as net asset swap payable to swap counterparty.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

21 Financial risk management (continued)

(b) Risk management framework (continued)

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other price risk will affect the Company's income or the value of its holdings of financial instruments.

The objective of the market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Interest rate risk are economically hedged with the use of asset swap agreements.

Market risk embodies the potential for both losses and gains and includes currency risk, interest rate risk and other price risk.

Currency risk

The Company is exposed to movements in exchange rates between its functional currency - Euro and foreign currency denominated financial instruments. At the reporting date, the Company had the following exposure to foreign currency risk:

| | 2019 €'000 | 2018 €'000 |
|---|---------------|---------------|
| Monetary assets held in USD | | |
| Investment securities | 4,668 | 4,581 |
| Other assets | 83 | 81 |
| | <hr/> 4,751 | <hr/> 4,662 |
| Monetary liabilities held in USD | | |
| Derivative liabilities | 526 | 754 |
| Debt securities issued | 4,225 | 3,908 |
| | <hr/> 4,751 | <hr/> 4,662 |
| Net exposure | <hr/> - | <hr/> - |

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

21 Financial risk management (continued)

(b) Risk management framework (continued)

(iii) Market risk (continued)

Currency risk (continued)

For Series 1, 4, 5, 6, 7, 8 and 9, both the investment securities and debt securities in issue are denominated in Euro. Therefore, neither the Company nor the holders of debt securities are exposed to currency risk for these particular series.

For Series 3, the investment securities and the debt securities are both denominated in US Dollars. The Company is not exposed to currency risk on Series 3 as any changes in fair value of the investment securities due to currency fluctuations will result in a corresponding change in fair value of the debt securities in issue.

The following significant exchange rates were applied during the year:

| | Average rate | | Year end / Spot rate | |
|-----|--------------|-------|----------------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| USD | 1.039 | 1.193 | 1.139 | 1.167 |

Interest rate risk

The Company classified the instruments as fixed rate interest when the assigned rate remains fixed for the entire term of the instrument. The instruments were classified as variable interest rate when the rate, equity index and fund index changes over the period. Refer to note 8 for interest rate details.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

21 Financial risk management (continued)

(b) Risk management framework (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

At the reporting date, the interest rate risk profile of the Company's non-derivative interest bearing financial instruments was:

| Class of investment security based on debt securities issued | Currency | 2019 €'000 | 2018 €'000 |
|---|-----------------|-----------------------|-----------------------|
| <i>Fixed rate instruments:</i> | | | |
| Equity Linked Notes | EUR | 62,593 | 63,372 |
| Index Linked Notes | EUR | 8,396 | 8,772 |
| | USD | 4,668 | 4,581 |
| | | <u>75,657</u> | <u>76,725</u> |
| <i>Variable rate instruments:</i> | | | |
| Equity Linked Notes | EUR | 28,702 | 25,657 |
| | | <u>28,702</u> | <u>25,657</u> |
| Total | | <u>104,359</u> | <u>102,382</u> |
| Debt securities issued | | | |
| Class of debt securities issued | Currency | 2019 €'000 | 2018 €'000 |
| <i>Variable rate instruments:</i> | | | |
| Index Linked Notes | EUR | <u>8,111</u> | <u>8,259</u> |
| <i>Non-interest bearing instruments:</i> | | | |
| Index Linked Notes | USD | 4,225 | 3,909 |
| Equity Linked Notes | EUR | 85,967 | 81,649 |
| | | <u>90,192</u> | <u>85,558</u> |
| Total | | <u>98,303</u> | <u>93,817</u> |

Refer to notes 6 and 8 for the maturity profile for investment securities and debt securities, respectively. The Company manages its interest rate risk by entering into asset swap agreements.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

21 Financial risk management (continued)

(b) Risk management framework (continued)

(iii) Market risk (continued)

Sensitivity analysis

A 100 basis point increase or decrease represents management's assessment of a reasonable, potential change in interest rates.

A 100 basis point increase in interest rates (assuming all other variables are held constant) would have resulted in an increase of coupon expenditure payable on the debt securities issued of EUR 182k (2018: EUR 80k) for the period. Under the same conditions, the coupon income receivable from investment securities would have increased by EUR 988k (2018: EUR 937k) for the same period. A similar 100 basis point decrease in interest rates would have resulted in an equal, but opposite effect on coupon expenditure and coupon income respectively. There is no interest rate risk for fixed rate and zero coupon rate instruments as these instruments will render the same amount of interest throughout the years until maturity.

The Company does not bear any significant interest rate risk as the interest rate risk associated with the debt securities issued by the Company is neutralised by entering into asset swap agreements whereby the swap counterparty pays the Company amounts equal to the interest payable to the holders of the debt securities issued in return for the interest earned by the Company on its investment securities. Similarly, changes in fair value of the investment securities and debt securities issued arising from changes in market interest rates are offset by changes in the fair value of the swap agreements. Therefore any change in the interest rates would not affect the equity or the statement of comprehensive income of the Company.

Other price risk

Other price risk is the risk that the value of the instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

Other price risk may include risks such as equity price risk, commodity price risk, prepayment risk (i.e. the risk that one party to a financial asset will incur a financial loss because the other party repays earlier or later than expected), and residual value risk.

The Company is exposed to price risk by investing in investment securities and is also exposed under swap agreements outlined in note 5. However, any fluctuation in the value of financial assets designated at fair value through profit or loss held by the Company will be borne by the holders of debt securities to the extent not borne by swap counterparty.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

21 Financial risk management (continued)

(b) Risk management framework (continued)

(iii) Market risk (continued)

Other price risk (continued)

The following is the breakdown of the Company's investment securities at the reporting date:

| Class of investment security based on debt securities issued | Listed / Unlisted | 2019 | 2018 |
|---|----------------------|----------------|----------------|
| | | €'000 | €'000 |
| Equity Linked Notes | Listed | 91,295 | 89,029 |
| Index Linked Notes | Listed | 13,064 | 13,353 |
| | | <u>104,359</u> | <u>102,382</u> |

Sensitivity analysis

The market price of the investment securities will generally fluctuate with, among other things, the liquidity and volatility of the financial markets, general economic conditions, political events, developments or trends in a particular industry and the financial conditions of the securities issuer.

Credit Linked/ Inflation Linked/ Fixed / Variable Rated debt securities

If the market value of the collateral increases, the swap counterparty is entitled to the resulting gains, and if the market value of the collateral decreases the swap counterparty and the holders of debt securities bear the losses. This split is dependant on who has priority of payment in these circumstances as disclosed in the agreements.

Any changes in the quoted or unquoted prices of the investment securities held by the Company would not have any effect on the equity or profit or loss of the Company as any fair value fluctuations are ultimately borne by either the swap counterparty or the holders of the debt securities issued by the Company.

If the market prices of the investment securities held by the Company had increased or decreased by 10% with all other variables held constant, this would have increased or reduced the carrying value of the debt securities issued by EUR 10,436k (2018: EUR 10,238k). Credit spread is the key unobservable input driving this sensitivity.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

21 Financial risk management (continued)

(b) Risk management framework (continued)

(iv) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel and infrastructure, and from factors other than credit, market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arise from all of the Company's operations.

The Company has no employees and all corporate administration services are provided by VAILL under the terms of a Corporate Services Agreement. VAILL manages the operational risk on behalf of the Company by requiring all of its employees to comply with Group policies and procedures to ensure compliance with all applicable laws and regulations.

22 Specific instruments

Profile of the series of debt securities issued by the Company

The following are the categories as at 30 June 2019:

| Type of transaction | Number of series | Cash and cash equivalents | | Debt securities issued | | Investment securities | |
|---------------------|------------------|---------------------------|-----------|------------------------|-----------------|-----------------------|----------------|
| | | % | €'000 | % | €'000 | % | €'000 |
| Equity Linked Notes | 6 | 74% | 26 | 87% | (85,968) | 87% | 91,295 |
| Index Linked Notes | 2 | 26% | 9 | 13% | (12,335) | 13% | 13,064 |
| Total | 8 | 100% | 35 | 100% | (98,303) | 100% | 104,359 |

| Type of transaction | Number of series | Derivative liabilities | | Other assets | | Other liabilities | | Total |
|---------------------|------------------|------------------------|----------------|--------------|--------------|-------------------|-------------|-----------|
| | | % | €'000 | % | €'000 | % | €'000 | |
| Equity Linked Notes | 6 | 89% | (6,619) | 89% | 1,291 | 39% | (24) | 1 |
| Index Linked Notes | 2 | 11% | (827) | 11% | 167 | 61% | (37) | 41 |
| Total | 8 | 100% | (7,446) | 100% | 1,458 | 100% | (61) | 42 |

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

22 Specific instruments

Profile of the series of debt securities issued by the Company

The following are the categories as at 30 June 2018:

| Type of transaction | Number of series | Cash and cash equivalents | | Debt securities issued | | Investment securities | |
|---------------------|------------------|---------------------------|-------|------------------------|----------|-----------------------|---------|
| | | % | €'000 | % | €'000 | % | €'000 |
| Equity Linked Notes | 6 | 74% | 26 | 87% | (81,649) | 87% | 89,029 |
| Index Linked Notes | 2 | 26% | 9 | 13% | (12,168) | 13% | 13,353 |
| Total | 8 | 100% | 35 | 100% | (93,817) | 100% | 102,382 |

| Type of transaction | Number of series | Derivative liabilities | | Other assets | | Other liabilities | | Total |
|---------------------|------------------|------------------------|---------|--------------|-------|-------------------|-------|-------|
| | | % | €'000 | % | €'000 | % | €'000 | |
| Equity Linked Notes | 6 | 87% | (8,673) | 88% | 1,293 | 36% | (24) | 2 |
| Index Linked Notes | 2 | 13% | (1,282) | 12% | 171 | 64% | (43) | 40 |
| Total | 8 | 100% | (9,955) | 100% | 1,464 | 100% | (67) | 42 |

23 Fair values

The carrying amounts of all the Company's financial assets and financial liabilities carried at amortised cost at the reporting date approximated their fair values. Their fair values together with carrying amounts shown in the statement of financial position are disclosed in note 11.

These disclosures supplement the commentary on financial risk management (see note 21).

Determining fair values

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy note 3(b) under the sub heading "Fair value measurement principles". For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

23 Fair values

Determining fair values (continued)

The Company's accounting policy on fair value measurements is discussed under note 3(b) under the sub heading "Fair value measurement principles". Critical accounting judgements made in applying the Company's accounting policies in relation to valuation of financial instruments are as follows:

Valuation of financial instruments

The financial instruments carried at fair value have been categorized under the three levels of the IFRS fair value hierarchy as follows:

- Level 1 – Instruments valued using quoted prices in active markets are instruments where the fair value can be determined directly from prices which are quoted in active and liquid markets.
- Level 2 – Instruments valued with valuation techniques using observable market data are instruments where the fair value can be determined by reference to similar instruments trading in active markets, or where a technique is used to derive the valuation but where all inputs to that technique are observable.
- Level 3 – Instruments valued using valuation techniques using market data which is not directly observable are instruments where the fair value cannot be determined directly by reference to market-observable information, and some other pricing technique must be employed. Instruments classified in this category have an element which is unobservable and which has a significant impact on the fair value.

Valuation Techniques

The following is an explanation of the valuation techniques used in establishing the debt securities issued at FVTPL of the Company.

Investment securities: Where there are no recent transactions then fair value may be determined from the last market price adjusted for all changes in risks and information since that date. Where a close proxy instrument is quoted in an active market then fair value is determined by adjusting the proxy value for differences in the risk profile of the instruments. Where close proxies are not available then fair value is estimated using more complex modeling techniques. These techniques include discounted cash flow models using current market rates for credit, interest, liquidity and other risks.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

23 Fair values (continued)

Valuation Techniques (continued)

Derivative Financial Instruments: Market standard transactions in liquid trading markets, such as interest rate swaps, foreign exchange forward and option contracts in G7 currencies, and equity swap and option contracts on listed securities or indices are valued using market standard models and quoted parameter inputs. Parameter inputs are obtained from pricing services, consensus pricing services and recently occurring transactions in active markets wherever possible. More complex instruments are modeled using more sophisticated modeling techniques specific for the instrument and are calibrated to available market prices. Where the model output value does not calibrate to a relevant market reference then valuation adjustments are made to the model output value to adjust for any difference. In less active markets, data is obtained from less frequent market transactions, broker quotes and through extrapolation and interpolation techniques. Where observable prices or inputs are not available, management judgment is required to determine fair values by assessing other relevant sources of information such as historical data, fundamental analysis of the economics of the transaction and proxy information from similar transactions.

Debt securities issued at FVTPL: The fair value of debt securities issued at FVTPL is dependent upon the fair value of investment securities and derivative financial instruments. Any changes in the valuation have direct impact to the fair value of debt securities issued.

For more complex Level 3 instruments, more sophisticated modelling techniques are required which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions or more complex parameters and sensitivity. Examples of instruments involving significant unobservable inputs include correlation pricing model and discounted cash flows derived from an estimated recovery and workout period.

Where no observable information is available to support the valuation models then they are based on other relevant sources of information such as prices for similar transactions, historic data, economic fundamentals, and research information, with appropriate adjustment to reflect the terms of the actual instrument being valued and current market conditions.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. When determining the appropriate valuation model to be used, Management selects which valuation technique makes the least adjustment to the inputs used, analyse the range of values indicated by the techniques used and whether they overlap and check the reasons for the differences in value under different techniques. Depending on the circumstances, one valuation model might be more appropriate than another. Management decides the valuation model to be used based on the provisions indicated in the swap agreements. Some factors that are considered includes information that is reasonably available, the market conditions, the type of investment, expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and discount rates. Level 3 valuations are reviewed quarterly and disclosed periodically in the financial statements.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

23 Fair values (continued)

Valuation Techniques (continued)

At the reporting date, the carrying amounts of investment securities, derivative financial instruments and debt securities issued by the Company where fair values were determined directly, in full or in part, by reference to published price quotations and determined using valuation techniques are as follows:

| | 2019 | | | |
|----------------------------------|----------------|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | €'000 | €'000 | €'000 | €'000 |
| Investment securities | | | | |
| (corporate bonds) | - | 104,359 | - | 104,359 |
| Derivative financial liabilities | - | (528) | (6,918) | (7,446) |
| Debt securities issued | - | (4,225) | (94,078) | (98,303) |
| | - | 99,606 | (100,996) | (1,390) |
| | | | | |
| | 2018 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| | €'000 | €'000 | €'000 | €'000 |
| Investment securities | - | 102,382 | - | 102,382 |
| Derivative financial liabilities | - | (754) | (9,201) | (9,955) |
| Debt securities issued | - | (3,909) | (89,908) | (93,817) |
| | - | 97,719 | (99,109) | (1,390) |

As at 30 June 2019, investments securities are classified as level 2 (2018: level 2) and consist of corporate and government bonds. These were priced using observable market data.

Derivative financial instruments classified as Level 3 involves asset swaps where the fair value measurements were based on unobservable inputs and no active market data available for similar instruments. While derivative financial instruments classified as Level 2 are asset swaps whose fair value are based on observable market data and can be determined by reference to similar instruments trading in active markets.

Debt securities issued are traded in the institutional market and the prices for these at year end are based on the relevant investment securities and derivative financial instruments. Notwithstanding that a quoted market price exists for these, the Directors have concluded that the debt securities are not actively traded due to the limited liquidity that exists in the market.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

23 Fair values (continued)

Valuation Techniques (continued)

As a result, the levelling of debt securities is dependent on the levelling of the investment securities, and derivative financial instruments. Debt securities are classified in the lowest level observed of the assets and derivatives on a series by series basis.

No transfers between level 1 and level 2 have occurred during the year (2018: no transfer).

Transfers in and out of level 3 are recorded at the beginning of the year. For instruments transferred out of level 3, the table below shows no gains or losses and cash flows on the instruments as they have been transferred at the beginning of the year.

The table below shows the roll-forward movements for derivative financial liabilities classified under valuation techniques unobservable parameter (Level 3):

| | 2019 | 2018 |
|--------------------------|----------------|----------------|
| | €'000 | €'000 |
| Opening balance | (9,201) | (11,529) |
| Transfers out to Level 2 | - | 1,033 |
| Fair value movements | 2,283 | 1,295 |
| Closing balance | <u>(6,918)</u> | <u>(9,201)</u> |

During the year, there were no transfer in or out of level 3 (2018: Series 3 transferred out to level 2)

The fair value movements are recognised under net loss from derivative financial instruments in the statement of comprehensive income.

The table below shows the roll-forward movements for debt securities classified under valuation techniques unobservable parameter (Level 3):

| | 2019 | 2018 |
|--------------------------|-----------------|-----------------|
| | €'000 | €'000 |
| Opening balance | (89,908) | (94,173) |
| Transfers out to level 2 | - | 3,995 |
| Fair value movements | (4,170) | 270 |
| Closing balance | <u>(94,078)</u> | <u>(89,908)</u> |

During the year, there were no transfer in or out of level 3 (2018: Series 3 transferred out to level 2)

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

23 Fair values (continued)

Valuation Techniques (continued)

Any change in the classification of the investment securities and derivative liabilities will have a direct impact on the classification of the debt securities. If any of these are classified using unobservable valuation inputs (Level 3), the related debt security will be classified as Level 3 also.

The fair value movements are recognised under net (loss) / gain on debt securities issued in the statement of comprehensive income.

Sensitivity Analysis

Where the value of financial instruments is dependent on unobservable valuation models, appropriate models and inputs are chosen so that they are consistent with prevailing market evidences. A 10% change in the price of the debt securities issued under Level 3 held by the Company would increase or decrease the fair value as at 30 June 2019 by EUR 9,412k (2018: EUR 8,991k).

Level 3 Realised and Unrealised Gain and Losses

The total amount of realised and unrealised gain (loss) estimated using a valuation technique based on significant unobservable data (Level 3) that was recognised in statement of comprehensive income for the year is as follows:

| | 2019 €'000 | 2018 €'000 |
|----------------------------------|----------------|---------------|
| Derivative financial instruments | 2,283 | 1,295 |
| Debt securities issued | (4,170) | 270 |
| | <u>(1,887)</u> | <u>1,565</u> |

The total amount of change in fair value estimated using valuation techniques based on significant unobservable data (Level 3) for assets and liabilities held at the end of the reporting period:

| | 2019 €'000 | 2018 €'000 |
|----------------------------------|----------------|---------------|
| Derivative financial instruments | 2,283 | 1,295 |
| Debt securities issued | (4,170) | 270 |
| | <u>(1,887)</u> | <u>1,565</u> |

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

23 Fair values (continued)

Level 3 Realised and Unrealised Gain and Losses (continued)

Although the Directors believe that their estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurement of fair value as fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement. Details in relation to the unobservable inputs used have been noted below and therefore their associated fair value cannot be determined with precision.

For recognised fair values measured using significant unobservable inputs, changing one or more assumptions used to reasonably possible alternative assumptions would not have any effect on the profit or loss or on equity of the Company as any change in fair value will be borne by the holders of debt securities due to the limited recourse nature of the debt issued by the Company.

Quantitative Information about the Sensitivity of Significant Unobservable Inputs:

The behaviour of the unobservable parameters on Level 3 fair value measurement is not necessarily independent, and dynamic relationships often exist between the other unobservable parameters and the observable parameters. Such relationships, where material to the fair value of a given instrument, are explicitly captured via correlation parameters, or are otherwise controlled via pricing models or valuation techniques. Frequently, where a valuation technique utilizes more than one input, the choice of a certain input will bound the range of possible values for other inputs.

The range of values shown on the table on the succeeding page represents the highest and lowest inputs used to value the significant exposures within Level 3. The diversity of financial instruments that make up the disclosure is significant and therefore the ranges of certain parameters can be large. As Level 3 contains the less liquid fair value instruments, the wide ranges of parameters seen is to be expected, as there is a high degree of pricing differentiation within each exposure type to capture the relevant market dynamics.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

23 Fair values (continued)

Quantitative Information about the Sensitivity of Significant Unobservable Inputs (continued):

The table below sets out information about significant unobservable inputs used as at 30 June 2019 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

| Type of financial instrument | Fair values at 30 June 2019 €'000 | Valuation Technique | Significant unobservable input | Range of estimates for unobservable input | Sensitivity |
|----------------------------------|--------------------------------------|--------------------------------|--------------------------------|---|-------------|
| Derivative financial instruments | | | | | |
| Asset swap | 6,920 | Proxied to Totem Funds Service | Fund Volatility | 3.98% to 19.17% | 129 |
| | <u>6,920</u> | | | | <u>129</u> |

The table below sets out information about significant unobservable inputs used as at 30 June 2018 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

| Type of financial instrument | Fair values at 30 June 2018 €'000 | Valuation Technique | Significant unobservable input | Range of estimates for unobservable input | Sensitivity |
|----------------------------------|--------------------------------------|----------------------|--------------------------------|---|-------------|
| Derivative financial instruments | | | | | |
| Asset swap | 9,201 | Option Pricing Model | Volatility | 4.99% to 25.29% | 321 |
| | <u>9,201</u> | | | | <u>321</u> |

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

24 Interest in other entities

(a) Nature, purpose, size and activities of structured entities and how they are financed

The Company invested in debt securities issued by a structured entity. The structured entity has the following business activities:

Glencore Finance (Europe) S.A. is a debt issuing vehicle incorporated in 2003 and is based in Luxembourg. The primary business of the entity is raising of money for the purpose of lending to Glencore Xstrata plc and its consolidated subsidiaries ("Group"). Accordingly, substantially all Glencore Finance (Europe) S.A.'s assets are loans and advances made to other members of the Group and the ability to satisfy its obligations in respect of the note issuances will depend upon the payments made to it in respect of loans and advances made by the entity.

The Company owns the note issuance of Glencore Finance (Europe) S.A. with principal amount of EUR 13,241k (2018: EUR 13,241k) due on 30 September 2020.

The Company has no contractual arrangements nor commitments or intentions to provide financial or other assistance to the unconsolidated structured entity.

Refer to note 6 for further details of fair value of investments in structured entities.

(b) Risk associated with unconsolidated structured entities

The table below summarises the Company's interest in unconsolidated structured entities included in the investment securities at FVTPL at 30 June 2019:

| Series Number of dbInvestor Solutions II plc | Issuer Name | CCY | Outstanding Nominal of investment securities | 2019 % of Notional issued by the structured entity | Fair Value of investment securities | Fair Value of Debt securities | Fair Value of Derivatives | Maximum exposure to loss |
|--|----------------------------|-----|--|--|-------------------------------------|-------------------------------|---------------------------|--------------------------|
| | | | €'000 | | €'000 | €'000 | €'000 | €'000 |
| Series 7 | Glencore Finance Europe SA | EUR | 13,241 | 1.77% | 13,807 | 13,306 | 835 | 13,807 |
| | | | 13,241 | 1.77% | 13,807 | 13,306 | 835 | 13,807 |

The Company has maximum exposure to the risk associated with the carrying value of the above investments. If these investments are deemed worthless, the Company will not receive anything. The Company bears no risk and it is the swap counterparties and holders of debt securities that bear all the risk. Refer to note 21(b)(i) for the details on credit risk.

dbInvestor Solutions 2 plc

Notes to the Financial Statements (continued) For the year ended 30 June 2019

24 Interest in other entities (continued)

(b) Risk associated with unconsolidated structured entities (continued)

The below table summarises the Company's interest in unconsolidated structured entities included in the investment securities at FVTPL as at 30 June 2018:

| Series Number of dbInvestor Solutions II plc | Issuer Name | CCY | 2018 | | Fair Value of investment securities | Fair Value of Debt securities | Fair Value of Derivatives | Maximum exposure to loss |
|---|----------------------------------|-----|---|---|---|-------------------------------------|---------------------------------|--------------------------------|
| | | | Outstanding Nominal of investment securities | % of Notional issued by the structured entity | | | | |
| | | | €'000 | | €'000 | €'000 | €'000 | €'000 |
| Series 7 | Glencore Finance Europe SA | EUR | 13,241 | 1.77% | 14,153 | 13,328 | 1,159 | 14,153 |
| | | | <u>13,241</u> | <u>1.77%</u> | <u>14,153</u> | <u>13,328</u> | <u>1,159</u> | <u>14,153</u> |

25 Subsequent events

Since the end of the reporting period the Company has not issued any new series of debt securities, no maturities and no repurchases have been made after the year end. There were no events after the reporting date up to the date of the approval of the financial statements, which require adjustment to or disclosure in the financial statements.

26 Capital Management

The Company views the current debt securities issued as its capital. The Company is a special purpose vehicle set up to issue debt instruments for the purpose of making investments that maximizes the returns of the holder of debt securities. Share capital of EUR 38k was issued in line with Irish Company Law and is not used for financing the investment activities of the Company. The Company is not subject to any other externally imposed capital requirements.

27 Approval of the financial statements

The financial statements were approved and authorised for issue by the Board on 30 Oct 2019