



UCB

2019

**ANNUAL
REPORT**



Union Commercial Bank Plc.
FINANCIAL STATEMENTS
For the year ended 31 December 2019



List of Contents

1. Message from Management Team	P.1
2. Company Profile	P.3
3. Business Review	P.5
4. Activity and Sponsorship	P.9
5. Corporate Government	P.11
6. Director's Report	P.14
7. Independent Auditor's Report	P.19
8. Financial Report	P.22
9. Services & Financial Product	P.164
10. Contact Information	P.165

1 - Message from Management Team

2019 年全球經濟與柬埔寨市場發展穩定向上，成長過程中伴隨著許多不確定性，但 UCB 本著「銀行是經營風險的百年事業」之精神，憑藉著穩健的風險管理，以及對於在地市場的深入了解，2019 年，我們無論是在顧客服務、資產品質、產品發展或是財務表現上，都是頗有斬獲的一年。

The global economy and the development of Cambodian market shown a steady upward trend in 2019. There were many uncertainties in the growth path. However, the spirit of " Banks are a long-term business of risk management", relying on sound risk management process and In-depth understanding of local market, make UCB in customer service, asset quality, product development and financial performance been quite successful in 2019.

在業務方面，UCB 的存款餘額與放款餘額皆有穩定的成長。這樣的成果，並非是短期行銷手法一蹴可幾。事實上，業務的累積完全是一種結果表現，它反映了銀行經營在風險管理、人才培育、顧客服務、以及在優質品牌塑造上的堅持。

In terms of business, both UCB's deposit balance and loan balance have grown steadily. The result is not made by short-term marketing campaigns. In fact, the accumulation of business is due to all kind of activities, and reflects the bank's risk management, talent cultivation, customer service, and superior brand name building.

UCB 以金邊的 10 家分行，外省地區 4 家分行，搭配房貸、信用卡、網路銀行以及行動銀行等商品與通路，無論在境內或是海外，提供顧客等待時間最短的金融體驗。在商業金融方面，UCB 以推動柬埔寨企業發展為自身責任與使命，協助境內及跨國企業順暢金流管道，探尋海外融資可能，讓企業家們能更專注於事業發展與長遠經營規劃。

With 10 branches in Phnom Penh and 4 branches in other provinces, and the service of housing loan, credit cards, online/mobile banking and channels, UCB provides the financial experience with the shortest waiting time, whether in Cambodia or overseas. In terms of commercial banking, UCB takes its responsibility and mission to promote the development of Cambodian enterprises. UCB has assist domestic and international companies to smooth cash flow, explore overseas financing possibilities, and enables entrepreneurs to focus more on product development and long-term business planning.

2020 年可預見是相當動盪的一年。除了中美貿易協商懸而未決、能源價格大幅波動、歐美持續的低利率環境等，尚有影響全人類生命財產的疫情席捲全球。短期間的陣痛是必然的，但我們相信在此危機中，人類或許能找尋到新的合作模式，社會也能以一種新的姿態重啟。

2020 is a predictably unstable year. In addition to unresolved China-US trade war, large fluctuations in energy prices, and the continued low interest rate environment in Europe and the United States. Also, there are world-wide epidemics that affect the lives and property of all human beings. The short-term pain is inevitable, but we believe that in this crisis, mankind may be able to find new models of cooperation, and society could restart with a new formation.

金融產業或許受到挑戰，但人們對於金融的需求從未消失。UCB 將持續以培育優秀人才、創造顧客價值、協助社會發展、打造優質品牌為核心價值，與時俱進迎向挑戰。

The financial industry may face the challenge, but the demand of finance has never disappeared. UCB will continue to cultivate outstanding talents, create customer value, assist social development, and build superior brand name as its core value, moving forward with the times and facing challenges.



2 - Company Profile

母公司：玉山銀行

Parent Company: E.SUN Commercial Bank, Ltd.

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

E.SUN Bank was founded on January 16th 1992 and commenced its business on February 21st 1992. Under the leadership of the founder and the incumbent Chairman of E.SUN Financial Holding Company, Mr. Yong Ren Huang, a team of financial 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。UCB是全功能之商業銀行，在金邊有10家分行，外省地區有4家分行，員工人數超逾500人。身為玉山銀行的子公司，UCB秉持母行的核心價值與經營理念，以「專業、服務、責任」的精神，提供顧客最優質的服務體驗，貢獻柬埔寨社會與經濟發展。展望未來，UCB將持續精進產品、服務與金融創新，同時發展以人為本的精神，培育在地人才，促進各國菁英的交流與合作，以創造多元價值，讓UCB成為柬埔寨最具特色的外資銀行。

Union Commercial Bank PLC was founded on 31 March 1994, and is currently 100%-owned by E.SUN Bank. UCB is a full - licensed commercial bank with 10 branches in Phnom Penh and 4 branches in other provinces, with more than 500 employees. As the subsidiary of E.SUN Bank, UCB insists on E.SUN's core values and vision, and upholds a business philosophy of "expertise, service, and business" to providing an extraordinary service experience and contributing to Cambodia society. In the future, UCB will keep enhancing financial products, services and innovation and accelerating education and cooperation between multicultural elites for becoming a most distinctive foreign bank in Cambodia.

3 - Business Review

1. Financial Highlights

	2019	2018	2017
Operating Result (USD)			
Operating Income	34,475,773	32,265,374	23,155,245
Profit before Tax	25,883,163	9,698,743	(25,621,536)
Net Profit	22,009,698	7,779,309	(20,341,265)
Key Balance Sheet Data (USD)			
Total Assets	706,999,367	516,704,719	533,258,002
Loan to Customers (net)	476,237,953	311,150,749	316,408,637
Deposit from Customer	447,163,797	332,897,354	279,512,580
Total Liabilities	612,959,966	444,804,320	461,047,338
Paid-up Capital	80,000,000	80,000,000	80,000,000
Shareholder's Equity	94,039,401	71,900,399	72,210,664
Return on Asset (ROA)	3.14%	1.51%	(3.81%)
Return on Equity (ROE)	23.58%	10.82%	(28.17%)
Non-performing Loan % (NPL %)	0.81%	3.44%	7.34%
Statutory Ratios			
Solvency Ratio	23.37%	30.79%	31.44%
Liquidity Coverage Ratio (LCR)	156.42%	110%	147%

❖ The figures in Year 2019 and 2018 are Adjusted by CIFRS initially implement, while Year 2017 remains Cambodian Accounting Standard.

2. Operational Highlights

○ IT Infrastructure Development

“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. The Bank is keeping in the process of upgrading its IT infrastructure that enhances operational efficiency and risk management. From 2019, the Bank's IT strategy will focus in four aspects: (1) Upgrading program developing competency; (2) enhancing information safety, including internet access management, firewall log analysis; (3) strengthening database management; (4) connecting to Cambodian Shared Switch (CSS) mechanism. (5) keep enhancing the function of Mobile Banking App.

○ Transnational Human Resource

As for the human resource, the Bank will leverage the resource of its parent company, E.SUN Bank, to build up a human resource combining advantages of E.SUN Bank and Cambodian culture in aspects of personnel recruitment, training environment, career development, and a fair evaluation system. The Bank will continuing to hiring more young talents from the market. Truly,

the Bank takes the young talents cultivating as a greatest thing that are most good for the country.

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

○ **CIFRS Implementation**

Due to the CIFRS implement from the financial year 2019, the major difference to the number shown on the financial statement is related to the credit provision. According to the KPMG's audited financial statement approved by Board of Directors dated at 27th February 2020, there are the large adjustments for provision among 2017~2019. However, the total accumulated profit is remain unchanged among these three years, these adjustment are because of accounting standard of the first implement of CIFRS.

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

○ **Leading Services**

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

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

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

○ **Risk Management**

In Year 2019, In terms of credit risk, the NPL ratio of the Bank has dropped to below 1%, better than market average among all commercial banks; in terms of liquidity risk, the Bank initially implemented liquidity stress testing to ensure the safety of customers' precious asset; last but not least, in terms of operational risk, the Bank strengthen the process of risk discipline and concentrated operational task to enhance customer's service quality.

○ **Social Contribution**

Being a citizen of the world and a lifelong volunteer of society is one of the core values of the Bank and E.SUN FHC. In 2019, the Bank cooperate with universities to provide the scholarship to those students who need the support. Furthermore, the Bank also provides variety opportunities to the students to have the internship in the Bank. We continued to cooperate 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. Looking Forward for 2020

According to the report “*Cambodia Economic Update*” published by World Bank Group in October 2019, Cambodia’s economic growth remains strong, driven primarily by robust expansion in domestic demand which has been boosted by higher wage growth and larger public investment, and external demand which has boosted exports of garment and footwear productions.

Cambodia’s growth is expected to reach 6.9 percent in 2019 compared to 7 percent growth in 2018, with slightly down going. Given that the recent cyclical acceleration in growth have been driven in part by substantial fiscal expansion, the growth outlook is projected to ease slightly to 6.7~6.8 percent over the next two years. The favorable longer-term outlook is boosted largely by rising FDI inflows to manufacturing and agriculture, and improved supply chain linkages between FDI and Cambodian firms.

Risk in the financial sector continue to grow, with large exposure to the construction and real estate sector while external risks are rising as well, with EU temporary withdrawal of EBA preferences for Cambodia, ongoing trade frictions between the two largest trading nations, and continued appreciation of the U.S. dollar against most global currencies. And the black swan “new corona virus” that appeared in the end of 2019 has been breaking out in the early of 2020, the influence toward global macroeconomics is yet uncountable.

Overall, it seems in 2020 the business cycle is going to the stage of downward, and the time length of negative slope is hardly estimated from the point of this time.

○ Deposit and Branch Services

- ❖ With the 14 branches including the new Head office, the Bank will leverage this existing branch network as the platform to raise its business competency in the four aspects of (1) financial products, (2) customer services, (3) talent adoption, and (4) online banking. In the other hands, the Bank keep investigating and searching the fine locations for re-located the existed branches or established the new ones.
- ❖ The Bank will continue to provide deposit customers with the best quality services and convenient financial experience to become the most trusted commercial bank in the market. Furthermore, the bank will keep improving the experience of VIP customers in our lobby, and providing cash management service for corporate customers, in order to make the fixed deposit and demand deposit grow steadily.

○ Loan Services

- ❖ For the continuous economic growth in Cambodia, the Bank keeps focusing on housing loan and small business loan services for local families. In corporate loans, customers from wholesale, retail and manufacturing sector and good multinational companies are still the Bank’s primary target; however, considering the uncertainty in the future, prudent assessment and risk management of the customers from high risk sectors is also important in the Bank’s development.

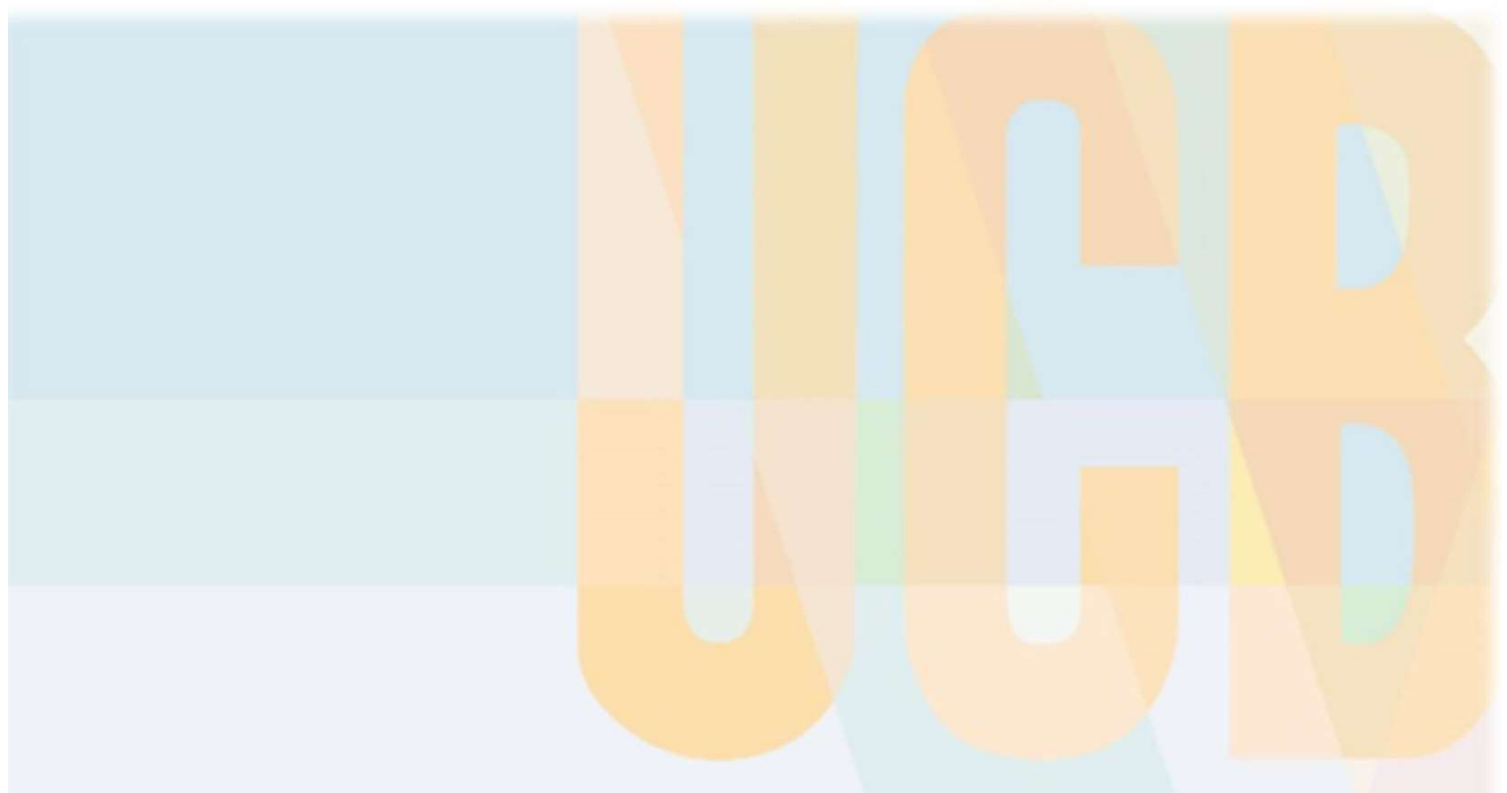
- ❖ In risk management and internal operations, for raising the synergy, efficiency and decreasing the risks of frauds, the cooperation between credit administration and other types of administration, such as remittance and cheque clearance, also plays a significant role in the Bank's strategy. The Bank will keep elaborating an efficient back-office operation, to provide quality and stability to the Bank's growth.

- **Cards Services**

- ❖ The overall consumer spending is expected to decrease in 2020, but this phenomenon is only a short term for top VIP customers. On the other hand, card services are the best brand image of the banks, and the best integration of products of the Bank. By keeping relationship with credit card VIP, to encourage VIPs to open bank accounts to pay the card bill, and create more opportunities to using the Bank's products other than credit cards.

- **National Currency**

- ❖ The Bank shall fully support the policy of usage of National Currency (KHR), especially for the loan business. The Bank will target to provide the fund to (1) MFI/MDI which are specialized in province area; (2) local business and its supply chain; (3) SME and small business operated by individuals. The purpose of developing the KHR business is not only for regular compliance but also to help the health growth of national monetary market.



4 - Activity and Sponsorship



Headquarters, E.SUN Bank, Parent Company of UCB
2019 Study Trip for Outstanding Supervisors

Cultivating
Talent is One of
Major Things
for **Long Term**
Business



Determine to Cultivate the Talent
MOU Signing Ceremony with the University

Spirit of Social
Volunteer is
Our DNA



Off-site Meeting and Volunteer Activity Event in Remote Province



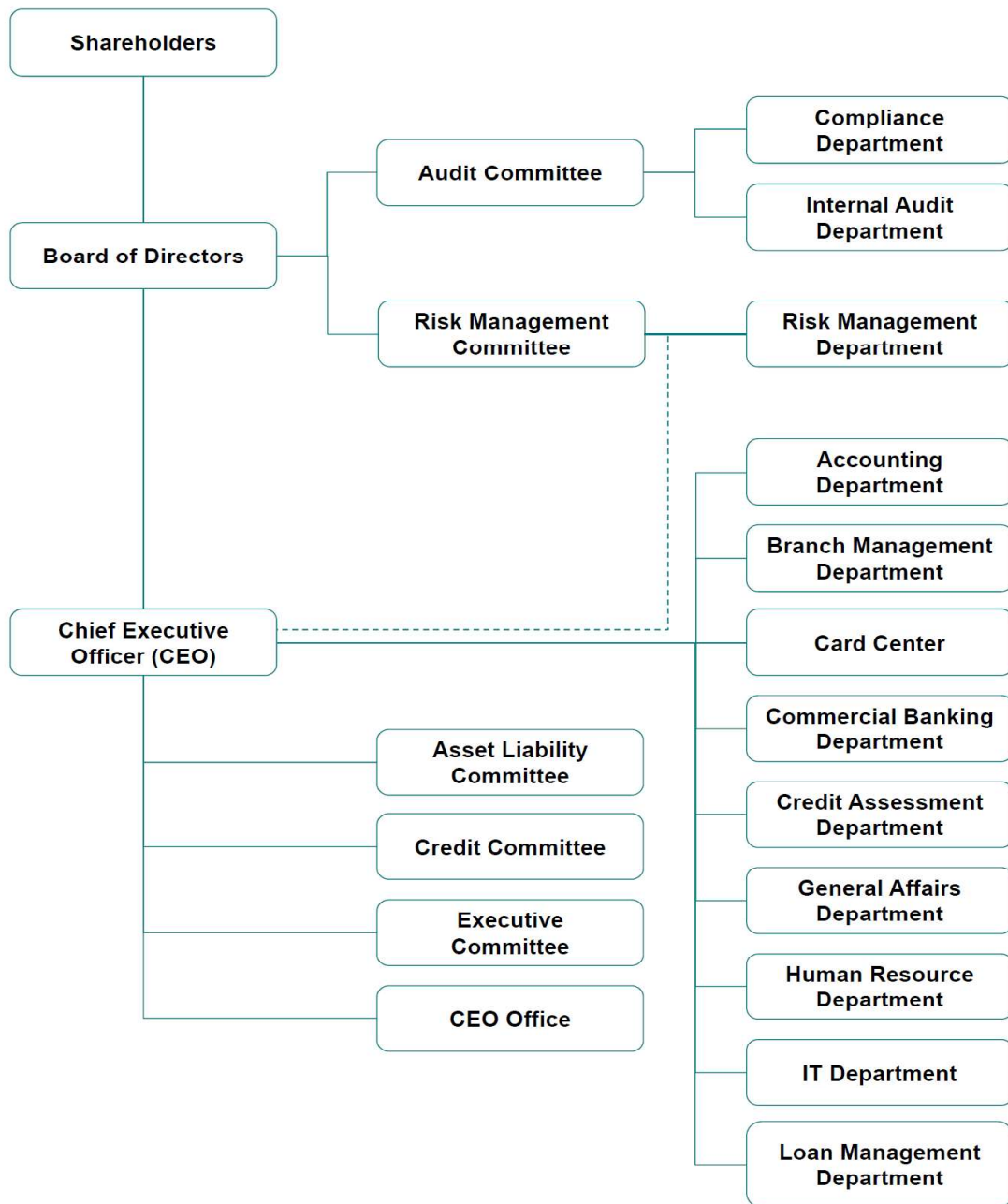
The Volunteer Clinic Activity with E.SUN Bank and Mckay Memorial Hospital in Province



5 - Corporate Governance

UCB Organizational Structure

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



Base Date: 2019/12/31

UCB Board of Directors

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

N°	Name	Position	Date of Appointment	Current Share Holding		Education
				Share	Ratio	
1	Representative from E.SUN Bank Mr. Mao-Chin Chen	Chairman	22-May-2017	<u>8,000</u>	100%	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			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:

Nº	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:

Nº	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”) has pleasure in submitting their report together with the consolidated financial statements of Union Commercial Bank Plc. (“the Bank”) and its subsidiary (collectively referred to as “the Group”), and the separate financial statements of the Bank for the year ended 31 December 2019 (collectively referred to as “the financial statements”).

Principal activities

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

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

The subsidiary

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

Financial results

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

Group	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Profit before income tax	25,883,163	9,698,743	104,878,576	39,231,414
Income tax expense	<u>(3,873,465)</u>	<u>(1,919,434)</u>	<u>(15,695,281)</u>	<u>(7,764,110)</u>
Net profit for the year	<u>22,009,698</u>	<u>7,779,309</u>	<u>89,183,295</u>	<u>31,467,304</u>

Union Commercial Bank Plc. and its subsidiary

Financial results (continued)

Bank	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Profit before income tax	25,881,202	8,831,063	104,870,630	35,721,649
Income tax expense	<u>(3,848,875)</u>	<u>(1,719,803)</u>	<u>(15,595,642)</u>	<u>(6,956,603)</u>
Net profit for the year	<u>22,032,327</u>	<u>7,111,260</u>	<u>89,274,988</u>	<u>28,765,046</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.

Reserves and provisions

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

Loans and advances

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

Union Commercial Bank Plc. and its subsidiary

Current assets

Before the financial statements of the Group and 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 the Bank had been written down to an amount which they might be expected to realise.

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

Items of unusual nature

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

Union Commercial Bank Plc. and its subsidiary

Items of unusual nature (continued)

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

Events since the reporting date

The Expected Credit Loss ("ECL") at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Subsequently, the coronavirus outbreak has spread across mainland China, Cambodia and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under CIFRS 9 in 2020.

The Board of Directors

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

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

Directors' interests

None of the Directors held or dealt directly in the shares of the Group and 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 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 the Bank has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as disclosed in the financial statements) by reason of a contract made by the Group and the Bank or a related corporation with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than as disclosed in the financial statements.

Union Commercial Bank Plc. and its subsidiary

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 the Bank as at 31 December 2019, and their financial performance and their cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian International Financial Reporting Standards ("CIFRSs") or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) oversee the Group's and the Bank's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- (iv) assess the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board 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, in our opinion, present fairly, in all material respects, the financial position of the Group and the Bank as at 31 December 2019, and their financial performance and their cash flows for the year then ended in accordance with CIFRSs.

Signed on behalf of the Bank,



Mr. Mao-Chin Chen
Chairman



Mr. Chi-Kan Chung
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

Date: 30 MAR 2020

7 - Independent Auditor's Report

Report of the independent auditors To the shareholder of Union Commercial Bank Plc.

Opinion

We have audited the consolidated financial statements of Union Commercial Bank Plc. ("the Bank") and its subsidiary (collectively referred to as "the Group") and the separate financial statements of the Bank, which comprise the consolidated and the separate statements of financial position as at 31 December 2019, the consolidated and the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information (hereafter referred to as "the financial statements") as set out on pages 9 to 150.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and unconsolidated financial position of the Group and the Bank as at 31 December 2019, and their consolidated and unconsolidated financial performance and their consolidated and unconsolidated cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards ("CIFRSs").

Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

As stated in Note 36 to the financial statements, the Group and the Bank adopted CIFRSs on 1 January 2019 with a transition date of 1 January 2018. These standards were applied retrospectively to the comparative information in these financial statements, including the consolidated and separate statements of financial position as at 31 December 2018 and 1 January 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and the Bank for the year ended 31 December 2018 and related explanatory notes. We were not engaged to audit on the restated comparative information and it is unaudited. Our responsibilities in respect of this comparative information is to determine whether the financial statements include the comparative information required by CIFRSs and whether such information is appropriately classified.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the Report of the Board of Directors on pages 1 to 5, and the annual report, which is expected to be made available to us after 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, 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 CIFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

For KPMG Cambodia Ltd


Nge Huy
Partner



Phnom Penh, Kingdom of Cambodia

30 March 2020

8 - Financial Report

Union Commercial Bank Plc. and its subsidiary Consolidated statement of financial position as at 31 December 2019

	Note	31 December		31 December		1 January 2018	
		2019	2018	2019	2018	US\$	KHR'000
		US\$	US\$	KHR'000	KHR'000		(Note 5)
ASSETS							
Cash and cash equivalents	6	88,980,744	84,374,983	362,596,532	339,018,682	101,569,952	410,037,896
Statutory deposits	7	74,236,961	61,884,162	302,515,616	248,650,563	66,883,969	270,010,583
Placements with other banks	8	12,400,000	1,200,000	50,530,000	4,821,600	-	-
Equity investments at FVOCI		488,172	340,968	1,989,301	1,370,009	297,767	1,202,085
Loans and advances to customers, net	9	476,237,953	311,150,749	1,940,669,658	1,250,203,709	308,355,913	1,244,832,821
Property and equipment	10	42,429,500	41,109,621	172,900,213	165,178,457	31,616,949	127,637,623
Intangible assets	11	98,530	421,815	401,510	1,694,853	843,566	3,405,476
Right-of-use assets	12	2,865,025	2,904,141	11,674,977	11,668,839	3,290,218	13,282,610
Deferred tax assets, net	16C	5,784,521	9,632,391	23,571,923	38,702,947	11,381,285	45,946,248
Other assets	13	3,477,961	3,685,889	14,172,691	14,809,902	4,936,544	19,928,828
Total assets		706,999,367	516,704,719	2,881,022,421	2,076,119,561	529,176,163	2,136,284,170

Union Commercial Bank Plc. and its subsidiary

Consolidated statement of financial position (continued) as at 31 December 2019

		31 December		31 December		1 January 2018	
	Note	2019	2018	2019	2018	US\$	KHR'000
		US\$	US\$	KHR'000	KHR'000		(Note 5)
LIABILITIES AND SHAREHOLDER'S EQUITY							
Liabilities							
Deposits from banks and other financial institutions	14	11,089,153	4,161,729	45,188,298	16,721,827	5,999,804	24,221,209
Deposits from customers	15	447,163,797	332,897,354	1,822,192,473	1,337,581,568	281,825,623	1,137,730,040
Provision for financial guarantee contracts		555,212	322,089	2,262,489	1,294,154	-	-
Borrowings	17	101,094,950	53,254,852	411,961,921	213,977,995	122,649,747	495,137,029
Subordinated debts	18	29,185,429	29,212,458	118,930,623	117,375,656	29,098,482	117,470,572
Lease liabilities	19	3,341,697	3,325,536	13,617,415	13,362,004	3,647,117	14,723,411
Employee benefit obligations	20	372,210	416,028	1,516,756	1,671,601	255,613	1,031,910
Current income tax liabilities/Minimum tax payable	16B	-	175,656	-	705,786	82,819	334,340
Other liabilities	21	20,157,518	21,038,618	82,141,887	84,533,167	21,189,045	85,540,174
Total liabilities		612,959,966	444,804,320	2,497,811,862	1,787,223,758	464,748,250	1,876,188,685

Union Commercial Bank Plc. and its subsidiary

Consolidated statement of financial position (continued) as at 31 December 2019

	Note	31 December		31 December		1 January 2018	
		2019	2018	2019	2018	US\$	KHR'000
		US\$	US\$	KHR'000	KHR'000		(Note 5)
Shareholder's equity							
Share capital	22	80,000,000	80,000,000	320,000,000	320,000,000	37,500,000	150,000,000
Additional contribution from shareholder		-	-	-	-	42,500,000	170,000,000
Regulatory reserves		1,549,187	-	6,277,306	-	-	-
Accumulated losses		(13,500,821)	(33,972,873)	(54,469,904)	(137,422,657)	(41,411,477)	(167,509,424)
Non-distributable reserve		25,622,772	25,622,772	103,644,113	103,644,113	25,622,772	103,644,113
Fair value reserve		368,263	250,500	1,490,449	1,013,273	216,618	876,220
Currency translation reserve		-	-	6,268,595	1,661,074	-	3,084,576
Total shareholder's equity		<u>94,039,401</u>	<u>71,900,399</u>	<u>383,210,559</u>	<u>288,895,803</u>	<u>64,427,913</u>	<u>260,095,485</u>
Total liabilities and shareholder's equity		<u>706,999,367</u>	<u>516,704,719</u>	<u>2,881,022,421</u>	<u>2,076,119,561</u>	<u>529,176,163</u>	<u>2,136,284,170</u>

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

Union Commercial Bank Plc. and its subsidiary

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	Note	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Interest income	23	29,993,332	26,643,454	121,532,981	107,772,771
Interest expense	24	(9,121,199)	(8,903,505)	(36,959,098)	(36,014,679)
Net interest income		20,872,133	17,739,949	84,573,883	71,758,092
Fee and commission income	25	4,980,096	2,832,830	20,179,349	11,458,797
Fee and commission expense	26	(691,743)	(2,351,816)	(2,802,943)	(9,513,096)
Net fee and commission income		4,288,353	481,014	17,376,406	1,945,701
Other income	27	9,315,287	14,404,411	37,745,543	58,265,842
Total operating income		34,475,773	32,625,374	139,695,832	131,969,635
Personnel expenses	28	(6,523,905)	(4,921,151)	(26,434,864)	(19,906,055)
Depreciation and amortisation	29	(3,438,033)	(2,497,500)	(13,930,910)	(10,102,387)
General and administrative expenses	30	(4,483,871)	(3,862,683)	(18,168,645)	(15,624,553)
Impairment losses on financial instruments	9A	6,295,031	(11,221,315)	25,507,466	(45,390,219)
Minimum tax expense	16B	(441,832)	(423,982)	(1,790,303)	(1,715,007)
Profit before income tax		25,883,163	9,698,743	104,878,576	39,231,414
Income tax expense	16A	(3,873,465)	(1,919,434)	(15,695,281)	(7,764,110)
Net profit for the year		<u>22,009,698</u>	<u>7,779,309</u>	<u>89,183,295</u>	<u>31,467,304</u>
Other comprehensive income					
Unrealised gain of investments at FVOCI		117,763	33,882	477,176	137,053
Currency translation differences		-	-	4,607,521	(1,423,502)
Total comprehensive income for the year		<u>22,127,461</u>	<u>7,813,191</u>	<u>94,267,992</u>	<u>30,180,855</u>
Attributable to:					
Equity holder of the Bank		22,021,239	7,438,604	89,230,059	30,086,767
Non-controlling interest		(11,541)	340,705	(46,764)	1,380,537
		<u>22,009,698</u>	<u>7,779,309</u>	<u>89,183,295</u>	<u>31,467,304</u>

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

**Consolidated statement of changes in equity
for the year ended 31 December 2019**

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 2019

	Note	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Cash flows from operating activities					
Net profit for the year		22,009,698	7,779,309	89,183,295	31,467,304
<i>Adjustments for:</i>					
Income tax expense	16A	3,873,465	1,919,434	15,695,281	7,764,110
Depreciation and amortisation	29	3,438,033	2,497,500	13,930,910	10,102,387
Net interest income		(20,872,133)	(17,739,949)	(84,573,883)	(71,758,092)
Minimum tax expense	16B	441,832	423,982	1,790,303	1,715,007
Net impairment loss on loans and advances to customers	9A	(6,397,768)	10,869,133	(25,923,756)	43,965,643
Net impairment loss on balances with other banks and financial institutions	9A	(130,386)	30,093	(528,324)	121,726
Net impairment loss on grantee contracts	9A	233,123	322,089	944,614	1,302,850
Employee benefit obligations	20	-	188,729	-	763,409
Dividends from investments at FVOCI		(29,441)	(9,319)	(119,295)	(37,695)
Gains on disposals of property and equipment	27	-	(1,069,896)	-	(4,327,729)
		<u>2,566,423</u>	<u>5,211,105</u>	<u>10,399,145</u>	<u>21,078,920</u>
<i>Changes in:</i>					
Placements with other banks		(11,200,000)	(1,200,000)	(45,382,400)	(4,854,000)
Statutory deposits		(12,352,799)	4,999,807	(50,053,542)	20,224,219
Loans and advances to customers		(158,780,127)	(13,034,835)	(643,377,075)	(52,725,908)
Other assets		207,928	1,250,655	842,524	5,058,899
Deposits from banks and other financial institutions		6,221,689	(1,394,930)	25,210,284	(5,642,492)
Deposits from customers		114,266,443	51,071,731	463,007,627	206,585,152
Other liabilities		<u>(869,559)</u>	<u>(491,132)</u>	<u>(3,523,453)</u>	<u>(1,986,629)</u>
Cash (used in)/generated from operations		(59,940,002)	46,412,401	(242,876,890)	187,738,161
Employee benefit obligation paid	20	(43,818)	(28,314)	(177,551)	(114,530)
Interest income received		30,084,023	26,014,320	121,900,461	105,227,924
Interest expense paid		(8,122,141)	(9,021,415)	(32,910,915)	(36,491,624)
Income tax paid	16B	(118,873)	(16,045)	(481,673)	(64,902)
Withholding tax credit	16B	(45,295)	(62,529)	(183,535)	(252,930)
Minimum tax paid	16B	<u>(478,915)</u>	<u>(423,111)</u>	<u>(1,940,564)</u>	<u>(1,711,484)</u>
Cash (used in)/generated from operating activities		<u>(38,665,021)</u>	<u>62,875,307</u>	<u>(156,670,667)</u>	<u>254,330,615</u>

Union Commercial Bank Plc. and its subsidiary

Consolidated statement of cash flows (continued) for the year ended 31 December 2019

	Note	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Cash flows from investing activities					
Proceeds from disposals of property and equipment		-	1,866,424	-	7,549,685
Purchases of property and equipment	10	(4,036,193)	(11,949,319)	(16,354,654)	(48,334,995)
Purchases of intangible assets	11	-	(29,553)	-	(119,542)
Cash used in investing activities		<u>(4,036,193)</u>	<u>(10,112,448)</u>	<u>(16,354,654)</u>	<u>(40,904,852)</u>
Cash flows from financing activities					
Payments for borrowings		(86,205,882)	(118,343,875)	(349,306,234)	(478,700,974)
Proceeds from borrowings		133,987,730	49,000,000	542,918,282	198,205,000
Payments for lease liabilities		(605,259)	(583,860)	(2,452,509)	(2,361,714)
Cash generated from/(used in) financing activities		<u>47,176,589</u>	<u>(69,927,735)</u>	<u>191,159,539</u>	<u>(282,857,688)</u>
Net increase/(decrease) in cash and cash equivalents		4,475,375	(17,164,876)	18,134,218	(69,431,925)
Cash and cash equivalents at 1 January		84,585,421	101,750,297	339,864,222	409,642,339
Currency translation difference		-	-	4,924,304	(346,192)
Cash and cash equivalents at 31 December		<u>89,060,796</u>	<u>84,585,421</u>	<u>362,922,744</u>	<u>339,864,222</u>

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

Union Commercial Bank Plc.

Separate statement of financial position as at 31 December 2019

	Note	31 December		31 December		1 January 2018	
		2019	2018	2019	2018	US\$	KHR'000 (Note 5)
		US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)		
ASSETS							
Cash and cash equivalents	6	88,960,410	83,548,514	362,513,671	335,697,929	101,291,624	408,914,286
Statutory deposits	7	74,236,961	61,884,162	302,515,616	248,650,563	66,883,969	270,010,583
Placements with other banks	8	10,400,000	1,200,000	42,380,000	4,821,600	-	-
Equity investments at FVOCI		488,172	340,968	1,989,301	1,370,009	297,767	1,202,085
Loans and advances to customers, net	9	476,237,953	311,150,749	1,940,669,658	1,250,203,709	308,355,913	1,244,832,821
Investment in subsidiary		490	490	1,997	1,969	490	1,978
Property and equipment	10	33,301,095	31,938,445	135,701,962	128,328,672	22,654,595	91,456,600
Intangible assets	11	98,100	421,171	399,758	1,692,265	842,708	3,402,012
Right-of-use assets	12	7,714,517	7,864,268	31,436,657	31,598,629	8,558,833	34,552,009
Deferred tax assets, net	16C	5,781,678	9,630,553	23,560,338	38,695,562	11,350,356	45,821,387
Other assets	13	3,433,026	3,681,034	13,989,581	14,790,395	3,935,344	15,886,984
Total assets		700,652,402	511,660,354	2,855,158,539	2,055,851,302	524,171,599	2,116,080,745

Union Commercial Bank Plc.

Separate statement of financial position (continued) as at 31 December 2019

		31 December		31 December		1 January 2018	
	Note	2019	2018	2019	2018	US\$	KHR'000
		US\$	US\$	KHR'000	KHR'000		(Note 5)
LIABILITIES AND SHAREHOLDER'S EQUITY							
Liabilities							
Deposits from banks and other financial institutions	14	11,089,153	4,161,729	45,188,298	16,721,827	5,999,804	24,221,209
Deposits from customers	15	448,004,023	335,134,963	1,825,616,394	1,346,572,281	282,794,127	1,141,639,891
Provision for financial guarantee contracts		555,212	322,089	2,262,489	1,294,154	-	-
Borrowings	17	89,090,993	41,228,045	363,045,796	165,654,285	110,634,063	446,629,712
Subordinated debts	18	29,185,429	29,212,458	118,930,623	117,375,656	29,098,482	117,470,572
Lease liabilities	19	9,294,923	9,288,671	37,876,811	37,321,880	10,000,282	40,371,138
Employee benefit obligations	20	372,210	416,028	1,516,756	1,671,601	255,613	1,031,910
Current income tax liabilities/Minimum tax payable	16B	-	37,083	-	148,999	36,212	146,188
Other liabilities	21	19,614,047	20,562,966	79,927,243	82,621,997	21,201,836	85,591,811
Total liabilities		607,205,990	440,364,032	2,474,364,410	1,769,382,680	460,020,419	1,857,102,431

Union Commercial Bank Plc.

Separate statement of financial position (continued) as at 31 December 2019

	Note	31 December		31 December		1 January 2018	
		2019	2018	2019	2018	US\$	KHR'000
		US\$	US\$	KHR'000	KHR'000		(Note 5)
Shareholder's equity							
Share capital	22	80,000,000	80,000,000	320,000,000	320,000,000	37,500,000	150,000,000
Additional contribution from shareholder		-	-	-	-	42,500,000	170,000,000
Regulatory reserves		1,549,187	-	6,277,306	-	-	-
Accumulated losses		(14,093,810)	(34,576,950)	(56,866,081)	(139,863,763)	(41,688,210)	(168,628,809)
Non-distributable reserve		25,622,772	25,622,772	103,644,113	103,644,113	25,622,772	103,644,113
Fair value reserve		368,263	250,500	1,490,449	1,013,273	216,618	876,220
Currency translation reserve		-	-	6,248,342	1,674,999	-	3,086,790
Total shareholder's equity		<u>93,446,412</u>	<u>71,296,322</u>	<u>380,794,129</u>	<u>286,468,622</u>	<u>64,151,180</u>	<u>258,978,314</u>
Total liabilities and shareholder's equity		<u>700,652,402</u>	<u>511,660,354</u>	<u>2,855,158,539</u>	<u>2,055,851,302</u>	<u>524,171,599</u>	<u>2,116,080,745</u>

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

Union Commercial Bank Plc.

Separate statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	Note	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Interest income	23	29,788,929	26,562,322	120,704,740	107,444,592
Interest expense	24	<u>(8,945,046)</u>	<u>(8,496,102)</u>	<u>(36,245,326)</u>	<u>(34,366,733)</u>
Net interest income		20,843,883	18,066,220	84,459,414	73,077,859
Fee and commission income	25	4,980,096	2,832,830	20,179,349	11,458,797
Fee and commission expense	26	<u>(691,743)</u>	<u>(2,351,816)</u>	<u>(2,802,943)</u>	<u>(9,513,096)</u>
Net fee and commission income		4,288,353	481,014	17,376,406	1,945,701
Other income	27	<u>9,362,094</u>	<u>13,415,156</u>	<u>37,935,205</u>	<u>54,264,306</u>
Total operating income		34,494,330	31,962,390	139,771,025	129,287,866
Personnel expenses	28	(6,529,645)	(4,915,141)	(26,458,122)	(19,881,745)
Depreciation and amortisation	29	(3,505,683)	(2,765,996)	(14,205,028)	(11,188,454)
General and administrative expenses	30	(4,430,999)	(3,804,893)	(17,954,408)	(15,390,792)
Impairment losses on financial instruments	9A	6,295,031	(11,221,315)	25,507,466	(45,390,219)
Minimum tax expense	16B	<u>(441,832)</u>	<u>(423,982)</u>	<u>(1,790,303)</u>	<u>(1,715,007)</u>
Profit before income tax		25,881,202	8,831,063	104,870,630	35,721,649
Income tax expense	16A	<u>(3,848,875)</u>	<u>(1,719,803)</u>	<u>(15,595,642)</u>	<u>(6,956,603)</u>
Net profit for the year		<u>22,032,327</u>	<u>7,111,260</u>	<u>89,274,988</u>	<u>28,765,046</u>
Other comprehensive income					
Unrealised gain of investments at FVOCI		117,763	33,882	477,176	137,053
Currency translation differences		<u>-</u>	<u>-</u>	<u>4,573,343</u>	<u>(1,411,791)</u>
Total comprehensive income for the year		<u>22,150,090</u>	<u>7,145,142</u>	<u>94,325,507</u>	<u>27,490,308</u>

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

Union Commercial Bank Plc.

Separate statement of changes in equity for the year ended 31 December 2019

For the year ended 31 December 2019

	80,000,000	320,000,000	-	-	25,622,772	103,644,113	250,500	1,013,273	(34,576,950)	(139,863,763)	-	1,674,999	71,296,322	286,468,622
At 1 January 2019														
Transfer	-	-	-	1,549,187	6,277,306	-	-	-	(1,549,187)	(6,277,306)	-	-	-	-
Net profit for the year	-	-	-	-	-	-	-	-	22,032,327	89,274,988	-	-	22,032,327	89,274,988
Unrealised gain of investments at FVOCI	-	-	-	-	-	-	117,763	477,176	-	-	-	-	117,763	477,176
Currency translation reserve	-	-	-	-	-	-	-	-	-	-	-	4,573,343	-	4,573,343
At 31 December 2019	80,000,000	320,000,000	-	1,549,187	6,277,306	103,644,113	368,263	1,490,449	(14,093,810)	(56,866,081)	-	6,248,342	93,446,412	380,794,129

For the year ended 31 December 2018

	37,500,000	150,000,000	42,500,000	170,000,000	-	25,622,772	103,644,113	216,618	876,220	(41,688,210)	(168,628,809)	-	3,086,790	64,151,180	258,978,314
At 1 January 2018															
Transfer	42,500,000	170,000,000	(42,500,000)	(170,000,000)	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year	-	-	-	-	-	-	-	-	-	7,111,260	28,765,046	-	-	7,111,260	28,765,046
Unrealised gain of investments at FVOCI	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Currency translation reserve	-	-	-	-	-	-	-	33,882	137,053	-	-	-	-	33,882	137,053
	-	-	-	-	-	-	-	-	-	-	-	-	(1,411,791)	-	(1,411,791)
At 31 December 2018	80,000,000	320,000,000	-	-	-	25,622,772	103,644,113	250,500	1,013,273	(34,576,950)	(139,863,763)	-	1,674,999	71,296,322	286,468,622

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 2019

	Note	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Cash flows from operating activities					
Net profit for the year		22,032,327	7,111,260	89,274,988	28,765,046
<i>Adjustments for:</i>					
Income tax expense	16A	3,848,875	1,719,803	15,595,642	6,956,603
Depreciation and amortisation	29	3,505,683	2,765,996	14,205,028	11,188,454
Net interest income		(20,843,883)	(18,066,220)	(84,459,414)	(73,077,859)
Minimum tax expense	16B	441,832	423,982	1,790,303	1,715,007
Net impairment loss on loans and advances to customers	9A	(6,397,768)	10,869,133	(25,923,756)	43,965,643
Net impairment loss on balances with other banks and financial institutions	9A	(130,386)	30,093	(528,324)	121,726
Net impairment loss on grantee contracts	9A	233,123	322,089	944,614	1,302,850
Employee benefit obligations	20	-	188,729	-	763,409
Dividends from investments at FVOCI		(29,441)	(9,319)	(119,295)	(37,695)
Gains on disposals of property and equipment		-	(146,863)	-	(594,061)
		<u>2,660,362</u>	<u>5,208,683</u>	<u>10,779,786</u>	<u>21,069,123</u>
<i>Changes in:</i>					
Placements with other banks		(9,200,000)	(1,200,000)	(37,278,400)	(4,854,000)
Statutory deposits		(12,352,799)	4,999,807	(50,053,542)	20,224,219
Loans and advances to customers		(158,780,127)	(13,034,835)	(643,377,075)	(52,725,908)
Other assets		248,008	254,310	1,004,928	1,028,684
Deposits from banks and other financial institutions		6,924,661	(1,836,260)	28,058,726	(7,427,672)
Deposits from customers		112,166,088	52,782,166	454,496,989	213,503,861
Other liabilities		(948,919)	(638,870)	(3,845,020)	(2,584,229)
Cash (used in)/generated from operations		<u>(59,282,726)</u>	<u>46,535,001</u>	<u>(240,213,608)</u>	<u>188,234,078</u>
Employee benefit obligation paid	20	(43,818)	(28,314)	(177,551)	(114,530)
Interest income received		29,879,620	25,933,188	121,072,220	104,899,745
Interest expense paid		(8,185,240)	(8,887,414)	(33,166,592)	(35,949,590)
Minimum tax paid	16B	(478,915)	(423,111)	(1,940,564)	(1,711,484)
Cash (used in)/generated from operating activities		<u>(38,111,079)</u>	<u>63,129,350</u>	<u>(154,426,095)</u>	<u>255,358,219</u>

Union Commercial Bank Plc.

Separate statement of cash flows (continued) for the year ended 31 December 2019

	Note	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Cash flows from investing activities					
Proceeds from disposals of property and equipment		-	191,991	-	776,604
Purchases of property and equipment	10	(4,036,193)	(10,949,319)	(16,354,654)	(44,289,995)
Purchases of intangible assets	11	-	(29,553)	-	(119,542)
Cash used in investing activities		<u>(4,036,193)</u>	<u>(10,786,881)</u>	<u>(16,354,654)</u>	<u>(43,632,933)</u>
Cash flows from financing activities					
Payments for borrowings		(86,205,882)	(118,343,875)	(349,306,234)	(478,700,974)
Proceeds from borrowings		133,987,730	49,000,000	542,918,282	198,205,000
Payments for lease liabilities		<u>(353,066)</u>	<u>(711,611)</u>	<u>(1,430,623)</u>	<u>(2,878,466)</u>
Cash generated from/(used in) financing activities		<u>47,428,782</u>	<u>(70,055,486)</u>	<u>192,181,425</u>	<u>(283,374,440)</u>
Net increase/(decrease) in cash and cash equivalents		5,281,510	(17,713,017)	21,400,676	(71,649,154)
Cash and cash equivalents at 1 January		83,758,952	101,471,969	336,543,469	409,642,339
Currency translation difference		-	-	4,895,738	(1,449,716)
Cash and cash equivalents at 31 December		<u>89,040,462</u>	<u>83,758,952</u>	<u>362,839,883</u>	<u>336,543,469</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 2019

1. Reporting entity

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

The Group's and 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 Group's and 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 Group's and the Bank's head office at Phnom Penh and its provincial branches in Cambodia.

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

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

As at 31 December 2019, the Bank had 523 employees (2018: 425 employees).

2. Basis of accounting

The financial statements of the Group and the Bank have been prepared in accordance with the Cambodian International Financial Reporting Standards ("CIFRSs"). These are the Group's and the Bank's first financial statements prepared in accordance with CIFRSs and CIFRS 1, *First-time Adoption of Cambodian International Financial Reporting Standards* has been applied.

In the previous financial years, the financial statements were prepared in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia ("NBC") relating to the preparation and presentation of financial statements. An explanation of how the transition to CIFRS have affected the reported financial position, financial performance and cash flows is provided in Note 36.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

2. Basis of accounting (continued)

The accounting policies and methods of computation have been applied consistently to all periods presented in these financial statements.

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

The financial statements were authorised for issue by the Group and the Bank's Board of Directors on 30 March 2020.

3. Functional and presentation currency

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

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

4. Use of judgments and estimates

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

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

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

4. Use of judgments and estimates (continued)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included in the following notes:

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

5. Translation of United States Dollars into Khmer Riel

The financial statements are expressed in United States Dollars. The translations of United States Dollars amounts into Khmer Riel are included solely for compliance with the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

Assets and liabilities are translated at the closing rate as at the reporting date. The statements of profit or loss and other comprehensive income and cash flows are translated into KHR using the average rate for the year. Exchange differences arising from the translation are recognised as "Currency translation reserve" in the other comprehensive income.

The Group and the Bank uses the following exchange rates:

			Closing rate	Average rate
31 December 2019	US\$1	=	KHR4,075	KHR4,052
31 December 2018	US\$1	=	KHR4,018	KHR4,045
1 January 2018	US\$1	=	KHR4,037	N/A

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

6. Cash and cash equivalents

Group	31 December		31 December		31 December		1 January 2018	
	2019	2018	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000	US\$	KHR'000		(Note 5)
Cash on hand	36,407,594	29,132,324	148,360,946	117,053,678	27,674,096	111,720,326		
Cash equivalents with other banks	52,653,202	55,453,097	214,561,798	222,810,544	74,076,201	299,045,623		
	89,060,796	84,585,421	362,922,744	339,864,222	101,750,297	410,765,949		
	(80,052)	(210,438)	(326,212)	(845,540)	(180,345)	(728,053)		
Less: Allowance for impairment losses	88,980,744	84,374,983	362,596,532	339,018,682	101,569,952	410,037,896		
Bank								
Cash on hand	36,407,594	29,132,324	148,360,946	117,053,678	27,674,096	111,720,326		
Cash equivalents with other banks	52,632,868	54,626,628	214,478,937	219,489,791	73,797,873	297,922,013		
	89,040,462	83,758,952	362,839,883	336,543,469	101,471,969	409,642,339		
	(80,052)	(210,438)	(326,212)	(845,540)	(180,345)	(728,053)		
Less: Allowance for impairment losses	88,960,410	83,548,514	362,513,671	335,697,929	101,291,624	408,914,286		

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

6. Cash and cash equivalents (continued)

The movements of impairment loss allowance for cash and cash equivalents were as follows:

Group and Bank	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	210,438	180,345	845,540	728,053
(Reversals)/additions	(130,386)	30,093	(528,324)	121,726
Currency translation differences	-	-	8,996	(4,239)
At 31 December	80,052	210,438	326,212	845,540

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

7. Statutory deposits

Group and Bank	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000 (Note 5)
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)		
Capital guarantee	66,236,961	53,884,162	269,915,616	216,506,563	58,883,969	237,714,583
Reserve requirements on customers' deposits	8,000,000	8,000,000	32,600,000	32,144,000	8,000,000	32,296,000
	<u>74,236,961</u>	<u>61,884,162</u>	<u>302,515,616</u>	<u>248,650,563</u>	<u>66,883,969</u>	<u>270,010,583</u>

A. Capital guarantee deposit

Under the NBC's Prakas No. B7-01-136 dated 15 October 2001, the Bank is required to maintain a statutory deposit 10% of its capital. This deposit is not available for use in the Bank's day-to-day operations and is refundable should the Bank voluntarily cease its operations in Cambodia. Capital guarantee deposit earned interest at rates of 0.46% - 0.62% (2018: 0% - 0.73%)

B. Reserve requirements on customers' deposits

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

8. Placements with other banks

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Group						
Term deposits with banks (non-cash equivalents)	12,400,000	1,200,000	50,530,000	4,821,600	-	-
Bank						
Term deposits with banks (non-cash equivalents)	10,400,000	1,200,000	42,380,000	4,821,600	-	-

The term deposits are matured from over 3 to 12 months and earn interest rate from 2% to 8% per annum (2018: from 2% to 8% per annum).

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

9. Loans and advances to customers – net

(a) Analysis by type of loans

Group and Bank	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Commercial loans:						
Term loans	64,943,401	47,695,497	264,644,359	191,640,507	68,131,343	275,046,232
Overdraft	2,581,663	7,867,425	10,520,277	31,611,314	10,410,290	42,026,341
Trust receipts	11,438,711	810,872	46,612,747	3,258,084	1,157,957	4,674,672
Other commercial loans	27,289,095	22,808,415	111,203,062	91,644,211	15,742,606	63,552,900
Consumer Loans:						
Term loans	200,291,662	102,385,441	816,188,523	411,384,702	54,869,598	221,508,567
Overdraft	22,910,505	25,542,758	93,360,308	102,630,802	34,719,881	140,164,160
Credit card facilities	5,090,177	3,966,959	20,742,471	15,939,241	3,385,591	13,667,631
Other consumer loans	148,771,710	118,932,852	606,244,718	477,872,198	143,828,964	580,637,528
Allowance of impairment losses	483,316,924	330,010,219	1,969,516,465	1,325,981,059	332,246,230	1,341,278,031
	(7,078,971)	(18,859,470)	(28,846,807)	(75,777,350)	(23,890,317)	(96,445,210)
Loans and advances – net	476,237,953	311,150,749	1,940,669,658	1,250,203,709	308,355,913	1,244,832,821

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

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

(a) Analysis by type of loans (continued)

A. Allowance for impairment losses

(i) Allowance for impairment losses recognised in profit or are summarised is as follows:

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Net impairment loss on loans and advances to customers	(6,397,768)	10,869,133	(25,923,756)	43,965,643
Net impairment loss on balances with other banks and financial institutions	(130,386)	30,093	(528,324)	121,726
Net impairment loss on guarantee contracts	<u>233,123</u>	<u>322,089</u>	<u>944,614</u>	<u>1,302,850</u>
	<u>(6,295,031)</u>	<u>11,221,315</u>	<u>(25,507,466)</u>	<u>45,390,219</u>

(ii) The movements of allowance for impairment losses of loans and advances to customers are analysed as follows:

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	18,859,470	23,890,317	75,777,350	96,445,210
Allowance (reversed)/made during the year	(6,397,768)	10,869,133	(25,923,756)	43,965,643
Amounts written off	(5,382,731)	(15,899,980)	(21,810,826)	(64,315,419)
Currency translation difference	<u>-</u>	<u>-</u>	<u>804,039</u>	<u>(318,084)</u>
At 31 December	<u>7,078,971</u>	<u>18,859,470</u>	<u>28,856,807</u>	<u>75,777,350</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

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

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

	31 December 2019		2018		31 December 2019		2018		31 December 2018		1 January 2018	
	US\$		US\$		KHR'000 (Note 5)		US\$		KHR'000 (Note 5)		US\$	KHR'000 (Note 5)
Within 1 month	47,457,326			53,502,008	193,388,603			214,971,068	65,816,951		265,703,031	
> 1 to 3 months	26,398,508		8,563,784		107,573,920			34,409,284	16,751,599		67,626,205	
> 3 to 6 months	11,552,187		7,615,487		47,075,162			30,599,027	10,396,059		41,968,890	
> 6 to 12 months	13,622,683		20,462,822		55,512,433			82,219,619	14,077,625		56,831,372	
> 1 to 5 years	142,760,083		99,922,007		581,747,338			401,486,624	102,538,061		413,946,152	
Over 5 years	241,526,137		139,944,111		984,219,009			562,295,437	122,665,935		495,202,381	
	<u>483,316,924</u>		<u>330,010,219</u>		<u>1,969,516,465</u>			<u>1,325,981,059</u>	<u>332,246,230</u>		<u>1,341,278,031</u>	

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

10. Property and equipment

Group	Construction in progress US\$	Freehold land US\$	Buildings US\$	Building improvements US\$	Office equipment US\$	Motor vehicles US\$	IT equipment and computers US\$	Total US\$	KHR'000 (Note 5)
2019									
Cost									
At 1 January 2019	3,934,233	8,579,170	25,396,130	5,692,926	2,452,453	1,608,191	2,473,198	50,136,301	201,447,657
Additions	2,454,972	-	303,605	60,939	356,204	119,000	741,473	4,036,193	16,354,654
Disposals	-	-	-	-	(1,590)	(176,000)	-	(177,590)	(719,595)
Write off	-	-	-	-	(9,271)	-	(8,178)	(17,449)	(70,703)
Transfers and reclassifications	(4,722,264)	-	-	4,485,943	225,321	-	-	(11,000)	(44,572)
Currency translation difference	-	-	-	-	-	-	-	-	2,945,863
At 31 December 2019	1,666,941	8,579,170	25,699,735	10,239,808	3,023,117	1,551,191	3,206,493	53,966,455	219,913,304
Less: Accumulated depreciation									
At 1 January 2019	-	-	1,214,682	2,208,885	1,986,418	1,378,095	2,238,600	9,026,680	36,269,200
Depreciation for the year	-	-	1,251,931	816,462	325,090	108,863	202,968	2,705,314	10,961,932
Disposals	-	-	-	-	(1,590)	(176,000)	-	(177,590)	(719,595)
Write off	-	-	-	-	(9,271)	-	(8,178)	(17,449)	(70,703)
Currency translation difference	-	-	-	-	-	-	-	-	572,257
At 31 December 2019	-	-	2,466,613	3,025,347	2,300,647	1,310,958	2,433,390	11,536,955	47,013,091
Carrying amounts									
At 31 December 2019	1,666,941	8,579,170	23,233,122	7,214,461	722,470	240,233	773,103	42,429,500	172,900,213

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

10. Property and equipment (continued)

Group	Construction in progress US\$	Freehold land US\$	Buildings US\$	Building improvements US\$	Office equipment US\$	Motor vehicles US\$	IT equipment and computers US\$	Total US\$	KHR'000 (Note 5)
2018									
Cost									
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	157,733,192
Additions	10,760,768	880,000	120,000	3,685	31,194	111,960	41,712	11,949,319	48,334,995
Disposals	-	(751,400)	(60,940)	-	(20,598)	-	(51,963)	(884,901)	(3,579,425)
Transfers	(23,182,500)	-	23,182,500	-	-	-	-	-	-
Currency translation difference	-	-	-	-	-	-	-	-	(1,041,105)
At 31 December 2018	3,934,233	8,579,170	25,396,130	5,692,926	2,452,453	1,608,191	2,473,198	50,136,301	201,447,657
Less: Accumulated depreciation									
At 1 January 2018	-	-	1,053,628	1,675,044	1,541,948	1,245,755	1,938,559	7,454,934	30,095,569
Depreciation for year	-	-	178,348	533,841	465,010	132,340	350,580	1,660,119	6,715,181
Disposals	-	-	(17,294)	-	(20,540)	-	(50,539)	(88,373)	(357,469)
Currency translation difference	-	-	-	-	-	-	-	-	(184,081)
At 31 December 2018	-	-	1,214,682	2,208,885	1,986,418	1,378,095	2,238,600	9,026,680	36,269,200
Carrying amounts									
At 31 December 2018	3,934,233	8,579,170	24,181,448	3,484,041	466,035	230,096	234,598	41,109,621	165,178,457
At 1 January 2018	16,355,965	8,450,570	1,100,942	4,014,197	899,909	250,476	544,890	31,616,949	127,637,623

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

10. Property and equipment (continued)

Bank	Construction in progress US\$	Freehold land US\$	Buildings US\$	Building improvements US\$	Office equipment US\$	Motor vehicles US\$	IT equipment and computers US\$	Total US\$	KHR'000 (Note 5)
2019									
Cost									
At 1 January 2019	3,934,233	-	24,638,650	5,692,926	2,452,453	1,608,191	2,473,198	40,799,651	163,932,998
Additions	2,454,972	-	303,605	60,939	356,204	119,000	741,473	4,036,193	16,354,654
Disposals	-	-	-	-	(1,590)	(176,000)	-	(177,590)	(719,595)
Write off	-	-	-	-	(9,271)	-	(8,178)	(17,449)	(70,703)
Transfers and classifications	(4,722,264)	-	-	4,485,943	225,321	-	-	(11,000)	(44,572)
Currency translation difference	-	-	-	-	-	-	-	-	2,413,673
At 31 December 2019	1,666,941	-	24,942,255	10,239,808	3,023,117	1,551,191	3,206,493	44,629,805	181,866,455
Less: Accumulated depreciation									
At 1 January 2019	-	-	1,049,206	2,208,885	1,986,418	1,378,097	2,238,600	8,861,206	35,604,326
Depreciation for the year	-	-	1,209,160	816,462	325,090	108,863	202,968	2,662,543	10,788,624
Disposals	-	-	-	-	(1,590)	(176,000)	-	(177,590)	(719,595)
Write off	-	-	-	-	(9,271)	-	(8,178)	(17,449)	(70,703)
Currency translation difference	-	-	-	-	-	-	-	-	561,841
At 31 December 2019	-	-	2,258,366	3,025,347	2,300,647	1,310,960	2,433,390	11,328,710	46,164,493
Carrying amounts									
At 31 December 2019	1,666,941	-	22,683,889	7,214,461	722,470	240,231	773,103	33,301,095	135,701,962

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

10. Property and equipment (continued)

Bank	Construction in progress US\$	Freehold land US\$	Buildings US\$	Building improvements US\$	Office equipment US\$	Motor vehicles US\$	IT equipment and computers US\$	Total US\$	KHR'000 (Note 5)
2018									
Cost									
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	121,044,734
Additions	10,760,768	-	-	3,685	31,194	111,960	41,712	10,949,319	44,289,995
Disposals	-	-	(60,940)	-	(20,598)	-	(51,963)	(133,501)	(540,012)
Transfers	(23,182,500)	-	23,182,500	-	-	-	-	-	-
Currency translation difference	-	-	-	-	-	-	-	-	(861,719)
At 31 December 2018	3,934,233	-	24,638,650	5,692,926	2,452,453	1,608,191	2,473,198	40,799,651	163,932,998
Less: Accumulated depreciation									
At 1 January 2018	-	-	927,930	1,675,044	1,541,948	1,245,757	1,938,559	7,329,238	29,588,134
Depreciation for the year	-	-	138,570	533,841	465,010	132,340	350,580	1,620,341	6,554,279
Disposals	-	-	(17,294)	-	(20,540)	-	(50,539)	(88,373)	(357,469)
Currency translation difference	-	-	-	-	-	-	-	-	(180,618)
At 31 December 2018	-	-	1,049,206	2,208,885	1,986,418	1,378,097	2,238,600	8,861,206	35,604,326
Carrying amounts									
At 31 December 2018	3,934,233	-	23,589,444	3,484,041	466,035	230,094	234,598	31,938,445	128,328,672
At 1 January 2018	16,355,965	-	589,160	4,014,197	899,909	250,474	544,890	22,654,595	91,456,600

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

11. Intangible assets

Group	Software			
	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Cost				
At 1 January	2,883,741	2,854,188	11,586,871	11,522,357
Additions	-	29,553	-	119,542
Transfers from property and equipment	11,000	-	44,572	-
Currency translation difference	-	-	164,627	(55,028)
At 31 December	<u>2,894,741</u>	<u>2,883,741</u>	<u>11,796,070</u>	<u>11,586,871</u>
Less: Accumulated amortisation				
At 1 January	2,461,926	2,010,622	9,892,018	8,116,881
Amortisation for the year	334,285	451,304	1,354,523	1,825,525
Currency translation difference	-	-	148,019	(50,388)
At 31 December	<u>2,796,211</u>	<u>2,461,926</u>	<u>11,394,560</u>	<u>9,892,018</u>
Carrying amounts				
At 31 December	<u>98,530</u>	<u>421,815</u>	<u>401,510</u>	<u>1,694,853</u>
At 1 January		<u>843,566</u>		<u>3,405,476</u>
Bank				
Cost				
At 1 January	2,882,883	2,853,330	11,583,424	11,518,893
Addition	-	29,553	-	119,542
Transfers from property and equipment	11,000	-	44,572	-
Currency translation difference	-	-	164,577	(55,011)
At 31 December	<u>2,893,883</u>	<u>2,882,883</u>	<u>11,792,573</u>	<u>11,583,424</u>
Less: Accumulated amortisation				
At 1 January	2,461,712	2,010,622	9,891,159	8,116,881
Amortisation for the year	334,071	451,090	1,353,656	1,824,659
Currency translation difference	-	-	148,000	(50,381)
At 31 December	<u>2,795,783</u>	<u>2,461,712</u>	<u>11,392,815</u>	<u>9,891,159</u>
Carrying amounts				
At 31 December	<u>98,100</u>	<u>421,171</u>	<u>399,758</u>	<u>1,692,265</u>
At 1 January		<u>842,708</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 2019

12. Right-of-use assets

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

Group	31 December 2019 US\$	31 December 2018 US\$	31 December 2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)	1 January 2018 US\$	1 January 2018 KHR'000 (Note 5)
Right-of-use assets	<u>2,865,025</u>	<u>2,904,141</u>	<u>11,674,977</u>	<u>11,668,839</u>	<u>3,290,218</u>	<u>13,282,610</u>
Bank						
Right-of-use assets	<u>7,714,517</u>	<u>7,864,268</u>	<u>31,436,657</u>	<u>31,598,629</u>	<u>8,558,833</u>	<u>34,552,009</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

12. Right-of-use assets (continued)

The Group and the Bank leases the office spaces. Information about leases for which the Group and the Bank is a lessee is presented below.

Group	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Right-of-use assets				
Cost				
At 1 January	4,516,060	4,516,060	18,145,529	18,231,334
Additions	359,318	-	1,455,957	-
Currency translation difference	-	-	265,679	(85,805)
At 31 December	<u>4,875,378</u>	<u>4,516,060</u>	<u>19,867,165</u>	<u>18,145,529</u>
Accumulated depreciation				
At 1 January	1,611,919	1,225,842	6,476,690	4,948,724
Depreciation for the year	398,434	386,077	1,614,455	1,561,681
Currency translation difference	-	-	101,043	(33,715)
At 31 December	<u>2,010,353</u>	<u>1,611,919</u>	<u>8,192,188</u>	<u>6,476,690</u>
Carrying amounts				
At 31 December	<u>2,865,025</u>	<u>2,904,141</u>	<u>11,674,977</u>	<u>11,668,839</u>
At 1 January	<u>2,904,141</u>	<u>3,290,218</u>	<u>11,668,839</u>	<u>13,282,610</u>
Bank				
Right-of-use assets				
Cost				
At 1 January	11,482,238	11,482,238	46,135,632	46,353,795
Additions	359,318	-	1,455,957	-
Currency translation difference	-	-	662,752	(218,163)
At 31 December	<u>11,841,556</u>	<u>11,482,238</u>	<u>48,254,341</u>	<u>46,135,632</u>
Accumulated depreciation				
At 1 January	3,617,970	2,923,405	14,537,003	11,801,786
Depreciation for the year	509,069	694,565	2,062,748	2,809,515
Currency translation difference	-	-	217,933	(74,298)
At 31 December	<u>4,127,039</u>	<u>3,617,970</u>	<u>16,817,684</u>	<u>14,537,003</u>
Carrying amounts				
At 31 December	<u>7,714,517</u>	<u>7,864,268</u>	<u>31,436,657</u>	<u>31,598,629</u>
At 1 January	<u>7,864,268</u>	<u>8,558,833</u>	<u>31,598,629</u>	<u>34,552,009</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

13. Other assets

Group	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Prepayments and deposits	1,934,929	1,434,788	7,884,836	5,764,978	3,000,258	12,112,042
Other investments	150,000	150,000	611,250	602,700	150,000	605,550
Others	1,393,032	2,101,101	5,676,605	8,442,224	1,786,286	7,211,236
	<u>3,477,961</u>	<u>3,685,889</u>	<u>14,172,691</u>	<u>14,809,902</u>	<u>4,936,544</u>	<u>19,928,828</u>
Bank						
Prepayments and deposits	1,934,929	1,434,788	7,884,836	5,764,978	3,000,258	12,112,042
Other investments	150,000	150,000	611,250	602,700	150,000	605,550
Others	1,348,097	2,096,246	5,493,495	8,422,717	785,086	3,169,392
	<u>3,433,026</u>	<u>3,681,034</u>	<u>13,989,581</u>	<u>14,790,395</u>	<u>3,935,344</u>	<u>15,886,984</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

14. Deposits from banks and other financial institutions

Group and Bank	31 December		31 December		31 December		1 January 2018	
	2019	2018	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000	KHR'000	KHR'000	(Note 5)	(Note 5)
Current accounts	1,776,012	649,268	7,237,249	2,608,759	642,800	2,594,984		
Savings accounts	8,211,156	3,016,423	33,460,461	12,119,988	3,858,166	15,575,416		
Term deposits	1,101,985	496,038	4,490,588	1,993,080	1,498,838	6,050,809		
	<u>11,089,153</u>	<u>4,161,729</u>	<u>45,188,298</u>	<u>16,721,827</u>	<u>5,999,804</u>	<u>24,221,209</u>		

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

A. By maturity:	31 December		31 December		31 December		1 January 2018	
	2019	2018	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000	KHR'000	KHR'000	(Note 5)	(Note 5)
Within 1 month	10,589,930	3,665,691	43,153,965	14,728,746	4,500,966	18,170,400		
2 to 3 months	60,784	60,784	247,695	244,230	1,066,720	4,306,349		
4 to 6 months	-	202,890	-	815,212	202,890	819,067		
7 to 12 months	438,439	232,364	1,786,638	933,639	229,228	925,393		
	<u>11,089,153</u>	<u>4,161,729</u>	<u>45,188,298</u>	<u>16,721,827</u>	<u>5,999,804</u>	<u>24,221,209</u>		

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

14. Deposits from banks and other financial institutions (continued)

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

	31 December 2019 US\$	31 December 2018 US\$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US\$	1 January 2018 KHR'000 (Note 5)
B. By residency status:						
Residents	11,089,153	4,161,729	45,188,298	16,721,827	5,999,804	24,221,209
C. By relationship:						
Non-related parties	11,089,153	4,161,729	45,188,298	16,721,827	5,999,804	24,221,209
D. Interest rates						

These deposits from banks and other financial institutions earn interest at annual rates as follows:

	2019	2018
Current accounts	Nil	Nil
Saving accounts	1%	1%
Term deposits	1.5%-3%	1.5%-3%

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

15. Deposits from customers

Group	31 December 2019		31 December 2018		31 December 2019		31 December 2018		1 January 2018	
	US\$	US\$	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)	KHR'000 (Note 5)	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Current accounts	72,846,887		60,731,089		296,851,065		244,017,516		34,208,899	138,101,325
Savings accounts	217,310,606		164,422,169		885,540,719		660,648,275		105,244,852	424,873,468
Term deposits	155,145,041		104,869,645		632,216,042		421,366,234		138,293,158	558,289,479
Margin and guarantee deposits	1,861,263		2,874,451		7,584,647		11,549,543		4,078,714	16,465,768
	<u>447,163,797</u>		<u>332,897,354</u>		<u>1,822,192,473</u>		<u>1,337,581,568</u>		<u>281,825,623</u>	<u>1,137,730,040</u>
Bank										
Current accounts	72,854,650		60,755,155		296,882,699		244,114,213		34,233,288	138,199,784
Savings accounts	217,643,069		166,635,712		886,895,506		669,542,291		106,188,967	428,684,860
Term deposits	155,645,041		104,869,645		634,253,542		421,366,234		138,293,158	558,289,479
Margin and guarantee deposits	1,861,263		2,874,451		7,584,647		11,549,543		4,078,714	16,465,768
	<u>448,004,023</u>		<u>335,134,963</u>		<u>1,825,616,394</u>		<u>1,346,572,281</u>		<u>282,794,127</u>	<u>1,141,639,891</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

15. Deposits from customers (continued)

Deposits from customers are analysed as follows:

A. By maturity:		(US\$)		(US\$)		(US\$)	
Group							
Within 1 month	315,071,965	239,976,109	1,283,918,257	964,224,006	162,506,127	656,037,235	
>1 to 3 months	22,913,250	24,562,277	93,371,494	98,691,229	37,843,245	152,773,180	
> 3 to 6 months	27,280,236	26,720,271	111,166,962	107,362,049	28,686,497	115,807,388	
> 6 to 12 months	53,184,112	28,393,207	216,725,256	114,083,906	44,335,013	178,980,447	
> 12 months	28,714,234	13,245,490	117,010,504	53,220,378	8,454,741	34,131,790	
	<u>447,163,797</u>	<u>332,897,354</u>	<u>1,822,192,473</u>	<u>1,337,581,568</u>	<u>281,825,623</u>	<u>1,137,730,040</u>	
Bank							
Within 1 month	315,412,191	242,213,718	1,285,304,678	973,214,719	163,474,631	659,947,085	
> 1 to 3 months	23,413,250	24,562,277	95,408,994	98,691,229	37,843,245	152,773,180	
> 3 to 6 months	27,280,236	26,720,271	111,166,962	107,362,049	28,686,497	115,807,388	
> 6 to 12 months	53,184,112	28,393,207	216,725,256	114,083,906	44,335,013	178,980,447	
> 12 months	28,714,234	13,245,490	117,010,504	53,220,378	8,454,741	34,131,791	
	<u>448,004,023</u>	<u>335,134,963</u>	<u>1,825,616,394</u>	<u>1,346,572,281</u>	<u>282,794,127</u>	<u>1,141,639,891</u>	

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

15. Deposits from customers (continued)

Deposits from customers are analysed as follows (continued):

	31 December 2019		2018		31 December 2019		2018		1 January 2018	
	US\$	US\$	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)	KHR'000 (Note 5)	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
B. By residency status:										
Group										
Residents	288,343,653	233,110,301			1,175,000,386	936,637,189			186,433,384	752,631,571
Non-residents	158,820,144	99,787,053			647,192,087	400,944,379			95,392,239	385,098,469
	<u>447,163,797</u>	<u>332,897,354</u>			<u>1,822,192,473</u>	<u>1,337,581,568</u>			<u>281,825,623</u>	<u>1,137,730,040</u>
Bank										
Residents	289,183,879	235,347,910			1,178,424,307	945,627,902			187,401,888	756,541,422
Non-residents	158,820,144	99,787,053			647,192,087	400,944,379			95,392,239	385,098,469
	<u>448,004,023</u>	<u>335,134,963</u>			<u>1,825,616,394</u>	<u>1,346,572,281</u>			<u>282,794,127</u>	<u>1,141,639,891</u>
C. By relationship:										
Group										
Related parties	1,432,729	2,272,955			5,838,371	9,132,733			545,089	2,200,524
Non-related parties	445,731,068	330,624,399			1,816,354,102	1,328,448,835			281,280,534	1,135,529,516
	<u>447,163,797</u>	<u>332,897,354</u>			<u>1,822,192,473</u>	<u>1,337,581,568</u>			<u>281,825,623</u>	<u>1,137,730,040</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

15. Deposits from customers (continued)

Deposits from customers are analysed as follows: (continued)

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
C. By relationship (continued):						
Banks						
Related parties	2,272,955	4,510,564	9,262,292	18,123,446	1,513,593	6,110,375
Non-related parties	445,731,068	330,624,399	1,816,354,102	1,328,448,835	281,280,534	1,135,529,516
	<u>448,004,023</u>	<u>335,134,963</u>	<u>1,825,616,394</u>	<u>1,346,572,281</u>	<u>282,794,127</u>	<u>1,141,639,891</u>
D. By interest rate (per annum):						
	2019	2018				
Current accounts	Nil	Nil				
Savings accounts	1.00% - 1.25%	1.00% - 1.25%				
Term deposits	2.03% - 3.24%	1.50% - 4.50%				
Margin and guarantee deposits	1.50% - 3.00%	1.50% - 3.00%				

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

16. Income tax

A. Income tax expense

Group	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Current income tax:				
Current tax on profit for the year	25,595	224,616	103,712	908,572
Adjustment in respect of prior year	-	(54,076)	-	(218,738)
Total current income tax	25,595	170,540	103,712	689,834
Deferred tax	3,847,870	1,748,894	15,591,569	7,074,276
Income tax expense	3,873,465	1,919,434	15,695,281	7,764,110
Bank				
Current tax	-	-	-	-
Deferred tax	3,848,875	1,719,803	15,595,642	6,956,603
Income tax expense	3,848,875	1,719,803	15,595,642	6,956,603

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

16. Income tax (continued)

A. Income tax expense (continued)

In accordance with the Cambodian tax laws, the Group and 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 profit or loss is as follows:

Group	2019			2018		
	US\$	KHR'000 (Note 5)	%	US\$	KHR'000 (Note 5)	%
Accounting profit before income tax	25,883,163	104,878,575		9,698,743	39,231,414	
Tax calculated at 20%	5,176,632	20,975,713	20.00%	1,939,749	7,846,285	20.00%
Expenses not deductible for tax purposes	278,814	1,129,754	1.08%	178,580	722,356	1.84%
Unrecognised deferred tax asset	32,982	133,643	0.13%	-	-	0.00%
Adjustment in respect of prior year	(1,614,963)	(6,543,829)	-6.24%	(198,895)	(804,531)	-2.05%
Income tax expense	3,873,465	15,695,281	14.97%	1,919,434	7,764,110	19.79%
Bank						
Accounting profit before income tax	25,881,202	104,870,630		8,831,063	35,721,649	
Tax calculated at 20%	5,176,240	20,974,124	20.00%	1,766,213	7,144,332	20.00%
Expenses not deductible for tax purposes	261,158	1,058,212	1.01%	152,485	616,802	1.73%
Over provision in respect of prior year	(1,588,523)	(6,436,694)	-6.14%	(198,895)	(804,531)	-2.25%
Income tax expense	3,848,875	15,595,642	14.87%	1,719,803	6,956,603	19.47%

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

16. Income tax (continued)

B. Current income tax liability/minimum tax payable

Group	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	138,573	46,607	556,787	188,152
Current income tax expense	25,595	170,540	103,712	689,834
Payments for income tax during the year	(118,873)	(16,045)	(481,673)	(64,902)
Withholding tax credit	(45,295)	(62,529)	(183,535)	(252,930)
Currency translation difference	-	-	4,709	(3,367)
Current income tax liabilities	-	138,573	-	556,787
Minimum tax payable	-	37,083	-	148,999
Current Income tax liabilities and minimum tax payable	-	175,656	-	705,786
Bank				
Minimum tax payable	-	37,083	-	148,999
Current income tax liabilities and minimum tax payable	-	37,083	-	148,999

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

16. Income tax (continued)

B. Current income tax liability/minimum tax payable (continued)

Movements of minimum tax payable were as follows:

Group and Bank	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	37,083	36,212	148,999	146,188
Minimum tax expense	441,832	423,982	1,790,303	1,715,007
Payments for minimum tax during the year	(478,915)	(423,111)	(1,940,564)	(1,711,484)
Currency translation difference	-	-	1,262	(712)
At 31 December	-	37,083	-	148,999

C. Deferred tax assets – net

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

Group	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	9,632,391	11,381,285	38,702,947	45,946,247
Charge to profit or loss	(3,847,870)	(1,748,894)	(15,591,569)	(7,074,276)
Currency translation difference	-	-	460,545	(169,024)
At 31 December	5,784,521	9,632,391	23,571,923	38,702,947
Bank				
At 1 January	9,630,553	11,350,356	38,695,562	45,821,387
Charge to profit or loss	(3,848,875)	(1,719,803)	(15,595,642)	(6,956,603)
Currency translation difference	-	-	460,418	(169,222)
At 31 December	5,781,678	9,630,553	23,560,338	38,695,562

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

17. Borrowings

Group	31 December 2019		31 December 2018		31 December 2019		2018		1 January 2018	
	US\$	US\$	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)	KHR'000 (Note 5)	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Immediate parent company										
Other banks:										
Local	55,031,279		51,254,852		224,252,462	205,941,995			80,649,747	325,583,029
Overseas	34,063,671		-		138,809,459	-			-	-
	12,000,000		2,000,000		48,900,000	8,036,000			42,000,000	169,554,000
	<u>101,094,950</u>		<u>53,254,852</u>		<u>411,961,921</u>	<u>213,977,995</u>			<u>122,649,747</u>	<u>495,137,029</u>
Bank										
Immediate parent company										
Other banks:										
Local	55,027,322		41,228,045		224,236,337	165,654,285			80,634,063	325,519,712
Overseas	34,063,671		-		138,809,459	-			-	-
	-		-		-	-			30,000,000	121,110,000
	<u>89,090,993</u>		<u>41,228,045</u>		<u>363,045,796</u>	<u>165,654,285</u>			<u>110,634,063</u>	<u>446,629,712</u>

Borrowings are unsecured and bear interest rates ranging from 2.13% to 4.22% per annum. For further analysis, refer to Note 33.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

18. Subordinated debts

Group and Bank	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Immediate parent company	29,185,429	29,212,458	118,930,623	117,375,656	29,098,482	117,470,572

Subordinated debts are unsecured and bear interest rates ranging 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 33.

19. Lease liabilities

The Group and the Bank leases the office spaces. Information about leases for which the Group and the Bank is a lessee is presented below.

Group	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Maturity analysis –contractual undiscounted cash flows						
Less than one year	461,606	461,606	1,870,428	1,867,196	490,454	1,983,886
One to five years	1,846,424	1,846,424	7,481,710	7,468,785	1,846,424	7,468,785
More than five years	17,964,164	18,425,770	72,790,793	74,532,240	18,887,376	76,399,436
Total undiscounted lease payments	20,272,194	20,733,800	82,142,931	83,868,221	21,224,254	85,852,107

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

19. Lease liabilities (continued)

Group	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Present value of lease payments						
Less: current	29,529	12,773	120,331	51,322	325,404	1,313,656
Non-current	3,312,168	3,312,763	13,497,084	13,310,682	3,321,713	13,409,755
	<u>3,341,697</u>	<u>3,325,536</u>	<u>13,617,415</u>	<u>13,362,004</u>	<u>3,647,117</u>	<u>14,723,411</u>
Bank						
Maturity analysis –contractual undiscounted cash flows						
less than one year	1,059,461	1,066,866	4,292,936	4,315,473	1,074,314	4,345,600
One to five years	3,965,579	4,140,299	16,068,526	16,747,509	4,194,219	16,965,616
More than five years	22,735,264	23,620,005	92,123,290	95,542,920	24,632,951	99,640,287
Total undiscounted lease payments	<u>27,760,304</u>	<u>28,827,170</u>	<u>112,484,752</u>	<u>116,605,902</u>	<u>29,901,484</u>	<u>120,951,503</u>
Present value of lease payments						
Less: current	29,529	12,773	120,329	51,320	325,404	1,313,656
Non-current	9,265,394	9,275,898	37,756,482	37,270,560	9,674,878	39,057,482
	<u>9,294,923</u>	<u>9,288,671</u>	<u>37,876,811</u>	<u>37,321,880</u>	<u>10,000,282</u>	<u>40,371,138</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

19. Lease liabilities (continued)

Amounts recognised in profit and loss.

Group	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Interest on lease liabilities	262,102	262,279	1,062,037	1,060,919
Expenses relating to short-term leases	116,755	1,023	473,091	4,138
	<u>378,857</u>	<u>263,302</u>	<u>1,535,128</u>	<u>1,065,057</u>

Amounts recognised in the statement of cash flows

Total cash outflow for leases	<u>(605,259)</u>	<u>(583,860)</u>	<u>(2,452,509)</u>	<u>(2,361,714)</u>
Payments for lease liabilities	<u>(343,157)</u>	<u>(321,581)</u>	<u>(1,390,472)</u>	<u>(1,300,795)</u>

Bank

Interest on lease liabilities	715,378	424,715	2,898,712	1,717,972
Expenses relating to short-term leases	116,755	93	473,091	376
	<u>832,133</u>	<u>424,808</u>	<u>3,371,803</u>	<u>1,718,348</u>

Amounts recognised in the statement of cash flows

Total cash outflow for leases	<u>(1,066,865)</u>	<u>(1,074,314)</u>	<u>(4,322,937)</u>	<u>(4,345,600)</u>
Payments for lease liabilities	<u>(351,487)</u>	<u>(649,599)</u>	<u>(1,424,225)</u>	<u>(2,627,628)</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

20. Employee benefit obligations

Group and Bank	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	416,028	255,613	1,671,601	1,031,910
Additions during the year	-	188,729	-	763,409
Payments during the year	(43,818)	(28,314)	(177,551)	(114,530)
Currency translation differences	-	-	22,706	(9,188)
At 31 December	<u>372,210</u>	<u>416,028</u>	<u>1,516,756</u>	<u>1,671,601</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

21. Other liabilities

Group	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Funds held under escrow*	5,058,437	5,670,325	20,613,131	22,783,366	14,613,900	58,996,314
Cheques under clearing accounts	4,237,150	6,336,196	17,266,386	25,458,836	1,237,997	4,997,794
Sundry creditors	5,834,653	2,984,563	23,776,211	11,991,974	834,728	3,369,797
Other tax payable	132,440	1,178,564	539,693	4,735,470	498,769	2,013,530
Order cheques	766,048	111,066	3,121,646	446,263	274,115	1,106,602
Account payable	1,867,453	2,072,719	7,609,871	8,328,185	883,451	3,566,492
Other liabilities	2,261,337	2,685,185	9,214,949	10,789,073	2,846,085	11,489,645
	<u>20,157,518</u>	<u>21,038,618</u>	<u>82,141,887</u>	<u>84,533,167</u>	<u>21,189,045</u>	<u>85,540,174</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

21. Other liabilities (continued)

Bank	31 December		31 December		1 January 2018	
	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Funds held under escrow*	5,058,437	5,670,325	20,613,131	22,783,366	14,613,900	58,996,314
Cheques under clearing accounts	4,237,150	6,336,196	17,266,386	25,458,836	1,237,997	4,997,794
Sundry creditors	5,834,653	2,984,563	23,776,211	11,991,974	834,728	3,369,797
Other tax payable	114,068	1,163,538	464,827	4,675,096	484,174	1,954,610
Order cheques	766,048	111,066	3,121,646	446,263	274,115	1,106,602
Account payable	1,867,453	2,072,719	7,609,871	8,328,185	883,451	3,566,492
Other liabilities	1,736,238	2,224,559	7,075,171	8,938,277	2,873,471	11,600,202
	<u>19,614,047</u>	<u>20,562,966</u>	<u>79,927,243</u>	<u>82,621,997</u>	<u>21,201,836</u>	<u>85,591,811</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 2019

22. Share capital

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Share capital – paid-up	80,000,000	80,000,000	320,000,000	320,000,000	37,500,000	150,000,000

Number of shares at par value of US\$1,000 each			
2019		2018	
Ownership %	Amount US\$	Ownership %	Amount US\$
100	800,000,000	100	800,000,000

E. Sun Commercial Bank Ltd.

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.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

23. Interest income

Group	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Interest income from:				
Loans and advances to customers	27,765,549	24,887,238	112,506,005	100,668,878
Balances with the National Bank of Cambodia and other financial institutions	<u>2,227,783</u>	<u>1,756,216</u>	<u>9,026,976</u>	<u>7,103,893</u>
	<u>29,993,332</u>	<u>26,643,454</u>	<u>121,532,981</u>	<u>107,772,771</u>
Bank				
Interest income from:				
Loans and advances to customers	27,687,940	24,806,106	112,191,533	100,340,699
Balances with the National Bank of Cambodia and other financial institutions	<u>2,100,989</u>	<u>1,756,216</u>	<u>8,513,207</u>	<u>7,103,893</u>
	<u>29,788,929</u>	<u>26,562,322</u>	<u>120,704,740</u>	<u>107,444,592</u>

24. Interest expense

Group	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Interest expense on:				
Deposits from banks and other financial institutions	1,516,862	1,621,123	6,146,325	6,557,443
Deposits from customers	5,940,201	4,111,167	24,069,694	16,629,671
Borrowings and subordinated debts	1,402,034	2,908,936	5,681,042	11,766,646
Lease liabilities	<u>262,102</u>	<u>262,279</u>	<u>1,062,037</u>	<u>1,060,919</u>
	<u>9,121,199</u>	<u>8,903,505</u>	<u>36,959,098</u>	<u>36,014,679</u>
Bank				
Interest expense on:				
Deposits from banks and other financial institutions	1,516,862	1,621,123	6,146,325	6,557,443
Deposits from customers	5,940,201	4,111,167	24,069,694	16,629,671
Borrowings and subordinated debts	772,605	2,339,097	3,130,595	9,461,647
Lease liabilities	<u>715,378</u>	<u>424,715</u>	<u>2,898,712</u>	<u>1,717,972</u>
	<u>8,945,046</u>	<u>8,496,102</u>	<u>36,245,326</u>	<u>34,366,733</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

25. Fee and commission income

Group and Bank	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Loan processing fees	965,706	343,391	3,913,041	1,389,017
Settlement services	1,613,327	1,472,387	6,537,201	5,955,805
Income from ATM/credit card	1,084,424	257,416	4,394,086	1,041,248
Fees and commission from credit card	574,533	408,320	2,328,008	1,651,654
Telecommunication	114,660	98,135	464,602	396,956
Guarantee activities	78,143	33,309	316,635	134,735
Other fees and commission	549,303	219,872	2,225,776	889,382
	<u>4,980,096</u>	<u>2,832,830</u>	<u>20,179,349</u>	<u>11,458,797</u>

26. Fee and commission expense

Group and Bank	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Loan processing fees	519,736	418,131	2,105,970	1,691,340
Telecommunication	54,755	1,850,033	221,867	7,483,383
Guarantee activities	43,561	68,258	176,509	276,104
Other fees and commission	73,691	15,394	298,597	62,269
	<u>691,743</u>	<u>2,351,816</u>	<u>2,802,943</u>	<u>9,513,096</u>

27. Other income

Group	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Foreign exchange gain-net	206,918	206,857	838,432	836,737
Gain on disposals of property and equipment	-	1,069,896	-	4,327,729
Recovery of loans written off	8,840,728	12,992,681	35,822,630	52,555,395
Other gains-net	267,641	134,977	1,084,481	545,981
	<u>9,315,287</u>	<u>14,404,411</u>	<u>37,745,543</u>	<u>58,265,842</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

27. Other income (continued)

Bank	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Foreign exchange gain-net	206,918	206,857	838,432	836,737
Gain on disposals of property and equipment	-	146,863	-	594,061
Recovery of loans written off	8,840,728	12,992,681	35,822,630	52,555,395
Other gains-net	314,448	68,755	1,274,143	278,113
	<u>9,362,094</u>	<u>13,415,156</u>	<u>37,935,205</u>	<u>54,264,306</u>

28. Personnel expenses

Group	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Salaries and wages	5,463,215	4,000,045	22,136,947	16,180,182
Bonuses, incentives and other related costs	910,131	732,377	3,687,851	2,962,465
Employees benefits (*)	150,559	188,729	610,066	763,408
	<u>6,523,905</u>	<u>4,921,151</u>	<u>26,434,864</u>	<u>19,906,055</u>
Bank				
Salaries and wages	5,468,955	3,994,035	22,160,206	16,155,872
Bonuses, incentives and other related costs	910,131	732,377	3,687,851	2,962,464
Employees benefits (*)	150,559	188,729	610,065	763,409
	<u>6,529,645</u>	<u>4,915,141</u>	<u>26,458,122</u>	<u>19,881,745</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

28. Personnel expenses (continued)

() 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.

29. Depreciation and amortisation

Group	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Depreciation of property and equipment	2,705,314	1,660,119	10,961,932	6,715,181
Amortisation of intangible assets	334,285	451,304	1,354,523	1,825,525
Depreciation of right-of-use assets	398,434	386,077	1,614,455	1,561,681
	<u>3,438,033</u>	<u>2,497,500</u>	<u>13,930,910</u>	<u>10,102,387</u>
Bank				
Depreciation of property and equipment	2,662,543	1,620,341	10,788,624	6,554,279
Amortisation of intangible assets	334,071	451,090	1,353,656	1,824,660
Depreciation of right-of-use assets	509,069	694,565	2,062,748	2,809,515
	<u>3,505,683</u>	<u>2,765,996</u>	<u>14,205,028</u>	<u>11,188,454</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

30. General and administrative expenses

Group	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Rentals	116,755	1,023	473,091	4,138
Business and public relations	296,124	228,883	1,199,894	925,832
Professional and other related costs	147,176	270,026	596,357	1,092,255
Travelling and transportation	89,803	70,803	363,882	286,398
Utilities	477,330	236,419	1,934,141	956,315
Stationery and printing	235,566	109,228	954,513	441,827
Security	387,186	360,587	1,568,878	1,458,574
License fees	289,942	281,915	1,174,845	1,140,346
Charity and donation	12,641	14,737	51,221	59,611
Motor vehicle and running costs	136,851	87,680	554,520	354,666
Telecommunication	167,496	136,979	678,694	554,080
Repairs and maintenance	854,678	380,001	3,463,155	1,537,104
Promotion	71,402	40,620	289,321	164,308
Legal fees	82,947	360,152	336,101	1,456,815
Other taxes	869,226	1,058,256	3,522,104	4,280,646
Others	248,748	225,374	1,007,928	911,638
	<u>4,483,871</u>	<u>3,862,683</u>	<u>18,168,645</u>	<u>15,624,553</u>
Bank				
Rentals	116,755	93	473,091	376
Business and public relations	296,124	228,883	1,199,894	925,832
Professional and other related costs	148,449	246,365	601,515	996,546
Travelling and transportation	89,803	70,803	363,882	286,398
Utilities	477,330	236,419	1,934,141	956,315
Stationery and printing	235,566	109,228	954,513	441,827
Security	387,186	360,587	1,568,878	1,458,574
License fees	289,942	281,915	1,174,845	1,140,346
Charity and donation	12,641	14,737	51,221	59,611
Motor vehicle and running costs	136,851	87,680	554,520	354,666
Telecommunication	167,496	136,979	678,694	554,080
Repairs and maintenance	854,678	380,001	3,463,155	1,537,104
Promotion	71,402	40,620	289,321	164,308
Legal fees	82,947	360,152	336,101	1,456,815
Other taxes	814,816	1,028,520	3,301,635	4,160,363
Others	249,013	221,911	1,009,002	897,631
	<u>4,430,999</u>	<u>3,804,893</u>	<u>17,954,408</u>	<u>15,390,792</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

31. Commitments and contingencies

A. Commitments to extend credit

Group and Bank	31 December		31 December	
	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Unused portion of loan, overdraft and credit card	38,327,703	24,184,329	156,185,390	97,172,634
Payment guarantee	1,000,000	1,300,000	4,075,000	5,223,400
Bid, performance and warranty bonds	2,380,238	1,138,413	9,699,470	4,574,143
Letters of credits	3,243,022	2,376,545	13,215,315	9,548,958
Other commitment and guarantee	2,134,410	3,828,117	8,697,721	15,381,374
	<u>47,085,373</u>	<u>32,827,404</u>	<u>191,872,896</u>	<u>131,900,509</u>
Less: Provision for financial guarantee	<u>(555,212)</u>	<u>(322,089)</u>	<u>(2,262,489)</u>	<u>(1,294,154)</u>
	<u>46,530,161</u>	<u>32,505,315</u>	<u>189,610,407</u>	<u>130,606,355</u>

Movements of provision for financial guarantees were as follows:

Group and Bank	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	322,089	-	1,294,154	-
Allowance made during the year	233,123	322,089	944,614	1,302,850
Currency translation difference	-	-	23,721	(8,696)
At 31 December	<u>555,212</u>	<u>322,089</u>	<u>2,262,489</u>	<u>1,294,154</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

31. Commitments and contingencies (continued)

B. Taxation 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.

32. 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 2019

32. Related party transactions and balances (continued)

B. Bank balance with related parties

Group and Bank	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000 (Note 5)
Immediate parent entity	640,627	7,917,748	2,610,555	31,813,511	11,149,303	45,009,736

C. Loans and advances to related parties

Group and Bank	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000 (Note 5)
Loans	3,377,298	3,807,038	13,762,489	15,296,679	2,227,375	8,991,913
Interest income	145,779	95,691	590,697	387,070		

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Related party transactions and balances (continued)

D. Deposit balances/transactions from related parties

Group	31 December		31 December		31 December		1 January 2018	
	2019	2018	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000	KHR'000	KHR'000		(Note 5)
<i>Deposits</i>								
Key management	1,432,729	744,828	5,838,371	2,992,719	545,089	2,200,524		
<i>Interest expense:</i>								
Key management	16,446	12,588	66,639	50,918				

Deposits carry interest at rates ranging from 1.00% to 3.75% per annum (2018: 1.00% to 3.50% per annum).

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Related party transactions and balances (continued)

D. Deposit balances/transactions from related parties (continued)

Bank	31 December		31 December		31 December		1 January 2018	
	2019	2018	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000	KHR'000	KHR'000		(Note 5)
<i>Deposits</i>								
- Subsidiary	840,226	2,237,609	3,423,921	8,990,713	968,504	3,909,851		
- Key management	1,432,729	744,828	5,838,371	2,992,719	545,089	2,200,524		
	<u>2,272,955</u>	<u>2,982,437</u>	<u>9,262,292</u>	<u>11,983,432</u>	<u>1,513,593</u>	<u>6,110,375</u>		
<i>Interest expense:</i>								
- Subsidiary	3,863	15,217	15,653	61,553				
- Key management	16,446	12,588	66,639	50,918				
	<u>20,309</u>	<u>27,805</u>	<u>82,292</u>	<u>112,471</u>				

Deposits carry interest at rates ranging from 1.00% to 3.75% per annum (2018: 1.00% to 3.50% per annum).

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Related party transactions and balances (continued)

E. Borrowings and subordinated debts from related parties

Group and Bank	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
<i>Immediate parent entity:</i>						
Borrowing and subordinated debts	118,276,422	70,440,503	481,976,420	283,029,941	139,732,545	564,100,284
Interest expense	1,918,333	2,876,239	7,773,085	11,634,387		

F. Key management remuneration

Group and Bank	2019	2018	2019	2018
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Salaries and short-term benefits	1,877,574	1,516,497	7,607,930	6,134,230

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

32. Related party transactions and balances (continued)

G. Board of Directors' fee

Group and Bank	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Board of Directors' fee	86,250	72,022	349,485	291,329

H. Other transactions with related parties

Group	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Immediate parent entity	220,000	508,501	891,440	2,056,887
Bank				
- Immediate parent entity	220,000	508,501	891,440	2,056,887
- Subsidiary(Rental)	598,818	81,132	2,426,412	328,179
	818,818	589,633	3,317,852	2,385,066

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management

A. Introduction and overview

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

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

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

B. Credit risk

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

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

(i). Management of credit risk

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

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

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

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.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

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

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

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

(ii). *Concentration of risk*

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Type of credit exposure

Group	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
31 December 2019					
On-balance sheet items					
Cash and cash equivalents	88,980,744	362,596,532	-	100%	-
Placement with other banks	12,400,000	50,530,000	-	100%	-
Loans and advances to customers, gross	483,316,924	1,969,516,465	88%	-	12%
Equity investments at FVOCI	488,172	1,989,301	-	100%	-
Other assets	1,543,032	6,287,855	-	-	100%
Total	586,728,872	2,390,920,153			
Off-balance sheet items					
Commitments	50,117,103	204,227,196	-	-	100%
Total	636,845,975	2,595,147,349			

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Type of credit exposure (continued)

Bank	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
31 December 2019					
On-balance sheet items					
Cash and cash equivalents	88,960,410	362,513,671	-	100%	-
Placement with other banks	10,400,000	42,380,000	-	100%	-
Loans and advances to customers, gross	483,316,924	1,969,516,465	88%	-	12%
Equity investments at FVOCI	488,662	1,991,298	-	100%	-
Other assets	1,498,097	6,104,745	-	-	100%
Total	584,664,093	2,382,506,179			
Off-balance sheet items					
Commitments	47,542,033	193,733,786	-	-	100%
Total	632,206,126	2,576,239,965			

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Type of credit exposure (continued)

Group	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
31 December 2018					
On-balance sheet items					
Cash and cash equivalents	84,374,983	339,018,682	-	100%	-
Placement with other banks	1,200,000	4,821,600	-	100%	-
Loans and advances to customers, gross	330,010,219	1,325,981,059	80%	-	20%
Equity investments at FVOCI	340,968	1,370,009	-	100%	-
Other assets	2,251,101	9,044,924	-	-	100%
Total	418,177,271	1,680,236,274			
Off-balance sheet items					
Commitments	35,755,944	143,667,383	-	-	100%
Total	453,933,215	1,823,903,657			

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Type of credit exposure (continued)

Bank	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
31 December 2018					
On-balance sheet items					
Cash and cash equivalents	83,548,514	335,697,929	-	100%	-
Placement with other banks	1,200,000	4,821,600	-	100%	-
Loans and advances to customers, gross	330,010,219	1,325,981,059	89%	-	11%
Equity investments at FVOCI	341,458	1,371,978	-	100%	-
Other assets	2,246,246	9,025,416	-	-	100%
Total	417,346,437	1,676,897,982			
Off-balance sheet items					
Commitments	33,187,404	133,346,989	-	-	100%
Total	450,533,841	1,810,244,971			

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by industrial sectors

31 December 2019	Cash and cash equivalents US\$	Placements with other banks US\$	Loans and advances to customers, gross US\$	Equity investments at FVOCI US\$	Other assets US\$	Total US\$
Group						
Financial institutions	88,980,744	12,400,000	42,153,504	-	-	143,534,248
Corporate business loans	-	-	232,725,096	-	-	232,725,096
Retain business loans	-	-	208,438,324	-	-	208,438,324
Bill payments	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Others	-	-	-	488,172	1,543,032	2,031,204
Total (US\$)	88,980,744	12,400,000	483,316,924	488,172	1,543,032	586,728,872
Total (KHR'000 – Note 5)	362,596,532	50,530,000	1,969,516,465	1,989,301	6,287,855	2,390,920,153

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by industrial sectors (continued)

31 December 2019		Cash and cash equivalents US\$	Placements with other banks US\$	Loans and advances to customers, gross US\$	Equity investments at FVOCI US\$	Other assets US\$	Total US\$
Bank							
Financial institution		88,960,410	10,400,000	42,153,504	-	-	141,513,914
Corporate business loans		-	-	232,725,096	-	-	232,725,096
Retain business loans		-	-	208,438,324	-	-	208,438,324
Bill payments		-	-	-	-	-	-
Credit cards		-	-	-	-	-	-
Others		-	-	-	488,662	1,498,097	1,986,759
Total (US\$)		88,960,410	10,400,000	483,316,924	488,662	1,498,097	584,664,093
Total (KHR'000 – Note 5)		362,513,671	42,380,000	1,969,516,465	1,991,298	6,104,745	2,382,506,179

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by industrial sectors (continued)

31 December 2018	Group	Cash and cash equivalents US\$	Placements with other banks US\$	Loans and advances to customers, gross US\$	Equity investments at FVOCI US\$	Other assets US\$	Total US\$
Financial institution		84,374,983	1,200,000	40,256,935	-	-	125,831,918
Corporate business loans		-	-	172,263,594	-	-	172,263,594
Retain business loans		-	-	117,489,690	-	-	117,489,690
Bill payments		-	-	-	-	-	-
Credit cards		-	-	-	-	-	-
Others		-	-	-	340,968	2,251,101	2,592,069
Total (US\$)		<u>84,374,983</u>	<u>1,200,000</u>	<u>330,010,219</u>	<u>340,968</u>	<u>2,251,101</u>	<u>418,177,271</u>
Total (KHR'000 – Note 5)		<u>339,018,682</u>	<u>4,821,600</u>	<u>1,325,981,060</u>	<u>1,370,009</u>	<u>9,044,924</u>	<u>1,680,236,275</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by industrial sectors (continued)

31 December 2018	Cash and cash equivalents US\$	Placements with other banks US\$	Loans and advances to customers, gross US\$	Equity investments at FVOCI US\$	Other assets US\$	Total US\$
Bank						
Financial institution	83,548,514	1,200,000	40,256,935	-	-	125,005,449
Corporate business loans	-	-	172,263,594	-	-	172,263,594
Retain business loans	-	-	117,489,690	-	-	117,489,690
Bill payments	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Others	-	-	-	341,458	2,246,246	2,587,704
Total (US\$)	83,548,514	1,200,000	330,010,219	341,458	2,246,246	417,346,437
Total (KHR'000 – Note 5)	335,697,929	4,821,600	1,325,981,060	1,371,978	9,025,416	1,676,897,983

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

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

Group and Bank	31 December 2019		31 December 2018		31 December 2019		31 December 2018		1 January 2018	
	US\$	US\$	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)	KHR'000 (Note 5)	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
By residency status:										
Non-residents	6,104,934		6,088,499		24,877,606		24,463,589		5,548,388	22,398,842
Residents	477,211,990		323,921,720		1,944,638,859		1,301,517,470		326,697,842	1,318,879,189
	<u>483,316,924</u>		<u>330,010,219</u>		<u>1,969,516,465</u>		<u>1,325,981,059</u>		<u>332,246,230</u>	<u>1,341,278,031</u>
By relationship:										
Related parties	3,377,298		3,807,038		13,762,489		15,296,679		2,227,375	8,991,913
Non related parties	479,939,626		326,203,181		1,955,753,976		1,310,684,380		330,018,855	1,332,286,118
	<u>483,316,924</u>		<u>330,010,219</u>		<u>1,969,516,465</u>		<u>1,325,981,059</u>		<u>332,246,230</u>	<u>1,341,278,031</u>
By exposure:										
Large exposures (*)	60,132,648		46,133,319		245,040,541		185,363,676		30,032,834	121,242,551
Non-large exposures	423,184,276		283,876,900		1,724,475,924		1,140,617,383		302,213,396	1,220,035,480
	<u>483,316,924</u>		<u>330,010,219</u>		<u>1,969,516,465</u>		<u>1,325,981,059</u>		<u>332,246,230</u>	<u>1,341,278,031</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

(ii). *Concentration of risk (continued)*

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

(iii). *Collateral*

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

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

Cash and cash equivalents, placement with other banks, investments and other assets

Collateral is generally not sought for these assets.

Loans and advances to customers, contingent liabilities and commitments

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

(iii). Collateral (continued)

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

Group	Collateral/credit enhancement				Unsecured credit exposure US\$	Total US\$
	Properties US\$	Floating assets US\$	Fixed deposits US\$	Others US\$		
31 December 2019						
Loan and advances to customers	386,059,290	-	7,000,000	-	90,257,634	483,316,924
Commitments	-	-	-	-	50,117,103	50,117,103
	<u>386,059,290</u>	<u>-</u>	<u>7,000,000</u>	<u>-</u>	<u>140,374,737</u>	<u>533,434,027</u>
31 December 2018						
Loan and advances to customers	261,215,385	-	7,000,000	-	61,794,834	330,010,219
Commitments	-	-	-	-	35,755,944	35,755,944
	<u>261,215,385</u>	<u>-</u>	<u>7,000,000</u>	<u>-</u>	<u>97,550,778</u>	<u>365,766,163</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

(iii). Collateral (continued)

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

Bank	Collateral/credit enhancement					Total US\$
	Properties US\$	Floating assets US\$	Fixed deposits US\$	Others US\$	Unsecured credit exposure US\$	
31 December 2019						
Loan and advances to customers	386,059,290	-	7,000,000	-	90,257,634	483,316,924
Commitments	-	-	-	-	47,542,033	47,542,033
	<u>386,059,290</u>	<u>-</u>	<u>7,000,000</u>	<u>-</u>	<u>137,799,667</u>	<u>530,858,957</u>
31 December 2018						
Loan and advances to customers	261,215,385	-	7,000,000	-	61,794,834	330,010,219
Commitments	-	-	-	-	33,187,404	33,187,404
	<u>261,215,385</u>	<u>-</u>	<u>7,000,000</u>	<u>-</u>	<u>94,982,238</u>	<u>363,197,623</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

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

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

Normal:

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

Special mention:

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

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

Substandard

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

Factors leading to a substandard classification include:

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

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

Doubtful

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

Loss

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

Recognition of ECL

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

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

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

Recognition of ECL (continued)

Long-term facilities (more than one year)

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

Short-term facilities (one year or less)

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

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

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

Recognition of ECL (continued)

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

Group and Bank	31 December 2019			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
Normal	455,246,148	-	-	455,246,148
Special Mention	20,970,443	3,185,783	-	24,156,226
Substandard	53,917	-	756,163	810,080
Doubtful	1,821,113	-	8,592	1,829,705
Loss	100,051	-	1,174,714	1,274,765
	478,191,672	3,185,783	1,939,469	483,316,924
Loss allowance	6,038,523	256,324	784,124	7,078,971
Carrying amount (US\$)	472,153,149	2,929,459	1,155,345	476,237,953
Carrying amount (KHR'000 - Note 5)	1,924,024,082	11,937,545	4,708,031	1,940,669,658

Group and Bank	31 December 2018			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
Normal	281,515,039	-	-	281,515,039
Special Mention	31,164,560	6,088,202	-	37,252,762
Substandard	249,104	1,171,825	501,336	1,922,265
Doubtful	3,440,590	-	833,488	4,274,078
Loss	-	40,901	5,005,174	5,046,075
	316,369,293	7,300,928	6,339,998	330,010,219
Loss allowance	12,032,042	3,338,474	3,488,954	18,859,470
Carrying amount (US\$)	304,337,251	3,962,454	2,851,044	311,150,749
Carrying amount (KHR'000 - Note 5)	1,222,827,075	15,921,140	11,455,494	1,250,203,709

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

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

Incorporation of forward-looking information

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

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

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

(v). Amounts arising from ECL

Loss allowance

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

Group and Bank	2019			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
At 1 January	12,032,041	3,338,474	3,488,955	18,859,470
- Transfer to Stage 1	3,466,459	(1,277,026)	(2,189,433)	-
- Transfer to Stage 2	(12,725)	15,339	(2,614)	-
- Transfer to Stage 3	(44,348)	(76,205)	120,553	-
Net remeasurement of loss allowance	(4,107,947)	(116,150)	5,922,904	1,698,807
New financial assets originated or purchased	2,762,635	17,830	-	2,780,465
Financial assets that been derecognised	(7,152,346)	(707,351)	(1,173,062)	(9,032,759)
Write-offs	-	-	(5,382,969)	(5,382,969)
Changes in models/risk parameters	(905,247)	(938,588)	(208)	(1,844,043)
At 31 December (US\$)	6,038,522	256,323	784,126	7,078,971
At 31 December (KHR'000 – Note 5)	24,606,981	1,044,516	3,195,310	28,846,807

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

B. Credit risk (continued)

(v). Amounts arising from ECL

Loss allowance (continued)

Group and Bank	2018			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
At 1 January	6,603,570	1,215,911	16,070,836	23,890,317
- Transfer to Stage 1	11,084,126	(168,915)	(10,915,211)	-
- Transfer to Stage 2	(36,855)	39,581	(2,726)	-
- Transfer to Stage 3	(18,498)	(51,238)	69,736	-
Net remeasurement of loss allowance	(6,220,121)	2,891,883	45,277,270	41,949,032
New financial assets originated or purchased	6,152,830	334,426	73,991	6,561,247
Financial assets that been derecognised	(5,533,011)	(923,174)	(3,977,858)	(10,434,043)
Write-offs	-	-	(56,099,764)	(56,099,764)
Recoveries of amounts previously written off	-	-	12,992,681	12,992,681
At 31 December (US\$)	12,032,041	3,338,474	3,488,955	18,859,470
At 31 December (KHR'000 – Note 5)	48,344,741	13,414,989	14,018,620	75,777,350

C. Market risk

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

(i). Interest rate risk

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

The table below summarises the Group's and the Bank's exposure to interest rate risk. The table indicates the periods in which the financial instruments reprice or mature, whichever is earlier.

Group	Up to 1 month US\$	> 1-3 months US\$	> 3-6 months US\$	> 6-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$	Interest rate p.a %
As at 31 December 2019									
Financial assets									
Cash and cash equivalents	52,573,150	-	-	-	-	-	36,407,594	88,980,744	1.00%
Placements with other banks	-	12,400,000	-	-	-	-	-	12,400,000	2.50%
Loans and advances to customers, gross	47,457,326	26,398,508	11,552,187	13,622,683	142,760,083	241,526,137	-	483,316,924	6.52% - 24.00%
Equity investments at FVOCI	-	-	-	-	-	-	488,172	488,172	-
Other assets	-	-	-	-	-	-	1,543,032	1,543,032	-
	100,030,476	38,798,508	11,552,187	13,622,683	142,760,083	241,526,137	38,438,798	586,728,872	
Financial liabilities									
Deposits from customers	22,212,983	23,413,250	27,280,236	53,184,112	28,714,234	-	292,358,982	447,163,797	1.00% - 3.24%
Deposits from banks and FIs	8,813,918	60,784	-	438,439	-	-	1,776,012	11,089,153	1.00% - 3.00%
Borrowings	25,013,565	24,813,332	9,344,570	25,012,419	16,911,064	-	-	101,094,950	2.55% - 4.89%
Subordinated debts	-	-	-	-	29,185,429	-	-	29,185,429	4.06% - 4.33%
Lease liabilities	-	-	-	29,529	1,115,610	2,196,558	-	3,341,697	7.50% - 9.08%
Other liabilities	-	-	-	-	-	-	20,157,518	20,157,518	
	56,040,466	48,287,366	36,624,806	78,664,499	75,926,337	2,196,558	314,292,512	612,032,544	
Interest sensitivity gap	43,990,010	(9,488,858)	(25,072,619)	(65,041,816)	66,833,746	239,329,579	(275,853,714)	(25,303,672)	
(KHR'000 - Note 5)	176,751,860	(38,126,231)	(100,741,783)	(261,338,017)	268,537,991	961,626,248	(1,108,380,223)	(101,670,155)	

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

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

Group	Up to 1 month US\$	> 1-3 months US\$	> 3-6 months US\$	> 6-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$	Non- interest bearing US\$	Total US\$	Interest rate p.a. %
As at 31 December 2018									
Financial assets									
Cash and cash equivalents	55,242,659	-	-	-	-	-	29,132,324	84,374,983	1.00%
Placements with other banks	-	1,200,000	-	-	-	-	-	1,200,000	2.50%
Loans and advances to customers, gross	53,502,008	8,563,784	7,615,487	20,462,822	99,922,007	139,944,111	-	330,010,219	6.52% - 24.00%
Equity investments at FVOCI	-	-	-	-	-	-	340,968	340,968	-
Other assets	-	-	-	-	-	-	2,251,101	2,251,101	-
	108,744,667	9,763,784	7,615,487	20,462,822	99,922,007	139,944,111	31,724,393	418,177,271	
Financial liabilities									
Deposits from customers	9,710,792	24,562,277	26,720,271	28,393,207	13,245,490	-	230,265,317	332,897,354	1.00% - 4.50%
Deposits from banks and FIs	3,016,423	60,784	202,890	232,364	-	-	649,268	4,161,729	1.00% - 3.00%
Borrowings	-	12,026,807	-	16,214,480	25,013,565	-	-	53,254,852	2.76% - 4.89%
Subordinated debts	-	-	-	-	29,212,458	-	-	29,212,458	3.94%
Lease liabilities	-	-	-	12,773	1,448,354	1,864,409	-	3,325,536	7.50% - 9.08%
Other liabilities	-	-	-	-	-	-	21,038,618	21,038,618	
	12,727,215	36,649,868	26,923,161	44,852,824	68,919,867	1,864,409	251,953,203	443,890,547	
Interest sensitivity gap	96,017,452	(26,886,084)	(19,307,674)	(24,390,002)	31,002,140	138,079,702	(220,228,810)	(25,713,276)	
(KHR'000 - Note 5)	385,798,122	(108,028,286)	(77,578,234)	(97,999,028)	124,566,599	554,804,243	(884,879,359)	(103,315,943)	

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

The table below summarises the Group's and the Bank's exposure to interest rate risk. The table indicates the periods in which the financial instruments reprice or mature, whichever is earlier.

Bank	Up to 1 month US\$	> 1-3 months US\$	> 3-6 months US\$	> 6-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$	Interest rate p.a. %
At 31 December 2019									
Financial assets									
Cash and cash equivalents	52,552,816	-	-	-	-	-	36,407,594	88,960,410	1.00%
Placements with other banks	-	10,400,000	-	-	-	-	-	10,400,000	
Loans and advances to customers, gross	47,457,326	26,398,508	11,552,187	13,622,683	142,760,083	241,526,137	-	483,316,924	6.52%-24.00%
Equity investments at FVOCI	-	-	-	-	-	-	488,662	488,662	-
Other assets	-	-	-	-	-	-	1,498,097	1,498,097	-
	100,010,142	36,798,508	11,552,187	13,622,683	142,760,083	241,526,137	38,394,353	584,664,093	
Financial liabilities									
Deposits from customers	23,053,209	23,413,250	27,280,236	53,184,112	28,714,234	-	292,358,982	448,004,023	1.00%-3.24%
Deposits from banks and FIs	8,813,918	60,784	-	438,439	-	-	1,776,012	11,089,153	1.00%-3.00%
Borrowings	25,013,565	12,809,375	9,344,570	25,012,419	16,911,064	-	-	89,090,993	2.55%-4.89%
Subordinated debts	-	-	-	-	29,185,429	-	-	29,185,429	4.06%-4.33%
Lease liabilities	-	-	-	29,529	1,115,610	8,149,784	-	9,294,923	7.50%-9.08%
Other liabilities	-	-	-	-	-	-	19,614,047	19,614,047	
	56,880,692	36,283,409	36,624,806	78,664,499	75,926,337	8,149,784	313,749,041	606,278,568	
Interest sensitivity gap	43,129,450	515,099	(25,072,619)	(65,041,816)	66,833,746	233,376,353	(275,354,688)	(21,614,475)	
(KHR'000 - Note 5)	173,294,130	2,069,668	100,741,783	(261,338,017)	268,537,991	937,706,186	(1,106,375,136)	(86,846,961)	

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

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

Bank	Up to 1 month US\$	> 1-3 months US\$	> 3-6 months US\$	> 6-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$	Non- interest bearing US\$	Total US\$	Interest rate p.a. %
At 31 December 2018									
Financial assets									
Cash and cash equivalents	54,416,190	-	-	-	-	-	29,132,324	83,548,514	1.00%
Placements with other banks	-	1,200,000	-	-	-	-	-	1,200,000	2.50%
Loans and advances to customers, gross	53,502,008	8,563,784	7,615,487	20,462,822	99,922,007	139,944,111	-	330,010,219	6.52%-24.00%
Equity investments at FVOCI	-	-	-	-	-	-	341,458	341,458	-
Other assets	-	-	-	-	-	-	2,246,246	2,246,246	-
	107,918,198	9,763,784	7,615,487	20,462,822	99,922,007	139,944,111	31,720,028	417,346,437	
Financial liabilities									
Deposits from customers	11,948,400	24,562,277	26,720,271	28,393,207	13,245,490	-	230,265,318	335,134,963	1.00%-4.50%
Deposits from banks	3,016,423	60,784	202,890	232,364	-	-	649,268	4,161,729	1.00%-3.00%
Borrowings	-	-	-	16,214,480	25,013,565	-	-	41,228,045	2.76%-4.89%
Subordinated debts	-	-	-	-	29,212,458	-	-	29,212,458	3.94%
Lease liabilities	-	-	-	12,773	1,448,354	7,827,544	-	9,288,671	7.50%-9.08%
Other liabilities	-	-	-	-	-	-	20,562,966	20,562,966	-
	14,964,823	24,623,061	26,923,161	44,852,824	68,919,867	7,827,544	251,477,552	439,588,832	
Interest sensitivity gap	92,953,375	(14,859,277)	(19,307,674)	(24,390,002)	31,002,140	132,116,567	(219,757,524)	(22,242,395)	
(KHR'000 - Note 5)	373,486,661	(59,704,575)	(77,578,234)	(97,999,028)	124,566,599	530,844,366	(882,985,731)	(89,369,942)	

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

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

Group	Profit or loss		Equity	
	100 bp Increase US\$	100 bp Decrease US\$	100 bp Increase US\$	100 bp Decrease US\$
2019				
Variable rate instruments	<u>(840,690)</u>	<u>840,690</u>	<u>(840,690)</u>	<u>840,690</u>
KHR'000 – Note 5	<u>(3,425,812)</u>	<u>3,425,812</u>	<u>(3,425,812)</u>	<u>3,425,812</u>
2018				
Variable rate instruments	<u>(150,223)</u>	<u>150,223</u>	<u>(150,223)</u>	<u>150,223</u>
KHR'000 – Note 5	<u>(603,596)</u>	<u>603,596</u>	<u>(603,596)</u>	<u>603,596</u>
Bank	Profit or loss		Equity	
	100 bp Increase US\$	100 bp Decrease US\$	100 bp Increase US\$	100 bp Decrease US\$
2019				
Variable rate instruments	<u>(810,680)</u>	<u>810,680</u>	<u>(810,680)</u>	<u>810,680</u>
KHR'000 – Note 5	<u>(3,303,521)</u>	<u>3,303,521</u>	<u>(3,303,521)</u>	<u>3,303,521</u>
2018				
Variable rate instruments	<u>(704,405)</u>	<u>704,405</u>	<u>(704,405)</u>	<u>704,405</u>
KHR'000 – Note 5	<u>(2,830,299)</u>	<u>2,830,299</u>	<u>(2,830,299)</u>	<u>2,830,299</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk

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

The Group and the Bank has no material exposures to foreign currency exchange risk as it transacts essentially in US Dollars. Therefore, no sensitivity analysis for foreign currency exchange risk was presented.

Concentration of currency risk

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

Group	Denomination US\$ equivalents			
	KHR	US\$	Others	Total
At 31 December 2019				
Financial assets				
Cash and cash equivalents	3,379,987	85,385,269	215,488	88,980,744
Placement with banks	-	12,400,000	-	12,400,000
Loans and advances to customers, gross	56,385,201	423,604,728	3,326,995	483,316,924
Other assets	-	1,543,032	-	1,543,032
Equity investments at FVOCI	-	488,172	-	488,172
	<u>59,765,188</u>	<u>523,421,201</u>	<u>3,542,483</u>	<u>586,728,872</u>
Financial liabilities				
Deposits from customers	5,747,298	441,414,981	1,518	447,163,797
Deposits from banks and FIs	1,492,903	9,596,250	-	11,089,153
Borrowings	34,063,671	67,031,279	-	101,094,950
Subordinated debts	-	29,185,429	-	29,185,429
Lease liabilities	-	3,341,697	-	3,341,697
Other liabilities	-	20,157,518	-	20,157,518
	<u>41,303,872</u>	<u>570,727,154</u>	<u>1,518</u>	<u>612,032,544</u>
Net asset/(liability) position	<u>18,461,316</u>	<u>(47,305,953)</u>	<u>3,540,965</u>	<u>(25,303,672)</u>
KHR'000 – Note 5	<u>75,229,863</u>	<u>(192,771,758)</u>	<u>14,429,432</u>	<u>(103,112,463)</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

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

Group	Denomination US\$ equivalents			
	KHR	US\$	Others	Total
At 31 December 2018				
Financial assets				
Cash and cash equivalents	8,610,186	74,339,768	1,425,029	84,374,983
Placement with banks	-	1,200,000	-	1,200,000
Loans and advances to customers, gross	-	326,680,387	3,329,832	330,010,219
Equity investments at FVOCI	-	340,968	-	340,968
Other assets	-	2,251,101	-	2,251,101
	<u>8,610,186</u>	<u>404,812,224</u>	<u>4,754,861</u>	<u>418,177,271</u>
Financial liabilities				
Deposits from customers	545,606	332,346,822	4,926	332,897,354
Deposits from banks and FIs	21,703	4,140,026	-	4,161,729
Borrowings	-	53,254,852	-	53,254,852
Subordinated debts	-	29,212,458	-	29,212,458
Lease liabilities	-	3,325,536	-	3,325,536
Other liabilities	-	21,038,618	-	21,038,618
	<u>567,309</u>	<u>443,318,312</u>	<u>4,926</u>	<u>443,890,547</u>
Net asset position	<u>8,042,877</u>	<u>(38,506,088)</u>	<u>4,749,935</u>	<u>(25,713,276)</u>
KHR'000 – Note 5	<u>32,316,280</u>	<u>(154,717,462)</u>	<u>19,085,239</u>	<u>(103,315,943)</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

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

Bank	Denomination US\$ equivalents			
	KHR	US\$	Others	Total
At 31 December 2019				
Financial assets				
Cash and cash equivalents	3,379,987	85,364,935	215,488	88,960,410
Placement with banks	-	10,400,000	-	10,400,000
Loans and advances to customers, gross	56,385,201	423,604,728	3,326,995	483,316,924
Equity investments at FVOCI	-	1,498,097	-	1,498,097
Other assets	-	488,662	-	488,662
	<u>59,765,188</u>	<u>521,356,422</u>	<u>3,542,483</u>	<u>584,664,093</u>
Financial liabilities				
Deposits from customers	5,747,298	442,255,207	1,518	448,004,023
Deposits from banks and FIs	1,492,903	9,596,250	-	11,089,153
Borrowings	34,063,671	55,027,322	-	89,090,993
Subordinated debts	-	29,185,429	-	29,185,429
Lease liabilities	-	9,294,923	-	9,294,923
Other liabilities	-	19,614,047	-	19,614,047
	<u>41,303,872</u>	<u>564,973,178</u>	<u>1,518</u>	<u>606,278,568</u>
Net asset/(liability) position	<u>18,461,316</u>	<u>(43,616,756)</u>	<u>3,540,965</u>	<u>(21,614,475)</u>
KHR'000 – Note 5	<u>75,229,863</u>	<u>(177,738,281)</u>	<u>14,429,432</u>	<u>(88,078,986)</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

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

Bank	Denomination US\$ equivalents			
	KHR	US\$	Others	Total
At 31 December 2018				
Financial assets				
Cash and cash equivalents	8,610,186	73,513,299	1,425,029	83,548,514
Placement with banks	-	1,200,000	-	1,200,000
Loans and advances to customers, gross	-	326,680,387	3,329,832	330,010,219
Equity investments at FVOCI	-	341,458	-	341,458
Other assets	-	2,246,246	-	2,246,246
	<u>8,610,186</u>	<u>403,981,390</u>	<u>4,754,861</u>	<u>417,346,437</u>
Financial liabilities				
Deposits from customers	545,606	334,584,431	4,926	335,134,963
Deposits from banks and FIs	21,703	4,140,026	-	4,161,729
Borrowings	-	41,228,045	-	41,228,045
Subordinated debts	-	29,212,458	-	29,212,458
Lease liabilities	-	9,288,671	-	9,288,671
Other liabilities	-	20,562,966	-	20,562,966
	<u>567,309</u>	<u>439,016,597</u>	<u>4,926</u>	<u>439,588,832</u>
Net asset/(liability) position	<u>8,042,877</u>	<u>(35,035,207)</u>	<u>4,749,935</u>	<u>(22,242,395)</u>
KHR'000 – Note 5	<u>32,316,280</u>	<u>(140,771,462)</u>	<u>19,085,239</u>	<u>(89,369,943)</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Sensitivity analysis

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

Group	2019		2018	
	- 1% Depreciation US\$	+ 1% Appreciation US\$	- 1% Depreciation US\$	+ 1% Appreciation US\$
KHR	(378,675)	378,675	80,429	(80,429)
Others	2,140	(2,140)	47,499	(47,499)
	<u>(376,535)</u>	<u>376,535</u>	<u>127,928</u>	<u>(127,928)</u>
KHR'000 – Note 5	<u>(1,534,380)</u>	<u>1,534,380</u>	<u>514,015</u>	<u>(514,015)</u>
Bank				
KHR	(378,675)	378,675	80,429	(80,429)
Others	2,140	(2,140)	47,499	(47,499)
	<u>(376,535)</u>	<u>376,535</u>	<u>127,928</u>	<u>(127,928)</u>
KHR'000 – Note 5	<u>(1,534,380)</u>	<u>1,534,380</u>	<u>514,015</u>	<u>(514,015)</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

D. Liquidity risk

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

Management of liquidity risk

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

D. Liquidity risk (continued)

Group	Up to 1 month US\$	> 1-3 months US\$	> 3-6 months US\$	> 6-12 months US\$	> 1 to 5 months US\$	Over 5 years US\$	No fixed maturity date US\$	Total US\$
At 31 December 2019								
Financial liabilities								
Deposits from customers	22,212,983	23,413,250	27,280,236	53,184,112	28,714,234	-	292,358,982	447,163,797
Deposits from banks and FIs	8,813,918	60,784	-	438,439	-	-	1,776,012	11,089,153
Borrowings	25,013,565	24,813,332	9,344,570	25,012,419	16,911,064	-	-	101,094,950
Subordinated debts	-	-	-	-	29,185,429	-	-	29,185,429
Lease liabilities	-	-	-	29,529	1,115,610	2,196,558	-	3,341,697
Other liabilities	-	-	-	-	-	-	20,157,518	20,157,518
	56,040,466	48,287,366	36,624,806	78,664,499	75,926,337	2,196,558	314,292,512	612,032,544
(KHR'000 equivalents - Note 5)	228,364,899	196,771,016	149,246,084	320,557,833	309,399,823	8,950,974	1,280,741,986	2,494,032,615
At 31 December 2018								
Financial liabilities								
Deposits from customers	9,710,791	24,562,277	26,720,271	28,393,207	13,245,490	-	230,265,318	332,897,354
Deposits from banks and FIs	3,016,423	60,784	202,890	232,364	-	-	649,268	4,161,729
Borrowings	-	12,026,807	-	16,214,480	25,013,565	-	-	53,254,852
Subordinated debts	-	-	-	-	29,212,458	-	-	29,212,458
Lease liabilities	-	-	-	12,773	1,448,354	1,864,409	-	3,325,536
Other liabilities	-	-	-	-	-	-	21,038,618	21,038,618
	12,727,214	36,649,868	26,923,161	44,852,824	68,919,867	1,864,409	251,953,204	443,890,547
(KHR'000 equivalents - Note 5)	51,137,946	147,259,170	108,177,261	180,218,647	276,920,026	7,491,195	1,012,347,974	1,783,552,219

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

D. Liquidity risk (continued)

Bank	Up to 1 month US\$	> 1-3 months US\$	> 3-6 months US\$	> 6-12 months US\$	> 1 to 5 months US\$	Over 5 years US\$	No fixed maturity date US\$	Total US\$
At 31 December 2019								
Financial liabilities								
Deposits from customers	23,053,209	23,413,250	27,280,236	53,184,112	28,714,234	-	292,358,982	448,004,023
Deposits from banks	8,813,918	60,784	-	438,439	-	-	1,776,012	11,089,153
Borrowings	25,013,565	12,809,375	9,344,570	25,012,419	16,911,064	-	-	89,090,993
Subordinated debts	-	-	-	-	29,185,429	-	-	29,185,429
Lease liabilities	-	-	-	29,529	1,115,610	8,149,784	-	9,294,923
Other liabilities	-	-	-	-	-	-	19,614,047	19,614,047
	<u>56,880,692</u>	<u>36,283,409</u>	<u>36,624,806</u>	<u>78,664,499</u>	<u>75,926,337</u>	<u>8,149,784</u>	<u>313,749,041</u>	<u>606,278,568</u>
(KHR'000 equivalents - Note 5)	<u>231,788,820</u>	<u>147,854,892</u>	<u>149,246,084</u>	<u>320,557,833</u>	<u>309,399,823</u>	<u>33,210,370</u>	<u>1,278,527,342</u>	<u>2,470,585,164</u>
At 31 December 2018								
Financial liabilities								
Deposits from customers	11,948,400	24,562,277	26,720,271	28,393,207	13,245,490	-	230,265,318	335,134,963
Deposits from banks	3,016,423	60,784	202,890	232,364	-	-	649,268	4,161,729
Borrowings	-	-	-	16,214,480	25,013,565	-	-	41,228,045
Subordinated debts	-	-	-	-	29,212,458	-	-	29,212,458
Lease liabilities	-	-	-	12,773	1,448,354	7,827,544	-	9,288,671
Other liabilities	-	-	-	-	-	-	20,562,966	20,562,966
	<u>14,964,823</u>	<u>24,623,061</u>	<u>26,923,161</u>	<u>44,852,824</u>	<u>68,919,867</u>	<u>7,827,544</u>	<u>251,477,552</u>	<u>439,588,832</u>
(KHR'000 equivalents - Note 5)	<u>60,128,659</u>	<u>98,935,459</u>	<u>108,177,261</u>	<u>180,218,647</u>	<u>276,920,026</u>	<u>31,451,072</u>	<u>1,010,436,804</u>	<u>1,766,267,928</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

33. Financial risk management (continued)

E. Operational risk

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

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

F. Capital management

(i). *Regulatory capital*

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

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

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

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

(ii). *Capital allocation*

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

34. Fair values of financial assets and liabilities

Financial instruments comprise financial assets, financial liabilities and off-balance sheet instruments. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group and the Bank has access at that date. The information presented herein represents the estimates of fair values as at the financial position date.

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

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

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

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

(i) Cash at banks

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

(ii) Loans and advances to customers

For fixed rate loans with remaining period to maturity of less than one year, the carrying amounts are generally reasonable estimates of their fair values.

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

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

(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.

Fair value hierarchy

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

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening CIFRS statement of financial position at 1 January 2018 (the Group's and the Bank's date of transaction).

A. Basis of measurement

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

B. Basis of consolidation

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

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

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

Non-controlling interest ("NCI") represents the portion of profit or loss and the net assets of the subsidiary not owned, directly or indirectly, by the Bank. NCI are presented separately in the consolidated statement of income, 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.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

C. Foreign currency

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

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

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

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

D. Financial assets and financial liabilities

(i). *Recognition and initial measurement*

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

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

(ii). *Classification*

Financial assets

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

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(ii). *Classification (continued)*

Financial assets (continued)

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

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

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

All other financial assets are classified as measured at FVTPL

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

Business model assessment

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(ii). *Classification (continued)*

Financial assets (continued)

Business model assessment (continued)

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

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

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

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

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

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(ii). *Classification (continued)*

Financial assets (continued)

Non-recourse loans

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

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

Reclassifications

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

(iii). *Derecognition*

Financial assets

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(iii). Derecognition (continued)

Financial assets (continued)

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

Financial liabilities

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

(iv). Modifications of financial assets and financial liabilities

Financial assets

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

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

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit and loss as part of the gain or loss on derecognition.
- If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group and the Bank plan to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

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

Financial assets (continued)

- If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group and the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit and loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.
- If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

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

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

(v). *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group and the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(vi). *Fair value measurement*

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group and the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group and the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group and the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group and the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit and loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(vi). *Fair value measurement (continued)*

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

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

(vii). *Impairment*

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

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

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

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

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

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

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

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

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

Determining whether credit risk has increased significantly

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

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

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

Definition of default

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Measurement of ECL

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

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

Inputs, assumptions and techniques used for estimating impairment

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

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

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

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(vii). *Impairment (continued)*

Measurement of ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

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

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

Restructured financial assets

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Measurement of ECL (continued)

Credit-impaired financial assets

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

Provision for financial guarantee contract is presented as a separate liability in the statement of financial position

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

D. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Write-off

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

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the profit or loss and OCI.

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

E. Cash and cash equivalents

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

F. Share capital

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

G. General reserves and regulatory reserves

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

G. General reserves and regulatory reserves (continued)

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

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

The regulatory reserves are not an item to be included in the calculated of the Institution net worth.

H. Placements with banks

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

I. Statutory deposits

Statutory deposits included in balances with the NBC are maintained in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by the defined percentage of the minimum share capital and the customers' deposits as required by NBC.

J. Loans and advances

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

K. Other assets

Other assets are carried at cost less impairment if any.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

L. Property and equipment

(i) *Recognition and measurement*

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

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

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

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

(ii). *Subsequent costs*

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

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

(iii). *Depreciation*

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

L. Property and equipment (continued)

(iii). Depreciation (continued)

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

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

Depreciation is recognised from the date that the property and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

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

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

Freehold land and construction in progress are not depreciated.

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

M. Intangible assets

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

Intangible assets are amortised over their estimated useful lives from 4 years using the straight-line method.

Costs associated with the development or maintenance of 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 2019

35. Significant accounting policies (continued)

N. Leases

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

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

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

This policy is applied to contracts entered into, or changed, on or after 1 January 2018.

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

N. Leases (continued)

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

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

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

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

Short-term leases and leases of low-value assets

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

O. Borrowings

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

P. Employee benefits

(i). *Short-term employee benefits*

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

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

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

Q. Provisions

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

R. Interest

Effective interest rate

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

R. Interest (continued)

Effective interest rate (continued)

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

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

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

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

Calculation of interest income and expense

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

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

R. Interest (continued)

Presentation

Interest income calculated using the effective interest method presented in the statement of profit and loss and other comprehensive income includes interest on financial assets and financial liabilities measured at amortised cost.

Interest expense presented in the statement of profit and loss and other comprehensive income includes financial liabilities measured at amortised cost.

S. Fee and commission

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

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

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

T. Impairment of non-financial assets

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

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

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

T. Impairment of non-financial assets (continued)

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

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

U. Income tax

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

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

(i). Current tax

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

(ii). Deferred tax

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

A deferred tax asset are recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

35. Significant accounting policies (continued)

U. Income tax (continued)

(ii). *Deferred tax (continued)*

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

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

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

V. Contingent liabilities

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

W. Contingent assets

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

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs

Adoption of CIFRSs Framework

The Group and the Bank has adopted the Cambodia International Financial Reporting Standards ("CIFRSs") as issued by the International Accounting Standards Board ("IASB") as at 1 January 2019. These financial statements of the Group and the Bank for the year ended 31 December 2019 are the first set of financial statements prepared in accordance with CIFRSs including the application of CIFRS 1 *First-time Adoption of Cambodian International Financial Reporting Standards*.

Accordingly, the Group and the Bank have prepared financial statements which comply with CIFRSs applicable for periods ending on or after 31 December 2019, together with the comparative period information as at and for the year ended 31 December 2018, as described in the significant accounting policies in Note 35.

In preparing these financial statements, the Group's and the Bank's opening statements of financial position were prepared as at 1 January 2018, being the Group's and the Bank's date of transition to CIFRSs. Principal adjustments made by the Group and the Bank in restating its statements of financial position as at 1 January 2018 and its previously published financial statements for the year ended 31 December 2018, both of which were prepared in accordance with Cambodian Accounting Standards and the guidelines of the NBC relating to the preparation and presentation of financial statements ("Cambodia GAAP") are presented in below.

Optional exemptions applied

CIFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under CIFRSs. The Group and the Bank have applied the following exemptions:

Fair value or revaluation as deemed cost – property and equipment

The Group and the Bank has elected to measure individual items of property and equipment using Cambodia GAAP that are broadly comparable to depreciated cost in accordance with CIFRSs as at the date of transition to CIFRSs.

Leases

CIFRS 16 introduces consequential amendments to CIFRS 1, which include an option for a first-time adopter to apply the new lease definition to contracts existing at the date of transition based on facts and circumstances at that date.

The Group and the Bank applied the abovementioned exemption and maintained the conclusions achieved arising from assessments previously made under Cambodia GAAP for existing lease arrangements.

Other optional exemptions available under CIFRS 1, which are not discussed here, are not material to the Group and the Bank.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

Mandatory exemptions

Estimates

The estimates at 1 January 2018 and at 31 December 2018 are consistent with those made for the same dates in accordance with Cambodian Accounting Standards. The estimates used by the Group and the Bank to present these amounts in accordance with CIFRSs reflect conditions at 1 January 2018, the date of transition to CIFRSs, and as at 31 December 2018.

Derecognition of financial assets and financial liabilities

A first-time adopter shall apply the derecognition requirements of CIFRSs prospectively for transactions occurring on or after 1 January 2018, the date of transition to CIFRSs. However, an entity may apply the derecognition requirements of CIFRSs from a retrospective date of the entity's choosing provided that the information required to do this was obtained at the time of initially accounting for those transactions.

The Group and the Bank have applied the derecognition requirements of CIFRSs prospectively for transactions occurring on or after 1 January 2018.

Reconciliations

The reconciliations contain two columns for each period as well as the Cambodia GAAP and CIFRSs results. The "reclassification" column includes reclassification and reanalysis of amounts from their Cambodia GAAP statement of financial position lines to the appropriate CIFRSs statement of financial position lines. The "effect of transition to CIFRSs" column sets out the effects of the recognition and measurement changes required by the transition to CIFRSs. The "effect of transition to CIFRSs" columns are further analysed into the type of adjustment.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

Reconciliation of equity

The following reconciliations summarise the impacts on initial application of CIFRSs on the Group's and the Bank's financial position as at 31 December 2017 and 1 January 2018 and the Group's and the Bank's profit or loss and other comprehensive income for the year ended 31 December 2018.

Group	Note	31 December 2017				31 December 2018			
		Cambodia GAAP US\$	Effect of transition to CIFRSs		1 January 2018 CIFRSs US\$	Cambodia GAAP US\$	Effect of transition to CIFRSs		CIFRSs US\$
			Redclassification US\$	Remeasurement US\$			Redclassification US\$	Remeasurement US\$	
ASSETS									
Cash on hand	A(i)	27,674,096	(27,674,096)	-	29,132,324	(29,132,324)	-	-	-
Balances with the NBC	A(i)	122,647,307	(122,647,307)	-	96,666,941	(96,666,941)	-	-	-
Placements with other banks	A(i)	18,312,863	(18,312,863)	-	21,659,880	(20,459,880)	-	-	1,200,000
Cash and cash equivalents	A(i)	-	101,750,297	(180,345)	-	-	-	-	84,374,983
Statutory deposits	A(i)	-	66,883,969	-	-	-	-	-	61,884,162
Loans and advances to customers – net	A	316,408,637	-	(8,052,724)	308,355,913	315,424,198	-	(4,273,449)	311,150,749
Other assets	A(i)	6,270,533	-	(1,333,989)	4,936,544	4,922,910	-	(1,237,021)	3,685,889
Equity investments at FVOCI		297,767	-	-	297,767	340,968	-	-	340,968
Finance lease receivables		-	-	-	-	4,104	-	(4,104)	-
Intangible assets		843,566	-	-	843,566	421,815	-	-	421,815
Property and equipment		31,616,949	-	-	31,616,949	41,109,621	-	-	41,109,621
Right-of-use assets	B	-	-	3,290,218	3,290,218	-	-	2,904,141	2,904,141
Deferred tax assets – net	C	9,186,284	-	2,195,001	11,381,285	8,040,820	-	1,591,571	9,632,391
Total assets (US\$)		533,258,002	-	(4,081,839)	529,176,163	517,723,581	-	(1,018,862)	516,704,719
Total assets (KHR'000 – Note 5)		2,152,762,554	-	(16,478,384)	2,136,284,170	2,080,213,348	-	(4,093,788)	2,076,119,561

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

Reconciliation of equity (continued)

Group	Note	31 December 2017				31 December 2018			
		Cambodia GAAP US\$	Effect of transition to CIFRSs		1 January 2018 CIFRSs US\$	Cambodia GAAP US\$	Effect of transition to CIFRSs		CIFRSs US\$
			Redclassification US\$	Remeasurement US\$			Redclassification US\$	Remeasurement US\$	
LIABILITIES AND EQUITY									
Deposits from customers	A(i)	279,512,580	-	2,313,043	281,825,623	331,025,641	-	1,871,713	332,897,354
Deposits from banks and FIs	A(i)	5,994,194	-	5,610	5,999,804	4,157,934	-	3,795	4,161,729
Short-term borrowings	A(i)	122,565,440	-	84,307	122,649,747	53,232,689	-	22,163	53,254,852
Subordinated debts	A(i)	29,000,000	-	98,482	29,098,482	29,000,000	-	212,458	29,212,458
Provision for financial guarantee contracts		-	-	-	-	322,089	-	-	322,089
Lease liabilities	B	-	-	3,647,117	3,647,117	-	-	3,325,536	3,325,536
Other liabilities	A(i)	23,636,692	-	(2,447,647)	21,189,045	23,118,586	-	(2,079,968)	21,038,618
Provision for employee benefits		255,613	-	-	255,613	416,028	-	-	416,028
Current income tax liability		82,819	-	-	82,819	175,656	-	-	175,656
Total liabilities		461,047,338	-	3,700,912	464,748,250	441,448,623	-	3,355,697	444,804,320
EQUITY									
Share capital		37,500,000	-	-	37,500,000	80,000,000	-	-	80,000,000
Additional capital contribution		42,500,000	-	-	42,500,000	-	-	-	-
Accumulated losses		(33,628,726)	-	(7,782,751)	(41,411,477)	(29,598,314)	-	(4,374,559)	(33,972,873)
Non-distributable reserve		25,622,772	-	-	25,622,772	25,622,772	-	-	25,622,772
AFS reserve		216,618	-	-	216,618	250,500	-	-	250,500
Total equity		72,210,664	-	(7,782,751)	64,427,913	76,274,958	-	(4,374,559)	71,900,399
Total liabilities and equity (US\$)		533,258,002	-	(4,081,839)	529,176,163	517,723,581	-	(1,018,862)	516,704,719
Total liabilities and equity (KHR'000 – Note 5)		2,152,762,554	-	(16,478,384)	2,136,284,170	2,080,213,348	-	(4,093,787)	2,076,119,561

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

Reconciliation of equity (continued)

Bank	Note	31 December 2017				31 December 2018			
		Cambodia GAAP US\$	Effect of transition to CIFRSs		1 January 2018 CIFRSs US\$	Cambodia GAAP US\$	Effect of transition to CIFRSs		CIFRSs US\$
			Reclassification US\$	Remeasurement US\$			Reclassification US\$	Remeasurement US\$	
ASSETS									
Cash on hand	A(i)	27,674,096	(27,674,096)	-	-	29,132,324	(29,132,324)	-	-
Balances with the NBC	A(i)	122,647,307	(122,647,307)	-	-	96,666,941	(96,666,941)	-	-
Placements with other banks	A(i)	18,034,535	(18,034,535)	-	-	20,833,411	(19,633,411)	-	1,200,000
Cash and cash equivalents	A(i)	-	101,471,969	(180,345)	101,291,624	-	83,548,514	-	83,548,514
Statutory deposits		-	66,883,969	-	66,883,969	-	61,884,162	-	61,884,162
Loans and advances to customers – net	A(i)	316,408,637	-	(8,052,724)	308,355,913	315,424,198	-	(4,273,449)	311,150,749
Other assets	A(i)	5,269,333	-	(1,333,989)	3,935,344	4,918,055	-	(1,237,021)	3,681,034
Equity investments at FVOCI	A(i)	297,767	-	-	297,767	340,968	-	-	340,968
Investment in subsidiary		490	-	-	490	490	-	-	490
Intangible assets		842,708	-	-	842,708	421,171	-	-	421,171
Property and equipment		22,654,595	-	-	22,654,595	31,938,445	-	-	31,938,445
Right-of-use assets	B	-	-	8,558,833	8,558,833	-	-	7,864,268	7,864,268
Deferred tax assets – net	C	9,155,355	-	2,195,001	11,350,356	8,038,982	-	1,591,571	9,630,553
Total assets (US\$)		522,984,823	-	1,186,776	524,171,599	507,714,985	-	3,945,369	511,660,354
Total assets (KHR'000 – Note 5)		2,111,289,730	-	4,791,015	2,116,080,745	2,039,998,810	-	15,852,492	2,055,851,302

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

Reconciliation of equity (continued)

Bank	Note	31 December 2017				31 December 2018			
		Cambodia GAAP US\$	Effect of transition to CIFRSs		1 January 2018 CIFRSs US\$	Cambodia GAAP US\$	Effect of transition to CIFRSs		CIFRSs US\$
			Redclassification US\$	Remeasurement US\$			Redclassification US\$	Remeasurement US\$	
LIABILITIES AND EQUITY									
Deposits from customers	A(i)	280,481,084	-	2,313,043	282,794,127	333,263,250	-	1,871,713	335,134,963
Deposits from banks and FIs	A(i)	5,994,194	-	5,610	5,999,804	4,157,934	-	3,795	4,161,729
Provision for financial guarantee contracts		-	-	-	-	322,089	-	-	322,089
Short-term borrowings	A(i)	110,549,757	-	84,306	110,634,063	41,205,882	-	22,163	41,228,045
Subordinated debts	A(i)	29,000,000	-	98,482	29,098,482	29,000,000	-	212,458	29,212,458
Lease liabilities	B	1,030,755	-	8,969,527	10,000,282	968,743	-	8,319,928	9,288,671
Other liabilities	A(i)	23,703,277	-	(2,501,441)	21,201,836	22,673,095	-	(2,110,129)	20,562,966
Provision for employee benefits		255,613	-	-	255,613	416,028	-	-	416,028
Current income tax liabilities		36,212	-	-	36,212	37,083	-	-	37,083
Total liabilities		451,050,892	-	8,969,527	460,020,419	432,044,104	-	8,319,928	440,364,032
EQUITY									
Share capital		37,500,000	-	-	37,500,000	80,000,000	-	-	80,000,000
Additional capital contribution		42,500,000	-	-	42,500,000	-	-	-	-
Accumulated losses		(33,905,459)	-	(7,782,751)	(41,688,210)	(30,202,391)	-	(4,374,559)	(34,576,950)
Non-distributable reserve		25,622,772	-	-	25,622,772	25,622,772	-	-	25,622,772
AFS reserve		216,618	-	-	216,618	250,500	-	-	250,500
Total equity		71,933,931	-	(7,782,751)	64,151,180	75,670,881	-	(4,374,559)	71,296,322
Total liabilities and equity (US\$)		522,984,823	-	1,186,776	524,171,599	507,714,985	-	3,945,369	511,660,354
Total liabilities and equity (KHR'000 – Note 5)		2,111,289,730	-	4,791,015	2,116,080,745	2,039,998,810	-	15,852,492	2,055,851,302

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

Reconciliation of profit or loss for the year ended 31 December 2018

Group	Note	Cambodia GAAP US\$	Effect of transition to CIFRSs		CIFRSs US\$
			Re- classification US\$	Re- measurement US\$	
Operating income					
Interest income	A(iii)	25,430,160	-	1,213,294	26,643,454
Interest expense	B	(8,641,227)	-	(262,278)	(8,903,505)
Net interest income		16,788,933	-	951,016	17,739,949
Net fee and commission income	A(iii)	1,282,226	-	(801,212)	481,014
Other income		14,194,309	-	210,102	14,404,411
Total operating profit		32,265,468	-	359,906	32,625,374
Personnel expenses		(4,921,151)	-	-	(4,921,151)
Other operating expenses	B	(6,791,375)	-	7,210	(6,784,165)
Total operating expenses		(11,712,526)	-	7,210	(11,705,316)
Operating profit before impairment		20,552,942	-	367,116	20,920,058
Impairment losses on financial instruments	A(ii)	(14,865,821)	-	3,644,506	(11,221,315)
Profit before income tax		5,687,121	-	4,011,622	9,698,743
Income tax expense	C	(1,316,004)	-	(603,430)	(1,919,434)
Net profit for the year		4,371,117	-	3,408,192	7,779,309
Other comprehensive income					
Currency translation difference		-	-	33,882	33,882
Total comprehensive income for the year		4,371,117	-	3,442,074	7,813,191

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

Reconciliation of profit or loss for the year ended 31 December 2018 (continued)

Bank	Note	Cambodia GAAP US\$	Effect of transition to CIFRSs		CIFRSs US\$
			Re- classification US\$	Re- measurement US\$	
Operating income					
Interest income	A(iii)	25,349,028	-	1,213,294	26,562,322
Interest expense	B	(8,071,388)	-	(424,714)	(8,496,102)
Net interest income		17,277,640	-	788,580	18,066,220
Net fee and commission income	A(iii)	1,282,226	-	(801,212)	481,014
Other income		13,415,156	-	-	13,415,156
Total operating profit		31,975,022	-	(12,632)	31,962,390
Personnel expenses		(4,915,141)	-	-	(4,915,141)
Other operating expenses	B	(7,374,619)	-	379,748	(6,994,871)
Total operating expenses		(12,289,760)	-	379,748	(11,910,012)
Operating profit before impairment		19,685,262	-	367,116	20,052,378
Impairment losses on financial instruments	A(ii)	(14,865,821)	-	3,644,506	(11,221,315)
Profit before income tax		4,819,441	-	4,011,622	8,831,063
Income tax expense		(1,116,373)	-	(603,430)	(1,719,803)
Net profit for the year		3,703,068	-	3,408,192	7,111,260
Other comprehensive income					
Currency translation difference		-	-	33,882	33,882
Total comprehensive income for the year		3,703,068	-	3,442,074	7,145,142

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

Notes to the reconciliation

A. Financial assets and liabilities

CIFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It also introduces a new 'expected credit loss' (ECL) model and a new general hedge accounting model. The Group and the Bank adopted CIFRS 9 from 1 January 2018.

Changes in accounting policies resulting from the adoption of CIFRS 9 have been generally applied by the Group and the Bank retrospectively, except as described below.

- The following assessments were made on the basis of facts and circumstances that existed at 1 January 2018.
 - The determination of the business model within which a financial asset is held;
 - The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding;
 - The designation of an equity investment that is not held-for-trading as at FVOCI; and
- If a debt investment has low credit risk at 1 January 2018, the Company had assumed that the credit risk on the asset has not increased significantly since its initial recognition.

The impact upon adoption of CIFRS 9, including the corresponding tax effects, are described below.

(i) *Classification of financial assets and financial liabilities*

Under CIFRS 9, financial assets are classified in the following categories: measured at amortised cost, FVOCI – debt instrument, FVOCI – equity instrument; or FVTPL. The classification of financial assets under CIFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

For an explanation of how the Group and the Bank classifies and measures financial assets and related gains and losses under CIFRS 9, see Note 35D(ii).

The following table and the accompanying notes below explain the original measurement categories under Cambodia GAAP and the new measurement categories under CIFRS 9 for each class of the Group's and the Bank's financial assets as at 1 January 2018 and 31 December 2018.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(i) Classification of financial assets and financial liabilities (continued)

Group	Note	Original classification under Cambodia GAAP	New classification under CIFRS 9	1 January 2018		31 December 2018	
				Original carrying amount under Cambodia GAAP US\$	New carrying amount under CIFRS 9 US\$	Original carrying amount under Cambodia GAAP US\$	New carrying amount under CIFRS 9 US\$
Financial assets							
Cash and cash equivalents (reclassified)	(a)	Cost	Amortised cost	101,750,297	101,569,952	84,374,983	84,374,983
Placements with other banks (reclassified)	(a)	Cost	Amortised cost	-	-	1,200,000	1,200,000
Equity investments at FVOCIs		FVOCI	FVOCI	297,767	297,767	340,968	340,968
Loans and advances to customers	(b)	Carrying amount	Amortised cost	316,408,637	308,355,913	315,424,198	311,150,749
Other assets		Cost	Amortised cost	6,270,533	4,936,544	4,922,910	3,685,889
Total financial assets (US\$)				424,727,234	415,160,176	406,263,059	400,752,589
Total financial assets (KHR'000 – Note5)				1,714,623,844	1,676,001,631	1,640,083,969	1,617,838,202

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(i) Classification of financial assets and financial liabilities (continued)

Group	Note	Original classification under Cambodia GAAP	New classification under CIFRS 9	1 January 2018		31 December 2018	
				Original carrying amount under Cambodia GAAP	New carrying amount under CIFRS 9	Original carrying amount under Cambodia GAAP	New carrying amount under CIFRS 9
				US\$	US\$	US\$	US\$
Financial liabilities							
Deposits from customers	(c)	Cost	Amortised cost	279,512,580	281,825,623	331,025,641	332,897,354
Deposits from banks	(c)	Cost	Amortised cost	5,994,194	5,999,804	4,157,934	4,161,729
Short-term borrowings	(c)	Cost	Amortised cost	122,565,440	122,649,747	53,232,689	53,254,852
Subordinated debts	(c)	Cost	Amortised cost	29,000,000	29,098,482	29,000,000	29,212,458
Other liabilities	(c)	Cost	Amortised cost	23,636,692	21,189,045	23,118,586	21,038,618
Total financial liabilities (US\$)				460,708,906	460,762,701	440,534,850	440,565,011
Total financial liabilities (KHR'000 - Note 5)				1,859,881,854	1,860,099,024	1,778,439,189	1,778,560,949

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(i) Classification of financial assets and financial liabilities (continued)

	Note	Original classification under Cambodia GAAP	New classification under CIFRS 9	1 January 2018		31 December 2018	
				Original carrying amount under Cambodia GAAP US\$	New carrying amount under CIFRS 9 US\$	Original carrying amount under Cambodia GAAP US\$	New carrying amount under CIFRS 9 US\$
Bank							
Financial assets							
Cash and cash equivalents (reclassified)	(a)	Cost	Amortised cost	101,471,969	101,291,624	83,548,514	83,548,514
Placements with other banks (reclassified)	(a)	Cost FVOCI	Amortised cost FVOCI	- 298,257	- 298,257	1,200,000 341,458	1,200,000 341,458
Equity investments at FVOCIs	(b)	Carrying amount	Amortised cost	316,408,637	308,355,913	315,424,198	311,150,749
Loans and advances to customers	(c)	Cost	Amortised cost	5,269,333	3,935,344	4,918,055	3,681,034
Total financial assets (US\$)				<u>423,448,196</u>	<u>413,881,138</u>	<u>405,432,225</u>	<u>399,921,755</u>
Total financial assets (KHR'000 – Note 5)				<u>1,709,460,367</u>	<u>1,670,838,154</u>	<u>1,636,729,892</u>	<u>1,614,484,125</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(i) Classification of financial assets and financial liabilities (continued)

Bank	Note	1 January 2018		31 December 2018			
		Original classification under Cambodia GAAP	New classification under CIFRS 9	Original carrying amount under Cambodia GAAP US\$	New carrying amount under CIFRS 9 US\$		
Financial liabilities							
Deposits from customers	(c)	Cost	Amortised cost	280,481,084	282,794,127	333,263,250	335,134,963
Deposits from banks and FIs	(c)	Cost	Amortised cost	5,994,194	5,999,804	4,157,934	4,161,729
Short-term borrowings	(c)	Cost	Amortised cost	110,549,757	110,634,063	41,205,882	322,089
Subordinated debts	(c)	Cost	Amortised cost	29,000,000	29,098,482	29,000,000	41,228,045
Other liabilities	(c)	Cost	Amortised cost	23,703,277	21,201,836	22,673,095	20,562,966
Total financial liability (US\$)				449,728,312	449,728,312	430,300,161	401,409,792
Total financial liability (KHR'000 – Note 5)				1,815,553,196	1,815,553,196	1,815,553,196	1,737,121,750

- (a) Cash on hand, balances with the NBC and placements with other banks which are reclassified to cash and cash equivalents, and statutory deposits to conform to the current presentation, which were previously measured at cost are now measured at amortised cost.
- (b) Loans and advances to customers that were classified as loans and receivables under Cambodia GAAP are now classified at amortised cost. Refer to adjustments in A(ii) and A(iii) below.
- (c) Under Cambodia GAAP, these financial assets liabilities that were classified at cost are now classified at amortised cost. Refer to adjustments in A(iii) below.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(ii) *Impairment of financial assets*

CIFRS 9 replaces the 'incurred loss' model in Cambodia GAAP with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, debt investments at FVOCI but not to equity investments.

The application of CIFRS 9 impairment requirements at 1 January 2018 results in additional allowances for impairment as follows:

Group and Bank	1 January 2018 US\$	31 December 2018 US\$
Loss allowance Cambodia GAAP	(15,518,465)	(13,951,779)
Additional impairment recognised at 1 January 2018 on:		
Loans and advances	(8,371,852)	(4,907,691)
Loss allowance under CIFRSs - US\$	(23,890,317)	(18,859,470)
Loss allowance under CIFRSs – KHR'000 – Note 5	(96,445,210)	(311,150,749)

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Additional information about how the Group and the Bank measure the allowance for impairment is described in Note 34B.

(iii) *Interest*

Under Cambodia GAAP, fees integral to the financial assets and liabilities were not considered as effective interest and recognised on occurrence of transactions. In addition, recognition of interest income was suspended when loan become non-performing.

Under CIFRSs, a financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Interest is still recognised on the non-performing loan.

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(iii) Interest

The impact arising from the change is summarised as follows:

Group and Bank	1 January 2018 US\$	31 December 2018 US\$
Statement of financial position		
Decrease in loans and advances	(1,014,861)	(1,328,881)
Related tax effect	202,972	265,776
Adjustment to accumulated losses – US\$	<u>(811,889)</u>	<u>(1,063,105)</u>
Adjustment to accumulated losses (KHR000 – Note 5)	<u>(3,277,596)</u>	<u>(4,271,556)</u>
Statement of profit or loss		
Increase in interest income		1,213,294
Decrease in fees and commission income		(801,212)
Adjustment before income tax – US\$		<u>412,082</u>
Adjustment to before income tax (KHR000 – Note 5)		<u>1,666,872</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(iv) Transition impact on equity

The following table summarises the impact, net of tax, of transition to CIFRS 9 on reserves, accumulated losses at 1 January 2018.

Group	Impact of adopting CIFRS 9 at 1 January 2018	
	US\$	KHR'000
Accumulated losses		
Closing balance under Cambodia GAAP (31 December 2017)	(33,628,726)	(135,759,167)
Remeasurement of amortised costs under CIFRS 9	(1,014,861)	(4,105,113)
Recognition of expected credit losses under CIFRS 9	(8,782,546)	(35,525,399)
Remeasurement of impairment for placement with other bank	(180,345)	(729,496)
Related tax	2,195,001	8,878,779
Currency translation differences	-	(269,028)
Opening balance under CIFRS 9 (1 January 2018)	<u>(41,411,477)</u>	<u>(167,509,424)</u>
Bank		
Accumulated losses		
Closing balance under Cambodia GAAP (31 December 2017)	(33,905,459)	(136,876,338)
Remeasurement of amortised costs under CIFRS 9	(1,014,861)	(4,105,113)
Recognition of expected credit losses under CIFRS 9	(8,782,546)	(35,525,399)
Remeasurement of impairment for placement with other bank	(180,345)	(729,496)
Related tax	2,195,001	8,878,779
Currency translation differences	-	(271,242)
Opening balance under CIFRS 9 (1 January 2018)	<u>(41,688,210)</u>	<u>(168,628,809)</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

B. Leases

The Group and the Bank previously classified leases as operating leases under CAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under CIFRS 16, the Group and the Bank recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

The Group and the Bank leases a number of office under finance leases. These were classified as finance lease under CIAS 17. The carrying amounts of right-of-used asset and liability at 1 January 2018 were determined at the carrying amounts of the lease asset and lease liability under CAS 17 immediately before date.

The impact arising from the change is summarised as follows:

Group	1 January 2018 US\$	31 December 2018 US\$
Statement of financial position		
Right-of-used assets	3,290,218	2,904,141
Deferred tax assets	71,380	84,279
Lease liabilities	(3,647,117)	(3,325,536)
Adjustment to accumulated losses – US\$	(285,519)	(337,116)
Adjustment to accumulated losses (KHR000 – Note 5)	(1,152,640)	(1,354,532)
Statement of profit or loss		
Depreciation of right-of-used assets		(386,077)
Rental expenses		393,287
Adjustment before income tax – US\$		7,210
Adjustment to before income tax (KHR000 – Note 5)		29,164

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

B. Leases (continued)

Bank	1 January 2018 US\$	31 December 2018 US\$
Statement of financial position		
Right-of-used assets	8,558,833	7,864,268
Deferred tax assets	82,139	427,203
Lease liabilities	<u>(8,969,527)</u>	<u>(10,000,282)</u>
Adjustment to accumulated losses – US\$	<u>(328,555)</u>	<u>(1,708,811)</u>
Adjustment to accumulated losses (KHR000 – Note 5)	<u>(1,326,377)</u>	<u>(6,898,470)</u>
Statement of profit or loss		
Depreciation of right-of-used assets		(694,565)
Rental expenses		<u>1,074,313</u>
Adjustment before income tax – US\$		<u>379,748</u>
Adjustment to before income tax - (KHR000 – Note 5)		<u>1,536,081</u>

Union Commercial Bank Plc. and its subsidiary

Notes to the financial statements (continued) for the year ended 31 December 2019

36. Explanation of transition to CIFRSs (continued)

C. Income tax

The above changes (decreased)/increased the deferred tax assets/liabilities as follows:

Group	1 January 2018 US\$	31 December 2018 US\$
Impairment allowance	1,674,370	1,952,303
Right-of-used assets	1,711,767	1,572,854
Impairment placement with other bank	36,069	-
Lease liabilities	(1,793,905)	(1,663,986)
Loan processing fees	(202,972)	(265,776)
Others	769,672	(3,824)
Increase in deferred tax assets – US\$	<u>2,195,001</u>	<u>1,591,571</u>
Increase in deferred tax assets – KHR'000 – Note 5	<u>8,878,779</u>	<u>6,437,905</u>
Bank		
Impairment allowance	1,674,370	1,952,303
Right-of-used assets	1,711,767	1,572,854
Impairment placement with other bank	36,069	-
Lease liabilities	(1,793,905)	(1,663,986)
Loan processing fees	(202,972)	(265,776)
Others	769,672	(3,824)
Increase in deferred tax assets – US\$	<u>2,195,001</u>	<u>1,591,571</u>
Increase in deferred tax assets – (KHR'000 – Note 5)	<u>8,861,219</u>	<u>6,394,932</u>

37. Subsequent events

The ECL at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Subsequently, the coronavirus outbreak has spread across mainland China, Cambodia and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under CIFRS 9 in 2020.

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 Tomnol Tuek
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 2019



ធនាគារ សហពាណិជ្ជ ក.អ
UNION COMMERCIAL BANK PLC.
聯合商業銀行

UCB Head Office

E.SUN Tower No.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

