



UCB
2021
ANNUAL
REPORT

UCB

Union Commercial Bank Plc.
FINANCIAL STATEMENTS
For the year ended 31 December 2021



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1- Message from Management Team

在全體同仁努力下，2021年UCB實現全年獲利成長並維持良好的資產品質。我們認為這歸功於正確的策略。專業服務是業務增長的驅動核心，我們擴大在首都金邊地區的分行佈建，加深據點與社區生活圈的互動；同時也站在使用者立場，提升線上、自動化設備交易的體驗。藉由強化整合數位與實體通路服務，從日常消費到商業交易領域，讓有溫度的金融服務走入民眾生活，從而感受UCB服務提升。品牌價值的營造非一蹴可幾，過程雖然不容易，但我們相信UCB正走在正確的道路上。

With the efforts of all colleagues, Union Commercial Bank Plc. (hereinafter referred to as “the Bank”) achieved profit growth and simultaneously maintained good asset quality in 2021. We attribute the outcome to choosing the proper strategy. Providing professional service is the driving force of business growth. The Bank has been expanded its branch sites in Phnom Penh to deepen the interaction between the physical branches and the living communities. In the meanwhile, the Bank focuses on users’ experience to improve utilization of online and automated transaction. From daily consumption to commercial transactions, the Bank immerses customer in the warm banking service by strengthening the integration of online and offline channel, which make customer aware of the upgrade of the Bank’s services. Building a valuable brand can hardly be achieved in one fell swoop. Although the process is full of challenges, we still believe the Bank is progressing on the right path.

人力是先行指標，也是關鍵指標。我們在人才選育上持續投注心力，以精準的績效衡量指標，改善人力資源體質，並確保關鍵人才留任，促進組織穩定性。UCB在跨步邁進的過程中開創了許多機會，我們願意給予人才發揮舞台，讓員工可以用自己的雙手決定自己的未來，與企業共同成長，壯大團隊戰力。

Manpower is not only a leading indicator but also a key indicator. The Bank continues to invest in the recruitment and cultivation for new employee, improving the structure of human resources by decent performance appraisal mechanism, and retain critical talent to ensure the organizational stability. The Bank has created many opportunities during its incessant growth; in the meanwhile, it is also willing to provide talents with stage to demonstrate their capacity. In here employee can determine their own future by what they contribute, together we will strengthen the team and grow up with the Bank.

疫情之下，慈善機構的資助受連帶影響，此時UCB社會公益的腳步更不能停下，我們一年內仍陸續走訪12省分的13家孤兒院，總計16次的拜訪，提供生活物資與文具，維持孩子的學習與溫

飽無虞。施比受更有福，UCB不僅是捐獻，而是希望能創造正向的循環，最終造福柬埔寨人民與社會。

Under the epidemic period, donation for charity institutes have been affected accordingly. At this time, the responsibility of the Bank to social care cannot even stop. Our volunteers still visited 13 orphanages in 12 provinces, which were total of 16 visits within a year, providing daily necessities and stationery to keep children from starvation and maintain their learning. It's more blessed to give than to receive. What the Bank does is not only donation, but it also hopes to create a positive cycle and ultimately benefit Cambodian people and society.

玉山銀行進入柬埔寨金融市場以來，經營團隊採取穩健經營策略，健全公司治理，逐步調整客群樣態，第一個十年即將畫下句點之際，已能看到品牌經營成效。緊接著將開創第二個十年，我們會強化與這塊土地的連結，以達成柬埔寨最具特色的外資銀行為目標努力。

From the time E.SUN Bank entering the financial market in Cambodia, management team has adapted a stable business strategy, enhanced corporate governance, and adjusted the business portfolio step by step. At the moment when the first decade is about to end since acquisition, it could be seen the value of UCB brand increase significantly. Upon the beginning of the second decade, the Bank will intensify the connection with the land and strive to achieve the goal of becoming the most distinctive foreign bank in Cambodia.



2 - Company Profile

母公司：玉山銀行

Parent Company: E.SUN Commercial Bank, Ltd.

玉山銀行創立於1992年，在創辦人、現任金控董事長黃永仁先生帶領下，與一群志同道合的金融菁英團隊，以「玉山」為名，秉持著「專業、服務、責任」的經營理念，以「培育最專業的人才、提供顧客最好的服務，是玉山的責任」作為實踐經營的行動準則，矢志成為「金融業的模範生，服務業的標竿」。

E.SUN Bank was founded on January 16th 1992 and commenced its business on February 21st 1992. Under the leadership of the founder and the incumbent Chairman of E.SUN Financial Holding Company, Mr. Yong Ren Huang, a team of financial elites beheld a shared goal – in the name of E.SUN, committed to the philosophy of “expertise, service, business”, engaged in the action principal of “E.SUN’s responsibility - nurturing talents and providing the best services”, and dedicated to be the “role model in finance and benchmark in service”.

「建立制度」、「培育人才」、「發展資訊」是奠定玉山發展百年志業的三大基礎工程，始終以「心清如玉，義重如山」的核心理念，提供顧客專業親切的暖心服務，以及奉獻愛與關懷的企業社會責任，奠定永續發展的基礎，讓玉山人成為世界第一等的公民、玉山成為世界第一等的企業公民，更期待玉山銀行成為員工的最愛、顧客的最愛、股東的最愛，以及這塊土地的最愛。

“Building system, cultivating talent, and developing IT” are the three main infrastructure for E.SUN’s lasting mission. E.SUN is committed to its core value, “pure as jade, sturdy as mountain”, providing professional and heartwarming service to the customers. Moreover, E.SUN employees strive to be first class citizens, while E.SUN strives to be the first class corporate citizen with its love and caring CSR initiatives.

面對變幻莫測的市場、競爭劇烈的環境，玉山將延續穩健的經營策略、領先的金融創新以及優質的服務品質，從挑戰中嶄露頭角、超群出眾，打造顧客的全方位金融服務網。玉山國內分行通路已擴張至139家，透過虛實整合的力量讓實體通路和虛擬通路可以發揮到最大效用，以創新求變的思維並運用科技的力量實踐數位轉型的規劃，全方面解決顧客問題及滿足需求，打造強而有力的金融服務網；在海外通路方面，玉山現有柬埔寨聯合商業銀行 (UCB) 子行、中國子行與香港、洛杉磯、新加坡、越南、緬甸、雪梨、東京、布里斯本等8家分行，共計9個國家，28個

據點。積極布局海外市場，建構高效率的亞洲金融服務網，提供優質在地服務，滿足顧客跨境金融需求。

Confronting the unpredictable market and competitive environment, E.SUN will sustain its prudent strategy, its leading financial innovation, and its quality services to excel in the challenges, building a comprehensive financial service network for customers. Having increased domestic branches to 139, E.SUN Bank is proactive to have them complemented by virtual channels so as to bring about a higher level of efficiency. Drawing on technological advancement, it also adopts an innovative, flexible approach to solving problems and meeting needs while providing customers with a full spectrum of financial services. When it comes to expanding abroad, the Bank has two subsidiaries—Union Commercial Bank (UCB)—in Cambodia and a subsidiary in China; established eight branches, which are Hong Kong, Los Angeles, Singapore, Vietnam, Myanmar, Sydney, Tokyo and Brisbane Branch. Preparations are now under way to expand our network in China and other parts of Southeast Asia, There are currently 28 branches in 9 countries, E.SUN Bank aims to establish a high-efficiency financial service network in Asia and provide premium local services to fulfill our customers' needs for cross-border financial services.

聯合商業銀行

Union Commercial Bank PLC.

聯合商業銀行(UCB)於1994年3月31日創立，目前由玉山銀行百分之百持股。UCB是全功能之商業銀行，在金邊有12家分行，外省地區有2家分行，員工人數超逾500人。身為玉山銀行的子公司，UCB秉持母行的核心價值與經營理念，以「專業、服務、責任」的精神，提供顧客最優質的服務體驗，貢獻柬埔寨社會與經濟發展。展望未來，UCB將持續精進產品、服務與金融創新，同時發展以人為本的精神，培育在地人才，促進各國菁英的交流與合作，以創造多元價值，讓UCB成為柬埔寨最具特色的外資銀行。

Union Commercial Bank PLC was founded on 31 March 1994, and is currently 100%-owned by E.SUN Bank. UCB is a full-licensed commercial bank with 12 branches in Phnom Penh and 2 branches in other provinces, with more than 500 employees. As the subsidiary of E.SUN Bank, UCB insists on E.SUN's core values and vision, and upholds a business philosophy of "expertise, service, and business" to providing an extraordinary service experience and contributing to Cambodia society. In the future, UCB will keep enhancing financial products, services and innovation, and accelerating education and cooperation among multicultural elites for becoming a most distinctive foreign bank in Cambodia.

3 - Business Review

1. Financial Highlights

	2021	2020	2019
Operating Result (USD)			
Operating Income	39,946,747	32,115,290	34,475,773
Profit before Tax	16,191,999	12,918,112	25,883,163
Net Profit	13,481,522	8,011,350	22,009,698
Key Balance Sheet Data (USD)			
Total Assets	759,866,538	854,641,144	706,999,367
Loan to Customers (net)	557,330,560	505,614,128	476,237,953
Deposit from Customer	448,233,051	567,692,232	447,163,797
Total Liabilities	644,528,519	752,631,212	612,959,966
Paid-up Capital	80,000,000	80,000,000	80,000,000
Shareholder's Equity	115,338,019	102,009,932	94,039,401
Return on Asset (ROA)	1.78%	0.94%	3.11%
Return on Equity (ROE)	11.67%	7.85%	23.40%
Non-performing Loan % (NPL %)	1.13%	0.67%	0.81%
Statutory Ratios			
Solvency Ratio	21.97%	22.40%	23.37%
Liquidity Coverage Ratio (LCR)	213.92%	511.72%	156.42%

❖ The figures in Year 2021, 2020 and 2019 are all Adjusted by CIFRS initially implement.

2. Operational Highlights

○ IT Infrastructure Development

“Building system, cultivating talent, and developing IT” as the three pillars of its quest for long-term sustainability, UCB will nonstop invest in IT infrastructure. In 2021, the Bank not only took advantage of IT solution to support business development, but also focused on leveling up information security, including (1) participating in Bakong settlement platform and expecting to launch in 2022; (2) enhancing the function of Mobile Banking App; (3) inspecting the Bank’s core system to improve its stability and efficiency; (4) ensuring the quality and safety for telecommuting; (5) fixing information security bugs on system. More than the projects mentioned above, the Bank also focuses on the aspect of introducing IT requirement management, strengthening database management and expanding the cooperation with parent company.

○ Transnational Human Resource

“Talent is a key and leading indicator.” is what we always believe in. In 2021, Human Resource Department cooperated with business unit department, jointly designing suitable systems to trigger employee’s passion for work and assess their performance correspondently and precisely. The Bank not only leverages the core mindset from ESUN Bank but also adapts to local practice given that our goal is to build up a local management team in one day.

In the end of the year, over 90% employee are Cambodian instead of foreigner workers. Meanwhile, more than 80% of department heads and deputy heads in Headquarters are Cambodian as well.

○ **Risk Management & Compliance**

In general, there was no significant change in overall risk indicators in 2021, all of which comply statutory criteria and are stably above the trigger threshold. The Bank's capital adequacy and liquidity are sufficient, NPL Ratio is steady and lower than the average of banking industry in Cambodia. As per enhancement of the compliance concept, the Bank will provide employee with more internal training courses that update with the latest regulation required by competent authority so as to apply these knowledge to the practice. For getting rid of the grey list from Financial Action Task Force is an important goal for the country, the Bank promises to cooperate with the competent authority to comply AML/CFT regulation.

○ **Leading Services**

UCB continues to provide premium and leading financial services for our valued customers and create its unique market reputation.

For worldwide integration and localization service, the Bank offers services and financial products in three areas:

- (1) Personal Banking: Saving Deposit, Demand Deposit, Fixed Deposit, Housing Loan, Credit Card, Debit Card, Online/Mobile Banking, ATM Service, etc.
- (2) Corporate Banking: Term Loan, Working Capital Loan, Business Cheque Account, Escrow Account, Payroll Service, Acquiring Services, etc.
- (3) International Banking: Money Transfer, Trade Finance, Import & Export L/C, D/A & D/P, Guarantee & Standby L/C, Check Discounted, Trade Finance Loan, etc.

○ **CIFRS Implementation**

Due to the CIFRS implement from the financial year 2019, the major difference to the number shown on the financial statement is related to the credit provision. According to the KPMG's audited financial statement approved by Board of Directors dated at 27th February 2020, there are the large adjustments for provision among 2017~2019. However, the total accumulated profit is remain unchanged among these three years, these adjustment are because of accounting standard of the first implement of CIFRS. In 2021, the Bank adapted to the KPMG's suggestion and kept reviewing the methodology of CIFRS implementation to make it better fit to the business practice and economic status quo.

All financial figures reported in Annual Report are adjusted in accordance with CIFRS standards.

○ **Social Contribution**

Being part of Cambodia, the Bank returns the country in the core spirit of Environmental, Social, and Governance (ESG). The Bank supports the promotion of clean energy, takes of children in need, devotes itself to build up a superior working environment and fosters potential talent. These actions will proceed and we welcome more people to join with us.

3. Looking Forward for 2022

For the outlook in 2022, major research institutions generally give Cambodia's economic growth forecast around 5% to 6% in term of GDP. As soon as bilateral FTAs and RCEP come into force, Cambodia's manufacturing industry and trade business are expected to much deeply engage with international supply chain, which will boost the increment in both import and export performance. Synchronizing with economic recovery, it provides commercial banks with appropriate opportunity to develop given that demands for corporate investment, trade finance, cross-border funding movement, etc. emerge.

It has been observed that as the government continues to invest in infrastructure, resident population in Phnom Penh is increasing, and the developing area is expanding outward as well. In addition, Cambodia's vaccination rate for Covid-19 ranks on the top among ASEAN countries. What mentioned above is conducive for the society's operation to enter into a new normal life. The private consumption will rebound and domestic economic activities will burgeon, which well-prepares for the foreign tourists and business traveler's return in the future.

Under the epidemic situation of Covid-19, the Bank made the strategic choice for not excessively expanding its loan business; instead, the Bank continued to focus on improving internal management and strengthening its soundness to await the recovery. Consequently, 2022 is a critical year for the Bank. The Bank will grasp the opportunity by consolidating its physical branches and upgrading its mobile banking service, aiming to build up the eco-system of its banking products. The Bank will target customer living in Phnom Penh area and acquire more valuable customers to realize the scale growth in loan and deposit business.

As per banking operation, the importance of risk control is second to none. Especially after the epidemic, the accommodative loan restructuring policy has been gradually withdrawn, and there will inevitably be problems with non-performing loan. The Bank will follow the principle of treating client fairly and work with customers to find financial solutions together. When reviewing new cases, the Bank will pay more attention to customer's changes no matter in financial statement or business model during the epidemic so as to achieve a balance between risks and business.

In conclusion, the Bank has the confidence to grow for the prospective year. But we still run the business at a steady pace.

○ Deposit and Branch Services

- ❖ The Bank will focus on absorbing current/saving deposits not only from high-end customers but also from mass depositors. Encouraging our customers to utilize their saving account in the Bank is the key to increase the outstanding of deposit, which means providing more convenient account services such as online and mobile banking, convenient payment methods and channel, quick and warm in-store services, etc. It is believed that building up a reliable and premium brand image is more sustainable instead of just interest competition.
- ❖ As the cancellation for boarder control, the Bank will keep sharpening its commercial banking service quality for its valued corporate customers from both local and oversea. Moreover, it is expected that cross-border customer would start to flow into Cambodia,

the Bank is well prepared by strengthening Chinese language service in response to the increasing foreign direct investment from Great China.

○ **Loan Services**

- ❖ Considering the external circumstance in 2021, the Bank's loan growth target has been set in a relatively conservative level. In the meantime, the Bank devoted more efforts on credit risk management and internal operation process improvement. It is the most robust strategy for the Bank to protect the asset quality in uncertainty. As for 2022, the loan service would turn to support the funding demand in the wake of economic recovery.
- ❖ In corporate loans, customer that has stable business model such as robust cash flow will be a more desirable target. On the other hand, the Bank will engage various industries to diversify its portfolio as well. In consumer loans, the Bank would continue to stick to its loan policy set for housing loan and SME customers, not compromising on the risk and intentional price competition.

○ **Cards Services**

- ❖ In 2022, economic rebound is expected to fuel both domestic and oversea consumption. The Bank has been experienced in credit card business and also has a consolidated connection with VIPs, which services card customer with flexible and instant response. Based on the steady customer base, the Bank will expand the vendor management aiming to create its payment system. As for risk control, the Bank is about to introduce an enhanced identification system to decrease the transaction risk.

○ **National Currency**

- ❖ The Bank shall fully support the policy of usage of National Currency (KHR), especially for the loan business. The Bank will fortify the National Currency funds replacement with other FIs to ensure there is enough liquidity for supporting loan business. The Bank's main targets includes (1) MFI/ MDI which are specialized in province area; (2) local manufacturer and its supply chain; (3) Local Borey developer (4) Enterprise Payroll. The purpose of developing the KHR business is not solely for regular compliance but also the health growth of national monetary market.



4 - Activity and Sponsorship

ESG (Environmental, Social, and Governance) issue is what we always pay highly attention. **Electric Car** will play an important role in the future, because it can reduce air pollution in environment and save energy, making our living better!



Purchase two Electric Cars As Public Car



In 2021, we cooperated with electric vehicle vendor for test-driving event for our employees.

We will do our best to promote and share the environmental protection concept with all global citizens.



Test-driving Event at E.SUN Tower



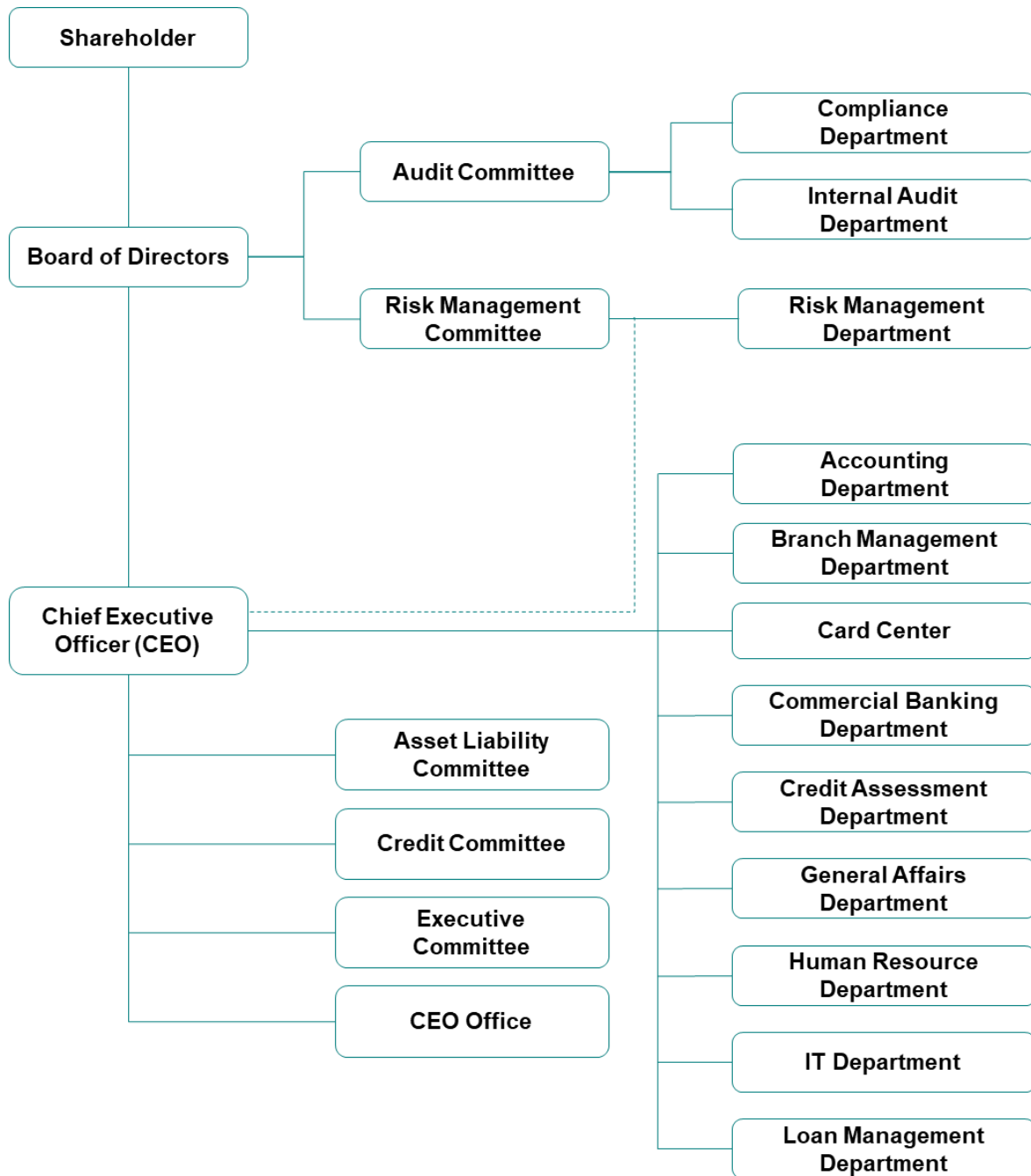
Charity Activity in 12 Provinces



5 - Corporate Governance

UCB Organizational Structure

The chart below details the organizational structure of Union Commercial Bank, PLC.



Base Date: 2021/12/31

UCB Board of Directors

The below table provides details of the members of the UCB Board of Directors:

Nº	Name	Position	Date of Appointment	Current Share Holding		Education
				Share	Ratio	
1	Mr. Mao-Chin Chen	Chairman	19-March-2020			Master of Economics National Taiwan University
2	Ms. I-Yen Kuo	Director	19-March-2020			Master of Economics National Taiwan University
3	Mr. Chi-Kan Chung	Director (CEO)	19-March-2020			Bachelor of Economic Fu Ren University
4	Mr. Chien-Hung Chen	Director	19-March-2020	E.SUN Bank holds 8,000 shares (100%)		Master of Business Administration Drexel University
5	Ms. Hun Phalin	Director	19-March-2020			Bachelor of Art Option Chinese Language Beijing Language and Culture University
6	Mr. Tung-Lung Kuo	Independent Director	19-March-2020			Bachelor of Law in Public Administration National Taipei University
7	Mr. Chuan-Hsing Huang	Independent Director	19-March-2020			Doctor Degree of Philosophy Tamkang University

UCB's Chairman, CEO, Managers or person responsible for financial and accounting matters, within the past year worked in the CPA firm or its affiliates:

No

From last fiscal year to the date of this report, the Directors have different opinions and written statement on the resolutions passed by the board:

All resolutions are passed and approved by all directors present, no disagreement.

UCB Audit Committee

The below table contains the details of the members of the UCB Audit Committee:

Nº	Position	Name	Date of Appointment	Education
1	Committee Chairman	Mr. Tung-Lung Kuo	19-March-2020	Bachelor of Law in Public Administration National Taipei University
2	Member	Mr. Mao-Chin Chen	19-March-2020	Master of Economics National Taiwan University
3	Member	Mr. Chuan-Hsing Huang	19-March-2020	Doctor Degree of Philosophy Tamkang University
4	Member	Ms. I-Yen Kuo	19-March-2020	Master of Economics National Taiwan University

UCB Risk Management Committee

The below table contains the details of the members of the UCB Risk committee:

Nº	Position	Name	Date of Appointment	Education
1	Committee Chairman	Mr. Chuan-Hsing Huang	19-March-2020	Doctor Degree of Philosophy Tamkang University
2	Member	Mr. Mao-Chin Chen	19-March-2020	Master of Economics National Taiwan University
3	Member	Mr. Chi-Kan Chung	19-March-2020	Bachelor of Economic Fu Ren University
4	Member	Mr. Chien-Hung Chen	19-March-2020	Master of Business Administration Drexel University

6 - Director's Report

Report of the Board of Directors

The Board of Directors ("the Directors") has pleasure in submitting their report together with the consolidated financial statements of Union Commercial Bank Plc. ("the Bank") and its subsidiary (collectively referred to as "the Group"), and the separate financial statements of the Bank for the year ended 31 December 2021 (collectively referred to as "the financial statements").

Principal activities

The Bank is a commercial bank operating under the supervision of the National Bank of Cambodia ("NBC") in accordance with the Banking License No. 08 issued by the NBC. The Bank's license was renewed on 28 November 2006 for an indefinite period following the Prakas No. B7-06-207 dated 13 September 2006.

The Bank's main activities are mobilising and receiving short, medium and long term deposits from various organisations and individuals; lending on a short, medium and long term loans and advances to various organisations and individuals; conducting foreign currency transactions; providing international trade finance services; discounting of commercial notes, providing transaction services between customers; and other banking services as approved by the NBC, through its head office and branches in the Kingdom of Cambodia.

The subsidiary

URE Land Holding Co., Ltd. ("the Subsidiary") was incorporated on 25 July 2013. The principal activity of the Subsidiary is to hold parcels of land for the Group's and for the Bank's use.

Financial results

The financial results of the Group and of the Bank were as follows:

Group	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Profit before income tax	16,191,999	12,918,112	65,869,052	52,667,142
Income tax expense	<u>(2,710,477)</u>	<u>(4,906,762)</u>	<u>(11,026,220)</u>	<u>(20,004,869)</u>
Net profit for the year	<u>13,481,522</u>	<u>8,011,350</u>	<u>54,842,832</u>	<u>32,662,273</u>

Financial results (continued)

Bank	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Profit before income tax	15,784,427	12,657,763	64,211,048	51,605,700
Income tax expense	<u>(2,404,267)</u>	<u>(4,851,156)</u>	<u>(9,780,558)</u>	<u>(19,778,163)</u>
Net profit for the year	<u>13,380,160</u>	<u>7,806,607</u>	<u>54,430,490</u>	<u>31,827,537</u>

Dividends

No dividend was declared or paid, and the Directors did not recommend any dividend to be paid for the year.

Share capital

There was no changes in the registered and paid up share capital of the Bank during the year.

Reserves and provisions

There were no other movements to or from reserves and provisions during the financial year other than those disclosed in the financial statements.

Loans and advances

Before the financial statements of the Group and the Bank were prepared, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of any bad loans and advances and the making of allowance for doubtful loans and advances, and satisfied themselves that all known bad loans and advances had been written off and adequate allowance had been made for doubtful loans and advances.

At the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad loans and advances, or the amount of allowance for doubtful on loans and advances in the financial statements of the Group and of the Bank, inadequate to any material extent.

Assets

Before the financial statements of the Group and of the Bank were prepared, the Directors took reasonable steps to ensure that any assets, other than loans and advances, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Group and of the Bank had been written down to an amount which they might be expected to realise.

At the date of this report, the Director are not aware of any circumstances, which would render the values attributed to the assets in the financial statements of the Group and of the Bank misleading.

Valuation methods

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Group and of the Bank misleading or inappropriate.

Contingent and other liabilities

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group and of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person, or
- (b) any contingent liability in respect of the Group and of the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability of the Group and of the Bank has become enforceable or is likely to become enforceable within the period of 12 months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Bank to meet its obligations as and when they fall due.

Items of unusual nature

The results of the operations of the Group and of the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature, except for:

COVID-19 pandemic and its impact on ECL

The ECL was estimated based on a range of forecast economic conditions as at reporting date. The Novel Coronavirus (COVID-19) outbreak has spread globally causing disruption to business and economic activity. The impact on GDP and other key indicators has been considered when determining the severity and likelihood of downside economic scenarios that are used to estimate ECL in which the calculation of the ECL in this current environment is subject to significant uncertainty. Management provides its best estimate on the possible outcomes of COVID-19 on the Group and the Bank, however, this estimate may move materially as events unfold.

Items of unusual nature (continued)

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group and of the Bank for the current year in which this report is made.

Change of circumstances

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group and of the Bank, which would render any amount stated in the financial statements misleading.

The Board of Directors

The Directors who served during the year and at the date of this report are:

Mr. Mao-Chin Chen	Chairman
Mr. Chi-Kan Chung	Director
Ms. I-Yen Kuo	Director
Mrs. Hun Phalin	Director
Mr. Chien-Hung Chen	Director
Mr. Tung-Lung Kuo	Independent Director
Mr. Chuan-Hsing Huang	Independent Director

Directors' interests

None of the Directors held or dealt directly in the shares of the Bank and its subsidiary during the financial year.

Directors' benefits

During and at the end of the financial year, no arrangements existed to which the Group and the Bank is a party with the object of enabling Directors of the Group and of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Group and of the Bank or any other body corporate.

During the financial year, no Director of the Group and of the Bank has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as disclosed in the financial statements) by reason of a contract made by the Group and the Bank or a related corporation with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than as disclosed in the financial statements.

Directors' responsibility in respect of the financial statements

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial positions of the Group and of the Bank as at 31 December 2021, and their financial performance and their cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian International Financial Reporting Standards ("CIFRSs") or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) oversee the Group's and the Bank's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- (iv) assess the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intends to liquidate the Group and the Bank or to cease operations, or has no realistic alternative but to do so; and
- (v) control and direct effectively the Group and the Bank in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

The Board of Directors confirms that they have complied with the above requirements in preparing the financial statements.

Approval of the financial statements

We, on behalf of the Board of Directors, do hereby approve the accompanying financial statements together with the notes thereto, in our opinion, present fairly, in all material respects, the financial positions of the Group and of the Bank as at 31 December 2021, and their financial performances and their cash flows for the year then ended in accordance with CIFRSs.

Signed on behalf of the Board of Directors,



Mr. Mao-Chin Chen
Chairman





Mr. Chi-Kan Chung
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia
Date: 7 March 2022

7- Independent Auditor's Report

Report of the Independent Auditors

To the shareholder of
Union Commercial Bank Plc.

Opinion

We have audited the consolidated financial statements of Union Commercial Bank Plc. (“the Bank”) and its subsidiary (collectively referred to as “the Group”) and the separate financial statements of the Bank, which comprise the consolidated and separate statements of financial position as at 31 December 2021, the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information (hereafter referred to as “the financial statements”) as set out on pages 9 to 125.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and unconsolidated financial positions of the Group and of the Bank as at 31 December 2021, and their consolidated and unconsolidated financial performances and their consolidated and unconsolidated cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards (“CIFRSs”).

Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing (“CISAs”). Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our 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.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the Report of the Board of Directors on pages 1 to 5, and the annual report, which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and 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, based on the work we have performed on the other information obtained prior to the date of this auditors' report, 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with CIFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's and the Bank's ability to continue as a 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 Group and the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Bank's financial reporting process.

Auditors' 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 auditors' 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 CISA 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.

As part of an audit in accordance with CISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For **KPMG Cambodia Ltd**



Lim Chew Teng
Partner

Phnom Penh, Kingdom of Cambodia

7 March 2022

8 - Financial Report

Union Commercial Bank Plc. and its subsidiary

Consolidated statement of financial position as at 31 December 2021

	Note	31 December		31 December	
		2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
ASSETS					
Cash and cash equivalents, net	6	92,361,768	207,986,801	376,281,843	841,306,610
Statutory deposits	7	48,273,549	47,372,664	196,666,439	191,622,426
Placements with other banks	8	12,848,836	43,440,000	52,346,158	175,714,800
Equity investments at FVOCI		543,918	567,672	2,215,922	2,296,233
Loans and advances to customers, net	9	557,330,560	505,614,128	2,270,564,701	2,045,209,148
Property and equipment	10	38,543,576	39,511,349	157,026,529	159,823,407
Intangible assets	11	448,079	570,860	1,825,474	2,309,129
Right-of-use assets	12	2,908,431	3,363,964	11,848,948	13,607,234
Deferred tax assets, net	16C	2,940,468	1,838,955	11,979,467	7,438,573
Other assets	13	3,667,353	4,374,751	14,940,796	17,695,868
TOTAL ASSETS		759,866,538	854,641,144	3,095,696,277	3,457,023,428
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities					
Deposits from banks and other financial institutions	14	46,203,875	40,847,852	188,234,587	165,229,561
Deposits from customers	15	448,233,051	567,692,232	1,826,101,450	2,296,315,078
Allowance for financial guarantee contracts	31A	458,644	463,816	1,868,516	1,876,136
Borrowings	17	107,152,786	97,827,737	436,540,450	395,713,196
Subordinated debts	18	23,270,160	29,092,643	94,802,632	117,679,741
Lease liabilities	19	3,428,756	3,877,933	13,968,752	15,686,239
Employee benefit obligations	20	353,272	367,845	1,439,230	1,487,933
Current income tax liabilities	16B	3,448,131	531,894	14,047,686	2,151,511
Other liabilities	21	11,979,844	11,929,260	48,805,885	48,253,858
Total liabilities		644,528,519	752,631,212	2,625,809,188	3,044,393,253

Union Commercial Bank Plc. and its subsidiary

Consolidated statement of financial position (continued) as at 31 December 2021

	Note	31 December		31 December	
		2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Shareholder's equity					
Share capital	22	80,000,000	80,000,000	320,000,000	320,000,000
Regulatory reserves		-	1,466,276	-	5,939,278
Non-distributable reserve		25,622,772	25,622,772	103,644,113	103,644,113
Fair value reserve		412,861	431,863	1,672,446	1,749,746
Retained earnings/ (Accumulated losses)		9,302,386	(5,510,979)	38,342,528	(21,892,709)
Currency translation reserves		-	-	6,228,002	3,189,747
Total shareholder's equity		<u>115,338,019</u>	<u>102,009,932</u>	<u>469,887,089</u>	<u>412,630,175</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u>759,866,538</u>	<u>854,641,144</u>	<u>3,095,696,277</u>	<u>3,457,023,428</u>

The accompanying notes form an integral part of these financial statements.

Union Commercial Bank Plc. and its subsidiary

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021

	Note	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Interest income	23	40,718,648	37,656,439	165,643,460	153,525,301
Interest expense	24	(9,278,769)	(11,660,791)	(37,746,032)	(47,541,046)
Net interest income		<u>31,439,879</u>	<u>25,995,648</u>	<u>127,897,428</u>	<u>105,984,255</u>
Fees and commission income	25	3,866,583	3,394,164	15,729,260	13,838,007
Fees and commission expense	26	(628,998)	(562,844)	(2,558,764)	(2,294,715)
Net fees and commission income		<u>3,237,585</u>	<u>2,831,320</u>	<u>13,170,496</u>	<u>11,543,292</u>
Other income	27	<u>5,269,283</u>	<u>3,288,322</u>	<u>21,435,443</u>	<u>13,406,488</u>
Total operating income		<u>39,946,747</u>	<u>32,115,290</u>	<u>162,503,367</u>	<u>130,934,035</u>
Personnel expenses	28	(8,744,291)	(7,656,352)	(35,571,776)	(31,214,947)
Depreciation and amortisation	29	(3,527,312)	(3,535,843)	(14,349,105)	(14,415,631)
Other operating expenses	30	(5,130,505)	(4,930,837)	(20,870,894)	(20,103,022)
Impairment losses on financial instruments	9A(ii)	<u>(6,352,640)</u>	<u>(3,074,146)</u>	<u>(25,842,540)</u>	<u>(12,533,293)</u>
Profit before income tax		<u>16,191,999</u>	<u>12,918,112</u>	<u>65,869,052</u>	<u>52,667,142</u>
Income tax expense	16A	<u>(2,710,477)</u>	<u>(4,906,762)</u>	<u>(11,026,220)</u>	<u>(20,004,869)</u>
Net profit for the year		<u><u>13,481,522</u></u>	<u><u>8,011,350</u></u>	<u><u>54,842,832</u></u>	<u><u>32,662,273</u></u>
Other comprehensive (loss)/income					
Unrealised (loss)/gain on equity investments at FVOCI, net of tax		(19,002)	63,600	(77,300)	259,297
Currency translation differences		-	-	3,038,255	(3,078,848)
Total comprehensive income for the year		<u><u>13,462,520</u></u>	<u><u>8,074,950</u></u>	<u><u>57,803,787</u></u>	<u><u>29,842,722</u></u>

Union Commercial Bank Plc. and its subsidiary

Consolidated statement of profit or loss and other comprehensive income (continued) for the year ended 31 December 2021

	Note	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Net profit attributable to:					
Equity holder of the Bank		13,347,089	7,906,931	54,295,959	32,239,167
Non-controlling interest		<u>134,433</u>	<u>104,419</u>	<u>546,873</u>	<u>423,106</u>
		<u>13,481,522</u>	<u>8,011,350</u>	<u>54,842,832</u>	<u>32,662,273</u>
Total comprehensive income attributable to:					
Equity holder of the Bank		13,328,087	7,970,511	57,256,914	29,419,616
Non-controlling interest		<u>134,433</u>	<u>104,419</u>	<u>546,873</u>	<u>423,106</u>
		<u>13,462,520</u>	<u>8,074,950</u>	<u>57,803,787</u>	<u>29,842,722</u>

The accompanying notes form an integral part of these financial statements.

Union Commercial Bank Plc. and its subsidiary

Consolidated statement of changes in equity for the year ended 31 December 2021

	Share capital		Regulatory reserves		Non-distributable reserve		Fair value reserve		(Accumulated losses)/ Retained earnings		Currency translation reserves		Total	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
For the year ended 31 December 2021														
At 1 January 2021	80,000,000	320,000,000	1,466,276	5,939,278	25,622,772	103,644,113	431,863	1,749,746	(5,510,979)	(21,892,709)	-	3,189,747	102,009,932	412,630,175
Transaction recognised directly in equity														
Transfers from regulatory reserves to retained earnings	-	-	(1,466,276)	(5,939,278)	-	-	-	-	1,466,276	5,939,278	-	-	-	-
Total comprehensive income														
Net profit for the year	-	-	-	-	-	-	-	-	13,347,089	54,295,959	-	-	13,347,089	54,295,959
Unrealised loss on equity investments at FVOCI, net of tax	-	-	-	-	-	-	(19,002)	(77,300)	-	-	-	-	(19,002)	(77,300)
Currency translation differences	-	-	-	-	-	-	-	-	-	-	-	3,038,255	-	3,038,255
	-	-	-	-	-	-	(19,002)	(77,300)	13,347,089	54,295,959	-	3,038,255	13,328,087	57,256,914
At 31 December 2021	80,000,000	320,000,000	-	-	25,622,772	103,644,113	412,861	1,672,446	9,302,386	38,342,528	-	6,228,002	115,338,019	469,887,089
For the year ended 31 December 2020														
At 1 January 2020	80,000,000	320,000,000	1,549,187	6,277,306	25,622,772	103,644,113	368,263	1,490,449	(13,500,821)	(54,469,904)	-	6,268,595	94,039,401	383,210,559
Transaction recognised directly in equity														
Transfers from regulatory reserves to accumulated losses	-	-	(82,911)	(338,028)	-	-	-	-	82,911	338,028	-	-	-	-
Total comprehensive income														
Net profit for the year	-	-	-	-	-	-	-	-	7,906,931	32,239,167	-	-	7,906,931	32,239,167
Unrealised gain on equity investments at FVOCI, net of tax	-	-	-	-	-	-	63,600	259,297	-	-	-	-	63,600	259,297
Currency translation differences	-	-	-	-	-	-	-	-	-	-	-	(3,078,848)	-	(3,078,848)
	-	-	-	-	-	-	63,600	259,297	7,906,931	32,239,167	-	(3,078,848)	7,970,531	29,419,616
At 31 December 2020	80,000,000	320,000,000	1,466,276	5,939,278	25,622,772	103,644,113	431,863	1,749,746	(5,510,979)	(21,892,709)	-	3,189,747	102,009,932	412,630,175

The accompanying notes form an integral part of these financial statements.

Union Commercial Bank Plc. and its subsidiary

Consolidated statement of cash flows for the year ended 31 December 2021

	Note	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Cash flows from operating activities					
Net profit for the year		13,481,522	8,011,350	54,842,832	32,662,273
<i>Adjustments for:</i>					
Income tax expense	16A	2,710,477	4,906,762	11,026,220	20,004,869
Depreciation and amortisation	29	3,527,312	3,535,843	14,349,105	14,415,631
Net interest income		(31,439,879)	(25,995,648)	(127,897,428)	(105,984,255)
Net impairment loss on loans and advances to customers	9A(ii)	6,365,483	2,592,142	25,894,786	10,568,162
Net impairment loss on balances with other banks and financial institutions	9A(ii)	(7,671)	573,400	(31,206)	2,337,752
Net impairment loss on guarantee contracts	9A(ii)	(5,172)	(91,396)	(21,040)	(372,621)
Intangible assets written off	11	-	98	-	400
Property and equipment written off	10	184	342,498	748	1,396,364
Gains on disposals of property and equipment		(236,992)	(16,415)	(964,083)	(66,924)
		(5,604,736)	(6,141,366)	(22,800,066)	(25,038,349)
<i>Changes in:</i>					
Placements with other banks		30,614,674	(31,040,000)	124,540,494	(126,550,080)
Statutory deposits		(902,554)	26,864,297	(3,671,590)	109,525,739
Loans and advances to customers		(58,206,066)	(31,671,957)	(236,782,276)	(129,126,569)
Other assets		707,398	(871,099)	2,877,695	(3,551,471)
Deposits from banks and other financial institutions		4,623,572	29,476,235	18,808,691	120,174,610
Deposits from customers		(117,569,944)	118,720,441	(478,274,532)	484,023,238
Other liabilities		(83,849)	(8,332,677)	(341,098)	(33,972,324)
Cash (used in)/generated from operations		(146,421,505)	97,003,874	(595,642,682)	395,484,794
Employee benefit obligation paid	20	(14,573)	(4,365)	(59,283)	(17,796)
Interest income received		40,823,093	37,347,552	166,068,342	152,265,970
Interest expense paid		(10,401,491)	(9,131,621)	(42,313,265)	(37,229,619)
Income tax paid	16B	(879,563)	(445,202)	(3,578,062)	(1,815,089)
Withholding tax credit	16B	(11,438)	-	(46,530)	-
Cash (used in)/generated from operating activities		(116,905,477)	124,770,238	(475,571,480)	508,688,260

Union Commercial Bank Plc. and its subsidiary

Consolidated statement of cash flows (continued) for the year ended 31 December 2021

	Note	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Cash flows from investing activities					
Proceeds from disposals of property and equipment		260,843	19,402	1,061,108	79,102
Purchases of property and equipment	10	(1,929,656)	(839,706)	(7,849,841)	(3,423,481)
Purchases of intangible assets	11	(75,604)	(151,730)	(307,557)	(618,603)
Cash used in investing activities		<u>(1,744,417)</u>	<u>(972,034)</u>	<u>(7,096,290)</u>	<u>(3,962,982)</u>
Cash flows from financing activities					
Payments for borrowings		(135,558,468)	(251,371,410)	(551,451,848)	(1,024,841,239)
Proceeds from borrowings		145,100,000	247,942,147	590,266,800	1,010,860,133
Payments for subordinated debts		(5,800,000)	-	(23,594,400)	-
Payments for lease liabilities	19	(724,342)	(789,484)	(2,946,623)	(3,218,726)
Cash generated from/(used in) financing activities		<u>3,017,190</u>	<u>(4,218,747)</u>	<u>12,273,929</u>	<u>(17,199,832)</u>
Net (decrease)/increase in cash and cash equivalents		<u>(115,632,704)</u>	<u>119,579,457</u>	<u>(470,393,841)</u>	<u>487,525,446</u>
Cash and cash equivalents at 1 January		<u>208,640,253</u>	<u>89,060,796</u>	<u>843,949,819</u>	<u>362,922,744</u>
Currency translation differences		-	-	5,356,777	(6,498,367)
Cash and cash equivalents at 31 December	6	<u>93,007,549</u>	<u>208,640,253</u>	<u>378,912,755</u>	<u>843,949,823</u>

The accompanying notes form an integral part of these financial statements.

Union Commercial Bank Plc.

Separate statement of financial position as at 31 December 2021

	Note	31 December		31 December	
		2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
ASSETS					
Cash and cash equivalents, net	6	92,257,189	207,905,062	375,855,788	840,975,976
Statutory deposits	7	48,273,549	47,372,664	196,666,439	191,622,426
Placements with other banks	8	11,048,836	40,940,000	45,012,958	165,602,300
Equity investments at FVOCI		543,918	567,672	2,215,922	2,296,233
Loans and advances to customers, net	9	557,330,560	505,614,128	2,270,564,701	2,045,209,148
Investment in subsidiary		490	490	1,996	1,982
Property and equipment	10	28,374,965	30,420,818	115,599,607	123,052,209
Intangible assets	11	448,079	570,645	1,825,474	2,308,259
Right-of-use assets	12	7,901,098	8,102,822	32,189,073	32,775,915
Deferred tax assets, net	16C	3,193,641	1,836,112	13,010,893	7,427,073
Other assets	13	3,638,278	4,321,163	14,822,345	17,479,104
TOTAL ASSETS		753,010,603	847,651,576	3,067,765,196	3,428,750,625
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities					
Deposits from banks and other financial institutions	14	46,203,875	40,847,852	188,234,587	165,229,561
Deposits from customers	15	448,718,059	568,268,536	1,828,077,372	2,298,646,228
Allowance for financial guarantee contracts	31A	458,644	463,816	1,868,516	1,876,136
Borrowings	17	95,139,148	85,813,057	387,596,889	347,113,816
Subordinated debts	18	23,270,160	29,092,643	94,802,632	117,679,741
Lease liabilities	19	9,720,557	9,820,230	39,601,549	39,722,830
Employee benefit obligations	20	353,272	367,845	1,439,230	1,487,933
Current income tax liabilities	16B	3,403,955	477,789	13,867,713	1,932,657
Other liabilities	21	11,065,156	11,183,189	45,079,445	45,235,999
Total liabilities		638,332,826	746,334,957	2,600,567,933	3,018,924,901

Union Commercial Bank Plc.

Separate statement of financial position (continued) as at 31 December 2021

	Note	31 December		31 December	
		2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Shareholder's equity					
Share capital	22	80,000,000	80,000,000	320,000,000	320,000,000
Regulatory reserves		-	1,466,276	-	5,939,278
Non-distributable reserve		25,622,772	25,622,772	103,644,113	103,644,113
Fair value reserve		412,861	431,863	1,672,446	1,749,746
Retained earnings/ (Accumulated losses)		8,642,144	(6,204,292)	35,669,252	(24,700,516)
Currency translation reserves		-	-	6,211,452	3,193,103
Total shareholder's equity		<u>114,677,777</u>	<u>101,316,619</u>	<u>467,197,263</u>	<u>409,825,724</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u>753,010,603</u>	<u>847,651,576</u>	<u>3,067,765,196</u>	<u>3,428,750,625</u>

The accompanying notes form an integral part of these financial statements.

Union Commercial Bank Plc.

Separate statement of profit or loss and other comprehensive income for the year ended 31 December 2021

	Note	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Interest income	23	40,596,371	37,425,355	165,146,037	152,583,172
Interest expense	24	<u>(9,541,974)</u>	<u>(11,677,734)</u>	<u>(38,816,750)</u>	<u>(47,610,122)</u>
Net interest income		31,054,397	25,747,621	126,329,287	104,973,050
Fees and commission income	25	3,866,583	3,394,164	15,729,260	13,838,007
Fees and commission expense	26	<u>(628,998)</u>	<u>(562,844)</u>	<u>(2,558,764)</u>	<u>(2,294,715)</u>
Net fees and commission income		3,237,585	2,831,320	13,170,496	11,543,292
Other income	27	<u>5,269,283</u>	<u>3,336,493</u>	<u>21,435,443</u>	<u>13,602,882</u>
Total operating income		39,561,265	31,915,434	160,935,226	130,119,224
Personnel expenses	28	(8,744,178)	(7,656,237)	(35,571,316)	(31,214,478)
Depreciation and amortisation	29	(3,599,012)	(3,608,388)	(14,640,781)	(14,711,398)
Other operating expenses	30	(5,081,008)	(4,918,900)	(20,669,541)	(20,054,355)
Impairment losses on financial instruments	9A(ii)	<u>(6,352,640)</u>	<u>(3,074,146)</u>	<u>(25,842,540)</u>	<u>(12,533,293)</u>
Profit before income tax		15,784,427	12,657,763	64,211,048	51,605,700
Income tax expense	16A	<u>(2,404,267)</u>	<u>(4,851,156)</u>	<u>(9,780,558)</u>	<u>(19,778,163)</u>
Net profit for the year		<u>13,380,160</u>	<u>7,806,607</u>	<u>54,430,490</u>	<u>31,827,537</u>
Other comprehensive (loss)/income					
Unrealised (loss)/gain on equity investments at FVOCI, net of tax		(19,002)	63,600	(77,300)	259,297
Currency translation differences		<u>-</u>	<u>-</u>	<u>3,018,349</u>	<u>(3,055,239)</u>
Total comprehensive income for the year		<u>13,361,158</u>	<u>7,870,207</u>	<u>57,371,539</u>	<u>29,031,595</u>

The accompanying notes form an integral part of these financial statements.

Union Commercial Bank Plc.

Separate statement of changes in equity for the year ended 31 December 2021

	Share capital		Regulatory reserves		Non-distributable reserve		Fair value reserve		(Accumulated losses)/ Retained earnings		Currency translation reserves		Total	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
For the year ended 31 December 2021														
At 1 January 2021	80,000,000	320,000,000	1,466,276	5,939,278	25,622,772	103,644,113	431,863	1,749,746	(6,204,292)	(24,700,516)	-	3,193,103	101,316,619	409,825,724
Transaction recognised directly in equity														
Transfers from regulatory reserves to retained earnings	-	-	(1,466,276)	(5,939,278)	-	-	-	-	1,466,276	5,939,278	-	-	-	-
Total comprehensive income														
Net profit for the year	-	-	-	-	-	-	-	-	13,380,160	54,430,490	-	-	13,380,160	54,430,490
Unrealised loss on equity investments at FVOCI, net of tax	-	-	-	-	-	-	(19,002)	(77,300)	-	-	-	-	(19,002)	(77,300)
Currency translation differences	-	-	-	-	-	-	-	-	-	-	-	3,018,349	-	3,018,349
	-	-	-	-	-	-	(19,002)	(77,300)	13,380,160	54,430,490	-	3,018,349	13,361,158	57,371,539
At 31 December 2021	80,000,000	320,000,000	-	-	25,622,772	103,644,113	412,861	1,672,446	8,642,144	35,669,252	-	6,211,452	114,677,777	467,197,263
For the year ended 31 December 2020														
At 1 January 2020	80,000,000	320,000,000	1,549,187	6,277,306	25,622,772	103,644,113	368,263	1,490,449	(14,093,810)	(56,866,081)	-	6,248,342	93,446,412	380,794,129
Transaction recognised directly in equity														
Transfers from regulatory reserves to accumulated losses	-	-	(82,911)	(338,028)	-	-	-	-	82,911	338,028	-	-	-	-
Total comprehensive income														
Net profit for the year	-	-	-	-	-	-	-	-	7,806,607	31,827,537	-	-	7,806,607	31,827,537
Unrealised gain on equity investments at FVOCI, net of tax	-	-	-	-	-	-	63,600	259,297	-	-	-	-	63,600	259,297
Currency translation differences	-	-	-	-	-	-	-	-	-	-	-	(3,055,239)	-	(3,055,239)
	-	-	-	-	-	-	63,600	259,297	7,806,607	31,827,537	-	(3,055,239)	7,870,207	29,031,595
At 31 December 2020	80,000,000	320,000,000	1,466,276	5,939,278	25,622,772	103,644,113	431,863	1,749,746	(6,204,292)	(24,700,516)	-	3,193,103	101,316,619	409,825,724

The accompanying notes form an integral part of these financial statements.

Union Commercial Bank Plc.

Separate statement of cash flows for the year ended 31 December 2021

	Note	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Cash flows from operating activities					
Net profit for the year		13,380,160	7,806,607	54,430,490	31,827,537
<i>Adjustments for:</i>					
Income tax expense	16A	2,404,267	4,851,156	9,780,558	19,778,163
Depreciation and amortisation	29	3,599,012	3,608,388	14,640,781	14,711,398
Net interest income		(31,054,397)	(25,747,621)	(126,329,287)	(104,973,050)
Net impairment loss on loans and advances to customers	9A(ii)	6,365,483	2,592,142	25,894,786	10,568,162
Net impairment loss on balances with other banks and financial institutions	9A(ii)	(7,671)	573,400	(31,206)	2,337,752
Net impairment loss on guarantee contracts	9A(ii)	(5,172)	(91,396)	(21,040)	(372,621)
Intangible assets written off	11	-	98	-	400
Property and equipment written off	10	184	342,498	748	1,396,364
Gains on disposals of property and equipment		(236,992)	(16,415)	(964,083)	(66,924)
		(5,555,126)	(6,081,143)	(22,598,253)	(24,792,819)
<i>Changes in:</i>					
Placements with other banks		29,920,216	(30,540,000)	121,715,439	(124,511,580)
Statutory deposits		(902,554)	26,864,297	(3,671,590)	109,525,739
Loans and advances to customers		(58,206,066)	(31,671,957)	(236,782,276)	(129,126,569)
Other assets		682,884	(883,098)	2,777,972	(3,600,391)
Deposits from banks and other financial institutions		5,379,997	29,734,590	21,885,828	121,227,923
Deposits from customers		(113,087,556)	119,031,816	(460,040,178)	485,292,714
Other liabilities		(118,033)	(8,430,858)	(480,158)	(34,372,608)
Cash (used in)/generated from operations		(141,886,238)	98,023,647	(577,193,216)	399,642,409
Employee benefit obligation paid	20	(14,573)	(4,365)	(59,283)	(17,796)
Interest income received		40,693,139	37,123,956	165,539,689	151,354,369
Interest expense paid		(15,446,630)	(9,527,219)	(62,836,891)	(38,842,472)
Income tax paid	16B	(819,440)	(443,701)	(3,333,482)	(1,808,969)
Withholding tax credit	16B	(11,438)	-	(46,530)	-
Cash (used in)/generated from operating activities		(117,485,180)	125,172,318	(477,929,713)	510,327,541

Union Commercial Bank Plc.

Separate statement of cash flows (continued) for the year ended 31 December 2021

	Note	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Cash flows from investing activities					
Proceeds from disposals of property and equipment		260,843	19,402	1,061,108	79,102
Purchases of property and equipment	10	(812,856)	(839,706)	(3,306,698)	(3,423,481)
Purchases of intangible assets	11	(75,604)	(151,730)	(307,557)	(618,603)
Cash used in investing activities		<u>(627,617)</u>	<u>(972,034)</u>	<u>(2,553,147)</u>	<u>(3,962,982)</u>
Cash flows from financing activities					
Payments for borrowings		(135,558,467)	(251,371,410)	(551,451,844)	(1,024,841,239)
Proceeds from borrowings		145,100,000	247,942,147	590,266,800	1,010,860,133
Payments for subordinated debts		(5,800,000)	-	(23,594,400)	-
Payments for lease liabilities	19	(1,284,280)	(1,252,969)	(5,224,451)	(5,108,355)
Cash generated from/(used in) financing activities		<u>2,457,253</u>	<u>(4,682,232)</u>	<u>9,996,105</u>	<u>(19,089,461)</u>
Net (decrease)/increase in cash and cash equivalents		(115,655,544)	119,518,052	(470,486,755)	487,275,098
Cash and cash equivalents at 1 January		208,558,514	89,040,462	843,619,189	362,839,883
Currency translation differences		-	-	5,354,266	(6,495,792)
Cash and cash equivalents at 31 December	6	<u>92,902,970</u>	<u>208,558,514</u>	<u>378,486,700</u>	<u>843,619,189</u>

The accompanying notes form an integral part of these financial statements.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements for the year ended 31 December 2021

1. Reporting entity

Union Commercial Bank Plc. (“the Bank”), established on 31 March 1994, is duly registered with the Ministry of Commerce under the registration No. Co. 6800KH/2004, and was granted a renewal of banking license by the National Bank of Cambodia (“NBC”) on 28 November 2006 for an indefinite period following the Prakas No. B7-06-207, dated 13 September 2006. On 29 August 2016, the Bank has obtained the Re-Registration No. 00007085 from the Ministry of Commerce. The Bank is a subsidiary of E.Sun Commercial Bank Ltd., a bank incorporated in Taiwan, Republic of China. The ultimate parent is E.Sun Financial Holding Company Ltd., an entity incorporated in Taiwan and listed on Taiwan Stock Exchange.

The Bank’s main activities are mobilising and receiving short, medium and long term deposits from various organisations and individuals; lending on a short, medium and long term basis to various organisations and individuals based on the nature and ability of the Bank’s capital resources; conducting foreign currency transactions; providing international trade finance services, discounting of commercial notes, bonds and valued documents; providing transaction services between customers; and other banking services as approved by the NBC, through the Bank’s head office at Phnom Penh and its provincial branches in Cambodia.

URE Land Holding Co., Ltd., the Subsidiary, was incorporated on 25 July 2013 by the Bank and Cambodian individual. The principal activity of the Subsidiary is to hold parcels of land for the Group’s and the Bank’s use. The Bank holds 49% of shareholding interest in the Subsidiary.

The registered office of the Bank is located at No. 441, Preah Monivong Blvd, Sangkat Boeung Pralit, Khan 7 Makara, Phnom Penh, the Kingdom of Cambodia.

As at 31 December 2021, the Group and the Bank had 576 employees (31 December 2020: 558 employees).

The consolidated financial statements comprise the Bank and its Subsidiary (collectively referred to as “the Group”).

2. Basis of accounting

The consolidated financial statements of the Group and separate financial statements of the Bank (hereafter referred to as “the financial statements”) have been prepared in accordance with the Cambodian International Financial Reporting Standards (“CIFRSs”).

Details of the Group’s and of the Bank’s accounting policies are included in Note 35.

The financial statements were authorised for issue by the Bank’s Board of Directors on 7 March 2022.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

3. Functional and presentation currency

The Bank transacts its business and maintain its accounting records in United States Dollars (“US\$”). Management has determined the US\$ to be the Bank’s functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Bank.

These financial statements are presented in US\$, which is the Bank’s functional currency. All amounts have been rounded to the nearest dollar, except when otherwise indicated.

4. Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group’s and of the Bank’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

- Note 35D(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 35D(vii): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.
- Note 35B: determination of control over the Subsidiary.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment for the year ended 31 December 2021 are included in the following notes:

- Note 35D(vi): determination of the fair value of financial instruments with significant unobservable inputs.
- Note 35D(vii): impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Note 35D(vii): impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

4. Use of judgments and estimates (continued)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment for the year ended 31 December 2021 are included in the following notes: (continued)

COVID-19 pandemic and its impact on ECL

The ECL was estimated based on a range of forecast economic conditions as at reporting date. The Novel Coronavirus (COVID-19) outbreak has spread globally causing disruption to business and economic activity. The impact on GDP and other key indicators has been considered when determining the severity and likelihood of downside economic scenarios that are used to estimate ECL. Management estimates have been determined based on possible forward-looking scenarios, considering the facts, circumstances and forecast of the future economic conditions and supportable information that is available as at the reporting date.

The calculation of the ECL in this current environment is subject to significant uncertainty. Management provides its best estimate on the possible outcomes of COVID-19 on the Group and the Bank; however, this estimate may move materially as events unfold. Consequently, this number should not be seen as firm guidance or a forecast as to the final financial impacts expected. In the event the impacts are more severe or prolonged than anticipated in the scenarios, this will have a corresponding impact on the ECL, the financial position and performance of the Group and the Bank.

5. Translation of United States Dollars into Khmer Riel

The financial statements are expressed in United States Dollars which is the Bank's functional currency. The translations of United States Dollars amounts into Khmer Riel ("KHR") meets the presentation requirements pursuant to Law on Accounting and Auditing and has been done in compliance with CIAS 21 *The Effects of Changes in Foreign Exchange Rates*.

Assets and liabilities are translated at the closing rate as at the reporting date and equity is translated at the historical rate. The consolidated and separate statements of profit or loss and other comprehensive income and cash flows are translated into KHR at the average rate for the year, which have been deemed to approximate the exchange rates at the date of transaction as exchange rates have not fluctuated significantly during the period. Exchange differences arising from the translation are recognised as "Currency Translation Reserves" in other comprehensive income.

The Group and the Bank uses the following exchange rates:

			Closing rate	Average rate
31 December 2021	US\$1	=	KHR4,074	KHR4,068
31 December 2020	US\$1	=	KHR4,045	KHR4,077

These convenience translations should not be construed as representations that the United States Dollars amounts have been, could have been, or could in the future be, converted into Khmer Riels at this or any other rate of exchange.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

6. Cash and cash equivalents, net

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group				
Cash on hand	26,026,939	74,018,889	106,033,749	299,406,406
Cash equivalents with other banks	66,980,610	134,621,364	272,879,006	544,543,417
	93,007,549	208,640,253	378,912,755	843,949,823
Less: Allowance for impairment losses	(645,781)	(653,452)	(2,630,912)	(2,643,213)
	<u>92,361,768</u>	<u>207,986,801</u>	<u>376,281,843</u>	<u>841,306,610</u>
Bank				
Cash on hand	26,026,939	74,018,889	106,033,749	299,406,406
Cash equivalents with other banks	66,876,031	134,539,625	272,452,951	544,212,783
	92,902,970	208,558,514	378,486,700	843,619,189
Less: Allowance for impairment losses	(645,781)	(653,452)	(2,630,912)	(2,643,213)
	<u>92,257,189</u>	<u>207,905,062</u>	<u>375,855,788</u>	<u>840,975,976</u>

Movements of allowance for impairment losses of cash and cash equivalents were as follows:

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group and Bank				
At 1 January	653,452	80,052	2,643,213	326,212
Recognised in profit or loss	(7,671)	573,400	(31,206)	2,337,752
Currency translation differences	-	-	18,905	(20,751)
At 31 December	<u>645,781</u>	<u>653,452</u>	<u>2,630,912</u>	<u>2,643,213</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

7. Statutory deposits

		31 December		31 December	
		2021	2020	2021	2020
		US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
Group and Bank					
Capital guarantee deposit	A	8,001,951	8,000,000	32,599,949	32,360,000
Reserve requirements on customers' deposits	B	<u>40,271,598</u>	<u>39,372,664</u>	<u>164,066,490</u>	<u>159,262,426</u>
		<u>48,273,549</u>	<u>47,372,664</u>	<u>196,666,439</u>	<u>191,622,426</u>

A. Capital guarantee deposit

Under the NBC's Prakas No. B7-01-136 dated 15 October 2001, the Bank is required to maintain a statutory deposit 10% of its registered capital. This deposit is not available for use in the Bank's day-to-day operations and is refundable should the Bank voluntarily cease its operations in Cambodia. Capital guarantee deposit earned interest at rates of 0.06% - 0.04% (2020: 0.46% - 0.62%) per annum.

B. Reserve requirements on customers' deposits

The reserve requirements represent the minimum reserve which is calculated based on Reserve Requirements Rate ("RRR") of 8% for KHR and 12.50% for other currencies of the total amount of deposits from customers, non-residential banks and financial institution deposits, and non-residential borrowings. Pursuant to the National Bank of Cambodia's Prakas No. B7-018-282 on the maintenance of reserve requirements against commercial banks' deposits and borrowings, reserve requirements both in KHR and in other currencies bear no interest effective from 29 August 2018.

Under the NBC's Prakas No. B7-020-230 dated 18 March 2020, banks are required to maintain reserve requirements with the NBC in the form of compulsory deposits, computed at 7% of customer deposits and borrowings in KHR and in foreign currencies.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

8. Placements with other banks

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group				
Term deposits with other banks (non-cash equivalents)	<u>12,848,836</u>	<u>43,440,000</u>	<u>52,346,158</u>	<u>175,714,800</u>
Bank				
Term deposits with other banks (non-cash equivalents)	<u>11,048,836</u>	<u>40,940,000</u>	<u>45,012,958</u>	<u>165,602,300</u>

The term deposits are matured from over 3 to 12 months and earn interest rates ranging from 0.12% to 7.50% (2020: from 0.12% to 8.00%) per annum.

9. Loans and advances to customers, net

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group and Bank				
Commercial loans:				
Term loans	93,941,673	80,736,728	382,718,376	326,580,065
Overdraft	2,949,401	3,300,654	12,015,860	13,351,145
Trust receipts	7,407,167	6,439,498	30,176,798	26,047,769
Other commercial loans	10,618,711	16,085,616	43,260,629	65,066,317
Consumer loans:				
Term loans	296,959,891	237,953,907	1,209,814,597	962,523,554
Overdraft	25,192,300	17,448,165	102,633,430	70,577,827
Credit card facilities	5,088,176	2,870,581	20,729,229	11,611,500
Other consumer loans	<u>125,882,582</u>	<u>148,039,079</u>	<u>512,845,639</u>	<u>598,818,076</u>
	568,039,901	512,874,228	2,314,194,558	2,074,576,253
Less: Allowance for impairment losses	<u>(10,709,341)</u>	<u>(7,260,100)</u>	<u>(43,629,857)</u>	<u>(29,367,105)</u>
Loans and advances – net	<u>557,330,560</u>	<u>505,614,128</u>	<u>2,270,564,701</u>	<u>2,045,209,148</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

9. Loans and advances to customers, net (continued)

Gross amounts of loans and advances to customers by maturity are as follows:

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Within 1 month	36,118,308	26,719,534	147,145,987	108,080,515
> 1 to 3 months	5,498,543	4,692,601	22,401,064	18,981,571
> 3 to 6 months	20,762,156	11,297,914	84,585,024	45,700,062
> 6 to 12 months	27,109,689	10,988,704	110,444,873	44,449,308
> 1 to 5 years	176,621,440	159,191,218	719,555,747	643,928,477
Over 5 years	301,929,765	299,984,257	1,230,061,863	1,213,436,320
	<u>568,039,901</u>	<u>512,874,228</u>	<u>2,314,194,558</u>	<u>2,074,576,253</u>

For additional analysis of gross amount of loans and advances to customers, refer to Note 33B.

A. Allowance for impairment losses

- (i) Movements of allowance for impairment losses of loans and advances to customers were analysed as follows:

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group and Bank				
At 1 January	7,260,100	7,078,971	29,367,105	28,846,807
Recognised in profit or loss	6,365,483	2,592,142	25,894,786	10,568,162
Amounts written off	(2,916,242)	(2,411,013)	(11,863,272)	(9,829,700)
Currency translation differences	-	-	231,238	(218,164)
At 31 December	<u>10,709,341</u>	<u>7,260,100</u>	<u>43,629,857</u>	<u>29,367,105</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

9. Loans and advances to customers, net (continued)

A. Allowance for impairment losses (continued)

(ii) Allowance for impairment losses recognised in profit or loss were summarised as follows:

Group and Bank	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Net impairment loss on loans and advances to customers	6,365,483	2,592,142	25,894,786	10,568,162
Net impairment loss on balances with other banks and financial institutions (Note 6)	(7,671)	573,400	(31,206)	2,337,752
Net impairment loss on financial guarantee contracts (Note 31A)	<u>(5,172)</u>	<u>(91,396)</u>	<u>(21,040)</u>	<u>(372,621)</u>
	<u>6,352,640</u>	<u>3,074,146</u>	<u>25,842,540</u>	<u>12,533,293</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

10. Property and equipment

Group	Freehold land US\$	Buildings US\$	Building improvements US\$	Office equipment US\$	Motor vehicles US\$	IT equipment and computers US\$	US\$	Total KHR'000 (Note 5)
2021								
Cost								
At 1 January 2021	8,579,170	25,699,735	10,960,567	2,235,627	1,474,698	3,319,515	52,269,312	211,429,367
Additions	-	1,116,800	276,903	157,053	53,400	325,500	1,929,656	7,849,841
Disposals	-	-	-	(17,565)	(677,007)	(28,979)	(723,551)	(2,943,405)
Write off	-	-	-	(39,056)	-	(25,582)	(64,638)	(262,947)
Currency translation differences	-	-	-	-	-	-	-	1,522,658
At 31 December 2021	<u>8,579,170</u>	<u>26,816,535</u>	<u>11,237,470</u>	<u>2,336,059</u>	<u>851,091</u>	<u>3,590,454</u>	<u>53,410,779</u>	<u>217,595,514</u>
Less: Accumulated depreciation								
At 1 January 2021	-	3,720,218	3,642,326	1,610,616	1,311,916	2,472,887	12,757,963	51,605,960
Depreciation for the year	-	1,251,130	1,055,644	210,693	63,379	292,548	2,873,394	11,688,967
Disposals	-	-	-	(17,565)	(653,156)	(28,979)	(699,700)	(2,846,380)
Write off	-	-	-	(38,872)	-	(25,582)	(64,454)	(262,199)
Currency translation differences	-	-	-	-	-	-	-	382,637
At 31 December 2021	<u>-</u>	<u>4,971,348</u>	<u>4,697,970</u>	<u>1,764,872</u>	<u>722,139</u>	<u>2,710,874</u>	<u>14,867,203</u>	<u>60,568,985</u>
Carrying amounts								
At 31 December 2021	<u>8,579,170</u>	<u>21,845,187</u>	<u>6,539,500</u>	<u>571,187</u>	<u>128,952</u>	<u>879,580</u>	<u>38,543,576</u>	<u>157,026,529</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

10. Property and equipment (continued)

Group	Construction in progress US\$	Freehold land US\$	Buildings US\$	Building improvements US\$	Office equipment US\$	Motor vehicles US\$	IT equipment and computers US\$	US\$	Total KHR'000 (Note 5)
2020									
Cost									
At 1 January 2020	1,666,941	8,579,170	25,699,735	10,239,808	3,023,117	1,551,191	3,206,493	53,966,455	219,913,304
Additions	-	-	-	384,377	306,123	12,100	137,106	839,706	3,423,481
Disposals	-	-	-	-	(18,977)	-	(13,614)	(32,591)	(132,874)
Write off	-	-	-	(424,280)	(1,235,066)	(88,593)	(210,319)	(1,958,258)	(7,983,818)
Transfers and reclassifications	(1,666,941)	-	-	760,662	160,430	-	199,849	(546,000)	(2,226,042)
Currency translation differences	-	-	-	-	-	-	-	-	(1,564,684)
At 31 December 2020	-	8,579,170	25,699,735	10,960,567	2,235,627	1,474,698	3,319,515	52,269,312	211,429,367
Less: Accumulated depreciation									
At 1 January 2020	-	-	2,466,613	3,025,347	2,300,647	1,310,958	2,433,390	11,536,955	47,013,091
Depreciation for the year	-	-	1,253,605	1,018,521	268,590	89,551	236,105	2,866,372	11,686,199
Disposals	-	-	-	-	(15,993)	-	(13,611)	(29,604)	(120,696)
Write off	-	-	-	(401,542)	(942,628)	(88,593)	(182,997)	(1,615,760)	(6,587,454)
Currency translation differences	-	-	-	-	-	-	-	-	(385,180)
At 31 December 2020	-	-	3,720,218	3,642,326	1,610,616	1,311,916	2,472,887	12,757,963	51,605,960
Carrying amounts									
At 31 December 2020	-	8,579,170	21,979,517	7,318,241	625,011	162,782	846,628	39,511,349	159,823,407

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

10. Property and equipment (continued)

Bank							
2021	Buildings US\$	Building improvements US\$	Office equipment US\$	Motor vehicles US\$	IT equipment and computers US\$	Total US\$	KHR'000 (Note 5)
Cost							
At 1 January 2021	24,942,255	10,960,567	2,235,627	1,474,698	3,319,515	42,932,662	173,662,618
Additions	-	276,903	157,053	53,400	325,500	812,856	3,306,698
Disposals	-	-	(17,565)	(677,007)	(28,979)	(723,551)	(2,943,405)
Write off	-	-	(39,056)	-	(25,582)	(64,638)	(262,947)
Currency translation differences	-	-	-	-	-	-	1,245,194
At 31 December 2021	<u>24,942,255</u>	<u>11,237,470</u>	<u>2,336,059</u>	<u>851,091</u>	<u>3,590,454</u>	<u>42,957,329</u>	<u>175,008,158</u>
Less: Accumulated depreciation							
At 1 January 2021	3,474,097	3,642,326	1,610,616	1,311,918	2,472,887	12,511,844	50,610,409
Depreciation for the year	1,212,410	1,055,644	210,693	63,379	292,548	2,834,674	11,531,454
Disposals	-	-	(17,565)	(653,156)	(28,979)	(699,700)	(2,846,380)
Write off	-	-	(38,872)	-	(25,582)	(64,454)	(262,199)
Currency translation differences	-	-	-	-	-	-	375,267
At 31 December 2021	<u>4,686,507</u>	<u>4,697,970</u>	<u>1,764,872</u>	<u>722,141</u>	<u>2,710,874</u>	<u>14,582,364</u>	<u>59,408,551</u>
Carrying amounts							
At 31 December 2021	<u>20,255,748</u>	<u>6,539,500</u>	<u>571,187</u>	<u>128,950</u>	<u>879,580</u>	<u>28,374,965</u>	<u>115,599,607</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

10. Property and equipment (continued)

Bank	Construction in progress US\$	Buildings US\$	Building improvements US\$	Office equipment US\$	Motor vehicles US\$	IT equipment and computers US\$	US\$	Total KHR'000 (Note 5)
2020								
Cost								
At 1 January 2020	1,666,941	24,942,255	10,239,808	3,023,117	1,551,191	3,206,493	44,629,805	181,866,455
Additions	-	-	384,377	306,123	12,100	137,106	839,706	3,423,481
Disposals	-	-	-	(18,977)	-	(13,614)	(32,591)	(132,874)
Write off	-	-	(424,280)	(1,235,066)	(88,593)	(210,319)	(1,958,258)	(7,983,818)
Transfers and classifications	(1,666,941)	-	760,662	160,430	-	199,849	(546,000)	(2,226,042)
Currency translation differences	-	-	-	-	-	-	-	(1,284,584)
At 31 December 2020	-	24,942,255	10,960,567	2,235,627	1,474,698	3,319,515	42,932,662	173,662,618
Less: Accumulated depreciation								
At 1 January 2020	-	2,258,366	3,025,347	2,300,647	1,310,960	2,433,390	11,328,710	46,164,493
Depreciation for the year	-	1,215,731	1,018,521	268,590	89,551	236,105	2,828,498	11,531,786
Disposals	-	-	-	(15,993)	-	(13,611)	(29,604)	(120,696)
Write off	-	-	(401,542)	(942,628)	(88,593)	(182,997)	(1,615,760)	(6,587,454)
Currency translation differences	-	-	-	-	-	-	-	(377,720)
At 31 December 2020	-	3,474,097	3,642,326	1,610,616	1,311,918	2,472,887	12,511,844	50,610,409
Carrying amounts								
At 31 December 2020	-	21,468,158	7,318,241	625,011	162,780	846,628	30,420,818	123,052,209

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

11. Intangible assets

Group	Software			
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Cost				
At 1 January	3,502,629	2,894,741	14,168,134	11,796,070
Additions	75,604	151,730	307,557	618,603
Transfer from property and equipment	-	546,000	-	2,226,042
Write off	(2,500)	(89,842)	(10,170)	(366,286)
Currency translation differences	-	-	102,014	(106,295)
At 31 December	<u>3,575,733</u>	<u>3,502,629</u>	<u>14,567,535</u>	<u>14,168,134</u>
Less: Accumulated amortisation				
At 1 January	2,931,769	2,796,211	11,859,005	11,394,560
Amortisation for the year	198,385	225,302	807,030	918,556
Write off	(2,500)	(89,744)	(10,170)	(365,886)
Currency translation differences	-	-	86,196	(88,225)
At 31 December	<u>3,127,654</u>	<u>2,931,769</u>	<u>12,742,061</u>	<u>11,859,005</u>
Carrying amounts				
At 31 December	<u>448,079</u>	<u>570,860</u>	<u>1,825,474</u>	<u>2,309,129</u>
Bank				
Cost				
At 1 January	3,501,771	2,893,883	14,164,664	11,792,573
Addition	75,604	151,730	307,557	618,603
Transfer from property and equipment	-	546,000	-	2,226,042
Write off	(2,500)	(89,842)	(10,170)	(366,286)
Currency translation differences	-	-	101,990	(106,268)
At 31 December	<u>3,574,875</u>	<u>3,501,771</u>	<u>14,564,041</u>	<u>14,164,664</u>
Less: Accumulated amortisation				
At 1 January	2,931,126	2,795,783	11,856,405	11,392,815
Amortisation for the year	198,170	225,087	806,156	917,680
Write off	(2,500)	(89,744)	(10,170)	(365,886)
Currency translation differences	-	-	86,176	(88,204)
At 31 December	<u>3,126,796</u>	<u>2,931,126</u>	<u>12,738,567</u>	<u>11,856,405</u>
Carrying amounts				
At 31 December	<u>448,079</u>	<u>570,645</u>	<u>1,825,474</u>	<u>2,308,259</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

12. Right-of-use assets

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group				
Right-of-use assets	<u>2,908,431</u>	<u>3,363,964</u>	<u>11,848,948</u>	<u>13,607,234</u>
Bank				
Right-of-use assets	<u>7,901,098</u>	<u>8,102,822</u>	<u>32,189,073</u>	<u>32,775,915</u>
Group	Buildings US\$	Motor vehicles US\$	US\$	Total KHR'000 (Note 5)
2021				
Cost				
At 1 January 2021	5,783,041	35,445	5,818,486	23,535,776
Currency translation differences	-	-	-	168,736
At 31 December 2021	<u>5,783,041</u>	<u>35,445</u>	<u>5,818,486</u>	<u>23,704,512</u>
Accumulated amortisation				
At 1 January 2021	2,430,077	24,445	2,454,522	9,928,542
Amortisation for the year	444,533	11,000	455,533	1,853,108
Currency translation differences	-	-	-	73,914
At 31 December 2021	<u>2,874,610</u>	<u>35,445</u>	<u>2,910,055</u>	<u>11,855,564</u>
Carrying amounts				
31 December 2021	<u>2,908,431</u>	<u>-</u>	<u>2,908,431</u>	<u>11,848,948</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

12. Right-of-use assets (continued)

Group (continued)	Buildings US\$	Motor vehicles US\$	US\$	Total KHR'000 (Note 5)
2020				
Cost				
At 1 January 2020	4,861,933	13,445	4,875,378	19,867,165
Additions	921,108	22,000	943,108	3,845,051
Currency translation differences	-	-	-	(176,440)
At 31 December 2020	<u>5,783,041</u>	<u>35,445</u>	<u>5,818,486</u>	<u>23,535,776</u>
Accumulated amortisation				
At 1 January 2020	1,996,908	13,445	2,010,353	8,192,188
Amortisation for the year	433,169	11,000	444,169	1,810,876
Currency translation differences	-	-	-	(74,522)
At 31 December 2020	<u>2,430,077</u>	<u>24,445</u>	<u>2,454,522</u>	<u>9,928,542</u>
Carrying amounts				
At 31 December 2020	<u>3,341,964</u>	<u>11,000</u>	<u>3,363,964</u>	<u>13,607,234</u>
Bank				
	Lands and buildings US\$	Motor vehicles US\$	US\$	Total KHR'000 (Note 5)
2021				
Cost				
At 1 January 2021	12,749,219	35,445	12,784,664	51,713,966
Additions	364,444	-	364,444	1,482,558
Currency translation differences	-	-	-	372,942
At 31 December 2021	<u>13,113,663</u>	<u>35,445</u>	<u>13,149,108</u>	<u>53,569,466</u>
Accumulated amortisation				
At 1 January 2021	4,657,397	24,445	4,681,842	18,938,051
Amortisation for the year	555,168	11,000	566,168	2,303,171
Currency translation differences	-	-	-	139,171
At 31 December 2021	<u>5,212,565</u>	<u>35,445</u>	<u>5,248,010</u>	<u>21,380,393</u>
Carrying amounts				
At 31 December 2021	<u>7,901,098</u>	<u>-</u>	<u>7,901,098</u>	<u>32,189,073</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

12. Right-of-use assets (continued)

Bank (continued)	Lands and buildings US\$	Motor vehicles US\$	US\$	Total KHR'000 (Note 5)
2020				
Cost				
At 1 January 2020	11,828,111	13,445	11,841,556	48,254,341
Additions	921,108	22,000	943,108	3,845,051
Currency translation differences	-	-	-	(385,426)
At 31 December 2020	<u>12,749,219</u>	<u>35,445</u>	<u>12,784,664</u>	<u>51,713,966</u>
Accumulated amortisation				
At 1 January 2020	4,113,594	13,445	4,127,039	16,817,684
Amortisation for the year	543,803	11,000	554,803	2,261,932
Currency translation differences	-	-	-	(141,565)
At 31 December 2020	<u>4,657,397</u>	<u>24,445</u>	<u>4,681,842</u>	<u>18,938,051</u>
Carrying amounts				
At 31 December 2020	<u>8,091,822</u>	<u>11,000</u>	<u>8,102,822</u>	<u>32,775,915</u>

Information about the Group's and the Bank's leases is disclosed within this note and Note 19.

13. Other assets

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group				
Prepayments and deposits	3,396,188	3,161,019	17,087,489	12,786,322
Other investments	150,000	150,000	611,100	606,750
Others	121,165	1,063,732	493,626	4,302,796
	<u>3,667,353</u>	<u>4,374,751</u>	<u>14,940,796</u>	<u>17,695,868</u>
Bank				
Prepayments and deposits	3,396,188	3,161,019	13,836,070	12,786,322
Other investments	150,000	150,000	611,100	606,750
Others	92,090	1,010,144	375,175	4,086,032
	<u>3,638,278</u>	<u>4,321,163</u>	<u>14,822,345</u>	<u>17,479,104</u>

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Notes to the financial statements (continued) for the year ended 31 December 2021

14. Deposits from banks and other financial institutions

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group and Bank				
Current accounts	1,508,681	2,259,997	6,146,366	9,141,688
Savings accounts	38,617,311	27,922,551	157,326,925	112,946,719
Term deposits	6,077,883	10,665,304	24,761,296	43,141,154
	<u>46,203,875</u>	<u>40,847,852</u>	<u>188,234,587</u>	<u>165,229,561</u>

Deposits from banks and other financial institutions are analysed as follows:

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
A. By maturity:				
Within 1 month	40,131,260	30,182,548	163,494,753	122,088,407
2 to 3 months	5,629,243	60,000	22,933,536	242,700
4 to 6 months	200,000	200,000	814,800	809,000
7 to 12 months	243,372	10,405,304	991,498	42,089,454
	<u>46,203,875</u>	<u>40,847,852</u>	<u>188,234,587</u>	<u>165,229,561</u>
B. By residency status:				
Residents	<u>46,203,875</u>	<u>40,847,852</u>	<u>188,234,587</u>	<u>165,229,561</u>
C. By relationship:				
Non-related parties	<u>46,203,875</u>	<u>40,847,852</u>	<u>188,234,587</u>	<u>165,229,561</u>
D. By interest rate (per annum):				
	2021		2020	
Current accounts		Nil		Nil
Saving accounts	0.20%-0.50%			0.5%
Term deposits	0.30%-4.50%			1.5%-3.0%

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Notes to the financial statements (continued) for the year ended 31 December 2021

15. Deposits from customers

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group				
Current accounts	63,781,425	118,345,015	259,845,525	478,705,586
Savings accounts	187,345,260	209,267,056	763,244,590	846,485,242
Term deposits	196,081,766	234,240,161	798,837,115	947,501,450
Margin and guarantee deposits	1,024,600	5,840,000	4,174,220	23,622,800
	<u>448,233,051</u>	<u>567,692,232</u>	<u>1,826,101,450</u>	<u>2,296,315,078</u>
Bank				
Current accounts	63,791,451	118,358,368	259,886,371	478,759,599
Savings accounts	187,820,242	209,830,007	765,179,666	848,762,379
Term deposits	196,081,766	234,240,161	798,837,115	947,501,450
Margin and guarantee deposits	1,024,600	5,840,000	4,174,220	23,622,800
	<u>448,718,059</u>	<u>568,268,536</u>	<u>1,828,077,372</u>	<u>2,298,646,228</u>

Deposits from customers are analysed as follows:

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
A. By maturity:				
Group				
Within 1 month	283,978,557	379,618,371	1,156,928,641	1,535,556,311
>1 to 3 months	47,541,968	51,086,910	193,685,978	206,646,551
> 3 to 6 months	56,330,958	52,381,262	229,492,323	211,882,205
> 6 to 12 months	52,111,192	56,553,584	212,300,996	228,759,247
> 12 months	8,270,376	28,052,105	33,693,512	113,470,764
	<u>448,233,051</u>	<u>567,692,232</u>	<u>1,826,101,450</u>	<u>2,296,315,078</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

15. Deposits from customers (continued)

Deposits from customers are analysed as follows: (continued)

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
A. By maturity: (continued)				
Bank				
Within 1 month	283,988,583	379,631,724	1,156,969,487	1,535,610,324
> 1 to 3 months	48,016,950	51,649,861	195,621,054	208,923,688
> 3 to 6 months	56,330,958	52,381,262	229,492,323	211,882,205
> 6 to 12 months	52,111,192	56,553,584	212,300,996	228,759,247
> 12 months	8,270,376	28,052,105	33,693,512	113,470,764
	<u>448,718,059</u>	<u>568,268,536</u>	<u>1,828,077,372</u>	<u>2,298,646,228</u>
B. By residency status:				
Group				
Residents	256,283,894	355,553,681	1,044,100,584	1,438,214,639
Non-residents	191,949,157	212,138,551	782,000,866	858,100,439
	<u>448,233,051</u>	<u>567,692,232</u>	<u>1,826,101,450</u>	<u>2,296,315,078</u>
Bank				
Residents	256,768,902	356,129,985	1,046,076,506	1,440,545,789
Non-residents	191,949,157	212,138,551	782,000,866	858,100,439
	<u>448,718,059</u>	<u>568,268,536</u>	<u>1,828,077,372</u>	<u>2,298,646,228</u>
C. By relationship:				
Group				
Related parties	1,599,442	935,628	6,516,127	3,784,615
Non-related parties	446,633,609	566,756,604	1,819,585,323	2,292,530,463
	<u>448,233,051</u>	<u>567,692,232</u>	<u>1,826,101,450</u>	<u>2,296,315,078</u>
Bank				
Related parties	2,084,450	1,511,932	8,492,049	6,115,765
Non-related parties	446,633,609	566,756,604	1,819,585,323	2,292,530,463
	<u>448,718,059</u>	<u>568,268,536</u>	<u>1,828,077,372</u>	<u>2,298,646,228</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

15. Deposits from customers (continued)

Deposits from customers are analysed as follows: (continued)

D. By interest rate (per annum):

	2021	2020
Group and Bank		
Current accounts	Nil	Nil
Savings accounts	0.50%	0.50%-1.25%
Term deposits	0.50%-5.00%	2.00%-4.50%
Margin and guarantee deposits	<u>1.50%-3.00%</u>	<u>1.50%-3.00%</u>

16. Income tax

A. Income tax expense

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group				
Current tax				
- Current year	3,897,767	977,096	15,856,116	3,983,621
- Over provision in prior years	<u>(90,529)</u>	<u>-</u>	<u>(368,272)</u>	<u>-</u>
	<u>3,807,238</u>	<u>977,096</u>	<u>15,487,844</u>	<u>3,983,621</u>
Deferred tax				
- Current year	(369,000)	2,032,122	(1,501,092)	8,284,962
- (Over)/under provision in prior years	<u>(727,761)</u>	<u>1,897,544</u>	<u>(2,960,532)</u>	<u>7,736,286</u>
	<u>(1,096,761)</u>	<u>3,929,666</u>	<u>(4,461,624)</u>	<u>16,021,248</u>
Income tax expense	<u>2,710,477</u>	<u>4,906,762</u>	<u>11,026,220</u>	<u>20,004,869</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

16. Income tax (continued)

A. Income tax expense (continued)

Bank	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Current tax				
Current year	3,847,573	921,490	15,651,927	3,756,915
Over provision in prior years	<u>(90,529)</u>	<u>-</u>	<u>(368,272)</u>	<u>-</u>
	<u>3,757,044</u>	<u>921,490</u>	<u>15,283,655</u>	<u>3,756,915</u>
Deferred tax				
Current year	(418,326)	2,032,122	(1,701,750)	8,284,962
(Over)/under provision in prior years	<u>(934,451)</u>	<u>1,897,544</u>	<u>(3,801,347)</u>	<u>7,736,286</u>
	<u>(1,352,777)</u>	<u>3,929,666</u>	<u>(5,503,097)</u>	<u>16,021,248</u>
Income tax expense	<u><u>2,404,267</u></u>	<u><u>4,851,156</u></u>	<u><u>9,780,558</u></u>	<u><u>19,778,163</u></u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

16. Income tax (continued)

A. Income tax expense (continued)

In accordance with the Cambodian Law on Taxation, the Group and the Bank has an obligation to pay tax on income tax at a rate of 20% on taxable income. The reconciliation of income tax computed at the statutory tax rate to income tax expense as disclosed in profit or loss is shown as follows:

	2021			2020		
	US\$	KHR'000 (Note 5)	%	US\$	KHR'000 (Note 5)	%
Group						
Profit before income tax	<u>16,191,999</u>	<u>65,869,052</u>		<u>12,918,112</u>	<u>52,667,142</u>	
Tax calculated at 20%	3,238,400	13,173,811	20.00	2,583,623	10,533,431	20.00
Expenses not deductible for tax purposes	290,367	1,181,213	1.79	425,595	1,735,152	3.29
(Over)/under provision in prior years	<u>(818,290)</u>	<u>(3,328,804)</u>	<u>(5.05)</u>	<u>1,897,544</u>	<u>7,736,286</u>	<u>14.69</u>
Income tax expense	<u>2,710,477</u>	<u>11,026,220</u>	<u>16.74</u>	<u>4,906,762</u>	<u>20,004,869</u>	<u>37.98</u>
Bank						
Profit before income tax	<u>15,784,427</u>	<u>64,211,048</u>		<u>12,657,763</u>	<u>51,605,700</u>	
Tax calculated at 20%	3,156,885	12,842,208	20.00	2,531,553	10,321,142	20.00
Expenses not deductible for tax purposes	272,362	1,107,969	1.73	422,059	1,720,735	3.33
(Over)/under provision in prior years	<u>(1,024,980)</u>	<u>(4,169,619)</u>	<u>(6.49)</u>	<u>1,897,544</u>	<u>7,736,286</u>	<u>14.69</u>
Income tax expense	<u>2,404,267</u>	<u>9,780,558</u>	<u>15.24</u>	<u>4,851,156</u>	<u>19,778,163</u>	<u>38.33</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

16. Income tax (continued)

B. Current income tax liabilities

Movements of current income tax liabilities were as follows:

Group	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
At 1 January	531,894	-	2,151,511	-
Recognised in profit or loss	3,807,238	977,096	15,487,844	3,983,621
Income tax paid	(879,563)	(445,202)	(3,578,062)	(1,815,089)
Withholding tax credit	(11,438)	-	(46,530)	-
Currency translation differences	-	-	32,923	(17,021)
At 31 December	<u>3,448,131</u>	<u>531,894</u>	<u>14,047,686</u>	<u>2,151,511</u>
Bank				
At 1 January	477,789	-	1,932,657	-
Recognised in profit or loss	3,757,044	921,490	15,283,655	3,756,915
Income tax paid	(819,440)	(443,701)	(3,333,482)	(1,808,969)
Withholding tax credit	(11,438)	-	(46,530)	-
Currency translation differences	-	-	31,413	(15,289)
At 31 December	<u>3,403,955</u>	<u>477,789</u>	<u>13,867,713</u>	<u>1,932,657</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

16. Income tax (continued)

C. Deferred tax assets – net

The movements of deferred tax assets – net were as follows:

Group	2021	2020	2021	2020
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
At 1 January	1,838,955	5,784,521	7,438,573	23,571,923
Recognised in profit or loss	1,096,761	(3,929,666)	4,461,624	(16,021,248)
Recognised in other comprehensive income	4,752	(15,900)	19,331	(64,825)
Currency translation differences	-	-	59,939	(47,277)
At 31 December	<u>2,940,468</u>	<u>1,838,955</u>	<u>11,979,467</u>	<u>7,438,573</u>
Bank				
At 1 January	1,836,112	5,781,678	7,427,073	23,560,338
Recognised in profit or loss	1,352,777	(3,929,666)	5,503,097	(16,021,248)
Recognised in other comprehensive income	4,752	(15,900)	19,331	(64,825)
Currency translation differences	-	-	61,392	(47,192)
At 31 December	<u>3,193,641</u>	<u>1,836,112</u>	<u>13,010,893</u>	<u>7,427,073</u>

Deferred tax assets/(liabilities) are attributable to the following:

Group	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Impairment losses on financial instruments	1,834,748	1,329,000	7,474,763	5,375,804
Unearned revenue	862,231	596,882	3,512,729	2,414,388
Leases	104,066	150,425	423,966	608,469
Property and equipment	194,529	(222,988)	792,511	(901,986)
Others	(55,106)	(14,364)	(224,502)	(58,102)
	<u>2,940,468</u>	<u>1,838,955</u>	<u>11,979,467</u>	<u>7,438,573</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

16. Income tax (continued)

C. Deferred tax assets – net (continued)

Deferred tax assets/(liabilities) are attributable to the following: (continued)

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Bank				
Impairment losses on financial instruments	1,834,748	1,329,000	7,474,763	5,375,804
Unearned revenue	862,231	596,882	3,512,729	2,414,388
Leases	363,893	150,425	1,482,501	608,469
Property and equipment	187,875	(225,831)	765,402	(913,486)
Others	(55,106)	(14,364)	(224,502)	(58,102)
	<u>3,193,641</u>	<u>1,836,112</u>	<u>13,010,893</u>	<u>7,427,073</u>

17. Borrowings

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group				
Immediate parent entity	75,010,168	55,008,827	305,591,424	222,510,705
Other banks:				
Local	-	30,603,476	-	123,791,060
Overseas	32,142,618	12,215,434	130,949,026	49,411,431
	<u>107,152,786</u>	<u>97,827,737</u>	<u>436,540,450</u>	<u>395,713,196</u>
Bank				
Immediate parent entity	75,010,168	55,008,827	305,591,424	222,510,705
Other banks:				
Local	-	30,603,476	-	123,791,060
Overseas	20,128,980	200,754	82,005,465	812,051
	<u>95,139,148</u>	<u>85,813,057</u>	<u>387,596,889</u>	<u>347,113,816</u>

Borrowings are unsecured and bear interest rates ranging from 0.84% to 1.72% (2020: 0.90% to 4.76%) per annum. For further analysis, refer to Note 33C.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

18. Subordinated debts

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group and Bank				
Immediate parent entity	<u>23,270,160</u>	<u>29,092,643</u>	<u>94,802,632</u>	<u>117,679,741</u>

Subordinated debts are unsecured and bear interest rates ranging from 1.63% to 1.72% (2020: 1.72% to 3.44%) per annum. The Group and the Bank have obtained the approval from the NBC on 30 December 2016. For further analysis, refer to Note 33C.

19. Lease liabilities

The Group leases the office spaces from various individual lessors. Information about leases for which the Group as a lessee is presented below.

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group				
Maturity analysis – contractual undiscounted cash flows				
Less than one year	677,240	735,012	2,759,076	2,973,122
One to five years	1,875,520	2,291,660	7,640,868	9,269,765
More than five years	<u>4,908,200</u>	<u>5,169,300</u>	<u>19,996,007</u>	<u>20,909,819</u>
Total undiscounted lease payments	<u>7,460,960</u>	<u>8,195,972</u>	<u>30,395,951</u>	<u>33,152,706</u>
Present value of lease payments				
Current	433,284	449,352	1,765,199	1,817,629
Non-current	<u>2,995,472</u>	<u>3,428,581</u>	<u>12,203,553</u>	<u>13,868,610</u>
	<u>3,428,756</u>	<u>3,877,933</u>	<u>13,968,752</u>	<u>15,686,239</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

19. Lease liabilities (continued)

The Bank leases the office spaces from various individual lessors and the Subsidiary. Information about leases for which the Bank is a lessee is presented below.

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Bank				
Maturity analysis – contractual undiscounted cash flows				
Less than one year	1,258,508	1,284,280	5,127,162	5,194,913
One to five years	4,276,593	4,488,733	17,422,840	18,156,926
More than five years	<u>25,478,050</u>	<u>25,572,022</u>	<u>103,797,576</u>	<u>103,438,830</u>
Total undiscounted lease payments	<u>31,013,151</u>	<u>31,345,035</u>	<u>126,347,578</u>	<u>126,790,669</u>
Present value of lease payments				
Current	450,606	463,955	1,835,769	1,876,698
Non-current	<u>9,269,951</u>	<u>9,356,275</u>	<u>37,765,780</u>	<u>37,846,132</u>
	<u>9,720,557</u>	<u>9,820,230</u>	<u>39,601,549</u>	<u>39,722,830</u>

The followings are transactions related to leases:

Group	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
<i>Amounts recognised in profit or loss</i>				
Interest on lease liabilities	275,165	382,612	1,119,371	1,559,910
Expenses relating to short-term leases	<u>110,965</u>	<u>68,067</u>	<u>451,406</u>	<u>277,509</u>
	<u>386,130</u>	<u>450,679</u>	<u>1,570,777</u>	<u>1,837,419</u>
<i>Amounts recognised in the consolidated statement of cash flows</i>				
Total cash outflow for leases	<u>(724,342)</u>	<u>(789,484)</u>	<u>(2,946,623)</u>	<u>(3,218,726)</u>
Payments for principal of lease liabilities	<u>(449,177)</u>	<u>(406,872)</u>	<u>(1,827,252)</u>	<u>(1,658,817)</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

19. Lease liabilities (continued)

The followings are transactions related to leases: (continued)

Bank	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
<i>Amounts recognised in profit or loss</i>				
Interest on lease liabilities	820,163	835,168	3,336,423	3,404,980
Expenses relating to short-term leases	110,965	68,067	451,406	277,509
	<u>931,128</u>	<u>903,235</u>	<u>3,787,829</u>	<u>3,682,489</u>
<i>Amounts recognised in the separate statement of cash flows</i>				
Total cash outflow for leases	<u>(1,284,280)</u>	<u>(1,252,969)</u>	<u>(5,224,451)</u>	<u>(5,108,355)</u>
Payments for principal of lease liabilities	<u>(464,117)</u>	<u>(417,801)</u>	<u>(1,888,028)</u>	<u>(1,703,375)</u>

20. Employee benefit obligations

Group and Bank	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
At 1 January	367,845	372,210	1,487,933	1,516,756
Payments during the year	(14,573)	(4,365)	(59,283)	(17,796)
Currency translation differences	-	-	10,580	(11,027)
At 31 December	<u>353,272</u>	<u>367,845</u>	<u>1,439,230</u>	<u>1,487,933</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

21. Other liabilities

Group	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Funds held under escrow*	5,139,000	513,000	20,936,286	2,075,085
Cheques under clearing accounts	1,247,450	3,695,265	5,082,111	14,947,347
Sundry creditors	2,554,490	2,593,637	10,406,992	10,491,262
Other tax payables	263,869	221,855	1,075,002	897,403
Order cheques	342,690	2,031,153	1,396,119	8,216,014
Accounts payable	459,357	784,271	1,871,420	3,172,376
Other liabilities	1,972,988	2,090,079	8,037,955	8,454,371
	<u>11,979,844</u>	<u>11,929,260</u>	<u>48,805,885</u>	<u>48,253,858</u>
Bank				
Funds held under escrow*	5,139,000	513,000	20,936,286	2,075,085
Cheques under clearing accounts	1,247,450	3,695,265	5,082,111	14,947,347
Sundry creditors	2,554,490	2,593,637	10,406,992	10,491,262
Other tax payables	254,265	210,452	1,035,876	851,278
Order cheques	342,690	2,031,153	1,396,119	8,216,014
Accounts payable	459,357	784,271	1,871,420	3,172,376
Other liabilities	1,067,904	1,355,411	4,350,641	5,482,637
	<u>11,065,156</u>	<u>11,183,189</u>	<u>45,079,445</u>	<u>45,235,999</u>

* Funds held under escrow represent the selling price of sale and purchase agreement where the Bank acts as the escrow agent.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

22. Share capital

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Share capital – paid-up	<u>80,000,000</u>	<u>80,000,000</u>	<u>320,000,000</u>	<u>320,000,000</u>
80,000 of shares at par value of US\$1,000 each				
	31 December 2021		31 December 2020	
	Ownership %	Amount US\$	Ownership %	Amount US\$
E. Sun Commercial Bank Ltd.	<u>100</u>	<u>80,000,000</u>	<u>100</u>	<u>80,000,000</u>

All authorised shares were issued and fully paid. There was no change in shareholding of the Group and the Bank during the financial year.

23. Interest income

Group	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
	<i>Interest income from:</i>			
Loans and advances to customers	38,978,709	35,528,880	158,565,388	144,851,244
Balances with the National Bank of Cambodia and other financial institutions	<u>1,739,939</u>	<u>2,127,559</u>	<u>7,078,072</u>	<u>8,674,057</u>
	<u>40,718,648</u>	<u>37,656,439</u>	<u>165,643,460</u>	<u>153,525,301</u>
Bank				
<i>Interest income from:</i>				
Loans and advances to customers	38,978,709	35,542,044	158,565,388	144,904,913
Balances with the National Bank of Cambodia and other financial institutions	<u>1,617,662</u>	<u>1,883,311</u>	<u>6,580,649</u>	<u>7,678,259</u>
	<u>40,596,371</u>	<u>37,425,355</u>	<u>165,146,037</u>	<u>152,583,172</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

24. Interest expense

Group	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
<i>Interest expense on:</i>				
Deposits from banks and other financial institutions	732,451	282,464	2,979,610	1,151,606
Deposits from customers	6,444,057	8,365,532	26,214,424	34,106,274
Borrowings and subordinated debts	1,827,096	2,630,183	7,432,627	10,723,256
Lease liabilities	275,165	382,612	1,119,371	1,559,910
	<u>9,278,769</u>	<u>11,660,791</u>	<u>37,746,032</u>	<u>47,541,046</u>
Bank				
<i>Interest expense on:</i>				
Deposits from banks and other financial institutions	732,451	282,464	2,979,610	1,151,606
Deposits from customers	6,444,057	8,365,532	26,214,424	34,106,274
Borrowings and subordinated debts	1,545,303	2,194,570	6,286,293	8,947,262
Lease liabilities	820,163	835,168	3,336,423	3,404,980
	<u>9,541,974</u>	<u>11,677,734</u>	<u>38,816,750</u>	<u>47,610,122</u>

25. Fees and commission income

Group and Bank	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Loan processing fees	1,150,118	1,201,062	4,678,680	4,896,730
Settlement services	1,480,426	1,212,416	6,022,373	4,943,020
Income from ATM/credit card	270,884	283,690	1,101,956	1,156,604
Fees and commission from credit card	252,523	249,015	1,027,264	1,015,234
Telecommunication	178,863	201,250	727,615	820,496
Guarantee activities	14,713	32,631	59,852	133,037
Other fees and commission	519,056	214,100	2,111,520	872,886
	<u>3,866,583</u>	<u>3,394,164</u>	<u>15,729,260</u>	<u>13,838,007</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

26. Fees and commission expense

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group and Bank				
Loan processing fees	490,385	400,240	1,994,886	1,631,778
Telecommunication	65,250	87,990	265,437	358,735
Guarantee activities	67,622	44,322	275,086	180,701
Other fees and commission	5,741	30,292	23,355	123,501
	<u>628,998</u>	<u>562,844</u>	<u>2,558,764</u>	<u>2,294,715</u>

27. Other income

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group				
Foreign exchange gain-net	112,235	232,744	456,572	948,897
Gain on disposals of property and equipment	236,992	-	964,083	-
Recovery of loans written off	4,395,814	2,661,853	17,882,171	10,852,375
Others	524,242	393,725	2,132,617	1,605,216
	<u>5,269,283</u>	<u>3,288,322</u>	<u>21,435,443</u>	<u>13,406,488</u>
Bank				
Foreign exchange gain-net	112,235	232,744	456,572	948,897
Gain on disposals of property and equipment	236,992	-	964,083	-
Recovery of loans written off	4,395,814	2,661,853	17,882,171	10,852,375
Others	524,242	441,896	2,132,617	1,801,610
	<u>5,269,283</u>	<u>3,336,493</u>	<u>21,435,443</u>	<u>13,602,882</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

28. Personnel expenses

Group	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Salaries and wages	7,322,647	6,112,019	29,788,528	24,918,701
Bonuses, incentives and other related costs	1,177,208	1,309,607	4,788,882	5,339,268
Other employee benefits	244,436	234,726	994,366	956,978
	<u>8,744,291</u>	<u>7,656,352</u>	<u>35,571,776</u>	<u>31,214,947</u>
Bank				
Salaries and wages	7,322,647	6,112,019	29,788,528	24,918,701
Bonuses, incentives and other related costs	1,177,208	1,309,607	4,788,882	5,339,268
Other employee benefits	244,323	234,611	993,906	956,509
	<u>8,744,178</u>	<u>7,656,237</u>	<u>35,571,316</u>	<u>31,214,478</u>

29. Depreciation and amortisation

Group	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Depreciation of property and equipment	2,873,394	2,866,372	11,688,967	11,686,199
Amortisation of intangible assets	198,385	225,302	807,030	918,556
Amortisation of right-of-use assets	455,533	444,169	1,853,108	1,810,876
	<u>3,527,312</u>	<u>3,535,843</u>	<u>14,349,105</u>	<u>14,415,631</u>
Bank				
Depreciation of property and equipment	2,834,674	2,828,498	11,531,454	11,531,786
Amortisation of intangible assets	198,170	225,087	806,156	917,680
Amortisation of right-of-use assets	566,168	554,803	2,303,171	2,261,932
	<u>3,599,012</u>	<u>3,608,388</u>	<u>14,640,781</u>	<u>14,711,398</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

30. Other operating expenses

Group	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Repairs and maintenance	1,084,945	1,267,194	4,413,556	5,166,350
Other taxes	1,094,002	1,250,890	4,450,400	5,099,879
Business and public relations	281,841	249,216	1,146,529	1,016,054
Utilities	447,229	479,017	1,819,328	1,952,952
Stationery and printing	416,773	284,534	1,695,433	1,160,045
Security	392,211	397,033	1,595,514	1,618,704
License fees	282,865	277,219	1,150,695	1,130,222
Telecommunication	190,894	184,745	776,557	753,205
Professional and other related costs	162,384	(103,774)	660,577	(423,087)
Short-term leases	110,155	68,067	448,111	277,509
Motor vehicle and running costs	79,396	130,494	322,983	532,024
Court fees on debts collection	28,233	89,958	114,852	366,759
Travelling and transportation	8,666	26,309	35,253	107,262
Charity and donation	8,228	23,636	33,472	96,364
Promotion	3,857	49,247	15,690	200,780
Others	538,826	257,052	2,191,944	1,048,000
	<u>5,130,505</u>	<u>4,930,837</u>	<u>20,870,894</u>	<u>20,103,022</u>
Bank				
Repairs and maintenance	1,084,945	1,267,194	4,413,556	5,166,350
Other taxes	1,050,535	1,246,991	4,273,576	5,083,982
Business and public relations	281,841	249,216	1,146,529	1,016,054
Utilities	447,229	479,017	1,819,328	1,952,952
Stationery and printing	416,773	284,534	1,695,433	1,160,045
Security	392,211	397,033	1,595,514	1,618,704
License fees	282,865	277,219	1,150,695	1,130,222
Telecommunication	190,894	184,745	776,557	753,205
Professional and other related costs	156,654	(111,142)	637,268	(453,126)
Short-term leases	110,965	68,067	451,406	277,509
Motor vehicle and running costs	79,396	130,494	322,983	532,024
Court fees on debts collection	28,233	89,958	114,852	366,759
Travelling and transportation	8,666	26,309	35,253	107,262
Charity and donation	8,228	23,636	33,472	96,364
Promotion	3,857	49,247	15,690	200,780
Others	537,716	256,382	2,187,429	1,045,269
	<u>5,081,008</u>	<u>4,918,900</u>	<u>20,669,541</u>	<u>20,054,355</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Commitments and contingencies

A. Commitments to extend credit

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group and Bank				
Unused portion of loan, overdraft and credit card	38,819,346	35,840,314	158,150,016	144,974,070
Payment guarantee	30,000	1,037,759	122,220	4,197,734
Bid, performance and warranty bonds	135,128	2,524,572	550,511	10,211,895
Letters of credits	3,019,279	2,033,882	12,300,543	8,227,054
Other commitment and guarantee	1,877,523	1,612,597	7,649,029	6,522,954
	<u>43,881,276</u>	<u>43,049,124</u>	<u>178,772,319</u>	<u>174,133,707</u>
Less: Allowance for impairment losses	<u>(458,644)</u>	<u>(463,816)</u>	<u>(1,868,516)</u>	<u>(1,876,136)</u>
	<u>43,422,632</u>	<u>42,585,308</u>	<u>176,903,803</u>	<u>172,257,571</u>

Movements of allowance for impairment losses for financial guarantee contracts were as follows:

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group and Bank				
At 1 January	463,816	555,212	1,876,136	2,262,489
Recognised in profit or loss	(5,172)	(91,396)	(21,040)	(372,621)
Currency translation difference	-	-	13,420	(13,732)
At 31 December	<u>458,644</u>	<u>463,816</u>	<u>1,868,516</u>	<u>1,876,136</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Commitments and contingencies (continued)

B. Taxation contingencies

On 21 April 2020, the General Department of Taxation (“GDT”) issued a notification letter for comprehensive tax audit in respect of the period from 1 January 2018 to 31 December 2019. As of the date of this report, there has not been any official response from the GDT for the aforementioned tax reassessment and management has considered that the tax reassessment exposure is remote and will not give any significant loss to the Group and the Bank in the future.

Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose additional tax payments. The application of tax laws and regulations to many types of transactions are susceptible to varying interpretations.

These facts create risks of additional taxes through reassessment are substantially more significant in Cambodia than in other countries. Management believes that the Group and the Bank have adequately provided for tax liabilities based on its interpretation of current tax legislation.

32. Related party balances and transactions

A. Related parties and relationship

The related parties of, and their relationship with the Group and the Bank are as follows:

Relationship	Related party
Ultimate parent entity	E.Sun Financial Holding Company Ltd.
Immediate parent entity	E.Sun Commercial Bank Ltd.
Subsidiary	URE Land Holding Co., Ltd.
Key management personnel	All directors of the Bank who make critical decisions in relation to the strategic direction of the Bank and senior management (including their close family members)

B. Bank balance with related parties

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group and Bank				
Immediate parent entity	<u>1,129,453</u>	<u>935,625</u>	<u>4,601,392</u>	<u>3,784,601</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

32. Related party balances and transactions (continued)

C. Loans and advances to related parties

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group and Bank				
Loans	<u>30,835</u>	<u>189,066</u>	<u>125,622</u>	<u>764,773</u>
Interest income	<u>3,472</u>	<u>42,393</u>	<u>14,124</u>	<u>172,836</u>

D. Deposit balances/transactions with related parties

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group				
<i>Deposits</i>				
Key management personnel	<u>1,599,442</u>	<u>935,628</u>	<u>6,516,127</u>	<u>3,814,555</u>
<i>Interest expense</i>				
Key management personnel	<u>36,656</u>	<u>36,835</u>	<u>149,117</u>	<u>150,176</u>
Bank				
<i>Deposits</i>				
- Subsidiary	485,008	576,304	1,975,923	2,331,150
- Key management personnel	<u>1,599,442</u>	<u>935,628</u>	<u>6,516,127</u>	<u>3,784,615</u>
	<u>2,084,450</u>	<u>1,511,932</u>	<u>8,492,049</u>	<u>6,115,765</u>
<i>Interest expense</i>				
- Subsidiary	2,135	13,164	8,685	53,670
- Key management personnel	<u>36,656</u>	<u>36,835</u>	<u>149,117</u>	<u>150,176</u>
	<u>38,791</u>	<u>49,999</u>	<u>157,802</u>	<u>203,846</u>

Deposits bear interest at rates ranging from 0.5% to 3.75% (2020: 1.00% to 3.75%) per annum.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

32. Related party balances and transactions (continued)

E. Borrowings and subordinated debts from related parties

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group and Bank				
<i>Immediate parent entity:</i>				
Borrowing and subordinated debts	<u>98,280,328</u>	<u>84,101,470</u>	<u>400,394,056</u>	<u>340,190,446</u>
Interest expense	<u>873,357</u>	<u>1,052,213</u>	<u>3,552,816</u>	<u>4,256,203</u>

F. Key management personnel's remuneration

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group and Bank				
Salaries and short-term benefits	<u>2,349,123</u>	<u>2,122,815</u>	<u>9,556,232</u>	<u>8,654,716</u>

G. Board of Directors' fee

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group and Bank				
Board of Directors' fee	<u>156,000</u>	<u>84,000</u>	<u>634,608</u>	<u>342,468</u>

H. Other transactions with related parties

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Group				
Immediate parent entity (IT system maintenance expense)	<u>220,000</u>	<u>220,000</u>	<u>894,960</u>	<u>896,940</u>
Bank				
Immediate parent entity (IT system maintenance expense)	220,000	220,000	894,960	896,940
Subsidiary (Leases payment)	<u>596,727</u>	<u>515,019</u>	<u>2,427,485</u>	<u>2,441,382</u>
	<u>816,727</u>	<u>735,019</u>	<u>3,322,445</u>	<u>3,338,322</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management

A. Introduction and overview

The Group and the Bank has exposure to the following risks from financial instruments:

- credit risk;
- market risk;
- liquidity risk; and
- operational risk.

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

For the purpose of preserving the financial stability and reduce the burden of the borrowers who are losing their primary incomes and facing difficulties in repayment during the impact of the COVID-19 pandemic, the Group and the Bank work constructively with affected borrowers and allows for loan restructuring. Loan restructuring is carried out by the Group and the Bank's special unit that is independent from the lending department. This special unit shall regularly conduct a portfolio review of affected borrowers to measure the impact on their financial conditions during the pandemic.

B. Credit risk

Credit risk is the risk of financial loss to the Group and the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's and the Bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Group and the Bank considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

Credit risk is the potential loss of revenue and principal losses arising mainly from loans and advances and loan commitments as a result of default by the borrowers or counterparties through its lending activities.

(i). *Management of credit risk*

The Bank has established the Core Credit Risk Policy, which is designed to govern the Bank's risk undertaking activities. Extension of credit is governed by credit programs which set out the plan for a particular product or portfolio, including the target market, terms and conditions, documentation and procedures under which a credit product will be offered and measured.

The Bank also ensures that there is a clear segregation of duties between loan originators, evaluators and approving authorities.

The Bank manages, limits and controls concentration of credit risk whenever they are identified, in particular, to individual counterparties and groups, and to industries.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(i). *Management of credit risk (continued)*

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved by the Board of Directors.

Large exposure is defined by the National Bank of Cambodia as overall credit exposure to any single beneficiary which exceeds 10% of the Bank's net worth. The Bank is required, under the conditions of Prakas No. B7-06-226 of the National Bank of Cambodia, to maintain at all times a maximum ratio of 20% between the Bank's overall credit exposure to any single beneficiary and the Bank's net worth. The aggregate of large credit exposure must not exceed 300% of the Bank's net worth.

The Bank employs a range of policies and practices to mitigate credit risk, including requiring borrowers to pledge collateral against loans and advances granted by the Bank.

(ii). *Concentration of risk*

The Board of Directors created the Bank Credit Committee for the oversight of credit risk. A separate Bank Credit department, reporting to the Bank Credit Committee, is responsible for managing the Group's and the Bank's credit risk.

The following table presents the Group's and the Bank's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet assets, the exposure to credit risk equals their carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Type of credit exposure

Group	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
31 December 2021					
On-balance sheet items					
Cash equivalents with other banks, gross	66,980,610	272,879,006	-	-	100%
Placements with other banks	12,848,836	52,346,158	-	-	100%
Loans and advances to customers, gross	568,039,901	2,314,194,558	83%	-	17%
Other assets	271,165	1,104,726	-	-	100%
Total	<u>648,140,512</u>	<u>2,640,524,448</u>			
Off-balance sheet items					
Commitments, gross	43,881,276	178,772,319	-	-	100%
Total	<u>692,021,788</u>	<u>2,819,296,767</u>			

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Type of credit exposure (continued)

Bank	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
31 December 2021					
On-balance sheet items					
Cash equivalents with other banks, gross	66,876,031	272,452,951	-	-	100%
Placements with other banks	11,048,836	45,012,958	-	-	100%
Loans and advances to customers, gross	568,039,901	2,314,194,558	83%	-	17%
Other assets	242,090	986,275	-	-	100%
Total	<u>646,206,858</u>	<u>2,632,646,742</u>			
Off-balance sheet items					
Commitments, gross	<u>43,881,276</u>	<u>178,772,319</u>	-	-	100%
Total	<u>690,088,134</u>	<u>2,811,419,061</u>			

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Type of credit exposure (continued)

Group	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
31 December 2020					
On-balance sheet items					
Cash equivalents with other banks, gross	134,621,364	544,543,417	-	-	100%
Placements with other banks	43,440,000	175,714,800	-	-	100%
Loans and advances to customers, gross	512,874,228	2,074,576,253	83%	-	17%
Other assets	<u>1,213,732</u>	<u>4,909,546</u>	<u>-</u>	<u>-</u>	<u>100%</u>
Total	<u>692,149,324</u>	<u>2,799,744,016</u>			
Off-balance sheet items					
Commitments, gross	<u>43,049,124</u>	<u>174,133,707</u>	<u>-</u>	<u>-</u>	<u>100%</u>
Total	<u>735,198,448</u>	<u>2,973,877,723</u>			

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Type of credit exposure (continued)

Bank	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
31 December 2020					
On-balance sheet items					
Cash equivalents with other banks, gross	134,539,625	544,212,783	-	-	100%
Placements with other banks	40,940,000	165,602,300	-	-	100%
Loans and advances to customers, gross	512,874,228	2,074,576,253	83%	-	17%
Other assets	1,160,144	4,692,782	-	-	100%
Total	<u>689,513,997</u>	<u>2,789,084,118</u>			
Off-balance sheet items					
Commitments, gross	<u>43,049,124</u>	<u>174,133,707</u>	-	-	100%
Total	<u>732,563,121</u>	<u>2,963,217,825</u>			

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by industrial sector

31 December 2021	Cash equivalents with other banks, gross US\$	Placements with other banks US\$	Loans and advances to customers, gross US\$	Other assets US\$	Total US\$
Group					
Financial institutions	66,980,610	12,848,836	27,338,690	-	107,168,136
Corporate business loans	-	-	218,262,746	-	218,262,746
Retail business loans	-	-	322,438,465	-	322,438,465
Others	-	-	-	271,165	271,165
Total (US\$)	<u>66,980,610</u>	<u>12,848,836</u>	<u>568,039,901</u>	<u>271,165</u>	<u>648,140,512</u>
Total (KHR'000 – Note 5)	<u><u>272,879,006</u></u>	<u><u>52,346,158</u></u>	<u><u>2,314,194,558</u></u>	<u><u>1,104,726</u></u>	<u><u>2,640,524,448</u></u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by industrial sector (continued)

31 December 2021	Cash equivalents with other banks, gross US\$	Placements with other banks US\$	Loans and advances to customers, gross US\$	Other assets US\$	Total US\$
Bank					
Financial institutions	66,876,031	11,048,836	27,338,690	-	105,263,557
Corporate business loans	-	-	218,262,746	-	218,262,746
Retail business loans	-	-	322,438,465	-	322,438,465
Others	-	-	-	242,090	242,090
	<u>66,876,031</u>	<u>11,048,836</u>	<u>568,039,901</u>	<u>242,090</u>	<u>646,206,858</u>
Total (US\$)	<u>66,876,031</u>	<u>11,048,836</u>	<u>568,039,901</u>	<u>242,090</u>	<u>646,206,858</u>
Total (KHR'000 – Note 5)	<u>272,452,951</u>	<u>45,012,958</u>	<u>2,314,194,558</u>	<u>986,275</u>	<u>2,632,646,742</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by industrial sector (continued)

31 December 2020	Cash equivalents with other banks, gross US\$	Placements with other banks US\$	Loans and advances to customers, gross US\$	Other assets US\$	Total US\$
Group					
Financial institutions	134,621,364	43,440,000	33,186,866	-	211,248,230
Corporate business loans	-	-	202,554,544	-	202,554,544
Retail business loans	-	-	277,132,818	-	277,132,818
Others	-	-	-	1,213,732	1,213,732
	<u>134,621,364</u>	<u>43,440,000</u>	<u>512,874,228</u>	<u>1,213,732</u>	<u>692,149,324</u>
Total (US\$)	<u>134,621,364</u>	<u>43,440,000</u>	<u>512,874,228</u>	<u>1,213,732</u>	<u>692,149,324</u>
Total (KHR'000 – Note 5)	<u>544,543,417</u>	<u>175,714,800</u>	<u>2,074,576,253</u>	<u>4,909,546</u>	<u>2,799,744,016</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by industrial sector (continued)

31 December 2020	Cash equivalents with other banks, gross US\$	Placements with other banks US\$	Loans and advances to customers, gross US\$	Other assets US\$	Total US\$
Bank					
Financial institutions	134,539,625	40,940,000	33,186,866	-	208,666,491
Corporate business loans	-	-	202,554,544	-	202,554,544
Retail business loans	-	-	277,132,818	-	277,132,818
Others	-	-	-	1,160,144	1,160,144
Total (US\$)	<u>134,539,625</u>	<u>40,940,000</u>	<u>512,874,228</u>	<u>1,160,144</u>	<u>689,513,997</u>
Total (KHR'000 – Note 5)	<u>544,212,783</u>	<u>165,602,300</u>	<u>2,074,576,253</u>	<u>4,692,782</u>	<u>2,789,084,118</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by residency, relationship, large-exposures and concession status for gross loans and advances:

Group and Bank	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
By residency status:				
Non-residents	3,792,749	12,494,876	15,451,659	50,541,774
Residents	564,247,152	500,379,352	2,298,742,899	2,024,034,479
	<u>568,039,901</u>	<u>512,874,228</u>	<u>2,314,194,558</u>	<u>2,074,576,253</u>
By relationship:				
Related parties	30,835	189,066	125,622	764,773
Non related parties	568,009,066	512,685,162	2,314,068,936	2,073,811,480
	<u>568,039,901</u>	<u>512,874,228</u>	<u>2,314,194,558</u>	<u>2,074,576,253</u>
By exposure:				
Large exposures (*)	73,222,652	65,365,184	298,309,084	264,402,169
Non-large exposures	494,817,249	447,509,044	2,015,885,474	1,810,174,084
	<u>568,039,901</u>	<u>512,874,228</u>	<u>2,314,194,558</u>	<u>2,074,576,253</u>
By concession:				
Restructured (**)	26,107,975	24,966,239	106,363,890	100,988,437
Non-restructured	541,931,926	487,907,989	2,207,830,667	1,973,587,816
	<u>568,039,901</u>	<u>512,874,228</u>	<u>2,314,194,557</u>	<u>2,074,576,253</u>

(*) A "large exposure" is defined under the NBC's Prakas as the overall gross exposure of the aggregate balance of loans and advances with one single beneficiary, which exceeds 10% of the Group's and the Bank's net worth. The exposure is the higher of the outstanding loans or commitments and the authorised loans or commitments.

(**) A "restructured loan" is a loan that original contractual terms have been modified to provide for concessions for the borrowers for reasons related to real temporary financial difficulties.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(iii). *Collateral*

Whilst the Group's and the Bank's maximum exposure to credit risk is the carrying amount of the assets or, in the case of off-balance sheet instruments, the amount guaranteed, committed, accepted or endorsed, the likely exposure may be lower due to offsetting collateral, credit guarantees and other actions taken to mitigate the Group's and the Bank's exposure.

The description of collateral for each class of financial asset is set out below.

Cash equivalents with other banks, placements with other banks, investments and other assets

Collateral is generally not sought for these assets.

Loans and advances to customers, contingent liabilities and commitments

Certain loans and advances to customers, contingent liabilities and commitments are typically collateralised to a substantial extent. In particular, residential mortgage exposures are generally fully secured by residential properties.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(iii). Collateral (continued)

The table below summarises the Group's and the Bank's security coverage of its financial assets:

Group	Collateral/credit enhancement		Unsecured credit exposure US\$	US\$	Total KHR'000 (Note 5)
	Properties US\$	Fixed deposits US\$			
31 December 2021					
Loans and advances to customers, gross	455,504,563	14,280,753	98,254,585	568,039,901	2,314,194,558
Commitments, gross	-	-	43,881,276	43,881,276	178,772,319
	<u>455,504,563</u>	<u>14,280,753</u>	<u>142,135,861</u>	<u>611,921,177</u>	<u>2,492,966,877</u>
31 December 2020					
Loans and advances to customers, gross	417,537,521	9,723,077	85,613,631	512,874,228	2,074,576,252
Commitments, gross	-	-	43,049,124	43,049,124	174,133,707
	<u>417,537,521</u>	<u>9,723,077</u>	<u>128,662,755</u>	<u>555,923,352</u>	<u>2,248,709,959</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(iii). Collateral (continued)

The table below summarises the Group's and the Bank's security coverage of its financial assets: (continued)

Bank	Collateral/credit enhancement		Unsecured credit exposure US\$	US\$	Total KHR'000 (Note 5)
	Properties US\$	Fixed deposits US\$			
31 December 2021					
Loans and advances to customers, gross	455,504,563	14,280,753	98,254,585	568,039,901	2,314,194,558
Commitments, gross	-	-	43,881,276	43,881,276	178,772,319
	<u>455,504,563</u>	<u>14,280,753</u>	<u>142,135,861</u>	<u>611,921,177</u>	<u>2,492,966,877</u>
31 December 2020					
Loans and advances to customers, gross	417,537,521	9,723,077	85,613,631	512,874,228	2,074,576,252
Commitments, gross	-	-	43,049,124	43,049,124	174,133,707
	<u>417,537,521</u>	<u>9,723,077</u>	<u>128,662,755</u>	<u>555,923,352</u>	<u>2,248,709,959</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(iv). *Credit quality of gross loans and advances to customers*

From 27 March 2020, the Group and the Bank have applied Circular No. B7-020-001 issued by the NBC on loan restructuring to support customers affected by COVID-19 by:

- reducing the amount of loan principal or amount to be repaid at the maturity;
- lowering interest rate than original contractual terms;
- deferring the repayment of principal or interest or capitalised interest;
- extending the maturity date; adding and/modifying co-borrower and/or guarantor, when applicable;
- changing an instalment loan to an interest payment only where the principal is repaid at the maturity (bullet loan);
- releasing collaterals or accepting lower level of collateralisation; and
- easing of covenants or/and providing grace period for repayment up to 6 months from the effective signing date of the new contract

Accordingly, for customers who paid principal payment or interest, or both payments not past due more than 90 days (performing loan) and are expected to be experiencing only temporary financial and repayment difficulties. NBC allows loan restructuring to all sectors impacted by COVID-19 pandemic and floods based on the bank's own valuation. The Group and the Bank do loan restructuring until 30 June 2021 and up to 3 times without impacting the loan classification during the referred period.

On 28 December 2021, the NBC further issued an additional circular on the Classification and Provisioning Requirement on Restructure Loans for the purpose of reducing credit risk aiming at preserving financial stability and supporting the restoration of economic activities. All loans restructured by 31 December 2021 shall be classified and provisioned from January 2022 onwards. For loans still in the assessment period shall keep the same classification as before the restructured terms of contract. The Group and the Bank has reviewed this new Circular and in the view that the Group and the Bank's existing assessment on credit risk is aligned with the requirement mentioned in the above circular in preparing these financial statements.

Pursuant to the NBC guideline Prakas B7-017-344, it has defined each credit grading according to its credit quality as follows:

Normal:

Outstanding facility is repaid on timely manner and is not in doubt for the future repayment. Repayment is steadily made according with the contractual terms and the facility does not exhibit any potential weakness in repayment capability, business, cash flow and financial position of the counterparty.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(iv). *Credit quality of gross loans and advances to customers (continued)*

Special mention:

A facility in this class is currently protected and may not be past due but it exhibits potential weaknesses that may adversely affect repayment of the counterparty at the future date, if not corrected in a timely manner, and close attention by the Institution.

Weaknesses include but are not limited to a declining trend in the business operations of the counterparty or in its financial position, and adverse economic and market conditions that all might affect its profitability and its future repayment capacity, or deteriorating conditions on the collateral. This class has clearly its own rational and should not be used as a compromise between Normal and Substandard.

Substandard:

A facility ranked in this class exhibits noticeable weakness and is not adequately protected by the current business or financial position and repayment capacity of the counterparty. In essence, the primary source of repayment is not sufficient to service the debt, not taking into account the income from secondary sources such as the realization of the collateral.

Factors leading to a substandard classification include:

- Inability of the counterparty to meet the contractual repayments' terms,
- Unfavourable economic and market conditions that would adversely affect the business and profitability of the counterparty in the future,
- Weakened financial condition and/or inability of the counterparty to generate enough cash flow to service the payments,
- Difficulties experienced by the counterparty in repaying other facilities granted by the Institution or by other institutions when the information is available, and
- Breach of financial covenants by the counterparty.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(iv). Credit quality of gross loans and advances to customers (continued)

Doubtful

A facility classified in this category exhibits more severe weaknesses than one classified Substandard such that its full collection on the basis of existing facts, conditions or collateral value is highly questionable or improbable. The prospect of loss is high, even if the exact amount remains undetermined for now.

Loss

A facility is classified Loss when it is not collectable, and little or nothing can be done to recover the outstanding amount from the counterparty.

Recognition of ECL

The Group and the Bank apply a three-stage approach based on the change in credit quality since initial recognition:

3-Stage approach	Stage 1	Stage 2	Stage 3
	Performing	Underperforming	Nonperforming
Recognition of expected credit losses	12 months expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Criterion	No significant increase in credit risk	Credit risk increased significantly	Credit impaired assets
Basic of calculation of profit revenue	On gross carrying amount	On gross carrying amount	On net carrying amount

The Group and the Bank will measure ECL by using the general approach. The general approach consists of segregating the customers into three different stages according to the staging criteria by assessing the credit risk. 12-month ECL will be computed for stage 1, while lifetime ECL will be computed for stage 2 and stage 3. At each reporting date, the Group and the Bank will assess credit risk of each account as compared to the risk level at origination date.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(iv). Credit quality of gross loans and advances to customers (continued)

Recognition of ECL (continued)

Long-term facilities (more than one year)

Stage	Credit Risk Status	Grades	DPD	Default Indicator
1	No significant increase in credit risk	Normal	$0 \leq \text{DPD} < 30$	Performing
2	Credit risk increased significantly	Special mention	$30 \leq \text{DPD} < 90$	Underperforming
3	Credit impaired assets	Substandard	$90 \leq \text{DPD} < 180$	Nonperforming
		Doubtful	$180 \leq \text{DPD} < 360$	
		Loss	$\text{DPD} \geq 360$	

Short-term facilities (one year or less)

Stage	Credit Risk Status	Grades	DPD	Default Indicator
1	No significant increase in credit risk	Normal	$0 \leq \text{DPD} \leq 14$	Performing
2	Credit risk increased significantly	Special mention	$15 \leq \text{DPD} \leq 30$	Underperforming
3	Credit impaired assets	Substandard	$31 \leq \text{DPD} \leq 60$	Nonperforming
		Doubtful	$61 \leq \text{DPD} \leq 90$	
		Loss	$\text{DPD} \geq 91$	

The Group and the Bank will use the day past due (DPD) information and NBC's classification for staging criteria. Also, the Group and the Bank will incorporate credit scoring or more forward looking elements in the future when information is more readily available. Upon the implementation of credit scoring system, if the risk level drops by two or more notches as compared to the risk level at origination, the accounts have to be classified under stage 2.

As for financial assets that are short term in nature, simplified approach will be adopted where no staging criteria is required. In this case, it will be either performing (stage1) or non-performing.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(iv). Credit quality of gross loans and advances to customers (continued)

Recognition of ECL (continued)

The table below summarises the credit quality of the Group's and the Bank's gross financing according to the above classifications.

Group and Bank	31 December 2021			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
Normal	532,806,814	-	-	532,806,814
Special Mention	21,698,330	7,125,348	-	28,823,678
Substandard	3,695,517	87,162	28,195	3,810,874
Doubtful	1,813,897	385,784	24,341	2,224,022
Loss	22,802	344,042	7,669	374,513
	<u>560,037,360</u>	<u>7,942,336</u>	<u>60,205</u>	<u>568,039,901</u>
Loss allowance	<u>10,538,208</u>	<u>151,170</u>	<u>19,963</u>	<u>10,709,341</u>
Carrying amount (US\$)	<u>549,499,152</u>	<u>7,791,166</u>	<u>40,242</u>	<u>557,330,560</u>
Carrying amount (KHR'000 - Note 5)	<u>2,238,659,545</u>	<u>31,741,210</u>	<u>163,946</u>	<u>2,270,564,701</u>
	31 December 2020			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
Normal	479,021,769	-	-	479,021,769
Special Mention	20,983,272	9,433,676	-	30,416,948
Substandard	159,016	39,318	174,233	372,567
Doubtful	167,023	9,705	2,799,075	2,975,803
Loss	24,874	62,267	-	87,141
	<u>500,355,954</u>	<u>9,544,966</u>	<u>2,973,308</u>	<u>512,874,228</u>
Loss allowance	<u>4,927,304</u>	<u>373,356</u>	<u>1,959,440</u>	<u>7,260,100</u>
Carrying amount (US\$)	<u>495,428,650</u>	<u>9,171,610</u>	<u>1,013,868</u>	<u>505,614,128</u>
Carrying amount (KHR'000 - Note 5)	<u>2,004,008,889</u>	<u>37,099,162</u>	<u>4,101,097</u>	<u>2,045,209,148</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(iv). *Credit quality of gross loans and advances to customers (continued)*

Incorporation of forward-looking information

The Group and the Bank incorporate forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the International Monetary Fund, Basel's Minimum Capital Requirements and other accredited research institutes. The Group and the Bank calculated the difference between Cambodia's GDP and World's GDP to compare the deviations of economic outlook which will be used to determine the forward-looking information.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments in accordance with each country and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

In response to the recent COVID-19 pandemic, the Group and the Bank have determined that the economic outlook for the upcoming years is highly impacted by the pandemic and therefore sets forth of new set of economic (and loss) scenarios and applies management overlay where necessary.

The Bank has revised its economic forecasts used as an input into ECL as at 31 December 2021 down from 2020.

For the purpose of ECL computation, to reflect the current climate, the Group and the Bank have taken into account the stressed economic scenarios during this COVID-19 pandemic by revisiting its probability weightage outcome (PWO) to generate the upper, neutral and lower bound of ECL. The Group and the Bank's Management has applied scenario probability weights across the three scenarios to determine the expected ECL as at 31 December 2021.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(v). Amounts arising from ECL

Loss allowance

The following tables show reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

Group and Bank	2021			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
At 1 January	4,927,304	1,433,552	899,244	7,260,100
- Transfer to Stage 1	664,680	(14,375)	(650,305)	-
- Transfer to Stage 2	(3,527)	5,378	(1,851)	-
- Transfer to Stage 3	(956,983)	(2,010)	958,993	-
Net remeasurement of loss allowance	1,299,313	(246,502)	1,629,165	2,681,976
New loans and advances to customers originated or purchased	4,631,221	12,570	-	4,643,791
Loans and advances to customers that been derecognised	(822)	(3,388)	-	(4,210)
Write-offs	-	-	(2,916,242)	(2,916,242)
Changes in models/risk parameters	(13,711)	(1,060,551)	118,188	(956,074)
At 31 December (US\$)	<u>10,538,208</u>	<u>151,170</u>	<u>19,963</u>	<u>10,709,341</u>
At 31 December (KHR'000 – Note 5)	<u>42,932,660</u>	<u>615,868</u>	<u>81,329</u>	<u>43,629,857</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

B. Credit risk (continued)

(v). Amounts arising from ECL (continued)

Loss allowance (continued)

Group and Bank	2020			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
At 1 January	6,038,523	256,324	784,124	7,078,971
- Transfer to Stage 1	69	(69)	-	-
- Transfer to Stage 2	(99,654)	99,654	-	-
- Transfer to Stage 3	(9,503)	(11,318)	20,821	-
Net remeasurement of loss allowance	353,993	(643)	1,794,295	2,147,645
New loans and advances to customers originated or purchased	3,570,894	520,038	574,002	4,664,934
Loans and advances to customers that been derecognised	(4,757,853)	(243,079)	-	(5,000,932)
Write-offs	-	-	(2,394,704)	(2,394,704)
Changes in models/risk parameters	(169,165)	812,645	120,706	764,186
At 31 December (US\$)	<u>4,927,304</u>	<u>1,433,552</u>	<u>899,244</u>	<u>7,260,100</u>
At 31 December (KHR'000 – Note 5)	<u>19,930,945</u>	<u>5,798,718</u>	<u>3,637,442</u>	<u>29,367,105</u>

C. Market risk

Market risk is the risk that changes in market prices – e.g. interest rates, foreign exchange rates and equity prices – will affect the Group's and the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i). Interest rate risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate risk is managed through close monitoring of returns on investment, market pricing and cost of funds. The potential reduction in net interest income from an unfavourable interest rate movement is regularly monitored against the risk tolerance limits set.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

The table below summarises the Group's and the Bank's exposure to interest rate risk which includes assets and liabilities at carrying amounts.

Group	Up to 1 month US\$	1-3 months US\$	3-6 months US\$	6-12 months US\$	1-5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$	Interest rate p.a %
As at 31 December 2021									
Financial assets									
Cash and cash equivalents, gross	42,080,610	24,900,000	-	-	-	-	-	66,980,610	0.04% - 2.60%
Placements with other banks	-	-	11,348,836	1,500,000	-	-	-	12,848,836	0.12% - 7.50%
Loans and advances to customers, gross	36,118,308	5,498,543	20,762,156	27,109,689	176,621,440	301,929,765	-	568,039,901	5.18% - 24.00%
Equity investments at FVOCI	-	-	-	-	-	-	543,918	543,918	-
Other assets	-	-	-	-	-	-	271,165	271,165	-
	<u>78,198,918</u>	<u>30,398,543</u>	<u>32,110,992</u>	<u>28,609,689</u>	<u>176,621,440</u>	<u>301,929,765</u>	<u>815,083</u>	<u>648,684,430</u>	
Financial liabilities									
Deposits from banks and other FIs	38,622,579	5,629,243	200,000	243,372	-	-	1,508,681	46,203,875	Nil - 4.50%
Deposits from customers	220,197,132	47,541,968	56,330,958	52,111,192	8,270,376	-	63,781,425	448,233,051	Nil - 5.00%
Borrowings	-	12,013,638	20,028,947	75,010,168	100,033	-	-	107,152,786	0.84% - 1.72%
Subordinated debts	-	-	-	5,800,000	17,470,160	-	-	23,270,160	1.63% - 1.72%
Lease liabilities	-	-	-	433,284	2,995,472	-	-	3,428,756	7.50% - 9.08%
Other liabilities	-	-	-	-	-	-	6,576,975	6,576,975	-
	<u>258,819,711</u>	<u>65,184,849</u>	<u>76,559,905</u>	<u>133,598,016</u>	<u>28,836,041</u>	<u>-</u>	<u>71,867,081</u>	<u>634,865,603</u>	
Interest sensitivity gap	<u>(180,620,793)</u>	<u>(34,786,306)</u>	<u>(44,448,913)</u>	<u>(104,988,327)</u>	<u>147,785,399</u>	<u>301,929,765</u>	<u>(71,051,998)</u>	<u>13,818,827</u>	
(KHR'000 - Note 5)	<u>(735,849,111)</u>	<u>(141,719,411)</u>	<u>(181,084,872)</u>	<u>(427,722,444)</u>	<u>602,077,716</u>	<u>1,230,061,863</u>	<u>(289,465,840)</u>	<u>56,297,901</u>	

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

The table below summarises the Group's and the Bank's exposure to interest rate risks which includes assets and liabilities at carrying amounts. (continued)

Group	Up to 1 month US\$	1-3 months US\$	3-6 months US\$	6-12 months US\$	1-5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$	Interest rate p.a %
As at 31 December 2020									
Financial assets									
Cash and cash equivalents, gross	101,151,638	24,900,000	-	-	-	35,171,975	47,416,640	208,640,253	1.67% - 2.75%
Placements with other banks	-	22,670,000	-	20,770,000	-	-	-	43,440,000	0.12% - 8.00%
Loans and advances to customers, gross	26,719,534	4,692,601	11,297,914	10,988,704	159,191,218	299,984,257	-	512,874,228	6.52% - 24.00%
Equity investments at FVOCI	-	-	-	-	-	-	567,672	567,672	-
Other assets	-	-	-	-	-	-	1,213,732	1,213,732	-
	<u>127,871,172</u>	<u>52,262,601</u>	<u>11,297,914</u>	<u>31,758,704</u>	<u>159,191,218</u>	<u>335,156,232</u>	<u>49,198,044</u>	<u>766,735,885</u>	
Financial liabilities									
Deposits from banks and other FIs	27,922,551	60,000	200,000	10,405,304	-	-	2,259,997	40,847,852	Nil - 3.00%
Deposits from customers	261,273,356	51,086,910	52,381,262	56,553,584	28,052,105	-	118,345,015	567,692,232	Nil - 4.50%
Borrowings	40,454,590	20,123,456	14,833,127	22,416,564	-	-	-	97,827,737	0.90% - 4.76%
Subordinated debts	-	-	-	-	29,092,643	-	-	29,092,643	1.72% - 3.44%
Lease liabilities	-	-	-	449,352	3,428,581	-	-	3,877,933	7.50% - 9.08%
Other liabilities	-	-	-	-	-	-	11,194,405	11,194,405	-
	<u>329,650,497</u>	<u>71,270,366</u>	<u>67,414,389</u>	<u>89,824,804</u>	<u>60,573,329</u>	<u>-</u>	<u>131,799,417</u>	<u>750,532,802</u>	
Interest sensitivity gap	<u>(201,779,325)</u>	<u>(19,007,765)</u>	<u>(56,116,475)</u>	<u>(58,066,100)</u>	<u>98,617,889</u>	<u>335,156,232</u>	<u>(82,601,373)</u>	<u>16,203,083</u>	
(KHR'000 - Note 5)	<u>(816,197,370)</u>	<u>(76,886,409)</u>	<u>(226,991,141)</u>	<u>(234,877,375)</u>	<u>398,909,361</u>	<u>1,355,706,958</u>	<u>(334,122,554)</u>	<u>65,541,470</u>	

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

The table below summarises the Group's and the Bank's exposure to interest rate risks which includes assets and liabilities at carrying amounts. (continued)

Bank	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non-interest bearing	Total	Interest rate
At 31 December 2021	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	p.a. %
Financial assets									
Cash and cash equivalents, gross	41,976,031	24,900,000	-	-	-	-	-	66,876,031	0.04% - 2.60%
Placements with other banks	-	-	10,048,836	1,000,000	-	-	-	11,048,836	0.12% - 7.50%
Loans and advances to customers, gross	36,118,308	5,498,543	20,762,156	27,109,689	176,621,440	301,929,765	-	568,039,901	5.18% - 24.00%
Equity investments at FVOCI and subsidiary	-	-	-	-	-	-	544,408	544,408	-
Other assets	-	-	-	-	-	-	242,090	242,090	-
	<u>78,094,339</u>	<u>30,398,543</u>	<u>30,810,992</u>	<u>28,109,689</u>	<u>176,621,440</u>	<u>301,929,765</u>	<u>786,498</u>	<u>646,751,266</u>	
Financial liabilities									
Deposits from banks and other FIs	38,622,579	5,629,243	200,000	243,372	-	-	1,508,681	46,203,875	Nil - 4.50%
Deposits from customers	220,197,132	48,016,950	56,330,958	52,111,192	8,270,376	-	63,791,451	448,718,059	Nil - 5.00%
Borrowings	-	-	20,028,947	75,010,168	100,033	-	-	95,139,148	0.84% - 1.72%
Subordinated debts	-	-	-	5,800,000	17,470,160	-	-	23,270,160	1.63% - 1.72%
Lease liabilities	-	-	-	450,606	9,269,951	-	-	9,720,557	7.50% - 9.08%
Other liabilities	-	-	-	-	-	-	5,671,891	5,671,891	-
	<u>258,819,711</u>	<u>53,646,193</u>	<u>76,559,905</u>	<u>133,615,338</u>	<u>35,110,520</u>	<u>-</u>	<u>70,972,023</u>	<u>628,723,690</u>	
Interest sensitivity gap	<u>(180,725,372)</u>	<u>(23,247,650)</u>	<u>(45,748,913)</u>	<u>(105,505,649)</u>	<u>141,510,920</u>	<u>301,929,765</u>	<u>(70,185,525)</u>	<u>18,027,576</u>	
(KHR'000 - Note 5)	<u>(736,275,164)</u>	<u>(94,710,926)</u>	<u>(186,381,072)</u>	<u>(429,830,014)</u>	<u>576,515,488</u>	<u>1,230,061,863</u>	<u>(285,935,830)</u>	<u>73,444,345</u>	

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

The table below summarises the Group's and the Bank's exposure to interest rate risks which includes assets and liabilities at carrying amounts. (continued)

Bank	Up to 1 month US\$	1-3 months US\$	3-6 months US\$	6-12 months US\$	1-5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$	Interest rate p.a. %
At 31 December 2020									
Financial assets									
Cash and cash equivalents, gross	101,151,638	24,900,000	-	-	-	35,090,236	47,416,640	208,558,514	1.67% - 2.75%
Placements with other banks	-	22,670,000	-	18,270,000	-	-	-	40,940,000	0.12% - 2.50%
Loans and advances to customers, gross	26,719,534	4,692,601	11,297,914	10,988,704	159,191,218	299,984,257	-	512,874,228	6.52% - 24.00%
Equity investments at FVOCI and subsidiary	-	-	-	-	-	-	568,162	568,162	
Other assets	-	-	-	-	-	-	1,160,144	1,160,144	
	<u>127,871,172</u>	<u>52,262,601</u>	<u>11,297,914</u>	<u>29,258,704</u>	<u>159,191,218</u>	<u>335,074,493</u>	<u>49,144,946</u>	<u>764,101,048</u>	
Financial liabilities									
Deposits from banks and other FIs	27,922,551	60,000	200,000	10,405,304	-	-	2,259,997	40,847,852	Nil - 3.00%
Deposits from customers	261,273,356	51,649,861	52,381,262	56,553,584	28,052,105	-	118,358,368	568,268,536	Nil - 4.50%
Borrowings	40,454,590	8,108,776	14,833,127	22,416,564	-	-	-	85,813,057	0.90% - 4.76%
Subordinated debts	-	-	-	-	29,092,643	-	-	29,092,643	1.72% - 3.44%
Lease liabilities	-	-	-	463,955	9,356,275	-	-	9,820,230	7.50% - 9.08%
Other liabilities	-	-	-	-	-	-	10,459,737	10,459,737	
	<u>329,650,497</u>	<u>59,818,637</u>	<u>67,414,389</u>	<u>89,839,407</u>	<u>66,501,023</u>	<u>-</u>	<u>131,078,102</u>	<u>744,302,055</u>	
Interest sensitivity gap	<u>(201,779,325)</u>	<u>(7,556,036)</u>	<u>(56,116,475)</u>	<u>(60,580,703)</u>	<u>92,690,195</u>	<u>335,074,493</u>	<u>(81,933,156)</u>	<u>19,798,993</u>	
(KHR'000 - Note 5)	<u>(816,197,370)</u>	<u>(30,564,166)</u>	<u>(226,991,141)</u>	<u>(245,048,943)</u>	<u>374,931,839</u>	<u>1,355,376,324</u>	<u>(331,419,616)</u>	<u>80,086,927</u>	

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Group	Profit or loss		Equity	
	100 bp Increase US\$	100 bp Decrease US\$	100 bp Increase US\$	100 bp Decrease US\$
2021				
Variable rate instruments	<u>(1,113,982)</u>	<u>1,113,982</u>	<u>(1,113,982)</u>	<u>1,113,982</u>
(KHR'000 – Note 5)	<u>(4,538,363)</u>	<u>4,538,363</u>	<u>(4,538,363)</u>	<u>4,538,363</u>
2020				
Variable rate instruments	<u>(673,279)</u>	<u>673,279</u>	<u>(673,279)</u>	<u>673,279</u>
(KHR'000 – Note 5)	<u>(2,723,414)</u>	<u>2,723,414</u>	<u>(2,723,414)</u>	<u>2,723,414</u>
Bank				
2021				
Variable rate instruments	<u>(1,083,948)</u>	<u>1,083,948</u>	<u>(902,196)</u>	<u>902,196</u>
(KHR'000 – Note 5)	<u>(4,416,004)</u>	<u>4,416,004</u>	<u>(3,675,547)</u>	<u>3,675,547</u>
2020				
Variable rate instruments	<u>(643,242)</u>	<u>643,242</u>	<u>(643,242)</u>	<u>643,242</u>
(KHR'000 – Note 5)	<u>(2,601,914)</u>	<u>2,601,914</u>	<u>(2,601,914)</u>	<u>2,601,914</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk

Foreign currency exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

Concentration of currency risk

The amounts of financial assets and liabilities, by currency denomination, are as follows:

Group	Denomination US\$ equivalents			Total
	KHR	US\$	Others	
31 December 2021				
Financial assets				
Cash and cash equivalents, gross	5,232,285	61,690,094	58,231	66,980,610
Placements with banks	-	12,848,836	-	12,848,836
Loans and advances to customers, gross	61,044,006	504,408,564	2,587,331	568,039,901
Equity investments at FVOCI	-	543,918	-	543,918
Other assets	-	271,165	-	271,165
	<u>66,276,291</u>	<u>579,762,577</u>	<u>2,645,562</u>	<u>648,684,430</u>
Financial liabilities				
Deposits from banks and other FIs	835,028	45,368,847	-	46,203,875
Deposits from customers	1,103,147	447,128,448	1,456	448,233,051
Borrowings	-	107,152,786	-	107,152,786
Subordinated debts	-	23,270,160	-	23,270,160
Lease liabilities	-	3,428,756	-	3,428,756
Other liabilities	-	6,576,975	-	6,576,975
	<u>1,938,175</u>	<u>632,925,972</u>	<u>1,456</u>	<u>634,865,603</u>
Net asset/(liability) position	<u>64,338,116</u>	<u>(53,163,395)</u>	<u>2,644,106</u>	<u>13,818,827</u>
(KHR'000 – Note 5)	<u>262,113,485</u>	<u>(216,587,672)</u>	<u>10,772,088</u>	<u>56,297,901</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

The amounts of financial assets and liabilities, by currency denomination, are as follows: (continued)

Group	Denomination US\$ equivalents			Total
	KHR	US\$	Others	
31 December 2020				
Financial assets				
Cash and cash equivalents, gross	11,725,328	196,857,636	57,289	208,640,253
Placements with banks	-	43,440,000	-	43,440,000
Loans and advances to customers, gross	57,038,359	453,237,591	2,598,278	512,874,228
Equity investments at FVOCI	-	567,672	-	567,672
Other assets	-	1,213,732	-	1,213,732
	<u>68,763,687</u>	<u>695,316,631</u>	<u>2,655,567</u>	<u>766,735,885</u>
Financial liabilities				
Deposits from banks and other FIs	10,372,650	30,475,202	-	40,847,852
Deposits from customers	3,937,145	563,753,487	1,600	567,692,232
Borrowings	30,603,476	67,224,261	-	97,827,737
Subordinated debts	-	29,092,643	-	29,092,643
Lease liabilities	-	3,877,933	-	3,877,933
Other liabilities	-	11,194,405	-	11,194,405
	<u>44,913,271</u>	<u>705,617,931</u>	<u>1,600</u>	<u>750,532,802</u>
Net asset/(liability) position	<u>23,850,416</u>	<u>(10,301,300)</u>	<u>2,653,967</u>	<u>16,203,083</u>
(KHR'000 – Note 5)	<u>96,474,932</u>	<u>(41,668,759)</u>	<u>10,735,297</u>	<u>65,541,470</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

The amounts of financial assets and liabilities, by currency denomination, are as follows: (continued)

Bank	Denomination			Total
	KHR	US\$	Others	
At 31 December 2021				
Financial assets				
Cash and cash equivalents, gross	5,232,285	61,585,515	58,231	66,876,031
Placements with banks	-	11,048,836	-	11,048,836
Loans and advances to customers, gross	61,044,006	504,408,564	2,587,331	568,039,901
Equity investments at FVOCI and subsidiary	-	544,408	-	544,408
Other assets	-	242,090	-	242,090
	<u>66,276,291</u>	<u>577,829,413</u>	<u>2,645,562</u>	<u>646,751,266</u>
Financial liabilities				
Deposits from banks and other FIs	835,028	45,368,847	-	46,203,875
Deposits from customers	1,103,147	447,613,456	1,456	448,718,059
Borrowings	-	95,139,148	-	95,139,148
Subordinated debts	-	23,270,160	-	23,270,160
Lease liabilities	-	9,720,557	-	9,720,557
Other liabilities	-	5,671,891	-	5,671,891
	<u>1,938,175</u>	<u>626,784,059</u>	<u>1,456</u>	<u>628,723,690</u>
Net asset/(liability) position	<u>64,338,116</u>	<u>(48,954,646)</u>	<u>2,644,106</u>	<u>18,027,576</u>
(KHR'000 – Note 5)	<u>262,113,485</u>	<u>(199,441,228)</u>	<u>10,772,088</u>	<u>73,444,345</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

The amounts of financial assets and liabilities, by currency denomination, are as follows: (continued)

Bank	Denomination			Total
	KHR	US\$	Others	
At 31 December 2020				
Financial assets				
Cash and cash equivalents, gross	11,725,328	196,775,897	57,289	208,558,514
Placements with banks	-	40,940,000	-	40,940,000
Loans and advances to customers, gross	57,038,359	453,237,591	2,598,278	512,874,228
Equity investments at FVOCI and subsidiary	-	568,162	-	568,162
Other assets	-	1,160,144	-	1,160,144
	<u>68,763,687</u>	<u>692,681,794</u>	<u>2,655,567</u>	<u>764,101,048</u>
Financial liabilities				
Deposits from banks and other FIs	10,372,650	30,475,202	-	40,847,852
Deposits from customers	3,937,145	564,329,791	1,600	568,268,536
Borrowings	30,603,476	55,209,581	-	85,813,057
Subordinated debts	-	29,092,643	-	29,092,643
Lease liabilities	-	9,820,230	-	9,820,230
Other liabilities	-	10,459,737	-	10,459,737
	<u>44,913,271</u>	<u>699,387,184</u>	<u>1,600</u>	<u>744,302,055</u>
Net asset/(liability) position	<u>23,850,416</u>	<u>(6,705,390)</u>	<u>2,653,967</u>	<u>19,798,993</u>
(KHR'000 – Note 5)	<u>96,474,932</u>	<u>(27,123,302)</u>	<u>10,735,297</u>	<u>80,086,927</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Sensitivity analysis

Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Group and the Bank as at reporting date is summarised as follows (only exposures in currencies that accounts for more than 5 percent of the net open positions are shown in its specific currency in the table below. For other currencies, these exposures are grouped as 'Others'):

Group	2021		2020	
	- 1% Depreciation US\$	+ 1% Appreciation US\$	- 1% Depreciation US\$	+ 1% Appreciation US\$
KHR	(643,381)	643,381	(238,504)	238,504
Others	<u>(26,441)</u>	<u>26,441</u>	<u>(26,540)</u>	<u>26,540</u>
	<u>(669,822)</u>	<u>669,822</u>	<u>(265,044)</u>	<u>265,044</u>
(KHR'000 – Note 5)	<u>(2,728,855)</u>	<u>(3,059,990)</u>	<u>(1,072,103)</u>	<u>1,072,103</u>
Bank				
KHR	(643,381)	643,381	(238,504)	238,504
Others	<u>(26,441)</u>	<u>26,441</u>	<u>(26,540)</u>	<u>26,540</u>
	<u>(669,822)</u>	<u>669,822</u>	<u>(265,044)</u>	<u>265,044</u>
(KHR'000 – Note 5)	<u>(2,728,855)</u>	<u>(3,059,990)</u>	<u>(1,072,103)</u>	<u>1,072,103</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

D. Liquidity risk

'Liquidity risk' is the risk that the Group and the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Group's and the Bank's operations and investments.

Management of liquidity risk

The Group and the Bank manages its liquidity through its Asset Liability Management Committee which is responsible for establishing the liquidity policy as well as monitoring liquidity on an ongoing basis. A Minimum Liquid Asset requirement has been established to ensure that the ratio of liquid assets to qualifying liabilities is subject to a minimum threshold at all times.

The table below summarises the Group's and the Bank's assets and liabilities based on remaining contractual maturities. The expected cash flows of these assets and liabilities could vary significantly from what is shown in the table. For example, deposits from customers are not all expected to be withdrawn immediately.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

D. Liquidity risk (continued)

The following table set out the remaining maturities of the Group and the Bank's financial liabilities and financial assets.

Group	Up to 1 month US\$	1-3 months US\$	3-6 months US\$	6-12 months US\$	1-5 years US\$	Over 5 years US\$	No fixed maturity date US\$	Total US\$
At 31 December 2021								
Financial liabilities								
Deposits from banks and other FIs	38,622,579	5,629,243	200,000	243,372	-	-	1,508,681	46,203,875
Deposits from customers	220,197,132	47,541,968	56,330,958	52,111,192	8,270,376	-	63,781,425	448,233,051
Borrowings	-	12,013,638	20,028,947	75,010,168	100,033	-	-	107,152,786
Subordinated debts	-	-	-	5,800,000	17,470,160	-	-	23,270,160
Lease liabilities	-	-	-	433,284	2,995,472	-	-	3,428,756
Other liabilities	-	-	-	-	-	-	6,576,975	6,576,975
	<u>258,819,711</u>	<u>65,184,849</u>	<u>76,559,905</u>	<u>133,598,016</u>	<u>28,836,041</u>	<u>-</u>	<u>71,867,081</u>	<u>634,865,603</u>
Financial assets								
Cash and cash equivalents, gross	42,080,610	24,900,000	-	-	-	-	-	66,980,610
Placements with other banks	-	-	11,348,836	1,500,000	-	-	-	12,848,836
Loans and advances to customers, gross	36,118,308	5,498,543	20,762,156	27,109,689	176,621,440	301,929,765	-	568,039,901
Equity investments at FVOCI	-	-	-	-	-	-	543,918	543,918
Other assets	-	-	-	-	-	-	271,165	271,165
	<u>78,198,918</u>	<u>30,398,543</u>	<u>32,110,992</u>	<u>28,609,689</u>	<u>176,621,440</u>	<u>301,929,765</u>	<u>815,083</u>	<u>648,684,430</u>
Maturity analysis gap	<u>(180,620,793)</u>	<u>(34,786,306)</u>	<u>(44,448,913)</u>	<u>(104,988,327)</u>	<u>147,785,399</u>	<u>301,929,765</u>	<u>(71,051,998)</u>	<u>13,818,827</u>
(KHR'000 equivalents - Note 5)	<u>(735,849,111)</u>	<u>(141,719,411)</u>	<u>(181,084,872)</u>	<u>(427,722,444)</u>	<u>602,077,716</u>	<u>1,230,061,863</u>	<u>(289,465,840)</u>	<u>56,297,901</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

D. Liquidity risk (continued)

The following table set out the remaining maturities of the Group and the Bank's financial liabilities and financial assets. (continued)

Group	Up to 1 month US\$	1-3 months US\$	3-6 months US\$	6-12 months US\$	1-5 years US\$	Over 5 years US\$	No fixed maturity date US\$	Total US\$
At 31 December 2020								
Financial liabilities								
Deposits from banks and other FIs	27,922,551	60,000	200,000	10,405,304	-	-	2,259,997	40,847,852
Deposits from customers	261,273,356	51,086,910	52,381,262	56,553,584	28,052,105	-	118,345,015	567,692,232
Borrowings	40,454,590	20,123,456	14,833,127	22,416,564	-	-	-	97,827,737
Subordinated debts	-	-	-	-	29,092,643	-	-	29,092,643
Lease liabilities	-	-	-	449,352	3,428,581	-	-	3,877,933
Other liabilities	-	-	-	-	-	-	11,194,405	11,194,405
	<u>329,650,497</u>	<u>71,270,366</u>	<u>67,414,389</u>	<u>89,824,804</u>	<u>60,573,329</u>	<u>-</u>	<u>131,799,417</u>	<u>750,532,802</u>
Financial assets								
Cash and cash equivalents, gross	101,151,638	24,900,000	-	-	-	35,171,975	47,416,640	208,640,253
Placements with other banks	-	22,670,000	-	20,770,000	-	-	-	43,440,000
Loans and advances to customers, gross	26,719,534	4,692,601	11,297,914	10,988,704	159,191,218	299,984,257	-	512,874,228
Equity investments at FVOCI	-	-	-	-	-	-	567,672	567,672
Other assets	-	-	-	-	-	-	1,213,732	1,213,732
	<u>127,871,172</u>	<u>52,262,601</u>	<u>11,297,914</u>	<u>31,758,704</u>	<u>159,191,218</u>	<u>335,156,232</u>	<u>49,198,044</u>	<u>766,735,885</u>
Maturity analysis gap	<u>(201,779,325)</u>	<u>(19,007,765)</u>	<u>(56,116,475)</u>	<u>(58,066,100)</u>	<u>98,617,889</u>	<u>335,156,232</u>	<u>(82,601,373)</u>	<u>16,203,083</u>
(KHR'000 equivalents - Note 5)	<u>(816,197,370)</u>	<u>(76,886,409)</u>	<u>(226,991,141)</u>	<u>(234,877,375)</u>	<u>398,909,361</u>	<u>1,355,706,958</u>	<u>(334,122,554)</u>	<u>65,541,470</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

D. Liquidity risk (continued)

The following table set out the remaining maturities of the Group and the Bank's financial liabilities and financial assets. (continued)

Bank	Up to 1 month US\$	1-3 months US\$	3-6 months US\$	6-12 months US\$	1-5 years US\$	Over 5 years US\$	No fixed maturity date US\$	Total US\$
At 31 December 2021								
Financial liabilities								
Deposits from banks and other FIs	38,622,579	5,629,243	200,000	243,372	-	-	1,508,681	46,203,875
Deposits from customers	220,197,132	48,016,950	56,330,958	52,111,192	8,270,376	-	63,791,451	448,718,059
Borrowings	-	-	20,028,947	75,010,168	100,033	-	-	95,139,148
Subordinated debts	-	-	-	5,800,000	17,470,160	-	-	23,270,160
Lease liabilities	-	-	-	450,606	9,269,951	-	-	9,720,557
Other liabilities	-	-	-	-	-	-	5,671,891	5,671,891
	<u>258,819,711</u>	<u>53,646,193</u>	<u>76,559,905</u>	<u>133,615,338</u>	<u>35,110,520</u>	<u>-</u>	<u>69,463,342</u>	<u>628,723,690</u>
Financial assets								
Cash and cash equivalents, gross	41,976,031	24,900,000	-	-	-	-	-	66,876,031
Placements with other banks	-	-	10,048,836	1,000,000	-	-	-	11,048,836
Loans and advances to customers, gross	36,118,308	5,498,543	20,762,156	27,109,689	176,621,440	301,929,765	-	568,039,901
Equity investments at FVOCI and subsidiary	-	-	-	-	-	-	544,408	544,408
Other assets	-	-	-	-	-	-	242,090	242,090
	<u>78,094,339</u>	<u>30,398,543</u>	<u>30,810,992</u>	<u>28,109,689</u>	<u>176,621,440</u>	<u>301,929,765</u>	<u>786,498</u>	<u>646,751,266</u>
Maturity analysis gap	<u>(180,725,372)</u>	<u>(23,247,650)</u>	<u>(45,748,913)</u>	<u>(105,505,649)</u>	<u>141,510,920</u>	<u>301,929,765</u>	<u>(70,185,525)</u>	<u>18,027,576</u>
(KHR'000 equivalents - Note 5)	<u>(736,275,164)</u>	<u>(94,710,926)</u>	<u>(186,381,072)</u>	<u>(429,830,014)</u>	<u>576,515,488</u>	<u>1,230,061,863</u>	<u>(285,935,830)</u>	<u>73,444,345</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

D. Liquidity risk (continued)

The following table set out the remaining maturities of the Group and the Bank's financial liabilities and financial assets. (continued)

Bank	Up to 1 month US\$	1-3 months US\$	3-6 months US\$	6-12 months US\$	1-5 years US\$	Over 5 years US\$	No fixed maturity date US\$	Total US\$
At 31 December 2020								
Financial liabilities								
Deposits from banks and other FIs	27,922,551	60,000	200,000	10,405,304	-	-	2,259,997	40,847,852
Deposits from customers	261,273,356	51,649,861	52,381,262	56,553,584	28,052,105	-	118,358,368	568,268,536
Borrowings	40,454,590	8,108,776	14,833,127	22,416,564	-	-	-	85,813,057
Subordinated debts	-	-	-	-	29,092,643	-	-	29,092,643
Lease liabilities	-	-	-	463,955	9,356,275	-	-	9,820,230
Other liabilities	-	-	-	-	-	-	10,459,737	10,459,737
	<u>329,650,497</u>	<u>59,818,637</u>	<u>67,414,389</u>	<u>89,839,407</u>	<u>66,501,023</u>	<u>-</u>	<u>131,078,102</u>	<u>744,302,055</u>
Financial assets								
Cash and cash equivalents, gross	101,151,638	24,900,000	-	-	-	35,090,236	47,416,640	208,558,514
Placements with other banks	-	22,670,000	-	18,270,000	-	-	-	40,940,000
Loans and advances to customers, gross	26,719,534	4,692,601	11,297,914	10,988,704	159,191,218	299,984,257	-	512,874,228
Equity investments at FVOCI and subsidiary	-	-	-	-	-	-	568,162	568,162
Other assets	-	-	-	-	-	-	1,160,144	1,160,144
	<u>127,871,172</u>	<u>52,262,601</u>	<u>11,297,914</u>	<u>29,258,704</u>	<u>159,191,218</u>	<u>335,074,493</u>	<u>49,144,946</u>	<u>764,101,048</u>
Maturity analysis gap	<u>(201,779,325)</u>	<u>(7,556,036)</u>	<u>(56,116,475)</u>	<u>(60,580,703)</u>	<u>92,690,195</u>	<u>335,074,493</u>	<u>(81,933,156)</u>	<u>19,798,993</u>
(KHR'000 equivalents - Note 5)	<u>(816,197,370)</u>	<u>(30,564,166)</u>	<u>(226,991,141)</u>	<u>(245,048,943)</u>	<u>374,931,839</u>	<u>1,355,376,324</u>	<u>(331,419,616)</u>	<u>80,086,927</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Financial risk management (continued)

E. Operational risk

The operational risk is the risk of losses arising from inadequate or failed internal processes, people or systems or from external factors. This risk is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and oversight provided by the senior Management. This includes legal, compliance, accounting and fraud risk.

The operational risk management entails the establishment of clear organizational structures, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, streaming procedures and documentation ensuring compliance with regulatory and legal requirements. These are reviewed continually to address the operational risks of its banking business.

F. Capital management

(i). *Regulatory capital*

The Group's and the Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of the statement of financial position, are:

- To comply with the capital requirements set by the NBC;
- To safeguard the Group's and the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of the business.

The Group's and the Bank's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group and the Bank recognised the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The above regulated capital is calculated in accordance with the guidance issued by the NBC which may be different in some material respects compared to generally accepted principles applied by financial institutions in other jurisdiction. The above regulated capital information is therefore not intended for users who are not informed about the guidance issued by the NBC.

(ii). *Capital allocation*

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

34. Fair values of financial assets and liabilities

Financial instruments comprise financial assets, financial liabilities and off-balance sheet instruments. 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 Group and the Bank has access at that date. The information presented herein represents the estimates of fair values as at the financial position date.

Quoted and observable market prices, where available, are used as the measure of fair values of the financial instruments. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors.

Fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of CIFRS 7 *Financial Instruments Disclosures* which requires the fair value information to be disclosed. These include investment in subsidiaries and property and equipment.

The fair value of the Group's and the Bank's financial instruments such as cash and short-term funds, balances with NBC, deposits and placements with banks and other financial institutions, deposits from customers and banks, other assets, other liabilities and short-term borrowings are not materially sensitive to shifts in market profit rate because of the limited term to maturity of these instruments. As such, the carrying value of these financial assets and liabilities at financial position date approximate their fair values.

The fair values are based on the following methodologies and assumptions:

(i) Cash at banks

The fair values of balances with other banks and financial institutions with maturity of less than one year approximate their carrying amounts.

(ii) Loans and advances to customers

For fixed rate loans with remaining period to maturity of less than one year, the carrying amounts are generally reasonable estimates of their fair values. The fair values of fixed rate loans with remaining maturity of more than one year are estimated based on discounted cash flows using prevailing market rates for financing with similar credit risks and maturities.

(iii) Deposits from banks, other financial institutions and customers

The fair values of deposits payable on demand (current and savings accounts), or deposits with remaining maturity of less than one year are estimated to approximate their carrying amounts. The fair values of deposits with remaining maturity of more than one year are estimated based on discounted cash flows using prevailing market rates for similar deposits from banks and customers.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

34. Fair values of financial assets and liabilities (continued)

(iv) Borrowings and subordinated debts

The fair value of borrowings and subordinated debts are estimated by discounting the expected future cash flows using the applicable prevailing market interest rates for borrowings with similar risk profiles. However, only the contractual interest rates which are confirmed and provided by all lenders are available at the reporting date instead of the applicable prevailing market interest rates. The Group and the Bank believed that the contractual interest rates were not significantly different to the prevailing market interest rates on the ground that there was no change to interest rates following the lenders' consideration on the Group and the Bank's credit risk profile as at reporting date. On this basis, the fair value of borrowings and subordinated debts approximates their carrying values at the reporting date.

(v) Other financial assets and liabilities

The carrying amounts of other financial assets and liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

Fair value hierarchy

CIFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the Group's and the Bank's market assumptions. The fair value hierarchy is as follows:

- *Level 1* – Quoted price (unadjusted) in active markets for the identical assets or liabilities. This level includes listed equity securities and debt instruments.
- *Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- *Level 3* – Inputs for asset or liability that are not based on observable market data (unobservable inputs). This level includes equity instruments and debt instruments with significant unobservable components.

The Group and the Bank's financial assets and financial liabilities, except equity investments at FVOCI, are not measured at fair value. As verifiable market prices are not available, market prices are not available for a significant proportion of the Group's and of the Bank's financial assets and liabilities, the fair values, therefore, have been based on management assumptions according to the profile of the asset and liability base. In the opinion of the management, the carrying amounts of the financial assets and liabilities included in the statement of financial position are a reasonable estimation of their fair values.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated (Note 36).

A. Basis of measurement

The financial statements have been prepared on a historical cost except equity investments which are measured at fair value through other comprehensive income ("FVOCI").

B. Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiary made up to the end of the financial year. A subsidiary is a company in which the Group has power to exercise control over the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Subsidiary is consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of the subsidiary during the period are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiary's net assets are determined and these values are reflected in the consolidated financial statements.

Inter-company transactions, balances and unrealised gain or loss arising from inter-company transactions are eliminated and the consolidated financial statements reflect external transactions only. Losses resulting from intra-group transactions, which indicate an impairment loss, will be recognised in the consolidated financial statements. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The gain or loss on disposal of a subsidiary, which is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal is recognised in the profit or loss.

Non-controlling interest ("NCI") are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

URE Land Holding Co., Ltd., the Subsidiary has different class of shares. The individuals own Class A shares and the Bank owns Class B shares, representing 51% and 49% interest in the Subsidiary, respectively. Furthermore, the right to appoint members of the Board of Directors was granted only to holders of Class B shares. The Bank has assessed that they maintain a control over the Subsidiary and therefore prepared these consolidated financial statements.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

C. Foreign currencies

Transactions in foreign currencies are translated into the functional currency of at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss.

D. Financial assets and financial liabilities

(i). *Recognition and initial measurement*

The Group and the Bank initially recognises loans and advances, borrowings and subordinated debts on the date on which they are originated. All other financial assets and liabilities are initially recognised on the date on which the Group and the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii). *Classification*

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI").

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(ii). Classification (continued)

Financial assets (continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group and the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group and the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group and the Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's and the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(ii). Classification (continued)

Financial assets (continued)

Business model assessment (continued)

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's and the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group and the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group and the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's and the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(ii). Classification (continued)

Financial assets (continued)

Non-recourse loans

In some cases, loans made by the Group and the Bank that are secured by collateral of the borrower limit the Group's and the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Group and the Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group and the Bank typically considers the following information when making this judgement

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's and the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group and the Bank will benefit from any upside from the underlying assets.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group and the Bank changes its business model for managing financial assets.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(iii). *Derecognition*

Financial assets

The Group and the Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group and the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liabilities.

Financial liabilities

The Group and the Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv). *Modifications of financial assets and financial liabilities*

Financial assets

If the terms of a financial asset are modified, then the Group and the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit and loss as part of the gain or loss on derecognition.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(iv). *Modifications of financial assets and financial liabilities (continued)*

Financial assets (continued)

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group and the Bank plan to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group and the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit and loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Group and the Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit and loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit and loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(iv). *Modifications of financial assets and financial liabilities (continued)*

Interest rate benchmark reform (policy applied from 1 January 2021)

If the basis of determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Group and the Bank updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Group and the Bank first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group and the Bank applies the policies on accounting for modifications set out above to the additional charges.

(v). *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group and the Bank has a legal right to set off the amounts and it intends either to settle them 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 under CIFRS standards, or for any gains and losses arising from a group of similar transactions such as in the Group's and the Bank's trading activity.

(vi). *Fair value measurement*

'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 Group and the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group and the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. 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.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(vi). Fair value measurement (continued)

If there is no quoted price in an active market, then the Group and the Bank 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.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group and the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit and loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group and the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group and the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

(vii). Impairment

The Group and the Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments; and
- loan commitments issued and financial guarantee contract.

No impairment loss is recognised on equity investments.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

The Group and the Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

At each reporting date, the Group and the Bank assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group and the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's and the Bank's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group and the Bank is exposed to credit risk.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Determining whether credit risk has increased significantly

The Group and the Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region.

The Group and the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 15 days or 30 days past due depends on the facilities' term. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

Definition of default

The Group and the Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group and the Bank in full, without recourse by the Group and the Bank to actions such as realising security (if any is held); or
- The Group and the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than or equal to 30 days past due for long-term facilities or more than or equal to 15 days past due for short-term facilities.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group and the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group and the Bank if the commitment is drawn down and the cash flows that the Group and the Bank expects to receive.
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group and the Bank expects to recover.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Measurement of ECL (continued)

Inputs, assumptions and techniques used for estimating impairment

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (“PD”);
- Loss given default (“LGD”); and
- Exposure at default (“EAD”).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The statistical model has been employed to analyse data collected and generate estimate of remaining lifetime PD of exposure and how these are expected to change as result of passage of time.

LGD is the magnitude of the likely loss if there is a default. The Group and the Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (“LTV”) ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group and the Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group and the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group and the Bank considers a longer period. The maximum contractual period extends to the date at which the Group and the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Measurement of ECL (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group and the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group and the Bank on terms that the Group and the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(vii). *Impairment (continued)*

Presentation of allowance for ECL in the consolidated and separate statement of financial position

Loss allowances for ECL are presented in the consolidated and separate statement of financial position for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.

Provision for financial guarantee contracts is presented as a separate liability in the consolidated and separate statement of financial position.

Write-off

Loans and advances are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group and the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are generally included in 'impairment losses on financial instruments' in the statement of profit and loss and OCI. In the event such recoveries are material, a separate line item will be included in "other income".

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's and the Bank's procedures for recovery of amounts due.

E. Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with original maturities of three months or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortised cost in the consolidated and separate statements of financial position.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

F. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of the ordinary share are recognised as a deduction from equity, net of any tax effects. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

G. Non-distributable reserves and regulatory reserves

The non-distributable reserves are set up for any overall financial risk. The Board of Directors exercises its discretion for the use and maintenance of the general reserves. The transfer from retained earnings/accumulated losses to general reserves is subject to the approval of Board of Directors of the Bank.

Regulatory reserves are set up for the variance of provision made on financial instruments between the impairment losses in accordance with CIFRSs and regulatory provision in accordance with National Bank of Cambodia's Prakas No. B7-017-344 dated 1 December 2017 and Circular No. B7-018-001 Sor Ror Chor Nor dated 16 February 2018 on credit risk classification and provision on impairment for banks and financial institutions. In accordance with Article 73, the entity is shall compare the provision calculated in accordance with Article 49 to 71 and the provision calculated in accordance with Article 72, and the record:

- (i) In case that the regulatory provision calculated in accordance with Article 72 is lower than provision calculated in accordance with Article 49 to 71, the entity records the provision calculated in accordance with CIFRSs; and
- (ii) In case that the regulatory provision calculated in accordance with Article 72 is higher than provision calculated in accordance with Article 49 to 71, the entity records the provision calculated in accordance with CIFRSs and transfer the difference from retained earnings or accumulated losses account into regulatory reserve in shareholder's equity.

The regulatory reserves are not an item to be included in the calculation of the Bank's net worth.

H. Placements with other banks

Placements with other banks are stated at amortised cost less impairment for any uncollectable amounts.

I. Statutory deposits

Statutory deposits are stated at cost, and include in balances with the NBC that are maintained in compliance with the Cambodian Law on Banking and Financial Institutions; and are determined by the defined percentage of the minimum share capital and the customers' deposits as required by NBC.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

J. Loans and advances

'Loans and advances' caption in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

K. Other assets

Other assets are carried at amortised cost less impairment if any.

L. Property and equipment

(i). *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

L. Property and equipment (continued)

(ii). *Subsequent costs*

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and the Bank, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii). *Depreciation*

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property and equipment.

Depreciation is recognised from the date that the property and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Freehold land is not depreciated.

The estimated useful lives for the current year are as follows:

	Years
Buildings	20
Building improvements	10
Office equipment	4
Motor vehicles	4
IT equipment and computers	4

Depreciation methods, useful lives and residual values are reassessed at end of the reporting date and adjusted, if appropriate.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

M. Intangible assets

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment loss. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use.

Intangible assets are amortised over their estimated useful lives of 4 years using the straight-line method. Costs associated with the development or maintenance of computer software are recognised as expenses when incurred.

N. Leases

At inception of a contract, the Group and the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Group and the Bank assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right throughout the period of use, then the asset is not identified;
- the Group and the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group and the Bank has the right to direct the use of the asset. The Group and the Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group and the Bank has the right to direct the use of the asset if either:
 - the Group and the Bank has the right to operate the asset; or
 - the Group and the Bank designed the asset in a way that predetermines how and for what purpose It will be used.

At inception or on reassessment of a contract that contains a lease and non-lease component, the Group and the Bank allocates the consideration in the contract to each lease component and aggregate of non-lease components on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group and the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

N. Leases (continued)

Leases in which the Group and the Bank is a lessee

An arrangement conveyed the right to use the asset if one of the following was met:

- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

The Group and the Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The estimated useful lives for the right-of-use assets are as follows:

- Buildings and branches' offices 3 – 10 years

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, to the lessee's incremental borrowing rate. Generally, the Group and the Bank uses its incremental borrowing rate as the discount rate.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

N. Leases (continued)

Leases in which the Group and the Bank is a lessee (continued)

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group and the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Group and the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group and the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the lease term, a change in the assessment of the option to purchase the underlying asset, a change in future lease payments arising from a change in an index or rate, or if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

From 1 January 2021, where the basis for determining future lease payments changes as required by interest rate benchmark reform (see Note 35D(iv)), the Group and the Bank remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

Short-term leases and leases of low-value assets

The Group and the Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group and the Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

O. Deposits, borrowings and subordinated debts

Deposits, borrowings and subordinated debts are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at amortised cost using effective interest method.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

P. Employee benefits

(i). *Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group and the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii). *Other long-term employee benefits*

The Group's and the Bank's net obligation in respect of long-term employee benefits is the amount of the benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit and loss in the period in which they arise.

Q. Provisions

Provisions are recognised in the statement of financial position when the Group and the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

R. Interest

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group and the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

R. Interest (continued)

Effective interest rate (continued)

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in profit or loss includes interest on financial assets measured at amortised cost.

Interest expense presented in profit or loss includes interest on financial liabilities measured at amortised cost.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

S. Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fees and commission income – including account servicing fees is recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Group's and the Bank's financial statements may be partially in the scope of CIFRS 9 and partially in the scope of CIFRS 15. If this is the case, then the Group and the Bank first applies CIFRS 9 to separate and measure the part of the contract that is in the scope of CIFRS 9 and then applies CIFRS 15 to the residual.

T. Impairment of non-financial assets

The carrying amounts of the Group's and the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit and loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

U. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit and loss except items recognised directly in equity or in other comprehensive income.

The Group and the Bank has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under CIAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and has recognised the related expenses in 'other expenses'.

(i). Current tax

Current tax comprises the expected tax payable or receivable on the taxable income for the period using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous period.

(ii). Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Temporary differences in relation to a right-of-use assets and lease liabilities for specific lease are regarded as a net package (the lease) for the purpose of recognising deferred tax.

A deferred tax asset are recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. 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; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group and the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

V. Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

35. Significant accounting policies (continued)

W. Contingent assets

Where it is not possible that there is an inflow of economic benefits, or the amount cannot be estimated reliably, the asset is not recognised in the statements of financial position and is disclosed as a contingent asset, unless the probability of inflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets unless the probability of inflow of economic benefits is remote.

36. Changes in significant accounting policies

The Group and the Bank has initially adopted *Interest Rate Benchmark Reform – Phase 2* (Amendments to CIFRS 9, CIAS 39, CIFRS 7, CIFRS 4 and CIFRS 16) from 1 January 2021.

The Group and the Bank applied the Phase 2 amendments retrospectively. The Group and the Bank elected to apply the practical expedient provided in the amendment to deal with the changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities resulting from the interest rate benchmark reform. The changes are accounted for by updating the effective interest rate at the time the basis is changed, provided the changes are necessary as a direct consequence of the reform and the new basis is economically equivalent to the previous basis. The Group and the Bank has no transactions that are affected by these newly effective requirements.

The details of the accounting policies are disclosed in Notes 35D(iv) and 35N.

37. New standards, amendments and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group and the Bank have not early adopted the new or amended standards in preparing these financial statements.

A. *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendments to CIAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2021

37. New standards, amendments and interpretations not yet adopted (continued)

A. *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendments to CIAS 12) (continued)

The Group and the Bank accounts for deferred tax on leases and decommissioning liabilities applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the Group and the Bank will recognise a separate deferred tax asset and a deferred tax liability.

As at 31 December 2021, the taxable temporary difference in relation to the right-of-use asset of the Group and the Bank are US\$2,908,431 and US\$7,901,098 respectively (Note 12) and the deductible temporary difference in relation to the lease liabilities of the Group and the Bank are US\$3,428,756 and US\$9,720,557 respectively (Note 19), resulting in a net deferred tax asset of the Group and the Bank amounted to US\$104,066 and US\$363,893 respectively (Note 16C).

Under the amendments, the Group and the Bank will present a separate deferred tax liability of US\$581,687 and US\$1,580,220 respectively and a deferred tax asset of US\$685,753 and US\$1,944,113 respectively. There will be no impact on retained earnings on adoption of the amendments.

B. Other new standards, amendments and interpretations

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements and the Bank's separate financial statements:

- *COVID-19-Related Rent Concessions beyond 30 June 2021* (Amendment to CIFRS 16);
- *Onerous Contracts – Cost of Fulfilling a Contract* (Amendments to CIAS 37);
- *Annual Improvements to CIFRS Standards 2018– 2020*;
- *Property, Plant and Equipment: Proceeds before Intended Use* (Amendments to CIAS 16);
- *Reference to Conceptual Framework* (Amendments to CIFRS 3);
- *Classification of Liabilities as Current or Non-current* (Amendments to CIAS 1);
- *Disclosure of Accounting Policies* (Amendments to CIAS 1 and CIFRS Practice Statement 2);
and
- *Definition of Accounting Estimates* (Amendments to CIAS 8).

9 - Services & Financial Product

1. Personal Banking

- Saving Deposit
- Demand Deposit
- Time Deposit
- Housing Loan
- Credit Card
- Online Banking
- Mobile Banking
- ATM Service

2. Corporate Banking

- Term Loan
- Working Capital Loan
- Business Check Account
- Escrow Account
- Payroll Service
- Acquiring Service

3. International Banking

- Money Transfer
- Trade Finance
- Import & Export L/C
- D/P & D/A
- Guarantee & Standby L/C
- Check Discounted
- Trade Finance Loan

10 - Contact Information

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Union Commercial Bank Plc.

FINANCIAL STATEMENTS

For the year ended 31 December 2021



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