



UCB

2018

**ANNUAL
REPORT**

UCB

Union Commercial Bank Plc.

FINANCIAL STATEMENTS

For the year ended 31 December 2018



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1 - Message from Management Team

2018 年 UCB 邁向了新的里程。我們在這一年實現了綜合顧客關係增加、資產品質改善、穩健的獲利能力三大目標。UCB 矢志成為柬埔寨最好的外商銀行之一，並且追求在地化的長遠發展。我們在莫里旺大道上自主購地，自主興建的新總部大樓 – E.SUN TOWER，於 2018/12 月隆重落成，這棟地上 16 層地下 4 層的指標性建築，亦象徵著 UCB 要在柬埔寨金融市場深耕的決心。

In 2018, UCB has achieved a new milestone. During the year, we made great progress in realizing the three major goals: increasing customer relationship, improving asset quality, and steady profitability. UCB is determined to be one of the best foreign banks in Cambodia and pursues the long-term development of localization. We built our own new headquarters building – E.SUN TOWER on Monivong Blvd., the prime commercial location in Phnom Penh, and hosted a grand opening in December 2018. This landmark building of 16 levels with additional 4 levels underground symbolizes UCB's determination of the deeper development in Cambodian financial market.

在業務方面，UCB 在金邊的 10 家分行持續穩健增加顧客，存款、房貸、匯款、信用卡業務也不斷的進行流程精進，以及增加對本行同仁的教育訓練，期望能持續提升服務品質，答謝廣大顧客對 UCB 的長期支持；已開發的網路銀行與手機銀行等數位金融工具，將進行新一波的功能強化，提供小型商家與一般消費者顧客，更便捷的金融服務體驗。

As for the business development, UCB's 10 branches in Phnom Penh continued to steadily increase customer base. We continually better our service of deposits, house loan, remittances, and credit card business, and increasing training for our colleagues. We keep improving our service quality for our customers to thank for their long-term support to UCB. The digital banking tools such as online banking and mobile banking have been developed and will be enhanced by a new service of functions, providing small businesses and general consumers more convenient and better financial service experience.

2019 仍然是國際經濟局勢較為動盪的一年。諸如中美貿易協商、英國脫歐議題、西方世界經濟復甦速度遲緩等等，許多影響全球經濟走勢的議題仍懸而未決。另一方面，新興國家的崛起、永續能源的推行、通訊技術的發展、人工智能的

應用等等焦點，也讓世界的發展充滿期待。因此許多來自海外投資柬埔寨的外商，也是 UCB 發展中的機會。

2019 remains to be a year with further volatile in international economic situation. Factors such as China-US trade conflict, the Brexit issue, and the slow recovery of the western economy continue affecting the global economic trend remain unresolved. On the other hand, the rise of emerging countries, the implementation of sustainable energy, the development of communication technology, the application of artificial intelligence, etc., make the world's development full of expectations. Therefore, the continuity of many foreign investors invest in Cambodia plays a key opportunity in the development of UCB.

未來金融產業仍會是國家社會發展的重要推手，UCB 將持續開創顧客價值，協助企業發展；保持資產品質與流動性的穩定，發揮企業之社會公益責任，發展策略與時俱進。

In the future, the financial industry will be an important driving force for the country's development. UCB will continue focusing on creating customer value and assisting the enterprise development; at the same time, to maintain asset quality and liquidity stability, create impact through exercising corporate social responsibility, and develop strategies to keep pace with the trend and society.

2 - Company Profile

母公司：玉山銀行 Parent Company: E.SUN Bank

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 elite 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 seven 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。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. As the subsidiary of E.SUN Bank, UCB insists on E.SUN's core values and vision, 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 between multicultural elites for becoming a most distinctive foreign bank in Cambodia.

3 - Business Review

1. Financial Highlights

	2018	2017	2016
Operating Result (USD)			
Operating Income	32,265,468	23,155,245	20,903,316
Profit before Tax	5,687,121	(25,621,536)	(22,287,581)
Net Profit	4,371,117	(20,341,265)	(18,506,428)
Key Balance Sheet Data (USD)			
Total Assets	517,723,581	533,258,002	602,961,676
Loan to Customers (net)	315,424,198	316,408,637	394,054,497
Deposit from Customer	331,025,641	279,512,580	383,671,677
Total Liabilities	441,448,623	461,047,338	553,016,502
Paid-up Capital	80,000,000	80,000,000	37,500,000
Shareholder's Equity	76,274,958	72,210,664	49,945,174
Return on Asset (ROA)	0.84%	(3.81%)	(3.07%)
Return on Equity (ROE)	5.73%	(28.17%)	(37.05%)
Non-performing Loan % (NPL %)	3.44%	7.34%	14.77%
Statutory Ratios			
Solvency Ratio	30.79%	31.44%	16.67%
Liquidity Coverage Ratio (LCR)	110%	147%	128%
Liquidity Ratio	-	-	-

2. Operational Highlights

○ Expansion Project and Infrastructure Development

❖ New Head Office Building

Our new head office building, E.SUN Tower, has been completed and grand opening at 12 December 2018. The building is alone with Monivong Blvd. and located at the central area of Phnom Penh City. The Building is designed and contracted by the famous construction company, LBL INTERNATIONAL, E.SUN Tower will serve as the logistics center for UCB's operation and act as the paragon to provide UCB's premium services for our valued customers.

❖ IT System

“Building system, cultivating talent, and developing IT” as the three pillars of its quest for long-term sustainability as well as the core value of both UCB and Parents company. Among these, the information system plays the most important role for maintaining a bank’s daily business processes and operational efficiency. For this, in 2017, UCB has completed refining the core banking information system (T24) to improve operational efficiency and management control; launching the GAML system to assist AML/CFT works and reduce related risks; also, connecting to the FAST Payment system that helps the efficiency of interbank fund transfer and payment transaction in Riel for our customers. Furthermore UCB will launch the Mobile banking App at the beginning of year 2019, we believe that through mobile banking UCB will provide more convenience services to our customers.

- **Transnational Professional Team**

In the past few years, UCB kept actively recruiting numerous potential local talents and professionals. Combining the abundant experiences from Taiwan and Cambodian local wisdom, UCB has built up a transnational professional team that aims to make it the most distinctive foreign bank in Cambodia. Even so, UCB continues strengthening its educational trainings for its staff, from service etiquette to professional knowledge, for providing our valued customers a better service quality and experience.

- **Leading Services**

UCB continues to provide premium and leading financial services for our valued customers and create its unique market reputation. In credit card area, currently UCB has ranked the second place on card circulation in Cambodian market and acquires several international awards from VISA and MasterCard. UCB will keep developing our credit card as the most beloved brand for Cambodian affluence. UCB also emphasizes commercial loan and housing loan services that accompany the economic growth of Cambodia.

- **Risk Management**

From 2017, UCB has established an independent risk management department which oversees the Bank’s risk management activities, monitors the bank’s risk profiles such as credit risk, operational risk, liquidity risk, market risk and information safety risk, and directly reports to the Risk Management Committee/Board of Directors.

- **Social Contribution**

UCB upholds the idea of sustainable development from our parent company, E.SUN Bank, and enthusiastically concerns the interests of our stakeholders. We make our best effort to make the society better and reveal our love to this mother land by various charity activities. In 2018, we cooperated with E.SUN Bank holding a volunteer service team to help constructing houses for people living in the remote area of Siem Reap, and cooperated with Taiwan's Mackay Memorial Hospital raising a volunteer medical team to perform charity medical services for people living in Phnom Penh remote area.

3. Strategic Plan for 2019

The Cambodian Banking market is dominated by two major groups of players, namely, the bank which were owned by foreign companies, and the local giant banks. In the end of 2018, there are 43 commercial banks, 14 specialized banks, and 80 micro-financial institutions (MFIs and MDIs). UCB is very fortunate to have forged fruitful links with the local community and the overseas investors from Taiwan so that it has many supportive and loyal customers.

The financial services sector plays an increasing promising part in Cambodia's economy. The economy is USD-based and most commercial banks offer loans in USD to finance trading, manufacturing and service businesses. Although KHR is the national currency, most loans are in USD rather than in the national currency. For this, in the framework of achieving de-dollarization policy, NBC has released a new regulation in December 2016 which requires banks having their loans in KHR at least 10% of their total loan portfolio by the end of 2019.

- **Deposit and Branch Services**

- ❖ In the following three years, the Bank will continuously absorb current/saving deposits, in particular from corporate customers. In the meantime, the Bank will keep strengthening the service quality and provide better service to its valued customers from both local and oversea. For this, the Bank will enhance its cash management services such as internet banking, mobile banking and start to provide Chinese language service in response to the increasing foreign direct investment from China. In addition, with the VIP management team of the Bank, the VIP customer will receive a flexible service.

- **Loan Services**

- ❖ For the booming of middle class and population growth in Cambodia in the next few years, the Bank will focus on housing loan service for family needs in Cambodia and aim to be one of the main housing loan providers in Cambodian financial sectors. In corporate loans, the bank will emphasize developing potential customers from retailing sector and

manufacture sector and good multinational companies; on the other hand, avoid of large exposure loan and customers from high risk sectors.

- ❖ In risk management and internal operations, the Bank centralizes its credit operations, such as collateral appraisal, credit analysis and assessment, loan disbursement, and file management, into the head office. This will enhance the operational efficiency and decrease the operational risks or possible frauds. Also, the Bank will strengthen the capacity of bad debt recovery, in particular in the areas of legal practices, alert mechanism on impaired loans, and education training.

○ **Cards Services**

- ❖ The credit card business will concentrate its strategy on expanding VIP customer base and spread its brand equity. For this, the Bank has initiated its debit card product in the second half year of 2019 to strengthen the service scope. The debit card, combining the function of ATM card, will aims to the mass customers and for those customers who are used to shopping overseas, and bring more convenience for its customers.
- ❖ As for internal management, the credit card business will aim to strengthen its organizational efficiency and risk management competency by developing IT system and business process re-engineering. For instance, the Bank will utilize more technological application to undertake data analysis, acquiring management, or SMS system and help enhancing the transaction safety, customer relation management in credit card business.

4 - Activity and Sponsorship



In This Moment
It Begins a New
Era of **UCB**

**UCB New Head Office, E.SUN Tower,
Grand Opening Ceremony in Sofitel, Phnom Penh**



**Founder of E.SUN FHC. with Management Team Celebrate the
Grand Opening of UCB New Head Office**

Determination for Long-Term Business



CEO Leads UCBers to Clearing the Environment in Province Remote Area



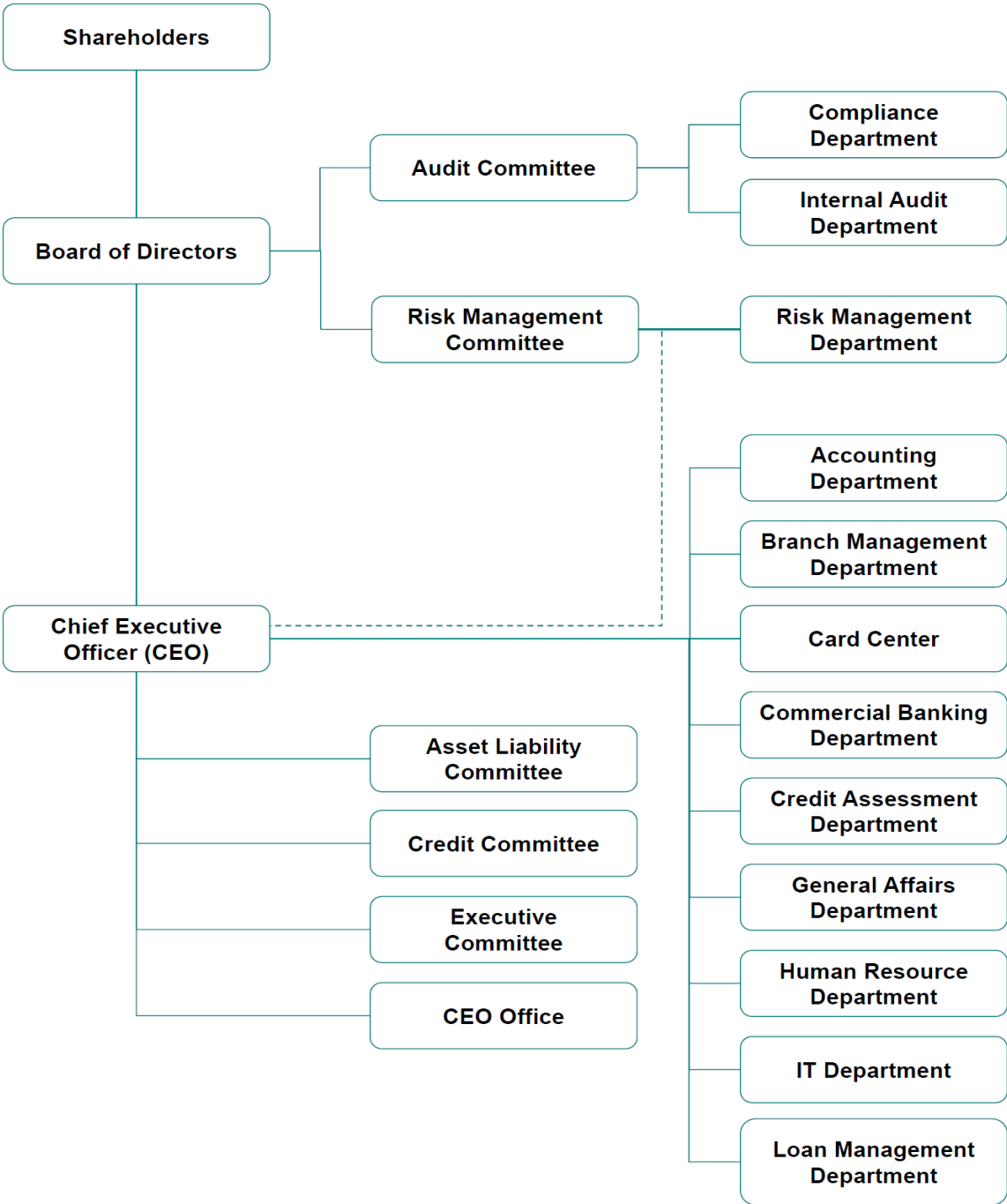
2018 Volunteer Activities Event with E.SUN Bank in Siem Reap Province



5 - Corporate Governance

UCB Organizational Structure

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



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	Share Ratio	Education
1	Representative from E.SUN Bank Mr. Mao-Chin Chen	Chairman	22-May-2017			Master of Economics National Taiwan University
2	Representative from E.SUN Bank Ms. I-Yen Kuo	Director	30-March-2017			Master of Economics National Taiwan University
3	Representative from E.SUN Bank Mr. Chi-Kan Chung	Director (CEO)	30-March-2017	8,000	100%	Bachelor of Economic Fu Ren University
4	Representative from E.SUN Bank Mr. Chieh-Hung Chen	Director	22-May-2017			Master of Business Administration Drexel University
5	Ms. Hun Phalin	Director	30-March-2017			Bachelor of Art Option Chinese Language Beijing Language and Culture University
6	Mr. Tung-Lung Kuo	Independent Director	22-May-2017			Bachelor of Law in Public Administration National Taipei University
7	Mr. Chuan-Hsing Huang	Independent Director	30-March-2017			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:

N ^o	Position	Name	Date of Appointment	Education
1	Committee Chairman	Mr. Tung-Lung Kuo	22-May-2017	Bachelor of Law in Public Administration National Taipei University
2	Member	Mr. Mao-Chin Chen	22-May-2017	Master of Economics National Taiwan University
3	Member	Mr. Chuan-Hsing Huang	30-March-2017	Doctor Degree of Philosophy Tamkang University
4	Member	Ms. I-Yen Kuo	30-March-2017	Master of Economics National Taiwan University

UCB Risk Committee

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

N ^o	Position	Name	Date of Appointment	Education
1	Committee Chairman	Mr. Chuan-Hsing Huang	30-March-2017	Doctor Degree of Philosophy Tamkang University
2	Member	Mr. Mao-Chin Chen	22-May-2017	Master of Economics National Taiwan University
3	Member	Mr. Chi-Kan Chung	30-March-2017	Bachelor of Economic Fu Ren University
4	Member	Mr. Chieh-Hung Chen	22-May-2017	Master of Business Administration Drexel University

6 - Director's Report

Report of the Board of Directors

The Board of Directors (“the Board” or “the Directors”) have 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 2018.

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 Bank’s use.

Financial results

The financial results of the Group and of the Bank for the year ended 31 December 2018 were as follows:

Group	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit/(Loss) before income tax	5,687,121	22,850,852	(25,621,536)	(103,434,141)
Income tax expense/(credit)	(1,316,004)	(5,287,704)	5,280,271	21,316,454
Net profit/(loss) for the year	<u>4,371,117</u>	<u>17,563,148</u>	<u>(20,341,265)</u>	<u>(82,117,687)</u>

Financial results (continued)

Bank	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit/(Loss) before income tax	4,819,441	19,364,513	(25,594,589)	(103,325,356)
Income tax expense/(credit)	(1,116,373)	(4,485,587)	5,315,517	21,458,742
Net profit/(loss) for the year	<u>3,703,068</u>	<u>14,878,926</u>	<u>(20,279,072)</u>	<u>(81,866,614)</u>

Dividends

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

Share capital

On 30 June 2017 and on 13 September 2017, the Bank received total capital injection from the shareholder amounting to US\$42.50 million. This increase was approved by NBC on 25 July 2017 and endorsed by the Ministry of Commerce on 23 January 2019.

Bad and doubtful loans and advances

Before the financial statements of the Group and of 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 bad and 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 loans and advances in the financial statements of the Group and of the Bank, inadequate to any material extent.

Current assets

Before the financial statements of the Group and of the Bank were prepared, the Directors took reasonable steps to ensure that any current assets, other than debts, 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 Directors are not aware of any circumstances, which would render the values attributed to the current 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 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 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.

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.

Items of an unusual nature

The results of the operations of the Group and 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.

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 period in which this report is made.

Events since the reporting date

At the date of this report, except as disclosed in the financial statements, there have been no significant events occurring after the reporting date which would require adjustments or disclosures to be made in the financial statements.

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 or indirectly in the shares of the Group and of the Bank 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 the Directors of the Group and the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Group and 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 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 position of the Group and of the Bank as at 31 December 2018, 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 judgements and estimates and then apply them consistently;
- (ii) comply with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements 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;

Directors' responsibility in respect of the financial statements (continued)

- (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 management 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 hereby approve the accompanying financial statements together with the notes thereto as set out on pages 9 to 85 which, in our opinion, present fairly, in all material respects, the financial position of the Group and of the Bank as at 31 December 2018, and the financial performance and the cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

Signed in accordance with a resolution of the Board of Directors,



Mr. Mao-Chin Chen
Chairman

Phnom Penh, Kingdom of Cambodia

Date: 6 MAR 2019



Mr. Chi-Kan Chung
Chief Executive Office

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 for the year ended 31 December 2018, which comprise the consolidated and the separate balance sheet of the Group and of the Bank as at 31 December 2018, and the consolidated and the separate income statements, the consolidated and the separate statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 9 to 85 (hereafter referred to as “the financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group and of the Bank as at 31 December 2018, and their financial performance and their cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

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 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 other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 that date.

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, we 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 Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements, 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 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 CISAs 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 CISAs, 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's and the Bank's internal control.

8 - Financial Report

Union Commercial Bank Plc. and its subsidiary Consolidated balance sheet as at 31 December 2018

		2018		2017	
	Note	US\$	KHR'000 (Note 4)	US\$	KHR' 000 (Note 4)
ASSETS					
Cash on hand		29,132,324	117,053,678	27,674,096	111,720,326
Balances with the National Bank of Cambodia	5	96,666,941	388,407,769	122,647,307	495,127,178
Balances with banks and other financial institutions	6	21,659,880	87,029,398	18,312,863	73,929,028
Available-for-sale ("AFS") investments		340,968	1,370,009	297,767	1,202,085
Loans and advances to customers, net	7	315,424,198	1,267,374,428	316,408,637	1,277,341,668
Finance lease receivables		4,104	16,490	-	-
Property and equipment	8	41,109,621	165,178,457	31,616,949	127,637,623
Deferred tax asset, net	13(c)	8,040,820	32,308,015	9,186,284	37,085,029
Intangible assets	9	421,815	1,694,853	843,566	3,405,476
Other assets	10	4,922,910	19,780,252	6,270,533	25,314,141
TOTAL ASSETS		<u>517,723,581</u>	<u>2,080,213,349</u>	<u>533,258,002</u>	<u>2,152,762,554</u>
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits from banks and other financial institutions	11	4,157,934	16,706,579	5,994,194	24,198,561
Deposits from customers	12	331,025,641	1,330,061,026	279,512,580	1,128,392,285
Provision for off-balance sheet items	7(a)	322,089	1,294,154	-	-
Borrowings	14	53,232,689	213,888,944	122,565,440	494,796,681
Subordinated debts	15	29,000,000	116,522,000	29,000,000	117,073,000
Employee benefit obligations	16	416,028	1,671,601	255,613	1,031,910
Current income tax liabilities/ Minimum tax payable	13(b)	175,656	705,786	82,819	334,340
Other liabilities	17	23,118,586	92,890,478	23,636,692	95,421,326
TOTAL LIABILITIES		<u>441,448,623</u>	<u>1,773,740,568</u>	<u>461,047,338</u>	<u>1,861,248,103</u>
SHAREHOLDERS' EQUITY					
Share capital	18	80,000,000	321,440,000	37,500,000	151,387,500
Additional contribution from shareholder		-	-	42,500,000	171,572,500
Accumulated losses		(29,598,314)	(118,926,026)	(33,628,726)	(135,759,167)
Non-distributable reserve		25,622,772	102,952,298	25,622,772	103,439,131
AFS reserve		250,500	1,006,509	216,618	874,487
TOTAL SHAREHOLDERS' EQUITY		<u>76,274,958</u>	<u>306,472,781</u>	<u>72,210,664</u>	<u>291,514,451</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>517,723,581</u>	<u>2,080,213,349</u>	<u>533,258,002</u>	<u>2,152,762,554</u>

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

Union Commercial Bank Plc. and its subsidiary

Consolidated income statement for the year ended 31 December 2018

	Note	2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR' 000 (Note 4)
Interest income	19	25,430,160	102,178,383	30,219,707	121,996,957
Interest expense	20	<u>(8,641,227)</u>	<u>(34,720,450)</u>	<u>(13,121,031)</u>	<u>(52,969,602)</u>
Net interest income		16,788,933	67,457,933	17,098,676	69,027,355
Fee and commission income	21	3,634,042	14,601,581	3,632,780	14,665,533
Fee and commission expense	22	<u>(2,351,816)</u>	<u>(9,449,597)</u>	<u>(2,480,840)</u>	<u>(10,015,151)</u>
Net fee and commission income		1,282,226	5,151,984	1,151,940	4,650,382
Other operating income	23	<u>14,194,309</u>	<u>57,032,734</u>	<u>4,904,629</u>	<u>19,799,987</u>
Total operating income		32,265,468	129,642,651	23,155,245	93,477,724
Personnel expenses	24	(4,921,151)	(19,773,185)	(6,591,657)	(26,610,519)
Depreciation and amortisation	25	(2,111,423)	(8,483,698)	(2,236,469)	(9,028,625)
General and administrative expenses	26	(4,255,970)	(17,100,487)	(6,826,727)	(27,559,497)
Provision for impairment losses	7(a)	(14,865,821)	(59,730,869)	(32,734,448)	(132,148,967)
Minimum tax expense	13(b)	<u>(423,982)</u>	<u>(1,703,560)</u>	<u>(387,480)</u>	<u>(1,564,257)</u>
Profit/(loss) before income tax		5,687,121	22,850,852	(25,621,536)	(103,434,141)
Income tax expense/(credit)	13(a)	<u>(1,316,004)</u>	<u>(5,287,704)</u>	<u>5,280,271</u>	<u>21,316,454</u>
Net profit/(loss) for the year		<u>4,371,117</u>	<u>17,563,148</u>	<u>(20,341,265)</u>	<u>(82,117,687)</u>
Attributable to:					
Equity holder of the Bank		4,030,412	16,194,195	(20,309,547)	(81,989,641)
Minority interest		<u>340,705</u>	<u>1,368,953</u>	<u>(31,718)</u>	<u>(128,046)</u>
		<u>4,371,117</u>	<u>17,563,148</u>	<u>(20,341,265)</u>	<u>(82,117,687)</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 2018

	Share capital US\$	Additional contribution from shareholder US\$	Accumulated losses US\$	Non- distributable reserve US\$	AFS reserve US\$	Total US\$
For the year ended 31 December 2018						
Balance as at 1 January 2018	37,500,000	42,500,000	(33,628,726)	25,622,772	216,618	72,210,664
Transfer	42,500,000	(42,500,000)	-	-	-	-
Net profit for the year	-	-	4,030,412	-	-	4,030,412
Unrealised gain on AFS investments	-	-	-	-	33,882	33,882
Balance as at 31 December 2018	<u>80,000,000</u>	<u>-</u>	<u>(29,598,314)</u>	<u>25,622,772</u>	<u>250,500</u>	<u>76,274,958</u>
In KHR'000 equivalent – (Note 4)	<u>321,440,000</u>	<u>-</u>	<u>(118,926,026)</u>	<u>102,952,298</u>	<u>1,006,509</u>	<u>306,472,781</u>
For the year ended 31 December 2017						
Balance as at 1 January 2017	37,500,000	-	(13,319,179)	25,622,772	141,581	49,945,174
Advance capital contribution	-	42,500,000	-	-	-	42,500,000
Net loss for the year	-	-	(20,309,547)	-	-	(20,309,547)
Unrealised gain on AFS investments	-	-	-	-	75,037	75,037
Balance as at 31 December 2017	<u>37,500,000</u>	<u>42,500,000</u>	<u>(33,628,726)</u>	<u>25,622,772</u>	<u>216,618</u>	<u>72,210,664</u>
In KHR'000 equivalent – (Note 4)	<u>151,387,500</u>	<u>171,572,500</u>	<u>(135,759,167)</u>	<u>103,439,131</u>	<u>874,487</u>	<u>291,514,451</u>

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 2018

	Note	2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from operating activities					
Profit/(Loss) before income tax		5,687,121	22,850,852	(25,621,536)	(103,434,141)
Adjustments for:					
Depreciation and amortisation	25	2,111,423	8,483,698	2,236,469	9,028,625
Minimum tax expense		423,982	1,703,560	387,480	1,564,257
Net interest income		(16,788,933)	(67,457,933)	(17,098,676)	(69,027,355)
Provision for loan losses	7(a)	14,333,294	57,591,175	32,734,448	132,148,967
Provision for balances with other banks and financial institutions		210,438	845,540	-	-
Provision for off-balance sheet commitments		322,089	1,294,154	-	-
Employee benefit obligations		188,729	758,313	1,740,000	7,024,380
Dividends from AFS investments		(9,319)	(37,444)	-	-
Gains on disposals of property and equipment		(1,069,896)	(4,298,842)	(13,012)	(52,529)
		<u>5,408,928</u>	<u>21,733,073</u>	<u>(5,634,827)</u>	<u>(22,747,796)</u>
Changes in:					
Balances with the National Bank of Cambodia		3,791,658	15,234,882	(504,496)	(2,036,650)
Loans and advances to customers		(13,348,855)	(53,635,699)	44,911,412	181,307,370
Other assets		1,186,277	4,766,461	549,922	2,220,035
Deposits from banks and other financial institutions		(1,836,260)	(7,378,093)	2,685,564	10,841,622
Deposits from customers		51,513,061	206,979,479	(104,159,097)	(420,490,275)
Other liabilities		(467,501)	(1,878,419)	15,375,562	62,071,144
Cash generated from/(used in) operations		<u>46,247,308</u>	<u>185,821,684</u>	<u>(46,775,960)</u>	<u>(188,834,550)</u>
Employee benefit obligation paid		(28,314)	(113,766)	(1,787,863)	(7,217,603)
Interest income received		25,524,873	102,558,940	30,594,449	123,509,791
Interest expense paid		(9,032,537)	(36,292,734)	(17,987,894)	(72,617,128)
Income tax paid	13(b)	(16,045)	(64,469)	(111,851)	(451,542)
Minimum tax paid	13(b)	(423,111)	(1,700,060)	(351,268)	(1,418,069)
Cash generated from/(used in) operating activities		<u>62,272,174</u>	<u>250,209,595</u>	<u>(36,420,387)</u>	<u>(147,029,101)</u>

Union Commercial Bank Plc. and its subsidiary
Consolidated statement of cash flows for the year ended 31 December 2018
(continued)

	Note	2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from investing activities					
Balances with banks and other financial institutions		-	-	4,000,000	16,148,000
Proceeds from disposals of property and equipment		1,866,424	7,499,292	28,193	113,815
Purchases of property and equipment	8	(11,949,319)	(48,012,364)	(8,076,671)	(32,605,521)
Purchases of intangible assets	9	(29,553)	(118,744)	(16,659)	(67,252)
Cash used in investing activities		<u>(10,112,448)</u>	<u>(40,631,816)</u>	<u>(4,065,137)</u>	<u>(16,410,958)</u>
Cash flows from financing activities					
Additional contribution from shareholder		-	-	42,500,000	171,572,500
Repayments of borrowings		(118,343,875)	(475,505,690)	(681,208)	(2,750,037)
Proceeds from borrowings and subordinated debts		49,011,124	196,926,696	-	-
Cash (used in)/generated from financing activities		<u>(69,332,751)</u>	<u>(278,578,994)</u>	<u>41,818,792</u>	<u>168,822,463</u>
Net decrease/(increase) in cash and cash equivalents		<u>(17,173,025)</u>	<u>(69,001,215)</u>	<u>1,333,268</u>	<u>5,382,404</u>
Cash and cash equivalents at beginning of the year		98,458,645	397,477,551	97,125,377	392,095,147
Currency translation difference		-	(1,870,714)	-	-
Cash and cash equivalents at end of the year	27	<u>81,285,620</u>	<u>326,605,622</u>	<u>98,458,645</u>	<u>397,477,551</u>

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

Union Commercial Bank Plc.

Separate balance sheet as at 31 December 2018

	Note	2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
ASSETS					
Cash on hand		29,132,324	117,053,678	27,674,096	111,720,326
Balances with the National Bank of Cambodia	5	96,666,941	388,407,769	122,647,307	495,127,178
Balances with banks and other financial institutions	6	20,833,411	83,708,645	18,034,535	72,805,418
AFS investments		340,968	1,370,009	297,767	1,202,085
Loans and advances to customers, net	7	315,424,198	1,267,374,428	316,408,637	1,277,341,668
Investment in subsidiary		490	1,969	490	1,978
Property and equipment	8	31,938,445	128,328,673	22,654,595	91,456,600
Deferred tax assets, net	13(c)	8,038,982	32,300,630	9,155,355	36,960,168
Intangible assets	9	421,171	1,692,265	842,708	3,402,012
Other assets	10	4,918,055	19,760,745	5,269,333	21,272,298
TOTAL ASSETS		507,714,985	2,039,998,811	522,984,823	2,111,289,731
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits from banks and other financial institutions	11	4,157,934	16,706,579	5,994,194	24,198,561
Deposits from customers	12	333,263,250	1,339,051,739	280,481,084	1,132,302,136
Provision for off-balance sheet commitments	7(a)	322,089	1,294,154	-	-
Borrowings	14	41,205,882	165,565,234	110,549,757	446,289,369
Subordinated debts	15	29,000,000	116,522,000	29,000,000	117,073,000
Finance lease liabilities		968,743	3,892,409	1,030,755	4,161,158
Employee benefit obligations	16	416,028	1,671,601	255,613	1,031,910
Current income tax liabilities/ Minimum tax payable	13(b)	37,083	148,999	36,212	146,188
Other liabilities	17	22,673,095	91,100,496	23,703,277	95,690,129
TOTAL LIABILITIES		432,044,104	1,735,953,211	451,050,892	1,820,892,451
EQUITY					
Share capital	18	80,000,000	321,440,000	37,500,000	151,387,500
Additional contribution from shareholder		-	-	42,500,000	171,572,500
Accumulated losses		(30,202,391)	(121,353,207)	(33,905,459)	(136,876,338)
Non-distributable reserve		25,622,772	102,952,298	25,622,772	103,439,131
AFS reserve		250,500	1,006,509	216,618	874,487
TOTAL EQUITY		75,670,881	304,045,600	71,933,931	290,397,280
TOTAL LIABILITIES AND EQUITY		507,714,985	2,039,998,811	522,984,823	2,111,289,731

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

Union Commercial Bank Plc.

Separate income statement for the year ended 31 December 2018

	Note	2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	19	25,349,028	101,852,395	30,124,585	121,612,950
Interest expense	20	(8,071,388)	(32,430,837)	(12,656,757)	(51,095,328)
Net interest income		17,277,640	69,421,558	17,467,828	70,517,622
Fee and commission income	21	3,634,042	14,601,581	3,632,780	14,665,533
Fee and commission expense	22	(2,351,816)	(9,449,597)	(2,480,840)	(10,015,151)
Net fee and commission income		1,282,226	5,151,984	1,151,940	4,650,382
Other operating income	23	13,415,156	53,902,097	4,990,651	20,147,258
Total operating income		31,975,022	128,475,639	23,610,419	95,315,262
Personnel expenses	24	(4,915,141)	(19,749,037)	(6,591,657)	(26,610,519)
Depreciation and amortisation	25	(2,071,431)	(8,323,010)	(2,197,374)	(8,870,799)
General and administrative expenses	26	(4,879,206)	(19,604,650)	(7,294,049)	(29,446,076)
Provision for impairment losses	7(a)	(14,865,821)	(59,730,869)	(32,734,448)	(132,148,967)
Minimum tax expense	13(b)	(423,982)	(1,703,560)	(387,480)	(1,564,257)
Profit/(Loss) before income tax		4,819,441	19,364,513	(25,594,589)	(103,325,356)
Income tax expense/(credit)	13(a)	(1,116,373)	(4,485,587)	5,315,517	21,458,742
Net Profit/(Loss) for the year		3,703,068	14,878,926	(20,279,072)	(81,866,614)

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 2018

	Share capital US\$	Additional contribution from shareholder US\$	Accumulated losses US\$	Non-distributable reserve US\$	AFS reserve US\$	Total US\$
For the year ended 31 December 2018						
Balance as at 1 January 2018	37,500,000	42,500,000	(33,905,459)	25,622,772	216,618	71,933,931
Transfer	42,500,000	(42,500,000)	-	-	-	-
Net profit for the year	-	-	3,703,068	-	-	3,703,068
Unrealised gain on AFS investments	-	-	-	-	33,882	33,882
Balance as at 31 December 2018	<u>80,000,000</u>	<u>-</u>	<u>(30,202,391)</u>	<u>25,622,772</u>	<u>250,500</u>	<u>75,670,881</u>
In KHR '000 equivalent - (Note 4)	<u>321,440,000</u>	<u>-</u>	<u>(121,353,207)</u>	<u>102,952,298</u>	<u>1,006,509</u>	<u>304,045,600</u>
For the year ended 31 December 2017						
Balance as at 1 January 2017	37,500,000	-	(13,626,387)	25,622,772	141,581	49,637,966
Advance capital contribution	-	42,500,000	-	-	-	42,500,000
Net loss for the year	-	-	(20,279,072)	-	-	(20,279,072)
Unrealised gain on AFS investments	-	-	-	-	75,037	75,037
Balance as at 31 December 2017	<u>37,500,000</u>	<u>42,500,000</u>	<u>(33,905,459)</u>	<u>25,622,772</u>	<u>216,618</u>	<u>71,933,931</u>
In KHR '000 equivalent - (Note 4)	<u>151,387,500</u>	<u>171,572,500</u>	<u>(136,876,338)</u>	<u>103,439,131</u>	<u>874,487</u>	<u>290,397,280</u>

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 2018

	Note	2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from operating activities					
Profit/(loss) before income tax		4,819,441	19,364,513	(25,594,589)	(103,325,356)
Adjustments for:					
Depreciation and amortisation	25	2,071,431	8,323,010	2,197,374	8,870,799
Minimum tax expense		423,982	1,703,560	387,480	1,564,257
Net interest income		(17,277,640)	(69,421,558)	(17,467,828)	(70,517,622)
Provision for loan losses	7(a)	14,333,294	57,591,175	32,734,448	132,148,967
Provision for balances with other banks and financial institutions		210,438	845,540	-	-
Provision for off-balance sheet commitments		322,089	1,294,154	-	-
Employee benefit obligation		188,729	758,313	1,740,000	7,024,380
Dividends from AFS investments		(9,319)	(37,444)	-	-
Gains on disposals of property and equipment		(146,863)	(590,096)	(13,012)	(52,529)
		<u>4,935,582</u>	<u>19,831,167</u>	<u>(6,016,127)</u>	<u>(24,287,104)</u>
Changes in:					
Balance with National Bank of Cambodia		3,791,658	15,234,882	(504,496)	(2,036,650)
Loans and advances to customers		(13,348,855)	(53,635,699)	44,911,412	181,307,370
Other assets		254,310	1,021,818	549,922	2,220,035
Deposits from banks and other financial institutions		(1,836,260)	(7,378,093)	2,685,564	10,841,622
Deposits from customers		52,782,166	212,078,743	(104,483,975)	(421,801,807)
Other liabilities		(638,872)	(2,566,988)	15,382,517	62,099,223
		<u>45,939,729</u>	<u>184,585,830</u>	<u>(47,475,183)</u>	<u>(191,657,311)</u>
Cash used in operating activities					
Employee benefit obligations paid		(28,314)	(113,766)	(1,787,863)	(7,217,603)
Interest income received		25,445,996	102,242,012	30,500,527	123,130,627
Interest expense paid		(8,462,698)	(34,003,121)	(17,508,866)	(70,683,292)
Income tax paid	13(b)	-	-	(58,751)	(237,178)
Minimum tax paid	13(b)	(423,111)	(1,700,060)	(351,268)	(1,418,069)
		<u>62,471,602</u>	<u>251,010,895</u>	<u>(36,681,404)</u>	<u>(148,082,826)</u>
Cash used in operating activities					

Union Commercial Bank Plc.
Separate statement of cash flows for the year ended 31 December 2018
(continued)

	Note	2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from investing activities					
Balance with banks and other financial institutions		-	-	4,000,000	16,148,000
Proceeds from disposals of property and equipment		191,991	771,420	28,193	113,815
Purchases of property and equipment	8	(10,949,319)	(43,994,364)	(8,076,671)	(32,605,521)
Purchases of intangible assets	9	(29,553)	(118,744)	(15,801)	(63,789)
Cash used in from investing activities		<u>(10,786,881)</u>	<u>(43,341,688)</u>	<u>(4,064,279)</u>	<u>(16,407,495)</u>
Cash flows from financing activities					
Additional contribution from shareholder		-	-	42,500,000	171,572,500
Repayments of the borrowings		(118,343,875)	(475,505,690)	(696,891)	(2,813,349)
Payments on finance lease liability		(62,012)	(249,164)	(1,432)	(5,781)
Proceeds from borrowings		49,000,000	196,882,000	-	-
Cash (used in)/generated from financing activities		<u>(69,405,887)</u>	<u>(278,872,854)</u>	<u>41,801,677</u>	<u>168,753,370</u>
Net (decrease)/increase in cash and cash equivalents		<u>(17,721,166)</u>	<u>(71,203,647)</u>	<u>1,055,994</u>	<u>4,263,049</u>
Cash and cash equivalents at beginning of the year		98,180,317	396,353,941	97,124,323	392,090,892
Currency translation difference		-	(1,865,425)	-	-
Cash and cash equivalents at end of the year	27	<u>80,459,151</u>	<u>323,284,869</u>	<u>98,180,317</u>	<u>396,353,941</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 2018

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, Republic of China 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 Bank’s use.

The registered office of the Bank is located at No. 61, 130 Road, Phnom Penh, the Kingdom of Cambodia.

As at 31 December 2018, the Bank had 425 employees (2017: 420 employees).

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with Cambodian Accounting Standards (“CASs”) and the guidelines of the National Bank of Cambodia (“NBC”) relating to the preparation and presentation of financial statements.

The financial statements were authorised for issue by the Board of Directors on 6 March 2019.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

2. Basis of preparation (continued)

(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 consolidated income statement.

Minority interest represents the portion of profit or loss and the net assets of the subsidiary not owned, directly or indirectly, by the Bank. Minority interests are presented separately in the consolidated income statement, and within equity in the consolidated balance sheet, separately from equity attributable to equity holders of the Bank. Where the minority interest is assessed to be that of a liability it is presented under the liability section in the consolidated balance sheet. Any losses applicable to the minority interests are allocated against the interests of the minority interest even if this results in the minority interest having a deficit balances.

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.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

2. Basis of preparation (continued)

(d) Functional and presentation currency

The national currency of Cambodia is the Khmer Riel (“KHR”). However as the Bank transacts and maintains its accounting records primarily in United States Dollars (“US\$”), management have 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.

Transactions in currencies other than US\$ are translated into US\$ at the exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than US\$ at the balance sheet date are translated into US\$ at the rates of exchange ruling at that date. Exchange differences arising on translation are recognised in the income statement.

The financial statements are presented in US\$, which is the Bank’s functional currency. All amounts have been rounded to the nearest dollars, unless otherwise indicated.

(e) Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of 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 accounting estimates are recognised in the year in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period are addressed below.

Leases

The Bank entered into a number of leases of land and building where lease of building meets the criteria of finance lease. In allocating rental fee between land and building, the management has a judgement to allocate a portion of finance expense to lease of building which is classified as finance lease using discount rate of 7% per annum. This judgement would have impact on the finance lease liability and rental and finance expense.

Classification of equity instrument

The Subsidiary issued two classes of shares, Class A and Class B. The right to appoint member of the Board of Directors was granted only to holder of Class B shares. Based on the Company assessment, the restrictions in Class A shares led the instrument to be classified as liability.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

2. Basis of preparation (continued)

(e) Use of estimates and judgements (continued)

Key accounting estimates and judgements applied in the preparation of the financial statements include estimates of recoverable amount for loans and advances balances with banks and other financial institutions and other credit commitments which have a separate accounting policy stated in Note 3(i).

(f) New financial reporting framework

On 28 August 2009, the National Accounting Council of the Ministry of Economy and Finance (“NAC”) announced the adoption of Cambodian International Financial Reporting Standards (“CIFRS”) which are based on all standards issued by the International Accounting Standard Board (“IASB”), including the related interpretations and amendments. Public accountable entities are required to prepare their financial statements in accordance with CIFRS for accounting period beginning on or after 1 January 2012.

Circular 058 MoEF.NAC dated 24 March 2016 issued by the National Accounting Council of the Ministry of Economy and Finance allowed banks and relevant financial institutions to further delay adoption of CIFRS until periods beginning on or after 1 January 2019.

The Group and the Bank have not early adopted the new standard in preparing those financial statements. At the date of authorisation of those financial statements, the Group and the Bank are evaluating the potential impact of the implementation of these new and amendment accounting standards to its financial statements.

3. Significant accounting policies

The following significant accounting policies have been adopted by the Group and the Bank in the preparation of these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Financial instruments

The Bank’s financial assets and liabilities include cash and cash equivalents, originated loans and receivables, deposits, and other receivables and payables. The accounting policies for the recognition and measurement of these items are disclosed in the respective accounting policies.

(b) 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.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(c) Balance with the NBC, and deposits and placements with banks and other financial institutions

Balance with the NBC, and deposits and placements with banks and other financial institutions are carried at cost less impairment for any uncollectable amounts.

Deposits and placements with other banks and the NBC are stated at cost less impairment for any uncollectable amounts. Except for deposits and placements with the NBC, the accounting policy and regulatory provision followed the National Bank of Cambodia's Prakas No. B7-017-344 and Circular No. B7-018-001 Sor Ror Chor Nor are stated in Note 3(i).

(d) Statutory deposits

Statutory deposits, which included in balance with the NBC, are maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by defined percentages of minimum share capital and customers' deposits as required by NBC. Statutory deposits are stated at cost.

(e) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable. They include swaps, forward rate agreements, futures, options and combinations of these instruments.

Derivative financial instruments are recognised initially at fair value with gains or losses from subsequent measurement at fair value being recognised in the income statement.

(f) Available-for-sale ("AFS") investments

This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity price.

After initial measurement which is at cost, AFS investments are subsequently measured at fair value. Unrealised gains or losses are recognised directly in equity in the AFS reserve. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement as other operating income or expense. Dividends earned while holding AFS investments are recognised in the income statement as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement and removed from the AFS reserve.

The fair value of AFS traded in the active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(g) Other assets

Other assets are stated at the lower of cost and estimated realisable value. An estimate is made for doubtful receivables based on a review of outstanding amounts at the reporting date.

(h) Loans and advances

All loans and advances to customers are stated in the balance sheet at the amount of principal, less any amounts written off, and allowance for bad and doubtful loans and advances.

Loans are written off when there is no realistic prospect of recovery. Recoveries on loans previously written off and reversals of previous provisions are disclosed separately together with the net movement in the provision for bad and doubtful loans and advances in the income statement.

(i) Allowance for bad and doubtful loans and advances

In compliance with NBC Guidelines, all loans and advances are classified according to the repayment capacity of the counterparty. This repayment capacity is assessed through past payment experience, financial condition of the borrower, business prospective and cash flow projections, borrowers' ability and willingness to repay, financial environment, and quality of documentation.

Prior to 1 January 2018, the allowance for bad and doubtful loans and advances were calculated as below:

Classification	Number of days past due	Provision
Normal/standard	<30 days	1%
Special mention	≥ 30 days – 89 days	3%
Substandard	≥ 90 days – 179 days	20%
Doubtful	≥180 days – 359 days	50%
Loss	More than 360 days	100%

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(i) Allowance for bad and doubtful loans and advances (continued)

From 1 January 2018, the allowance for bad and doubtful loans and advances were revised as below:

Classification	Number of days past due	Allowance
Short-term loans (less than or equal one year):		
Normal/standard	≤14 days	1%
Special mention	15 days – 30 days	3%
Substandard	31 days – 60 days	20%
Doubtful	61 days – 90 days	50%
Loss	≥ 91 days	100%
Long-term loans (more than one year):		
Normal/standard	<30 days	1%
Special mention	≥ 30 days – 89 days	3%
Substandard	≥ 90 days – 179 days	20%
Doubtful	≥ 180 days – 359 days	50%
Loss	More than 359 days	100%

The Group and the Bank followed the mandatory loan classification and provisioning as required by the 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. Loans and advances, other financial products and off balance sheet financial commitments are classified into five classifications and the regulatory provision is made depending on the classification concerned, regardless of the assets (except cash) pledged as collateral, unless other information is available to indicate worsening.

The change in the credit risk grading and provisioning is applied prospectively and the effect of this change resulted in an increase in allowance for bad and doubtful loans for the period from 1 January 2018 to 31 December 2018 of US\$323,714.

The minimum percentage of allowance for doubtful loans and advances are to be maintained according to the assigned classifications. Where reliable information suggests that losses are likely to be more than these minimum requirements, larger allowance is made.

In determining the above allowance, any collateral value other than cash deposits which has been pledged is disregarded except that, in the case of a loan classified as "loss", all collateral may be utilised, at market values approved by the NBC.

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of the collateral, if any, when in the judgement of the management there is no prospect of recovery.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(j) Other credit related commitments

In the normal course of business, the Group and the Bank enter into other credit related commitments including loan commitments, letters of credit and guarantees. The accounting policy and regulatory provision followed the National Bank of Cambodia's Prakas No. B7-017-344 and Circular No. B7-018-001 Sor Ror Chor Nor in Note 3(i) above.

Provision for off balance sheet commitments are presented as a separate liability line item.

(k) Interest in suspense

Interest in suspense represents interest on non-performing loans and advances, that is recorded as a provision rather than income until it is realised on a cash basis. Interest in suspense is presented as a deduction from loans and advances.

(l) Investment in subsidiary

Investment in subsidiary, which is eliminated on consolidation, is stated at cost. On disposal of such investment, the difference between the net disposal proceeds and its carrying amounts is recognised as the gain or loss on disposal in the income statement of the Bank.

(m) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Upon initial recognition the leased assets are measured at an amount equal to the lower of its fair value and present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are classified as operating leases. Operating leases are recognised as an expense on a straight-line basis over the lease term.

(n) 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. These costs are amortised over four years using the straight-line method. Costs associated with maintaining computer software are recognised as expenses when incurred.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(o) Property and equipment

- (i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.
- (ii) Depreciation of property and equipment is charged to the income statement on a straight-line basis over the useful lives of the individual assets as follows:

Buildings	20 years
Leasehold improvements	10 years
Office equipment	4 years
Motor vehicles	4 years
IT equipment and computer	4 years

Depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

- (iii) Work in progress is not depreciated until such time as the items are completed and put into operational use.
- (iv) Subsequent expenditure relating to an item of premises and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Bank. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.
- (v) Gains or losses arising from the retirement or disposal of an item of premises and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.
- (vi) Fully depreciated premises and equipment are retained in the financial statements until disposed of or written off.

(p) Impairment of assets

(i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimate future cash flows of that asset. This does not apply to loans and advances deposits and placements with other banks and other credit related commitments, which have a separate accounting policy stated in Note 3(i).

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(p) Impairment of assets (continued)

(i) *Financial assets (continued)*

An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) *Non-financial assets*

The carrying amounts of the non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost 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. For the purpose of impairment testing, assets 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 groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

(q) Deposits from customers and other financial institutions

Deposits from customers and other financial institutions are stated at cost.

(r) Other liabilities

Other liabilities are stated at their costs.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(s) Non-distributable reserves

Non-distributable reserves are set up for any overall financial risk of the Bank. The Board of Directors exercises its discretion for the use and maintenance of the general reserves.

(t) Provisions

A provision is recognised in the balance sheet when 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.

(u) Income recognition

Interest income on performing loans and advances, and deposits and placements with banks are recognised on a daily accrual basis. Interest on non-performing loans is recorded as interest in suspense rather than income until it is realised on a cash basis.

Fee and commission received that are integral to the effective interest rate of a financial assets are recognised using the effective interest method. For example, loan commitment fees (together with related direct costs) are deferred and recognised as an adjustment to the effective interest rate on a loan once drawn.

Non yield-related application and activation lending fees received are recognised as income no later than when the loan is disbursed or the commitment to lend expires.

Fees charged for providing ongoing services that represent the recoupment of the costs of providing service (for example, maintaining and administering existing facilities) are recognised as income when service is provided.

(v) Interest expense

Interest expense on deposits from customers is recognised on a daily accruals basis.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(w) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

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

(x) Employee benefits

(i) Retirement benefits

The Bank provides its employees with retirement benefit at 6% of each employee's aggregated salary from the date of their employment with the Bank upon early/voluntary retirement of 55 years or retirement age of 60 years or when he or she is unable to perform their duties due to mental disorder or physical disability.

No separate fund is maintained for the retirement benefits.

(ii) Employee benefits

Short-term employee benefits

Short term employee benefits are accrued in the period in which the associated services are rendered by the employees of the Group and the Bank.

Other long-term employee benefits

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(y) Related parties

Parties are considered to be related to the Bank if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or where the Bank and the other party are subject to common control or significant influence. Related parties may be individuals or corporate entities and include close family members of any individual considered to be a related party.

Related companies refer to the parent companies, their ultimate parent companies and their subsidiaries and associates.

Under the Law on Banking and Financial Institutions, related parties include individuals who hold directly or indirectly a minimum of 10% of the capital of the Bank or voting rights therefore, or who participates in the administration, direction, management or the design and implementation of the internal controls of the Bank.

(z) Subordinated debts

Subordinated debts are treated as financial liabilities when there are contractual obligations to deliver cash or financial assets to the other entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank, if otherwise, it is treated as equity.

The subordinated debts which are approved by the National Bank of Cambodia are included as a Tier II line item in the calculation of the Bank's net worth in accordance with the guidelines of the National Bank of Cambodia.

4. Translation of United States Dollars into Khmer Riel

The financial statements are stated in the United States Dollars. The translations of the United States Dollars amounts into Khmer Riel are included solely for compliance with the guidelines of the NBC regarding the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$1 to KHR4,018 (31 December 2017: KHR 4,037) published by the NBC on 31 December 2018. 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 Riel 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 2018

5. Balances with the National Bank of Cambodia

Group and Bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Current account	30,282,978	121,677,006	52,471,686	211,828,198
Reserve requirements (a)	53,884,162	216,506,563	58,883,969	237,714,582
Capital guarantee (b)	8,000,000	32,144,000	8,000,000	32,296,000
Negotiable certificate of deposits (c)	4,499,801	18,080,200	3,291,652	13,288,398
	<u>96,666,941</u>	<u>388,407,769</u>	<u>122,647,307</u>	<u>495,127,178</u>

(a) Reserve requirements

The reserve requirements represent the minimum reserve which is calculated at 8% (2017: 8%) and 12.5% (2017: 12.5%) of customers' deposits in Khmer Riel ("KHR") and other currencies respectively.

(b) Capital guarantee

Pursuant to Prakas No. B7-01-136 on Bank's Capital Guarantee dated 15 October 2001 issued by the National Bank of Cambodia, banking and financial institutions are required to maintain 10% of its paid-up capital as a statutory deposit with the NBC. The deposit, which is not available for use in the Bank's day-to-day operations, is refundable should the Bank voluntarily cease its operations in Cambodia.

(c) Negotiable certificate of deposit

The Bank pledged negotiable certificate of deposit ("NCD") with the National Bank of Cambodia as collateral for settlement clearing facility. The term of the NCD is for a period of three months.

(d) Interest rates

The current accounts are non-interest bearing. The capital guarantee and reserve requirements earn interest at the following annual rates as at the balance sheet date:

	2018	2017
Reserve deposit	0% - 0.73%	0.62% - 0.78%
Capital guarantee	0.46% - 0.62%	0.32% - 0.36%
Negotiable certificate of deposit	0.73% - 0.89%	0.64% - 0.89%

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

6. Balances with banks and other financial institutions

Group	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Local banks:				
Current accounts	1,834,491	7,370,985	550,769	2,223,454
Term deposits	1,200,000	4,821,600	-	-
Overseas banks:				
Current accounts	15,445,939	62,061,783	16,598,474	67,008,040
Savings accounts	3,389,888	13,620,570	1,163,620	4,697,534
	<u>21,870,318</u>	<u>87,874,938</u>	<u>18,312,863</u>	<u>73,929,028</u>
Regulatory allowances (Note 7A(i))	<u>(210,438)</u>	<u>(845,540)</u>	<u>-</u>	<u>-</u>
	<u>21,659,880</u>	<u>87,029,398</u>	<u>18,312,863</u>	<u>73,929,028</u>

Bank	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Local banks:				
Current accounts	1,008,022	4,050,232	272,441	1,099,844
Term deposits	1,200,000	4,821,600	-	-
Overseas banks:				
Current accounts	15,445,939	62,061,783	16,598,474	67,008,040
Savings accounts	3,389,888	13,620,570	1,163,620	4,697,534
	<u>21,043,849</u>	<u>84,554,185</u>	<u>18,034,535</u>	<u>72,805,418</u>
Regulatory allowances (Note 7A(i))	<u>(210,438)</u>	<u>(845,540)</u>	<u>-</u>	<u>-</u>
	<u>20,833,411</u>	<u>83,708,645</u>	<u>18,034,535</u>	<u>72,805,418</u>

The current accounts are non-interest bearing. Saving accounts bear interest rate ranging from 1% to 1.25% per annum while the term deposits are matured within 3 months and bear interest rate from 0% to 2% per annum.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

7. Loans and advances to customers, net

(a) Analysis by type of loans

Group and Bank	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Commercial Loans:				
Term loans	70,313,856	282,521,073	68,855,343	277,969,020
Overdraft loans	7,867,425	31,611,314	10,410,290	42,026,341
Trust receipts	802,012	3,222,484	1,153,106	4,655,089
Other commercial loans	5,122,774	20,583,306	14,838,860	59,904,478
Consumer Loans:				
Term loans	98,430,026	395,491,844	51,897,806	209,511,443
Overdraft loans	25,542,758	102,630,802	34,574,439	139,577,010
Credit card facilities	3,966,959	15,939,241	3,385,591	13,667,631
Other consumer loans	117,330,167	471,432,611	146,811,667	592,678,699
	<u>329,375,977</u>	<u>1,323,432,675</u>	<u>331,927,102</u>	<u>1,339,989,711</u>
Allowance for bad and doubtful loans:				
Specific provision	(10,479,525)	(42,106,730)	(11,831,630)	(47,764,290)
General provision	(3,472,254)	(13,951,517)	(3,686,835)	(14,883,753)
	<u>(13,951,779)</u>	<u>(56,058,247)</u>	<u>(15,518,465)</u>	<u>(62,648,043)</u>
	<u>315,424,198</u>	<u>1,267,374,428</u>	<u>316,408,637</u>	<u>1,277,341,668</u>

A. Provision for impairment losses

(i) Provision for impairment losses recognised in income statement is as follows:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Provision for loan losses	(14,333,294)	(57,591,175)	(32,734,448)	(132,148,967)
Provision for balances with other banks and financial institutions	(210,438)	(845,540)	-	-
Provision for off-balance sheet commitments	(322,089)	(1,294,154)	-	-
	<u>(14,865,821)</u>	<u>(59,730,869)</u>	<u>(32,734,448)</u>	<u>(132,148,967)</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

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

A. Provision for impairment losses (continued)

(ii) Movement of allowance for bad and doubtful loans is analysed as follows:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Balance at 1 January	15,518,465	62,648,043	38,883,781	156,973,824
Provision during the year	14,333,294	57,591,175	32,734,448	132,148,967
Amounts written off	(15,899,980)	(63,886,120)	(56,099,764)	(226,474,748)
Currency translation differences	-	(294,851)	-	-
Balance at 31 December	<u>13,951,779</u>	<u>56,058,247</u>	<u>15,518,465</u>	<u>62,648,043</u>

(b) Analysis by security on performing and non-performing loans

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Normal loans				
Secured	247,443,948	994,229,783	276,737,820	1,117,190,579
Unsecured	35,791,194	143,809,017	26,507,425	107,010,475
Special mention loans				
Secured	35,550,801	142,843,118	4,259,380	17,195,117
Unsecured	51,993	208,908	70,801	285,824
Substandard loans				
Secured	1,782,921	7,163,777	3,249,532	13,118,361
Unsecured	30,575	122,850	10,470,583	42,269,744
Doubtful loans				
Secured	4,223,402	16,969,629	5,390,950	21,763,265
Unsecured	32,656	131,212	43,781	176,744
Loss loans				
Secured loans	4,423,212	17,772,466	5,185,936	20,935,624
Unsecured loans	45,275	181,915	10,894	43,979
	<u>329,375,977</u>	<u>1,323,432,675</u>	<u>331,927,102</u>	<u>1,339,989,711</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

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

(c) By exposure

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Large exposure	46,049,199	185,025,682	30,008,699	121,145,118
Non-large exposure	283,326,778	1,138,406,993	301,918,403	1,218,844,593
	<u>329,375,977</u>	<u>1,323,432,675</u>	<u>331,927,102</u>	<u>1,339,989,711</u>

Large exposure is defined by the National Bank of Cambodia as overall credit exposure to any single beneficiary that exceeds 10% of the Bank's net worth. The exposure is the higher of the outstanding loans or commitments and the authorised loans or commitments.

(d) Relationship analysis

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Related parties	3,802,593	15,278,819	2,224,544	8,980,484
Non-related parties	325,573,384	1,308,153,856	329,702,558	1,331,009,227
	<u>329,375,977</u>	<u>1,323,432,675</u>	<u>331,927,102</u>	<u>1,339,989,711</u>

(e) Interest rates

These loans and advance earn interest at annual rates as follows:

	2018	2017
Related parties	3.00% -10.00%	2.75% - 7.50%
Loans to external customers	7.00% - 24.00%	7.50% - 24.00%

(f) Other analysis

For other analysis, refer to Note 30.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

8. Property and equipment

Group	Work in progress US\$	Freehold land US\$	Buildings US\$	Building improvements US\$	Office equipment US\$	Motor vehicles US\$	IT equipment and computers US\$	Total US\$
As at 31 December 2018								
Cost								
As at 1 January 2018	16,355,965	8,450,570	2,154,570	5,689,241	2,441,857	1,496,231	2,483,449	39,071,883
Additions	10,760,768	880,000	120,000	3,685	31,194	111,960	41,712	11,949,319
Disposals	-	(751,400)	(60,940)	-	(20,598)	-	(51,963)	(884,901)
Transfers	(23,182,500)	-	23,182,500	-	-	-	-	-
As at 31 December 2018	<u>3,934,233</u>	<u>8,579,170</u>	<u>25,396,130</u>	<u>5,692,926</u>	<u>2,452,453</u>	<u>1,608,191</u>	<u>2,473,198</u>	<u>50,136,301</u>
Less: Accumulated depreciation								
As at 1 January 2018	-	-	1,053,628	1,675,044	1,541,948	1,245,755	1,938,559	7,454,934
Depreciation for the year	-	-	178,348	533,841	465,010	132,340	350,580	1,660,119
Disposals	-	-	(17,294)	-	(20,540)	-	(50,539)	(88,373)
As at 31 December 2018	<u>-</u>	<u>-</u>	<u>1,214,682</u>	<u>2,208,885</u>	<u>1,986,418</u>	<u>1,378,095</u>	<u>2,238,600</u>	<u>9,026,680</u>
Carrying amounts								
As at 31 December 2018	<u>3,934,233</u>	<u>8,579,170</u>	<u>24,181,448</u>	<u>3,484,041</u>	<u>466,035</u>	<u>230,096</u>	<u>234,598</u>	<u>41,109,621</u>
In KHR' 000 equivalent (Note 4)	<u>15,807,748</u>	<u>34,471,105</u>	<u>97,161,058</u>	<u>13,998,877</u>	<u>1,872,529</u>	<u>924,526</u>	<u>942,615</u>	<u>165,178,457</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

8. Property and equipment (continued)

Group	Work in progress	Freehold land	Buildings	Building improvements	Office equipment	Motor vehicles	IT equipment and computers	Total
As at 31 December 2017	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Cost								
As at 1 January 2017	9,568,059	8,468,570	2,579,351	4,747,767	2,202,830	1,742,112	2,477,298	31,785,987
Additions	7,922,391	-	-	33,310	66,960	38,900	15,110	8,076,671
Written-off	(8,622)	-	-	-	-	-	-	(8,622)
Disposals	-	-	-	(2,859)	(42,773)	(284,781)	(8,959)	(339,372)
Reclassification	-	(18,000)	(424,781)	-	-	-	-	(442,781)
Transfers	(1,125,863)	-	-	911,023	214,840	-	-	-
As at 31 December 2017	<u>16,355,965</u>	<u>8,450,570</u>	<u>2,154,570</u>	<u>5,689,241</u>	<u>2,441,857</u>	<u>1,496,231</u>	<u>2,483,449</u>	<u>39,071,883</u>
Less: Accumulated depreciation								
As at 1 January 2017	-	-	1,376,084	1,167,130	1,143,516	1,317,549	1,487,514	6,491,793
Depreciation for the year	-	-	120,325	510,774	435,181	212,987	459,468	1,738,735
Disposals	-	-	-	(2,860)	(36,749)	(284,781)	(8,423)	(332,813)
Reclassification	-	-	(442,781)	-	-	-	-	(442,781)
As at 31 December 2017	<u>-</u>	<u>-</u>	<u>1,053,628</u>	<u>1,675,044</u>	<u>1,541,948</u>	<u>1,245,755</u>	<u>1,938,559</u>	<u>7,454,934</u>
Carrying amounts								
As at 31 December 2017	<u>16,355,965</u>	<u>8,450,570</u>	<u>1,100,942</u>	<u>4,014,197</u>	<u>899,909</u>	<u>250,476</u>	<u>544,890</u>	<u>31,616,949</u>
In KHR' 000 equivalent (Note 4)	<u>66,029,031</u>	<u>34,114,951</u>	<u>4,444,503</u>	<u>16,205,313</u>	<u>3,632,933</u>	<u>1,011,172</u>	<u>2,199,720</u>	<u>127,637,623</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

8. Property and equipment (continued)

Bank	Work in progress US\$	Freehold land US\$	Buildings US\$	Building improvements US\$	Office equipment US\$	Motor vehicles US\$	IT equipment and computers US\$	Total US\$
As at 31 December 2018								
Cost								
As at 1 January 2018	16,355,965	-	1,517,090	5,689,241	2,441,857	1,496,231	2,483,449	29,983,833
Additions	10,760,768	-	-	3,685	31,194	111,960	41,712	10,949,319
Transfers	(23,182,500)	-	23,182,500	-	-	-	-	-
Disposals	-	-	(60,940)	-	(20,598)	-	(51,963)	(133,501)
As at 31 December 2018	<u>3,934,233</u>	<u>-</u>	<u>24,638,650</u>	<u>5,692,926</u>	<u>2,452,453</u>	<u>1,608,191</u>	<u>2,473,198</u>	<u>40,799,651</u>
Less: Accumulated depreciation								
As at 1 January 2018	-	-	927,930	1,675,044	1,541,948	1,245,757	1,938,559	7,329,238
Depreciation for the year	-	-	138,570	533,841	465,010	132,340	350,580	1,620,341
Disposals	-	-	(17,294)	-	(20,540)	-	(50,539)	(88,373)
As at 31 December 2018	<u>-</u>	<u>-</u>	<u>1,049,206</u>	<u>2,208,885</u>	<u>1,986,418</u>	<u>1,378,097</u>	<u>2,238,600</u>	<u>8,861,206</u>
Carrying amounts								
As at 31 December 2018	<u>3,934,233</u>	<u>-</u>	<u>23,589,444</u>	<u>3,484,041</u>	<u>466,035</u>	<u>230,094</u>	<u>234,598</u>	<u>31,938,445</u>
In KHR' 000 equivalent (Note 4)	<u>15,807,748</u>	<u>-</u>	<u>94,782,386</u>	<u>13,998,877</u>	<u>1,872,529</u>	<u>924,518</u>	<u>942,615</u>	<u>128,328,673</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

8. Property and equipment (continued)

Bank	Work in progress	Freehold land	Buildings	Building improvements	Office equipment	Motor vehicles	IT equipment and computers	Total
As at 31 December 2017	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Cost								
As at 1 January 2017	9,568,059	-	1,517,090	4,747,767	2,202,830	1,742,112	2,477,298	22,255,156
Additions	7,922,391	-	-	33,310	66,960	38,900	15,110	8,076,671
Transfers	(1,125,863)	-	-	911,023	214,840	-	-	-
Written-off	(8,622)	-	-	-	-	-	-	(8,622)
Disposals	-	-	-	(2,859)	(42,773)	(284,781)	(8,959)	(339,372)
As at 31 December 2017	16,355,965	-	1,517,090	5,689,241	2,441,857	1,496,231	2,483,449	29,983,833
Less: Accumulated depreciation								
As at 1 January 2017	-	-	846,700	1,167,130	1,143,516	1,317,551	1,487,514	5,962,411
Depreciation for the year	-	-	81,230	510,774	435,181	212,987	459,468	1,699,640
Disposals	-	-	-	(2,860)	(36,749)	(284,781)	(8,423)	(332,813)
As at 31 December 2017	-	-	927,930	1,675,044	1,541,948	1,245,757	1,938,559	7,329,238
Carrying amounts								
As at 31 December 2017	16,355,965	-	589,160	4,014,197	899,909	250,474	544,890	22,654,595
In KHR' 000 equivalent (Note 4)	66,029,031	-	2,378,439	16,205,313	3,632,933	1,011,164	2,199,721	91,456,600

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

9. Intangible assets

Group	Software	
	2018 US\$	2017 US\$
Cost		
As at 1 January	2,854,188	2,837,529
Additions	29,553	16,659
As at 31 December	<u>2,883,741</u>	<u>2,854,188</u>
Less: Accumulated amortisation		
As at 1 January	2,010,622	1,512,888
Amortisation for the year	451,304	497,734
As at 31 December	<u>2,461,926</u>	<u>2,010,622</u>
Carrying amounts		
As at 31 December	<u>421,815</u>	<u>843,566</u>
In KHR' 000 equivalent (Note 4)	<u>1,694,853</u>	<u>3,405,476</u>
Bank	Software	
	2018 US\$	2017 US\$
Cost		
As at 1 January	2,853,330	2,837,529
Additions	29,553	15,801
As at 31 December	<u>2,882,883</u>	<u>2,853,330</u>
Less: Accumulated amortisation		
As at 1 January	2,010,622	1,512,888
Amortisation for the year	451,090	497,734
As at 31 December	<u>2,461,712</u>	<u>2,010,622</u>
Carrying amounts		
As at 31 December	<u>421,171</u>	<u>842,708</u>
In KHR' 000 equivalent (Note 4)	<u>1,692,265</u>	<u>3,402,012</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

10. Other assets

Group	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Accrued interest receivables	1,966,578	7,901,710	3,276,989	13,229,205
Interest in suspense	(726,102)	(2,917,478)	(1,941,800)	(7,839,047)
Net interest receivables	<u>1,240,476</u>	<u>4,984,232</u>	<u>1,335,189</u>	<u>5,390,158</u>
Prepayments and deposits	1,434,788	5,764,978	3,000,258	12,112,042
Other investments	150,000	602,700	150,000	605,550
Others	2,097,646	8,428,342	1,785,086	7,206,391
	<u>3,682,434</u>	<u>14,796,020</u>	<u>4,935,344</u>	<u>19,923,983</u>
	<u>4,922,910</u>	<u>19,780,252</u>	<u>6,270,533</u>	<u>25,314,141</u>

Bank	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Accrued interest receivables	1,963,123	7,887,828	3,275,789	13,224,360
Interest in suspense	(726,102)	(2,917,478)	(1,941,800)	(7,839,047)
Net interest receivables	<u>1,237,021</u>	<u>4,970,350</u>	<u>1,333,989</u>	<u>5,385,313</u>
Prepayments and deposits	1,434,788	5,764,978	3,000,258	12,112,042
Other investments	150,000	602,700	150,000	605,550
Others	2,096,246	8,422,717	785,086	3,169,393
	<u>3,681,034</u>	<u>14,790,395</u>	<u>3,935,344</u>	<u>15,886,985</u>
	<u>4,918,055</u>	<u>19,760,745</u>	<u>5,269,333</u>	<u>21,272,298</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

11. Deposits from banks and other financial institutions

Group and Bank	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current accounts	649,268	2,608,759	642,800	2,594,984
Savings accounts	3,016,423	12,119,988	3,858,166	15,575,416
Term deposits	492,243	1,977,832	1,493,228	6,028,161
	<u>4,157,934</u>	<u>16,706,579</u>	<u>5,994,194</u>	<u>24,198,561</u>

As at the balance sheet date, deposits from banks and other financial institutions bear interest at the following rates per annum:

	2018	2017
Current accounts	Nil	Nil
Savings accounts	1.00%	1.00%
Term deposits	<u>1.50% - 3.00%</u>	<u>1.50% - 3.00%</u>

12. Deposits from customers

Group	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current accounts	60,731,089	244,017,516	34,208,899	138,101,324
Savings accounts	164,422,169	660,648,275	105,244,852	424,873,468
Term deposits	103,034,993	413,994,602	136,052,829	549,245,271
Margin and guarantee deposits	2,837,390	11,400,633	4,006,000	16,172,222
	<u>331,025,641</u>	<u>1,330,061,026</u>	<u>279,512,580</u>	<u>1,128,392,285</u>
Bank				
Current accounts	60,755,155	244,114,213	34,233,288	138,199,783
Savings accounts	166,635,712	669,542,291	106,188,967	428,684,860
Term deposits	103,034,993	413,994,602	136,052,829	549,245,271
Margin and guarantee deposits	2,837,390	11,400,633	4,006,000	16,172,222
	<u>333,263,250</u>	<u>1,339,051,739</u>	<u>280,481,084</u>	<u>1,132,302,136</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

12. Deposits from customers (continued)

As at the balance sheet date, deposits from customers bear interest at the following rates per annum:

	2018	2017
Current accounts	Nil	Nil
Savings accounts	1.00% - 1.25%	1.00%
Term deposits	1.50% - 4.50%	1.50% - 3.75%
Margin and guarantee deposits	1.50% - 3.00%	2.50% - 5.00%

For further analysis, refer to Note 30.

13. Income tax

(a) Income tax expense/(credit)

Group	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Current income tax:				
Current tax on profit for the year	224,616	902,507	66,132	266,975
Adjustment in respect of prior year	(54,076)	(217,277)	(234,034)	(944,795)
Total current income tax	170,540	685,230	(167,902)	(677,820)
Deferred tax	1,145,464	4,602,474	(5,112,369)	(20,638,634)
Income tax expense	<u>1,316,004</u>	<u>5,287,704</u>	<u>(5,280,271)</u>	<u>(21,316,454)</u>
Bank				
Current tax on profit for the year	-	-	-	-
Adjustment in respect of prior year	-	-	(226,111)	(912,810)
Total current income tax	-	-	(226,111)	(912,810)
Deferred tax	1,116,373	4,485,587	(5,089,406)	(20,545,932)
Income tax expense	<u>1,116,373</u>	<u>4,485,587</u>	<u>(5,315,517)</u>	<u>(21,458,742)</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

13. Income tax (continued)

(a) Income tax expense/(credit) (continued)

In accordance with the Cambodian tax laws, the Bank has an obligation to pay corporate income tax at a rate of 20% on taxable profit.

The reconciliation of income tax computed at the statutory tax rate of 20% to taxation as disclosed in the income statement is as follows:

Group	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Accounting profit/(loss) before income tax	<u>5,687,121</u>	<u>22,850,852</u>	<u>(25,621,536)</u>	<u>(103,434,141)</u>
Tax calculated at 20%	1,137,424	4,570,170	(5,124,307)	(20,686,827)
Expenses not deductible for tax purposes	232,656	934,811	64,250	259,377
Adjustment in respect of prior year	<u>(54,076)</u>	<u>(217,277)</u>	<u>(220,214)</u>	<u>(889,004)</u>
Income tax expense/(credit)	<u>1,316,004</u>	<u>5,287,704</u>	<u>(5,280,271)</u>	<u>(21,316,454)</u>
Bank				
Accounting profit/(loss) before income tax	<u>4,819,441</u>	<u>19,364,513</u>	<u>(25,594,589)</u>	<u>(103,325,356)</u>
Tax calculated at 20%	963,888	3,872,902	(5,118,918)	(20,665,072)
Expenses not deductible for tax purposes	152,485	612,685	29,512	119,140
Adjustment in respect of prior year	<u>-</u>	<u>-</u>	<u>(226,111)</u>	<u>(912,810)</u>
Income tax expense/(credit)	<u>1,116,373</u>	<u>4,485,587</u>	<u>(5,315,517)</u>	<u>(21,458,742)</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

13. Income tax (continued)

(b) Income tax liabilities/minimum tax payable

Group	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Balance at 1 January	46,607	188,152	326,360	1,317,515
Current income tax expense	224,616	902,507	66,132	266,975
Payments for income tax during the year	(16,045)	(64,469)	(111,851)	(451,542)
Withholding tax credit	(62,529)	(251,242)	-	-
Over provision in respect of prior year	(54,076)	(217,277)	(234,034)	(944,794)
Currency translation difference	-	(884)	-	-
Income tax liabilities	138,573	556,787	46,607	188,152
Minimum tax payable	37,083	148,999	36,212	146,188
Income tax liabilities and minimum tax payable	175,656	705,786	82,819	334,340
Bank				
Balance at 1 January	-	-	284,862	1,149,988
Current income tax expense	-	-	-	-
Payments for income tax during the year	-	-	(58,751)	(237,178)
Over provision of the income tax	-	-	(226,111)	(912,810)
Income tax liabilities	-	-	-	-
Minimum tax payable	37,083	148,999	36,212	146,188
Income tax liabilities and minimum tax payable	37,083	148,999	36,212	146,188

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

13. Income tax (continued)

(b) Income tax liabilities/minimum tax payable (continued)

Movement of minimum tax payable is as follows:

Group and Bank	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Balance at 1 January	36,212	146,188	-	-
Minimum tax expense	423,982	1,703,560	387,480	1,564,257
Payments for minimum tax during the year	(423,111)	(1,700,060)	(351,268)	(1,418,069)
Currency translation difference	-	(689)	-	-
Balance at 31 December	<u>37,083</u>	<u>148,999</u>	<u>36,212</u>	<u>146,188</u>

(c) Deferred tax assets

The movement of the net deferred tax assets is as follow:

Group	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Balance at 1 January	9,186,284	37,085,029	4,092,674	16,522,125
Charge to the income statement	(1,145,464)	(4,602,474)	5,112,369	20,638,634
Charge to AFS reserve	-	-	(18,759)	(75,730)
Currency translation difference	-	(174,540)	-	-
Balance at 31 December	<u>8,040,820</u>	<u>32,308,015</u>	<u>9,186,284</u>	<u>37,085,029</u>
Bank				
Balance at 1 January	9,155,355	36,960,168	4,084,708	16,489,966
Charge to the income statement	(1,116,373)	(4,485,587)	5,089,406	20,545,932
Charge to AFS reserve	-	-	(18,759)	(75,730)
Currency translation difference	-	(173,951)	-	-
Balance at 31 December	<u>8,038,982</u>	<u>32,300,630</u>	<u>9,155,355</u>	<u>36,960,168</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

13. Income tax (continued)

(c) Deferred tax asset (continued)

The movement in deferred assets/(liabilities) during the period as is follows:

Group	Accelerated depreciation and amortisation US\$	Unrealised gain on available-for-sale investment US\$	Provision for employee benefit US\$	Unrealised foreign exchange gain - net US\$	Provision for cash and off-balance sheet US\$	Revaluation gain on land and building US\$	Provision for tax loss US\$	Non deductible interest expense US\$	Provision for loan (1% and 3%) US\$	Total US\$
At 1 January 2017	(122,615)	(35,226)	60,695	-	-	-	3,409,502	6,877	773,441	4,092,674
Charged to income statement	185,550	(5,568)	(9,572)	(57,107)	-	-	4,988,064	21,519	(10,517)	5,112,369
At 31 December 2017	<u>62,935</u>	<u>(59,553)</u>	<u>51,123</u>	<u>(57,107)</u>	<u>-</u>	<u>-</u>	<u>8,397,566</u>	<u>28,396</u>	<u>762,924</u>	<u>9,186,284</u>
Equivalent in KHR' 000 (Note 4)	<u>254,068</u>	<u>(240,415)</u>	<u>206,384</u>	<u>(230,541)</u>	<u>-</u>	<u>-</u>	<u>33,900,974</u>	<u>114,635</u>	<u>3,079,924</u>	<u>37,085,029</u>
At 1 January 2018	62,935	(59,553)	51,123	(57,107)	-	-	8,397,566	28,396	762,924	9,186,284
Charged to income statement	<u>(74,263)</u>	<u>(8,640)</u>	<u>32,082</u>	<u>15,736</u>	<u>90,456</u>	<u>-</u>	<u>(1,920,546)</u>	<u>(28,396)</u>	<u>748,109</u>	<u>(1,145,463)</u>
At 31 December 2018	<u>(11,328)</u>	<u>(68,194)</u>	<u>83,205</u>	<u>(41,371)</u>	<u>90,456</u>	<u>-</u>	<u>6,477,019</u>	<u>-</u>	<u>1,511,033</u>	<u>8,040,820</u>
Equivalent in KHR' 000 (Note 4)	<u>(45,516)</u>	<u>(274,003)</u>	<u>334,318</u>	<u>(166,229)</u>	<u>363,452</u>	<u>-</u>	<u>26,024,662</u>	<u>-</u>	<u>6,071,331</u>	<u>32,308,015</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

13. Income tax (continued)

(c) Deferred tax asset/(liabilities) (continued)

Bank	Accelerated depreciation and amortisation US\$	Unrealised gain on available-for-sale investment US\$	Provision for employee benefit US\$	Unrealised foreign exchange gain - net US\$	Provision for cash and off-balance sheet US\$	Revaluation gain on land and building US\$	Provision for tax loss US\$	Provision for loan (1% and 3%) US\$	Total US\$
At 1 January 2017	(123,704)	(35,226)	60,695	-	-	-	3,409,502	773,441	4,084,708
Charged to income statement	184,106	(5,568)	(9,572)	(57,107)	-	-	4,988,064	(10,517)	5,089,406
At 31 December 2017	60,402	(59,553)	51,123	(57,107)	-	-	8,397,566	762,924	9,155,355
Equivalent in KHR' 000 (Note 4)	243,843	(240,415)	206,384	(230,541)	-	-	33,900,974	3,079,923	36,960,168
At 1 January 2018	60,402	(59,553)	51,123	(57,107)	-	-	8,397,566	762,924	9,155,355
Charged to income statement	(73,568)	(8,641)	32,082	15,736	90,456	-	(1,920,547)	748,109	(1,116,373)
At 31 December 2018	(13,166)	(68,194)	83,206	(41,371)	90,456	-	6,477,019	1,511,033	8,038,982
Equivalent in KHR' 000 (Note 4)	(52,901)	(274,003)	334,318	(166,229)	363,452	-	26,024,662	6,071,331	32,300,630

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

14. Borrowings

Group	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Immediate parent company	41,232,689	165,672,944	80,565,440	325,242,681
Other banks:				
Overseas	12,000,000	48,216,000	42,000,000	169,554,000
	<u>53,232,689</u>	<u>213,888,944</u>	<u>122,565,440</u>	<u>494,796,681</u>
Bank				
Immediate parent company	41,205,882	165,565,234	80,549,757	325,179,369
Other banks:				
Overseas	-	-	30,000,000	121,110,000
	<u>41,205,882</u>	<u>165,565,234</u>	<u>110,549,757</u>	<u>446,289,369</u>

Borrowings are unsecured bear interest from 2.13% to 4.22% per annum. For further analysis, refer to Note 30.

15. Subordinated debts

Group and Bank	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Immediate parent company	<u>29,000,000</u>	<u>116,522,000</u>	<u>29,000,000</u>	<u>117,073,000</u>

Subordinated debts are unsecured bear interest from 4.06% to 4.33% per annum. The Bank obtained the approval from the NBC on 30 December 2016. For further analysis, refer to Note 30.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

16. Employee benefits obligations

Group and Bank	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	255,613	1,031,910	303,476	1,225,133
Addition during the year	188,729	758,313	1,740,000	7,024,380
Payment during the year	(28,314)	(113,766)	(1,787,863)	(7,217,603)
Currency translation differences	-	(4,856)	-	-
At 31 December	<u>416,028</u>	<u>1,671,601</u>	<u>255,613</u>	<u>1,031,910</u>

17. Other liabilities

Group	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Funds held under escrow*	5,670,325	22,783,366	14,613,900	58,996,314
Accrued interest payable	2,110,129	8,478,498	2,501,439	10,098,309
Cheques under clearing accounts	6,336,196	25,458,836	1,237,997	4,997,794
Sundry creditors	2,984,563	11,991,974	834,730	3,369,805
Other tax payable	1,178,564	4,735,470	498,769	2,013,530
Order cheques	111,066	446,263	274,115	1,106,602
Account payable	2,072,719	8,328,185	883,451	3,566,492
Other liabilities	2,655,024	10,667,886	2,792,291	11,272,480
	<u>23,118,586</u>	<u>92,890,478</u>	<u>23,636,692</u>	<u>95,421,326</u>
Bank				
Funds held under escrow*	5,670,325	22,783,366	14,613,900	58,996,314
Accrued interest payable	2,110,129	8,478,498	2,501,439	10,098,309
Cheques under clearing accounts	6,336,196	25,458,836	1,237,997	4,997,794
Sundry creditors	2,984,563	11,991,974	834,730	3,369,805
Other tax payable	1,163,538	4,675,096	484,174	1,954,610
Order cheques	111,066	446,263	274,115	1,106,602
Account payable	2,072,719	8,328,185	883,451	3,566,492
Other liabilities	2,224,559	8,938,278	2,873,471	11,600,203
	<u>22,673,095</u>	<u>91,100,496</u>	<u>23,703,277</u>	<u>95,690,129</u>

* Funds held under escrow represent the selling price of a sale 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 2018

18. Share capital

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Share capital – paid-up	80,000,000	321,440,000	37,500,000	151,387,500
Number of shares at par value of US\$1,000 each				
	Ownership %	2018 US\$	Ownership %	2017 US\$
E. Sun Commercial Bank Ltd.	100	800,000	100	37,500

All authorised shares were issued and fully paid.

On 30 June 2017 and on 13 September 2017, the Bank received total capital injection from the shareholder amounting to US\$42.50 million. This increase was approved by NBC on 25 July 2017 and endorsed by the Ministry of Commerce on 23 January 2019.

19. Interest income

Group	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income from:				
Loans and advances to customers	23,673,944	95,121,907	29,023,197	117,166,646
Balances with the National Bank of Cambodia and other financial institutions	1,756,216	7,056,476	1,196,510	4,830,311
	<u>25,430,160</u>	<u>102,178,383</u>	<u>30,219,707</u>	<u>121,996,957</u>
Bank				
Interest income from:				
Loans and advances to customers	23,592,812	94,795,919	28,928,075	116,782,639
Balances with the National Bank of Cambodia and other financial institutions	1,756,216	7,056,476	1,196,510	4,830,311
	<u>25,349,028</u>	<u>101,852,395</u>	<u>30,124,585</u>	<u>121,612,950</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

20. Interest expense

Group	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest expense on:				
Deposits from banks and other financial institution	1,621,123	6,513,672	2,429,152	9,806,487
Deposits from customers	4,111,167	16,518,669	5,861,736	23,663,828
Borrowings and subordinated debts	2,908,937	11,688,109	4,830,143	19,499,287
	<u>8,641,227</u>	<u>34,720,450</u>	<u>13,121,031</u>	<u>52,969,602</u>
Bank				
Interest expense on:				
Deposits from banks and other financial institution	1,621,123	6,513,672	2,429,152	9,806,487
Deposits from customers	4,111,167	16,518,669	5,861,736	23,663,828
Borrowings and subordinated debts	2,339,098	9,398,496	4,365,869	17,625,013
	<u>8,071,388</u>	<u>32,430,837</u>	<u>12,656,757</u>	<u>51,095,328</u>

21. Fee and commission income

Group and Bank	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loan processing fees	1,144,603	4,599,015	988,637	3,991,128
Settlement services	1,472,387	5,916,051	1,259,420	5,084,279
Income from ATM/credit card	257,416	1,034,297	288,483	1,164,606
Fees and commission from credit card	408,320	1,640,630	450,847	1,820,069
Telecommunication	98,135	394,306	93,392	377,024
Guarantee activities	33,309	133,836	39,660	160,107
Other fees and commission	219,872	883,446	512,341	2,068,320
	<u>3,634,042</u>	<u>14,601,581</u>	<u>3,632,780</u>	<u>14,665,533</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

22. Fee and commission expense

Group and Bank	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Expenses for ATM/credit card	418,131	1,680,050	1,019,903	4,117,348
Commission fees	1,850,033	7,433,433	1,374,135	5,547,383
Telecommunication	68,258	274,261	55,398	223,642
Settlement services	15,394	61,853	31,404	126,778
	<u>2,351,816</u>	<u>9,449,597</u>	<u>2,480,840</u>	<u>10,015,151</u>

23. Other operating income

Group	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Foreign exchange gain-net	206,857	831,151	285,536	1,152,709
Gain on disposals of property and equipment	146,863	590,096	21,633	87,332
Recovery of loans written off	12,992,681	52,204,592	4,495,933	18,150,082
Other gains-net	847,908	3,406,895	101,527	409,864
	<u>14,194,309</u>	<u>57,032,734</u>	<u>4,904,629</u>	<u>19,799,987</u>
Bank				
Foreign exchange gain-net	206,857	831,151	285,536	1,152,709
Gain on disposals of property and equipment	146,863	590,096	21,633	87,332
Recovery of loans written off	12,992,681	52,204,592	4,495,933	18,150,082
Other gains-net	68,755	276,258	187,549	757,135
	<u>13,415,156</u>	<u>53,902,097</u>	<u>4,990,651</u>	<u>20,147,258</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

24. Personnel expenses

Group	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Salaries and wages	4,000,045	16,072,181	4,176,483	16,860,462
Bonuses, incentives and other related costs	732,377	2,942,691	675,174	2,725,677
Retirement benefits	-	-	1,740,000	7,024,380
Employees benefits (*)	188,729	758,313	-	-
	<u>4,921,151</u>	<u>19,773,185</u>	<u>6,591,657</u>	<u>26,610,519</u>
Bank				
Salaries and wages	3,994,035	16,048,033	4,176,483	16,860,462
Bonuses, incentives and other related costs	732,377	2,942,691	675,174	2,725,677
Retirement benefits	-	-	1,740,000	7,024,380
Employees benefits (*)	188,729	758,313	-	-
	<u>4,915,141</u>	<u>19,749,037</u>	<u>6,591,657</u>	<u>26,610,519</u>

(*) *Employee benefits*

On 23 September 2018, the Ministry of Labour and Vocational Training issued Prakas No.443 on "Payment of Seniority Indemnity". This Prakas requires all employers to settle the seniority payment to their employee starting from 2019 onwards.

The provision is determined at the amounts equal to 15 days of net wages and other benefits per year. It is also required the employer to settle the retrospective (back-pay) seniority indemnity at a maximum amount of 6 months net wages (depends on the length of the service employee served) to the employee who has seniority before 2019.

The payments will be made twice a year, in June and December at 7.5 days each. Employee does not entitle to the remaining back-pay seniority indemnity which is not yet due, if he/she resigns from the entity.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

25. Depreciation and amortisation

Group	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Depreciation	1,660,119	6,670,358	1,738,735	7,019,273
Amortisation	451,304	1,813,340	497,734	2,009,352
	<u>2,111,423</u>	<u>8,483,698</u>	<u>2,236,469</u>	<u>9,028,625</u>
Bank				
Depreciation	1,620,341	6,510,530	1,699,640	6,861,447
Amortisation	451,090	1,812,480	497,734	2,009,352
	<u>2,071,431</u>	<u>8,323,010</u>	<u>2,197,374</u>	<u>8,870,799</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

26. General and administrative expenses

Group	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Building rentals	394,310	1,584,338	556,705	2,247,418
Business and public relations	228,883	919,652	203,118	819,987
Professional and other related costs	270,026	1,084,964	1,129,714	4,560,655
Travelling and transportation	70,803	284,486	93,839	378,828
Utilities	236,419	949,932	260,052	1,049,830
Stationery and printing	109,228	438,878	119,408	482,050
Security	360,587	1,448,839	378,990	1,529,983
License fees	281,915	1,132,734	275,377	1,111,697
Charity and donation	14,737	59,213	5,568	22,478
Motor vehicle and running costs	87,680	352,298	117,272	473,427
Telecommunication	136,979	550,382	171,434	692,079
Repairs and maintenance	380,001	1,526,844	235,999	952,728
Promotion	40,620	163,211	36,299	146,539
Court fees	360,152	1,447,091	362,031	1,461,519
Other taxes	1,058,256	4,252,073	2,443,095	9,862,775
Others	225,374	905,552	437,826	1,767,504
	<u>4,255,970</u>	<u>17,100,487</u>	<u>6,826,727</u>	<u>27,559,497</u>
Bank				
Building rentals	1,074,406	4,316,963	1,202,170	4,853,160
Business and public relations	228,883	919,652	203,118	819,987
Professional and other related costs	246,365	989,895	1,123,828	4,536,894
Travelling and transportation	70,803	284,486	93,839	378,828
Utilities	236,419	949,932	260,052	1,049,830
Stationery and printing	109,228	438,878	119,408	482,050
Security	360,587	1,448,839	378,990	1,529,983
License fees	281,915	1,132,734	275,377	1,111,697
Charity and donation	14,737	59,213	5,568	22,478
Motor vehicle and running costs	87,680	352,298	117,272	473,427
Telecommunication	136,979	550,382	171,434	692,079
Repairs and maintenance	380,001	1,526,844	235,999	952,728
Promotion	40,620	163,211	36,299	146,539
Court fees	360,152	1,447,091	362,031	1,461,519
Other taxes	1,028,520	4,132,593	2,275,503	9,186,206
Others	221,911	891,639	433,161	1,748,671
	<u>4,879,206</u>	<u>19,604,650</u>	<u>7,294,049</u>	<u>29,446,076</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

27. Cash and cash equivalents

For the purpose of the cash flow statements, the cash and cash equivalents comprise:

Group	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Cash on hand	29,132,324	117,053,678	27,674,096	111,720,326
Balance with National Bank of Cambodia	96,666,941	388,407,769	122,647,307	495,127,178
Deposits with other banks and financial institutions	21,870,318	87,874,938	18,312,863	73,929,028
	<u>147,669,583</u>	<u>593,336,385</u>	<u>168,634,266</u>	<u>680,776,532</u>
Less: Balances with original maturity date more than three months:				
Balance with National Bank of Cambodia	<u>(66,383,963)</u>	<u>(266,730,763)</u>	<u>(70,175,621)</u>	<u>(283,298,981)</u>
	<u>81,285,620</u>	<u>326,605,622</u>	<u>98,458,645</u>	<u>397,477,551</u>
Bank				
Cash on hand	29,132,324	117,053,678	27,674,096	111,720,326
Balances with the National Bank of Cambodia	96,666,941	388,407,769	122,647,307	495,127,178
Deposits with other banks and financial institutions	21,043,849	84,554,185	18,034,535	72,805,418
	<u>146,843,114</u>	<u>590,015,632</u>	<u>168,355,938</u>	<u>679,652,922</u>
Less: Balances with original maturity date more than three months:				
Balance with National Bank of Cambodia	<u>(66,383,963)</u>	<u>(266,730,763)</u>	<u>(70,175,621)</u>	<u>(283,298,981)</u>
	<u>80,459,151</u>	<u>323,284,869</u>	<u>98,180,317</u>	<u>396,353,941</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

28. Commitments and contingencies

(a) Commitments to extend credit

Group and Bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Unused portion of loan, overdraft and credit card	24,184,329	97,172,634	25,260,864	101,978,108
Payment guarantee	1,300,000	5,223,400	2,743,184	11,074,234
Bid, performance and warranty bonds	1,138,413	4,574,143	1,901,751	7,677,369
Letters of credits	2,376,545	9,548,957	4,400,622	17,765,311
Other commitment and guarantee	3,828,117	15,381,375	2,421,900	9,777,210
	<u>32,827,404</u>	<u>131,900,509</u>	<u>36,728,321</u>	<u>148,272,232</u>

As at 31 December 2018, the Group and the Bank has made the provision of US\$322,089 (31 December 2017: Nil) for off balance sheet financial commitments following the National Bank of Cambodia's Prakas No. B7-017-344 and Circular No.B7-018-001 Sor Ror Chor Nor on credit risk classification and provision on impairment for banks as stated in Note 3(i).

(b) Non-cancellable operating lease commitments

As at 31 December 2018, the Group and the Bank have non-cancellable lease commitments in respect of its leases of premises.

The future aggregate minimum lease payments under non-cancellable operating leases of the Group and the Bank are as follows:

Group	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
No later than one year	432,776	1,738,894	516,600	2,092,230
Later than one year and not later than five years	1,383,984	5,560,848	695,050	2,814,953
Later than five years	378,174	1,519,503	2,132,000	8,634,600
	<u>2,194,934</u>	<u>8,819,245</u>	<u>3,343,650</u>	<u>13,541,783</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

28. Commitments and contingencies (continued)

(b) Non-cancellable operating lease commitments (continued)

Bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
No later than one year	1,089,176	4,376,309	1,180,200	4,764,467
Later than one year and not later than five years	4,009,584	16,110,509	3,349,450	13,521,730
Later than five years	26,772,374	107,571,399	29,250,000	118,082,250
	<u>31,871,134</u>	<u>128,058,217</u>	<u>33,779,650</u>	<u>136,368,447</u>

(c) Tax contingencies

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.

29. Related party transactions and balances

(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 staff (including their close family members)

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

29. Related party transactions and balances (continued)

(b) Bank balance with related parties

Group and bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Immediate parent entity	<u>7,917,748</u>	<u>31,813,511</u>	<u>11,149,303</u>	<u>45,009,736</u>

(c) Loans and advances to related parties

Group and bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Loans outstanding	<u>3,802,593</u>	<u>15,278,819</u>	<u>2,224,544</u>	<u>8,980,484</u>
Accrued interest receivable	<u>4,446</u>	<u>17,864</u>	<u>1,470</u>	<u>5,934</u>
Interest income	<u>95,691</u>	<u>384,486</u>	<u>47,151</u>	<u>190,349</u>

(d) Deposit balances/transactions from related parties

Group	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
<i>Deposits:</i>				
Key management	<u>744,828</u>	<u>2,992,719</u>	<u>545,089</u>	<u>2,200,524</u>
<i>Interest expense:</i>				
- Key management	<u>12,588</u>	<u>50,579</u>	<u>7,974</u>	<u>32,191</u>

Deposits carry interest at rates ranging from 1.00% to 3.50% per annum (2017: 1.00% to 3.25% per annum).

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

29. Related party transactions and balances (continued)

(d) Deposit balances/transactions from related parties (continued)

Bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
<i>Deposits:</i>				
- Subsidiary	2,237,609	8,990,713	968,504	3,909,851
- Key management	744,828	2,992,719	545,089	2,200,524
	<u>2,982,437</u>	<u>11,983,432</u>	<u>1,513,593</u>	<u>6,110,375</u>
<i>Interest expense:</i>				
- Subsidiary	15,217	61,142	11,194	45,190
- Key management	12,588	50,579	7,974	32,191
	<u>27,805</u>	<u>111,721</u>	<u>19,168</u>	<u>77,381</u>

Deposits carry interest at rates ranging from 1.00% to 3.50% per annum (2017: 1.00% to 3.25% per annum).

(e) Borrowings and subordinated debts from related parties

Group and Bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
<i>Immediate parent entity</i>				
Borrowing and subordinated debts	<u>70,205,882</u>	<u>282,087,234</u>	<u>109,549,757</u>	<u>442,252,369</u>
Accrued interest payable	<u>49,867</u>	<u>200,366</u>	<u>98,482</u>	<u>397,572</u>
Interest expense	<u>2,876,239</u>	<u>11,556,728</u>	<u>2,405,846</u>	<u>9,712,400</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

29. Related party transactions and balances (continued)

(f) Key management remuneration

Group and Bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Salaries and short-term benefits	1,516,497	6,093,285	1,290,530	5,209,870

(g) Board of Directors' fee

Group and Bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Board of Directors' fees	72,022	289,384	77,000	310,849

(h) Other transactions with related parties

Group	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Immediate parent entity	508,501	2,043,157	296,663	1,197,629

Bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Immediate parent entity	508,501	2,043,157	296,663	1,197,629
Subsidiary	81,132	325,988	644,496	2,601,830
	589,633	2,369,145	941,159	3,799,459

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

30. Financial risk management

The Group/Bank's activities expose them to a variety of financial risks, including credit risk, market risk (including foreign exchange risk and interest rate risk) and liquidity risk as well as operational risk. Taking risk is core to the financial business, and operational risk is an inevitable consequence of being in business. The Group/Bank does not use derivative financial instruments to manage its risk exposures.

The financial assets and liabilities held by the Group and the Bank are as follows:

Group	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Financial assets				
Cash on hand	29,132,324	117,053,678	27,674,096	111,720,326
Balances with the National Bank of Cambodia	34,782,779	139,757,206	55,763,338	225,116,596
Balances with banks and other financial institutions	21,870,318	87,874,938	18,312,863	73,929,028
Loans and advances to customers (*)	329,375,977	1,323,432,675	331,927,102	1,339,989,711
Available-for sales ("AFS") investments	340,968	1,370,009	297,767	1,202,085
Other assets	4,739,878	19,044,830	4,503,208	18,179,451
Total financial assets	420,242,244	1,688,533,336	438,478,374	1,770,137,197
Financial liabilities				
Deposits from banks and other financial institutions	4,157,934	16,706,579	5,994,194	24,198,561
Deposits from customers	331,025,641	1,330,061,026	279,512,580	1,128,392,285
Borrowings	53,232,689	213,888,944	122,565,440	494,796,681
Subordinated debts	29,000,000	116,522,000	29,000,000	117,073,000
Other liabilities	21,940,022	88,155,008	23,137,923	93,407,795
Total financial liabilities	439,356,286	1,765,333,557	460,210,137	1,857,868,322
Net financial liabilities	(19,114,042)	(76,800,221)	(21,731,763)	(87,731,125)

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

30. Financial risk management (continued)

Bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Financial assets				
Cash on hand	29,132,324	117,053,678	27,674,096	111,720,326
Balances with the National Bank of Cambodia	34,782,779	139,757,206	55,763,338	225,116,596
Balances with other banks	21,043,849	84,554,185	18,034,535	72,805,418
Loans and advances to customers (*)	329,375,977	1,323,432,675	331,927,102	1,339,989,711
Available-for sales ("AFS") investments	340,968	1,370,009	297,767	1,202,085
Other assets	4,735,023	19,025,322	3,502,008	14,137,606
Total financial assets	419,410,920	1,685,193,075	437,198,846	1,764,971,742
Financial liabilities				
Deposits from banks and other financial institutions	4,157,934	16,706,579	5,994,194	24,198,561
Deposits from customers	333,263,250	1,339,051,739	280,481,084	1,132,302,136
Borrowing	41,205,882	165,565,234	110,549,757	446,289,369
Subordinated debts	29,000,000	116,522,000	29,000,000	117,073,000
Other liabilities	21,509,557	86,425,400	23,219,103	93,735,519
Total financial liabilities	429,136,623	1,724,270,952	449,244,138	1,813,598,585
Net financial liabilities	(9,725,703)	(39,077,877)	(12,045,292)	(48,626,843)

(*) This is gross loan amount.

(a) Credit risk

Credit risk is the risk of suffering financial loss should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from loans and advances and loan commitments arising from such lending activities.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

30. Financial risk management (continued)

(a) Credit risk (continued)

(i) Credit risk measurement

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.

(ii) Risk limit control and mitigation policies

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

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.

(iii) Impairment and provisioning policies

The Bank follows the mandatory loan classification and provisioning as required by the 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, facilities including loans and advances, other financial products and off balance financial commitments are classified into five classifications and the regulatory provision is made depending on the classification concerned, regardless of the assets (except cash) pledged as collateral, unless other information is available to indicate worsening. Refer to Note 3(i) for the significant accounting policies.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

30. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Maximum exposure to credit risk before collateral held or other credit enhancements

The table below presents the maximum credit risk exposure of the Group and of the Bank, without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the exposures are based on net carrying amounts. For credit related commitments, the maximum exposure to credit risk represents the full amount of irrevocable committed facilities.

Group	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
<i>On-balance sheet assets</i>				
Balances with other banks and other financial institutions	21,870,318	87,874,938	18,312,863	73,929,028
Loans and advances to customers	329,375,977	1,323,432,675	331,927,102	1,339,989,711
Other assets	4,739,878	19,044,830	4,503,208	18,179,451
	<u>355,986,173</u>	<u>1,430,352,443</u>	<u>354,743,173</u>	<u>1,432,098,190</u>
<i>Off-balance sheet items</i>				
Commitments	<u>32,827,404</u>	<u>131,900,509</u>	<u>36,728,321</u>	<u>148,272,232</u>
	<u>388,813,577</u>	<u>1,562,252,952</u>	<u>391,471,494</u>	<u>1,580,370,422</u>
Bank				
<i>On-balance sheet assets</i>				
Balances with other banks and other financial institutions	21,043,849	84,554,185	18,034,535	72,805,418
Loans and advances to customers	329,375,977	1,323,432,675	331,927,102	1,339,989,711
Other assets	4,735,023	19,025,322	3,502,008	14,137,606
	<u>355,154,849</u>	<u>1,427,012,182</u>	<u>353,463,645</u>	<u>1,426,932,735</u>
<i>Off-balance sheet items</i>				
Commitments	<u>32,827,404</u>	<u>131,900,509</u>	<u>36,728,321</u>	<u>148,272,232</u>
	<u>387,982,253</u>	<u>1,558,912,691</u>	<u>390,191,966</u>	<u>1,575,204,967</u>

The credit exposure arising from off-balance sheet activities, i.e. commitments and contingent liabilities, is disclosed in Note 28(a).

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

30. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

To the extent possible, pledges of collateral are negotiated with the counterparties for the purposes of reducing credit risk. The Group and the Bank take into consideration the marketability of the collateral as well as the adequacy of debt coverage in assessing the acceptability of collateral. The main types of collateral and other credit enhancements obtained by the Group and the Bank in respect of loans and advances to customers are properties and guarantees. Properties are valued periodically based on valuation by independent professional valuers.

Management is confident of its ability to control and sustain minimal exposure to credit risk by the Group and the Bank resulting from loans and advances based on the following:

- Loans and advances of the Group and of the Bank are collateralised; and
- The Bank has a proper credit evaluation process in place for granting of loans and advances to customers.

(v) Credit quality of financial assets

Loans and advances to customers

As at the balance sheet date, exposures of the Group and of the Bank to credit risk arising from loans and advances to customers (without taking into account of any collateral held or other credit enhancements and provision for loan losses) are as follows:

	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Loans and advances:				
Neither past due nor impaired	283,235,142	1,138,038,800	303,245,245	224,201,054
Past due but not impaired	35,602,794	143,052,026	4,330,181	17,480,941
Individually impaired	10,538,041	42,341,849	24,351,676	98,307,716
	<u>329,375,977</u>	<u>1,323,432,675</u>	<u>331,927,102</u>	<u>1,339,989,711</u>

For the purpose of loan provisioning, expected recovery from collateral (except cash) is not taken into consideration in accordance with the NBC's requirement.

Neither past due nor impaired

Loans to customers neither past due nor impaired are good quality loans to customers for which no experience of default. These loans are supported by bank guarantee and management views that likelihood of default is relatively low.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

30. Financial risk management (continued)

(a) Credit risk (continued)

(v) Credit quality of financial assets (continued)

Balances with banks and other financial institutions

Analysis of the balances with banks and other financial institutions of the Group and the Bank as at the balance sheet date by counterparty is as follows:

Group	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
In Cambodia:				
Commercial banks	3,034,491	12,192,585	550,769	2,223,454
Outside Cambodia:				
Commercial banks	18,835,827	75,682,353	17,762,094	71,705,574
	<u>21,870,318</u>	<u>87,874,938</u>	<u>18,312,863</u>	<u>73,929,028</u>

Analysis of the balances with banks and other financial institutions of the Group and the Bank as at the balance sheet date by counterparty is as follows: (continued)

Bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
In Cambodia:				
Commercial banks	2,208,022	8,871,832	272,441	1,099,844
Outside Cambodia:				
Commercial banks	18,835,827	75,682,353	17,762,094	71,705,574
	<u>21,043,849</u>	<u>84,554,185</u>	<u>18,034,535</u>	<u>72,805,418</u>

Other financial assets

Other financial assets of the Group and of the Bank mainly comprise interest receivable on placements with banks and other financial institutions and deposits placed by the Bank in respect of rental of premises.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

30. Financial risk management (continued)

(a) Credit risk (continued)

(vi) Credit quality of loans and advances to customers

Loans and advances that are past due but not impaired

The aging analysis of loans and advances that are past due but not impaired as at the balance sheet date (without taking into account of any collateral held or other credit enhancements) is as follows:

Bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Past due period:				
-but not impaired	35,602,794	143,052,026	4,330,181	17,480,941
Less: specific provision	(1,068,084)	(4,291,562)	(129,905)	(524,426)
	<u>34,534,710</u>	<u>138,760,464</u>	<u>4,200,276</u>	<u>16,956,513</u>

Loans past due up to special mention are not considered impaired, unless other information is available to indicate the contrary.

Loans and advances that are individually impaired

Bank	2018		2017	
	US\$	KHR' 000 (Note 4)	US\$	KHR' 000 (Note 4)
Individually impaired	10,538,041	42,341,849	24,351,676	98,307,716
Less: specific provision	(9,411,441)	(37,815,170)	(11,701,725)	(47,239,864)
	<u>1,126,600</u>	<u>4,526,679</u>	<u>12,649,951</u>	<u>51,067,852</u>

Individually impaired loans and advances are loans and advances for which the Branch determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans and advances. In accordance with Prakas No. B7-017-344 dated 1 December 2017 and on credit risk classification and provision on impairment, loans and advances past due from substandard are considered impaired. Refer to separate accounting policy stated in Note 3(i).

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

30. Financial risk management (continued)

(a) Credit risk (continued)

(vii) Repossessed collateral

The National Bank of Cambodia requires banking institutions to classify repossessed property, if any as foreclosed property in the balance sheet and to dispose of the property within one year.

During the year, the Bank did not obtain any asset by taking possession of collateral held as security.

(viii) Credit risk concentration of financial assets

By geographical distribution

As at the balance sheet date, the credit exposures of the Group and of the Bank are derived mainly from Cambodia based on the country of domicile of the counterparties as follows:

Group	Cambodia US\$	Other countries US\$	Total US\$
As at 31 December 2018			
Balances with other banks and other financial institutions	3,034,491	18,835,827	21,870,318
Loans and advances to customers	329,375,977	-	329,375,977
Other assets	4,739,878	-	4,739,878
	<u>337,150,346</u>	<u>18,835,827</u>	<u>355,986,173</u>
In KHR' 000 equivalent (Note 4)	<u>1,354,670,090</u>	<u>75,682,353</u>	<u>1,430,352,443</u>
As at 31 December 2017			
Balances with other banks	550,769	17,762,094	18,312,863
Loans and advances to customers	331,927,102	-	331,927,102
Other assets	4,503,208	-	4,503,208
	<u>336,981,079</u>	<u>17,762,094</u>	<u>354,743,173</u>
In KHR' 000 equivalent (Note 4)	<u>1,360,392,616</u>	<u>71,705,573</u>	<u>1,432,098,189</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

30. Financial risk management (continued)

(a) Credit risk (continued)

(viii) Credit risk concentration of financial assets (continued)

By geographical distribution (continued)

Bank	Cambodia US\$	Other countries US\$	Total US\$
As at 31 December 2018			
Balances with other banks and other financial institutions	2,208,022	18,835,827	21,043,849
Loans and advances to customers	329,375,977	-	329,375,977
Other assets	4,735,023	-	4,735,023
	<u>336,319,022</u>	<u>18,835,827</u>	<u>355,154,849</u>
In KHR' 000 equivalent (Note 4)	<u>1,351,329,830</u>	<u>75,682,353</u>	<u>1,427,012,183</u>
As at 31 December 2017			
Balances with other banks and other financial institutions	272,441	17,762,094	18,034,535
Loans and advances to customers	331,927,102	-	331,927,102
Other assets	3,502,008	-	3,502,008
	<u>335,701,551</u>	<u>17,762,094</u>	<u>353,463,645</u>
In KHR' 000 equivalent (Note 4)	<u>1,355,227,161</u>	<u>71,705,573</u>	<u>1,426,932,734</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

30. Financial risk management (continued)

(a) Credit risk (continued)

(viii) Credit risk concentration of financial assets (continued)

By industry sector

The following table summarises the credit exposures of the Group and of the Bank at their net carrying amounts by industry sector of the counterparties.

Group and bank	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<i>Financial Institutions:</i>				
Other financial institutions	22,683,333	91,141,633	11,700,000	47,232,900
<i>Non-financial institutions:</i>				
Agriculture, forestry and fishing	20,992,192	84,346,628	23,284,239	93,998,473
Mining and quarrying	709,750	2,851,776	1,188,971	4,799,876
Manufacturing	6,348,783	25,509,411	19,666,139	79,392,203
Utilities	7,790,517	31,302,297	10,686,063	43,139,636
Construction	48,601,251	195,279,825	62,454,671	252,129,507
Wholesale and retail trade	17,662,895	70,969,512	23,620,456	95,355,781
Retail trade	29,736,500	119,481,257	31,460,815	127,007,310
Hotel and restaurants	4,015,945	16,136,068	8,082,128	32,627,551
Transport and storage	341,954	1,373,972	660,194	2,665,203
Information media and telecommunication	3,300,551	13,261,616	495,824	2,001,641
Rentals and operational leasing activities (excluded real estate leasing and rental)	773,329	3,107,235	1,102,739	4,451,757
Real estate activities	33,514,088	134,659,605	28,254,241	114,062,371
Non-financial services	20,238,441	81,318,054	26,175,449	105,670,288
<i>Personal essentials:</i>				
Personal lending	16,900,252	67,905,213	29,042,595	117,244,956
Credit cards	3,966,959	15,939,241	3,385,591	13,667,631
Mortgages, owner-occupied housing only	91,799,237	368,849,332	43,925,800	177,328,455
<i>Other lending</i>	-	-	6,741,187	27,214,172
	<u>329,375,977</u>	<u>1,323,432,675</u>	<u>331,927,102</u>	<u>1,339,989,711</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2018

30. Financial risk management (continued)

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

(i) Price risk

The Bank managed its risk of unfavourable changes of prices of its investment by reviewing the monthly fund performance report.

(ii) Foreign exchange risk

The Group and the Bank mainly transact in US\$, which is the functional currency of the Group and of the Bank. The Group and the Bank do not have significant exposure to foreign exchange risk.

(iii) Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase or decrease due to unexpected movements in rates. Management regularly monitors any mismatch of interest rate repricing undertaken.

The table below summarises the exposures of the Group and of the Bank to interest rate risk. The assets and liabilities at carrying amount are categorised by the earlier of contractual repricing or maturity dates.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements for the year ended 31 December 2018

30. Financial risk management (continued)

(b) Market risk (continued)

(iii) Interest rate risk (continued)

Group	1 month US\$	1-3 months US\$	3-12 months US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
As at 31 December 2018							
Financial assets							
Cash on hand	-	-	-	-	-	29,132,324	29,132,324
Balances with the National Bank of Cambodia	-	4,499,801	-	-	-	30,282,978	34,782,779
Balances with banks and other financial institutions	1,200,000	-	-	-	-	20,670,318	21,870,318
Loans and advances to customers	50,784,937	5,565,406	60,705,666	77,956,185	134,363,783	-	329,375,977
Available-for-sale ("AFS") investments	-	-	-	-	-	340,968	340,968
Other assets	-	-	-	-	-	4,739,878	4,739,878
Total financial assets	51,984,937	10,065,207	60,705,666	77,956,185	134,363,783	85,166,466	420,242,244
Financial liabilities							
Deposits from other banks	3,665,691	60,000	432,243	-	-	-	4,157,934
Deposits from customers	241,952,137	24,073,681	52,023,619	12,976,204	-	-	331,025,641
Borrowings	-	25,000,000	14,000,000	2,205,882	12,026,807	-	53,232,689
Subordinated debts	-	-	-	-	29,000,000	-	29,000,000
Other liabilities	-	-	-	-	-	21,940,022	21,940,022
Total financial liabilities	245,617,828	49,133,681	66,455,863	15,182,086	41,026,807	21,940,022	439,356,287
Total interest re-ricing gap	(193,632,891)	(39,068,474)	(5,750,197)	62,774,099	93,336,976	63,226,444	(19,114,043)
In KHR '000 equivalent	(781,695,981)	(157,719,430)	(23,213,545)	253,419,038	376,801,372	255,245,154	(77,163,392)

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements for the year ended 31 December 2018

30. Financial risk management (continued)

(b) Market risk (continued)

(iii) Interest rate risk (continued)

Group	1 month US\$	1-3 months US\$	3-12 months US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
As at 31 December 2017							
Financial assets							
Cash on hand	-	-	-	-	-	27,674,096	27,674,096
Balances with the National Bank of Cambodia	-	3,291,652	-	-	-	52,471,686	55,763,338
Balances with banks	1,163,620	-	-	-	-	17,149,243	18,312,863
Loans and advances to customers	57,323,814	14,852,608	60,595,245	58,295,134	140,860,301	-	331,927,102
Available-for-sale ("AFS") investments	-	-	-	-	-	297,767	297,767
Other assets	1,335,189	-	-	-	-	3,168,019	4,503,208
Total financial assets	59,822,623	18,144,260	60,595,245	58,295,134	140,860,301	100,760,811	438,478,374
Financial liabilities							
Deposits from other banks	4,500,966	1,064,121	429,107	-	-	-	5,994,194
Deposits from customers	159,029,253	37,206,840	70,680,886	12,595,601	-	-	279,512,580
Borrowings	-	15,683	68,000,000	52,549,757	2,000,000	-	122,565,440
Subordinated debts	-	-	-	-	29,000,000	-	29,000,000
Other liabilities	-	-	-	-	-	23,137,923	23,137,923
Total financial liabilities	163,530,219	38,286,644	139,109,993	65,145,358	31,000,000	23,137,923	460,210,137
Total interest re-pricing gap	(103,707,596)	(20,142,384)	(78,514,748)	(6,850,224)	109,860,301	77,622,888	(21,731,763)
In KHR '000 equivalent	(418,667,565)	(81,314,804)	(316,964,038)	(27,654,354)	443,506,032	313,363,599	(87,731,127)

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements for the year ended 31 December 2018

30. Financial risk management (continued)

(b) Market risk (continued)

(iii) Interest rate risk (continued)

Bank	1 month US\$	1-3 months US\$	3-12 months US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
As at 31 December 2018							
Financial assets							
Cash on hand	-	-	-	-	-	29,132,324	29,132,324
Balances with the National Bank of Cambodia	-	4,499,801	-	-	-	30,282,978	34,782,779
Balances with other banks	1,200,000	-	-	-	-	19,843,849	21,043,849
Loans and advances to customers	50,784,937	5,565,406	60,705,666	77,956,185	134,363,783	-	329,375,977
Available-for-sale ("AFS") investments	-	-	-	-	-	340,968	340,968
Other assets	-	-	-	-	-	4,735,023	4,735,023
Total financial assets	51,984,937	10,065,207	60,705,666	77,956,185	134,363,783	84,335,142	419,410,920
Financial liabilities							
Deposits from banks and other financial institutions	3,665,691	60,000	432,243	-	-	-	4,157,934
Deposits from customers	241,952,137	24,073,681	54,261,228	12,976,204	-	-	333,263,250
Borrowings	-	25,000,000	14,000,000	2,205,882	-	-	41,205,882
Subordinated debts	-	-	-	-	29,000,000	-	29,000,000
Other liabilities	-	-	-	-	-	21,509,557	21,509,557
Total financial liabilities	245,617,828	49,133,681	68,693,472	15,182,086	29,000,000	21,509,557	429,136,623
Total interest re-pricing gap	(193,632,891)	(39,068,474)	(7,987,806)	62,774,099	105,363,783	62,825,585	(9,725,703)
In KHR '000 equivalent	(781,695,981)	(157,719,430)	(32,246,772)	253,419,037	425,353,593	253,626,886	(39,262,663)

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements for the year ended 31 December 2018

30. Financial risk management (continued)

(b) Market risk (continued)

(iii) Interest rate risk (continued)

Bank	1 month US\$	1-3 months US\$	3-12 months US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
As at 31 December 2017							
Financial assets							
Cash on hand	-	-	-	-	-	27,674,096	27,674,096
Balances with the National Bank of Cambodia	-	3,291,652	-	-	-	52,471,686	55,763,338
Balances with other banks	-	-	1,000,000	14,700,000	-	16,870,915	18,034,535
Loans and advances to customers	57,323,814	14,852,608	60,595,245	58,295,134	140,860,301	-	331,927,102
Available-for-sale ("AFS") investments	-	-	-	-	-	297,767	297,767
Other assets	-	-	-	-	-	2,168,019	3,502,008
Total financial assets	57,323,814	18,144,260	61,595,245	72,995,134	140,860,301	99,482,483	437,198,846
Financial liabilities							
Deposits from banks and other financial institutions	4,500,966	1,064,121	429,107	-	-	-	5,994,194
Deposits from customers	159,053,643	37,206,840	71,974,268	12,246,334	-	-	280,481,084
Borrowings	-	-	68,000,000	42,549,757	-	-	110,549,757
Subordinated debts	-	-	-	-	29,000,000	-	29,000,000
Other liabilities	-	-	-	-	-	23,219,103	23,219,103
Total financial liabilities	163,554,609	38,270,961	140,403,375	50,790,091	29,000,000	23,219,103	449,244,138
Total interest re-pricing gap	(106,230,795)	(20,126,701)	(78,808,130)	18,199,043	111,860,301	76,263,380	(12,045,292)
In KHR '000 equivalent	(428,853,718)	(81,251,491)	(318,148,421)	73,469,538	451,580,036	307,875,265	(48,626,844)

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements for the year ended 31 December 2018

30. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group and the Bank are unable to meet their obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows.

(i) Liquidity risk management process

The management monitors balance sheet liquidity and manages the concentration and maturity profile of deposits as well as the movements of main depositors and projection of their withdrawals.

(ii) Funding approach

The main sources of funding of the Group and of the Bank are from shareholder's paid-up capital and deposits from banks, other financial institutions and customers. The sources of funding are reviewed daily through management's review of maturity profile of term deposits.

(iii) Non-derivative cash flows

The table below presents the cash flows; excluding interest payments arising from financial assets and liabilities and commitments of the Group and of the Bank based on the remaining contractual maturities as at the balance sheet date.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements for the year ended 31 December 2018

30. Financial risk management (continued)

(c) Liquidity risk (continued)

(iii) Non-derivative cash flows (continued)

Group	Up to 1 month US\$	1-3 months US\$	3-12 months US\$	1 to 5 years US\$	Over 5 years US\$	No fixed maturity date US\$	Total US\$
As at 31 December 2018							
Financial assets							
Cash on hand	-	-	-	-	-	29,132,324	29,132,324
Balances with the National Bank of Cambodia	-	4,499,801	-	-	-	30,282,978	34,782,779
Balances with other banks	1,200,000	-	-	-	-	20,670,318	21,870,318
Loans and advances to customers	50,784,937	5,565,406	60,705,666	77,956,185	134,363,783	-	329,375,977
Available-for-sale (“AFS”) investments	-	-	-	-	-	340,968	340,968
Other assets	-	-	-	-	-	4,739,878	4,739,878
Total assets	51,984,937	10,065,207	60,705,666	77,956,185	134,363,783	85,166,466	420,242,244
Financial liabilities							
Deposits from banks and other financial institutions	3,665,691	60,000	432,243	-	-	-	4,157,934
Deposits from customers	241,952,137	24,073,681	52,023,619	12,976,204	-	-	331,025,641
Borrowings	-	25,000,000	14,000,000	2,205,882	12,026,807	-	53,232,689
Subordinated debts	-	-	-	-	29,000,000	-	29,000,000
Other liabilities	-	-	-	-	-	21,940,022	21,940,022
Total liabilities	245,617,828	49,133,681	66,455,863	15,182,086	41,026,807	21,940,022	439,356,287
Net liquidity surplus (gap) – US\$	(193,632,891)	(39,068,474)	(5,750,197)	62,774,099	93,336,976	63,226,444	(19,114,043)
Net liquidity surplus (gap) – (KHR’000)	(781,695,981)	(157,719,430)	(23,213,545)	253,419,038	376,801,372	255,245,154	(77,163,392)

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements for the year ended 31 December 2018

30. Financial risk management (continued)

(c) Liquidity risk (continued)

(iii) Non-derivative cash flows (continued)

Group	Up to 1 month US\$	1-3 months US\$	3-12 months US\$	1 to 5 years US\$	Over 5 years US\$	No fixed maturity date US\$	Total US\$
As at 31 December 2017							
Financial assets							
Cash on hand	-	-	-	-	-	27,674,096	27,674,096
Balances with the National Bank of Cambodia	-	3,291,652	-	-	-	52,471,686	55,763,338
Balances with other banks	-	-	-	-	-	18,312,863	18,312,863
Loans and advances to customers	57,323,814	14,852,608	60,595,245	58,295,134	140,860,301	-	331,927,102
Available-for-sale (“AFS”) investments	-	-	-	-	-	297,767	297,767
Other assets	-	-	-	-	-	4,503,208	4,503,208
Total assets	57,323,814	18,144,260	60,595,245	58,295,134	140,860,301	103,259,620	438,478,374
Financial liabilities							
Deposits from banks and other financial institutions	4,500,966	1,064,121	429,107	-	-	-	5,994,194
Deposits from customers	159,029,253	37,206,840	70,680,886	12,595,601	-	-	279,512,580
Borrowings	-	15,683	68,000,000	52,549,757	2,000,000	-	122,565,440
Subordinated debts	-	-	-	-	29,000,000	-	29,000,000
Other liabilities	-	-	-	-	-	23,137,923	23,137,923
Total liabilities	163,530,219	38,286,644	139,109,993	65,145,358	31,000,000	23,137,923	460,210,137
Net liquidity surplus (gap) – US\$	(106,206,405)	(20,142,384)	(78,514,748)	(6,850,224)	109,860,301	80,121,697	(21,731,763)
Net liquidity surplus (gap) – (KHR’000)	(428,755,257)	(81,314,804)	(316,964,038)	(27,654,354)	443,506,035	323,451,291	(87,731,127)

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements for the year ended 31 December 2018

30. Financial risk management (continued)

(c) Liquidity risk (continued)

(iii) Non-derivative cash flows (continued)

Bank	Up to 1 month US\$	1-3 months US\$	3-12 months US\$	1 to 5 years US\$	Over 5 years US\$	No fixed maturity date US\$	Total US\$
As at 31 December 2018							
Financial assets							
Cash on hand	-	-	-	-	-	29,132,324	29,132,324
Balances with the National Bank of Cambodia	-	4,499,801	-	-	-	30,282,978	34,782,779
Balances with other banks	1,200,000	-	-	-	-	19,843,849	21,043,849
Loans and advances to customers	50,784,937	5,565,406	60,705,666	77,956,185	134,363,783	-	329,375,977
Available-for-sale ("AFS") investments	-	-	-	-	-	340,968	340,968
Other assets	-	-	-	-	-	4,735,023	4,735,023
Total assets	51,984,937	10,065,207	60,705,666	77,956,185	134,363,783	84,335,142	419,410,920
Financial liabilities							
Deposits from banks and other financial institutions	3,665,691	60,000	432,243	-	-	-	4,157,934
Deposits from customers	241,952,137	24,073,681	54,261,228	12,976,204	-	-	333,263,250
Borrowings	-	25,000,000	14,000,000	2,205,882	-	-	41,205,882
Subordinated debts	-	-	-	-	29,000,000	-	29,000,000
Other liabilities	-	-	-	-	-	21,509,557	21,509,557
Total liabilities	245,617,828	49,133,681	68,693,472	15,182,086	29,000,000	21,509,557	429,136,623
Net liquidity surplus (gap) – US\$	(193,632,891)	(39,068,474)	(7,987,806)	62,774,099	105,363,783	62,825,585	(9,725,703)
Net liquidity surplus (gap) – (KHR'000)	(781,695,981)	(157,719,430)	(32,246,772)	253,419,037	425,353,593	253,626,886	(39,262,663)

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements for the year ended 31 December 2018

30. Financial risk management (continued)

(c) Liquidity risk (continued)

(iii) Non-derivative cash flows (continued)

Bank	Up to 1 month US\$	1-3 months US\$	3-12 months US\$	1 to 5 years US\$	Over 5 years US\$	No fixed maturity date US\$	Total US\$
As at 31 December 2017							
Financial assets							
Cash on hand	-	-	-	-	-	27,674,096	27,674,096
Balances with the National Bank of Cambodia	-	3,291,652	-	-	-	52,471,686	55,763,338
Balances with other banks	-	-	-	-	-	18,034,535	18,034,535
Loans and advances to customers	57,323,814	14,852,608	60,595,245	58,295,134	140,860,301	-	331,927,102
Available-for-sale (“AFS”) investments	-	-	-	-	-	297,767	297,767
Other assets	-	-	-	-	-	3,502,008	3,502,008
Total assets	57,323,814	18,144,260	60,595,245	58,295,134	140,860,301	101,980,092	437,198,846
Financial liabilities							
Deposits from banks and other financial institutions	4,500,966	1,064,121	429,107	-	-	-	5,994,194
Deposits from customers	159,029,253	37,206,840	71,974,268	12,270,723	-	-	280,481,084
Borrowings	-	-	68,000,000	40,549,757	2,000,000	-	110,549,757
Subordinated debts	-	-	-	-	29,000,000	-	29,000,000
Other liabilities	-	-	-	-	-	23,219,103	23,219,103
Total liabilities	163,530,219	38,270,961	140,403,375	52,820,480	31,000,000	23,219,103	449,244,138
Net liquidity surplus (gap) – US\$	(106,206,405)	(20,126,701)	(79,808,130)	5,474,654	109,860,301	76,263,380	(12,045,292)
Net liquidity surplus (gap) – (KHR’000)	(428,755,257)	(81,251,492)	(322,185,421)	22,101,178	443,506,035	307,875,265	(48,626,844)

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements for the year ended 31 December 2018

30. Financial risk management (continued)

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. This includes legal, compliance, accounting and fraud risk.

The Bank has established policies and procedures to provide guidance to the key operating units on the risk governance structure and baseline internal controls necessary to identify, assess, monitor and control their operational risks. Internal control policies and measures that have been implemented including the establishment of signing authorities, defining system parameter controls, streamlining procedures and documentation ensuring compliance with regulatory and legal requirements. The policies and procedures are reviewed periodically, taking into account the business objectives and strategies of the Bank as well as regulatory requirements.

The internal audit function provides independent assessment of the adequacy of the internal control policies and procedures of the Bank to mitigate risk associated with operational activities. Any findings arising from the audit and review will be escalated to the senior management of the Bank and the Audit Committees of the Bank and of the parent company.

(e) Fair value of financial assets and liabilities

As at the balance sheet date, the fair values of financial instruments of the Group and of the Bank approximate their carrying amounts.

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

(i) Balances with other banks and financial institutions

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.

For fixed rate loans with remaining period to maturity of one year and above, fair values are estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risks and maturities.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements for the year ended 31 December 2018

30. Financial risk management (continued)

(e) Fair value of financial assets and liabilities (continued)

(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.

(iv) 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.

(f) Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirement set by the National Bank of Cambodia;
- To safeguard the ability of the Group and of the Bank to continue as a going concern so that it can provide returns to its shareholder and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of business.

The National Bank of Cambodia requires all commercial banks to i) hold a minimum capital requirement, ii) maintain the Bank's net worth equal at least to the minimum capital and iii) comply with solvency and liquidity ratios.

9 - Services & Financial Product

1. Commercial Banking

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

2. Personal Banking

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

- **Head Office**

E.SUN Tower #441, Monivong Blvd.,
Sangkat Boeung Prolit, Khan 7 Makara, Phnom Penh
Tel: +855 23 91 1313 | Fax: +855 23 998 713
info@email.ucb.com.kh | www.ucb.com.kh | **SWIFT: UCBPKHPP**

- **Phsar Chas Branch**

UCB Bldg #61, 130 Rd, Phsar Chas Quarter
Khan Daun Penh, Phnom Penh, Cambodia
Tel: +855 23 427 995 | Fax: +855 23 427 997

- **Olympic Branch**

#73-75, St. 286, Sangkat Olympic
Khan Chamkamon, Phnom Penh
Tel: +855 23 210 871 | Fax: +855 23 210 887

- **Kbal Tnol Branch**

#518ABC, Preah Monivong Blvd, Phum 12, Sangkat Tonle Basak
Khan Chamkar Mon, Phnom Penh
Tel: +855 23 981 313 | Fax: +855 23 988 859

- **Intercontinental Branch**

#272-276, Mao Tse Tung Blvd (245), Phum 04, Sangkat TomnobTuek
Khan Chamkar Mon, Phnom Penh
Tel: +855 23 971 313 | Fax: +855 23 987 458

- **Tuol Kork Branch**

#115, St. 289, Phum 14, Sangkat Boeng Kok II
Khan Tuol Kork, Phnom Penh
Tel: +855 23 961 313 | Fax: +855 23 982 436

- **Tuek L'ak Branch**

#342E0-3 and 342F0-3, St. 182, Phum 10, Sangkat Tuek L'ak3
Khan Tuol Kork, Phnom Penh
Tel: +855 23 991 313 | Fax: +855 23 966 985

- **Tuek Thla Branch**

#A123 and A125, Russian Federation Blvd, Phum Tuek Thla, Sangkat Tuek Thla
Khan Saen Sokh, Phnom Penh
Tel: +855 23 951 313 | Fax: +855 23 966 965

- **Old Stadium Branch**

#B41 & B43, St. 70, Sangkat Srah Chak
Khan Doun Penh, Phnom Penh
Tel: +855 23 931313 | Fax: +855 23 966943

- **Stueng Mean Chey Branch**

#16B & 17B, Samdach Preah Monireth Blvd, Sangkat Stueng Mean Chey
Khan Mean Chey, Phnom Penh
Tel: +855 23 921313 | Fax: +855 23 427 997

- **Siem Reap Branch**

#Corner of St. Tepvong-Omchhay, Mondul1 Village, Sangkat Svay Dongkum
Siem Reap Province
Tel: +855 63 963 703 | Fax: +855 63 965 178

- **Sihanouk Ville Branch**

#195, Vithei Ekreach, Sangkat No.2
Khan Mittapheap, Preah Sihanouk Province
Tel: +855 34-933 833 | Fax: +855 34 933 668

- **Battambang Branch**

#027-030, St. 01, Phum Prek Mohatep, Sangkat Svay Por
Battambang Province
Tel: +855 53 952 552 | Fax: +855 53 952 852

- **Khsach Kandal District Branch, Vihear Suork Commune**

Vihear Suork Cheung Village, Vihear Suork Commune
Khsach Kandal District, Kandal Province
Tel: +855 24 900 001-4 | Fax: +855 24 900 005



Union Commercial Bank Plc.

FINANCIAL STATEMENTS

For the year ended 31 December 2018



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UNION COMMERCIAL BANK PLC.
聯合商業銀行

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