


Report and Accounts

2002



BANCO NACIONAL ULTRAMARINO

**BNU**

Banco Nacional Ultramarino  
大西洋銀行

BANCO NACIONAL ULTRAMARINO



# Report and Accounts 2002

Banco Nacional Ultramarino S.A., which started its operations in Macau in 1902, is a member of Grupo Caixa Geral de Depósitos, the largest Portuguese financial services group and one of two Macau Special Administrative Region, People's Republic of China note-issuing banks.

Banco Nacional Ultramarino S.A. became, on July 1st 2001, a wholly owned subsidiary of Caixa Geral de Depósitos incorporated and with its head office in Macau and, on that date, it took over all assets and liabilities of the Macau Branch of BNU.

Banco Nacional Ultramarino S.A. provides a wide and diversified range of personal and commercial banking services which include credit and debit cards, deposit taking, consumer and mortgage loans, trade financing, fixed assets financing and investment products.

The Bank's services and products are distributed through its network of eleven branches and other channels, such as an Internet Banking and Telephone Banking service, supported by an efficient and friendly customer service.

The English version of this annual report is only available on-line on [www.bnu.com.mo](http://www.bnu.com.mo).

A hard copy in Chinese and Portuguese can be obtained upon request from:

**Banco Nacional Ultramarino S.A.**  
**Av. Almeida Ribeiro, No.22, P.O. Box 465**  
**Macau**  
**People's Republic of China**  
**Tel: (853) 355111 Fax: (853) 355653**

A soft version of the annual report in Chinese and Portuguese can also be downloaded from the Bank's web site.



# Contents

<b>A. Main Economic Developments</b>	<b>8</b>
External Environment	
Greater China	
Macau Economy	
<b>B. Main Business Areas</b>	<b>15</b>
Personal Banking	
Commercial Banking	
Human Resources	
Organisation and Systems	
Community Support	
<b>C. Results and Balance Sheet Evolution</b>	<b>19</b>
Results	
Proposal for Allocation of the net Profit	
Balance Sheet Structure and Changes	
<b>Governing and Auditing Bodies</b>	<b>24</b>
<b>Accounts</b>	<b>25</b>
<b>Shareholders with Qualified Holdings</b>	<b>28</b>
<b>Equity Investments</b>	<b>28</b>
<b>Principal Accounting Policies</b>	<b>29</b>
<b>External Auditors' Report</b>	<b>32</b>
<b>Opinion of the Sole Supervisor</b>	<b>33</b>
<b>Most Important Addresses</b>	<b>34</b>





BANCO NACIONAL ULTRAMARINO



B.N. ULTRAMAR

PLAZA DE ESPAÑA



## A. Main Economic Developments

### 1. External Environment Overview

The recovery of the US economy, which slowed down sharply in 2001, was weaker than expected in the beginning of the year.

The real GDP, which given 2,4 percent in 2002, from 0.3% recorded in the previous year, was spurred mainly by consumer spending, which was stimulated by lower personal income taxes, a sharp increase in home-mortgage refinancing due to lower long-term interest rates and demand for durable goods, namely automobiles.

A rise in government spending and a strong housing market were other two factors contributing to the expansion of the economic activity.

Business investment remained, as in 2001, the main drag in the economy due to excess capacity, poor profit expectations, accounting irregularities that affected investors' confidence in some of the largest companies and the fall in equity prices.

The Federal Reserve Board, given the decline in the inflation rate and the higher jobless rate, cut its key benchmark interest rate in the last quarter of the year by 0,5 percent to 1,25 percent, the lowest in four decades.

The euro zone economy, which continued to show below trend growth, decelerated progressively in the course of 2002.

The real GDP growth at 0,9 percent was lower than the 1,5 percent rate recorded in 2001, reflecting weakness in domestic demand, which was affected by a contraction in capital investment and external demand.

Government spending continued to be constrained by the Stability and Growth Pact that establishes strict budget rules.

The monetary policy was eased only gradually to reflect the slowdown in inflation rate, which remained above the 2 percent target.

The unemployment rate, which is already at a high level, rose, reflecting both cyclical weak demand and the lack of structural reforms.

The Japanese economy recorded marginal growth of just 0,3 percent like in previous year.

Total domestic demand decreased slightly due to a fall in gross fixed investment and the external demand remained a strong support of the economic activity.

The recovery continues to be dependent on corporate restructuring, the resolution of the bad loans problem, which is impairing the growth of credit in economy, and on reversing the prolonged situation of deflation that influences negatively the expectations of consumers and businesses.

The recovery in US economy was the main factor contributing to the growth of the international trade that expanded 2,6 percent in 2002 and is expected to accelerate in 2003.

Import demand from US was the main driving force behind the expansion in the export-driven economies of East and Southeast Asia countries.



Some of these economies like Thailand and South Korea recovered strongly in 2002, since besides the better performance of the external sector, domestic consumption spending increased significantly as access to consumer credit, in an environment of low interest rates, was made easier and asset prices rebounded.

The growth in GDP in South Korea and Thailand at 6,3 percent and 5,2 percent, respectively, were approaching levels reached before the Asian financial crisis.

Mainland China, the most dynamic economy in Greater China area, continued to show strong growth, outperforming most of the other Asia economies.

**Greater China** Mainland China's GDP reached 8 percent, higher than the 7,3 percent recorded in 2001, led by surging exports and an expanding domestic demand.

The growth in exports, driven by the strong inflow of foreign direct investment by multinational companies in China and the relocation of production from East Asia countries and the entry in WTO last year, accelerated sharply from 6,6 percent in 2001 to 22,6 percent in 2002.

Investment in new plants, infrastructure and housing, stimulated by low interest rates and strong credit expansion, gave also an important contribution to the improvement of the economic situation.

Consumer spending, in particular in durable goods, rose at a rapid pace against a background of low inflation, strong competition in the retail sector and higher personal income.

The renminbi exchange rate against the US dollar remained stable in a narrow range, supported by the good performance of the external sector and, in particular, by the strong inflow of capital, which led to a sharp rise in foreign exchange reserves.

In Hong Kong economic conditions remained weak and the rise in GDP of 2,1 percent in 2002, against 0,1 percent in 2001, was mainly due to a rebound in exports which rose 5,6 percent, after declining in the previous year.

The economy remained in deflation since 1998. The consumer price index fell 3 per cent, the unemployment rate rose, the demand for credit was weak and nominal interest rates were low and both equity and property prices fell again in 2002.

In this context, the increase in the budget deficit, which reached 5,8 percent of GDP, gave an important contribution to sustain the level of economic activity.

The economy of Taiwan, which has been in recession, grew 3,5 percent in 2002 on the back of an upturn in exports that rose 6,4 percent in 2002, after a steep fall in 2001.

However, the economic recovery is being hindered by weak domestic demand. Real investment declined and consumer spending remained subdued, affected by a rise in the unemployment rate.

Despite an easier monetary policy in 2002, which led to lower nominal and real interest rates, credit expansion continued to be limited.

**“Special Administrative Region of Macao, China”  
Main Economic Indicators 1998 - 2002**

	1998	1999	2000	2001	2002
<b>Demand and Gross Domestic Product ( % yoy )</b>					
Real GDP (%)	-0.4	-3.0	4.6	2.2	9.5
Domestic Demand (%)	-4.6	1.3	-8.8	-0.2	4.2
Private Consumption (%)	-0.9	1.5	0.9	2.9	4.8
Public Consumption (%)	2.4	15.5	-9.8	-0.1	2.4
Gross Fixed Capital Formation (%)	-12.7	-6.8	-28.4	-0.9	4.1
Construction	-14	-14.0	-38.9	-31.7	10.1
Others	-8.7	13.0	-6.4	21.8	-0.5
Change in Inventories (%)	-165.8	217.7	-16.1	-59.6	7.3
Net Exports of Goods and Services (%)	-4.7	-13.4	39.6	6.4	18
Nominal GDP ( in millions of USD )	6,505	6,134	6,198	6,207	6,731
GDP per capita ( in USD )	15,403	14,351	14,394	14,298	15,355
<b>Inflation and Unemployment</b>					
Inflation rate ( CPI % yoy )	0.2	-3.2	-1.6	-2.0	-2.6
Unemployment rate (%)	4.6	6.4	6.8	6.4	6.3
<b>Tourism</b>					
“Visitors arrivals (1,000s)”	6,949	7,444	9,162	10,279	11,531
From Mainland China	817	1,645	2,275	3,006	4,240
Visitors arrivals ( % yoy )	-0.7	7.1	23.1	12.2	12.2
From Mainland China	54.1	101.42	38.28	32.13	41.05
<b>External Sector</b>					
Exports of Goods ( % yoy )	3.50	3.60	14.10	-5.20	6.40
Imports of Goods ( % yoy )	-1.00	9.60	6.20	8.50	10.40
Trade Balance (in millions of USD)	186	160	283	-87	-173
Balance of Current Accounts (in millions of USD)	1,954	1,639	2,177	2,251	2,634
Exp./Imp. of Goods Ratio (%)	100.30	88.01	90.75	77.67	75.86
<b>Interest and Exchange rates</b>					
Pataca Exchange Rate (1 US\$=)	7.979	7.992	8.026	8.034	8.033
Nominal Effective Exchange Rate Index	113.05	111.92	114.22	117.27	116.34
3 Month Average Interbank Rate (MAIBOR) (%)	8.4324	5.9479	6.2266	3.6719	1.8727
3 Month Average Interbank Rate (LIBOR) (%)	5.6148	5.4800	6.5353	3.6787	1.7965
Savings Interest Rate	4.00	3.50	4.50	0.13	0.060
Prime Rate ( % )	9.00	8.50	9.50	5.25	5.00
<b>Main Monetary Indicators</b>					
Money supply M1 (millions of MOP)	5,509	5,363	4,945	5,917	6,351
Money supply M2 (millions of MOP)	80,628	86,096	84,918	91,550	98,960
Total Credit (millions of MOP)	55,069	53,024	50,880	49,400	51,318
Total Deposits (millions of MOP)	97,413	101,053	103,267	110,542	119,572
Official Foreign Reserves at AMCM (millions of MOP)	19,700	22,900	26,700	28,200	28,177

yoy: year over year

Sources: Statistics and Census Service of Macao (DSEC), Monetary Authority of Macao (AMCM)

**2. Macau Economy** The economy of Macau showed strong growth with the real GDP increasing by 9,5 percent in 2002, against just 2,2 percent in the previous year.

The tourism industry, which benefited from a rise in the number of visitor arrivals that led to a sharp increase in gambling revenues, was the main sector underpinning economic growth.

In 2002 the Government of Macau awarded two additional concessions to operate casinos in the Territory, ending the contract of exclusivity with the existing operator, in a bidding process that attracted the interest of the world's best-known gaming companies.

The decision to liberalise the sector is part of the Government's strategy to make Macau a gaming, convention and tourism centre.

The number of visitors' arrivals in 2002 increased 12,2 percent, reaching 11,5 million, and Mainland China continued to be the main source of growth.

Mainland arrivals soared 41 percent, spurred by an increase in the number of Mainland travel agencies authorised to organise tour groups to Macau.

Arrivals from Hong Kong, Macau major tourism market, declined 1,82 per cent, reflecting the uncertain economic conditions in that Territory.

Hotel occupancy rate improved significantly rising from 60,6 percent in 2001 to 67 percent in 2002.

The export of goods increased by 2,4 percent due mainly to an increase in exports to the US market (+2,7 percent) and to Mainland China (+36,8 percent), while exports to the E.U. dropped by 10,6 percent.

Macau's exports continue to be concentrated in the textile and garment industries, which made up 83,9 of total exports in 2002.

The increase in exports led to a rise of 6 percent in total imports, in particular from Mainland China and Hong Kong, the main suppliers of goods to the Territory.

Domestic demand, driven mainly by public consumption and investment, rose 4 percent as the Government stepped up expenditures to improve the Territory's infrastructures, namely those required by the organisation of the 2005 East Asia Games.

A situation of oversupply continues to prevail in the housing market despite low mortgage interest rates and property prices, but it is expected to improve in the years ahead with the expansion of the tourism sector and an increase in demand by non-residents.

The unemployment rate declined slightly to 6,2 per cent, as the pace of the economic recovery and the higher level of activity in the construction industry related to public works improved conditions in the labour market.

The general price level, as measured by the Consumer Price Index fell 2,6 in 2002, after having dropped 2 percent in the previous year, as a result of lower import prices and housing rentals as well as weak pricing power in the local retail market, namely restaurants, clothing and household goods, which have to face competition from the Zhuhai retail market.

**Interest Rates** The short term interest rates in the Hong Kong dollar interbank market were generally stable in 2002, after recording a sharp decline in 2001. By the end of the year interest rates tracked the US dollar rates lower after the Federal Reserve Bank cut its key interest rate in November by 0,5 percent to 1,25 per cent.

On this occasion, the prime rate for loans in HKD and MOP was reduced from 5,125 percent to 5 percent while the savings rate was lowered to just above zero per cent.

The risk premium of the Hong Kong Dollar against the US Dollar, as reflected in the one-year forward exchange rate, fluctuated in a relatively narrow range, being influenced by expectations regarding the economic outlook and the measures that the Government will take to reduce the budget deficit.

**Foreign Exchange Market** Macau currency is fixed to the HK dollar, a currency whose exchange rate against the US dollar remained closed to the exchange rate of 7,8 HK dollars per US dollar to which is pegged.

The US dollar exchange rate depreciated against the main currencies as markets reacted to a widening US budget and current account deficits and a decrease in the level of foreign investment, particularly, in US stocks.

The US dollar dropped more against the Euro than in respect to the Yen which was supported by the Bank of Japan's intervention in the foreign exchange market. Against the other main Asian currencies the dollar remained stable or depreciated at a slower pace than against the Japanese currency.

In this context, the exchange rate of the Pataca in regard to both the USD and the RMB remained stable but fell by 15 percent and 10 percent, respectively, against the Euro and the Yen.

The nominal effective exchange rate of the Pataca, as calculated by AMCM, recorded a depreciation of 3,3 percent over 2002.

**Banking Sector** The banking sector benefited from an increase in the customer deposit base, which rose 8,1 percent, but weak domestic loan demand (-5,4 per cent) and low interest rate continued to affect negatively the activity of the sector.

In this context, the liquidity generated by domestic activity improved markedly with the loan to deposit ratio decreasing from 44.5 per cent to 35 per cent.

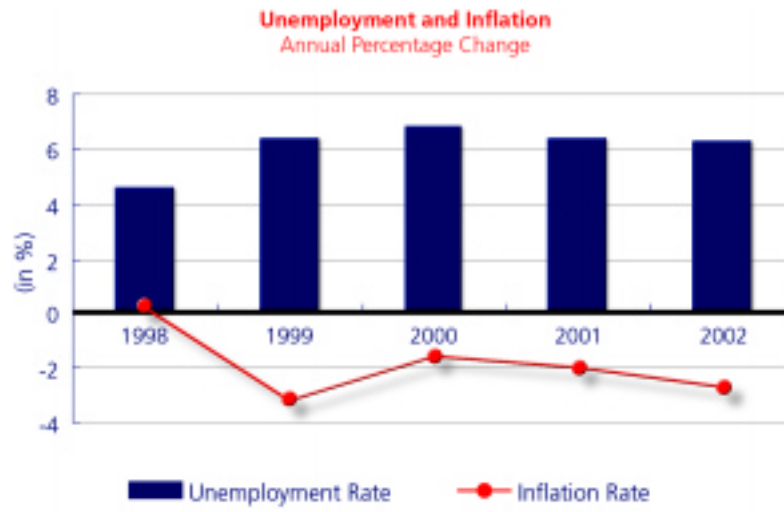
With the major banks following the same kind of strategy regarding the housing loans market, with the objective of increasing their market share, mortgage rates are significantly lower than the prime rate.

There was a reduction in overall provisions made, which contributed to an increase in the profitability of the sector, despite a slight decline in the net interest income.

## Main indicators of Macau economy - Graphs



Main indicators of Macau economy - Graphs





## B. Main Business Areas

*“ The purpose of business is to create and keep a CUSTOMER. ”*

*Theodore Levitt*

**1. Personal Banking** We strive to increase our customers’ satisfaction by knowing their unique needs and providing products and services that better meet them, understanding that convenience and accessibility as well as quality and personalised service are key factors that contribute to attract new customers and retain existing ones.

In 2002 we took several initiatives in order to better serve our customers:

- On April 2002, a full-scale campaign to collect new customer information and improve existing customer database, which obtained a good response rate, was launched.
- Several campaigns were launched to increase the number of credit cards issued, card sales volume, average card spending and credit card advances.
- For the occasion of the celebration of BNU 100 years presence in Macau, BNU offered double bonus points program to our credit cardholders on purchases with BNU Credit Cards from September 15 to October 31, 2002. A lucky draw for the occasion of the World Cup attracted the interest of many of our customers.
- New credit cards were launched: BNU World Cup MasterCard, and BNU VISA Clube Militar de Macau affinity card. BNU co-operated with Macau Polytechnic Institute to allow the payment of IPM school fees by credit card and online application form for credit cards was made available in BNU website [www.bnu.com.mo](http://www.bnu.com.mo).
- Several measures were introduced to strengthen security procedures and to improve credit risk management in order to reduce credit card delinquency rate, which remained at a very low level. More data from the credit card management system was made available through the customer information inquiry system and several compliance requirements requested by Visa International and MasterCard were implemented.
- BNU continued to have a leading position in the credit card issuing business and its performance was highly appraised. BNU received three prizes from Visa International for the 2002/2001 period (Highest Card Sales Volume, Highest Average Card Spend - Gold Card and Best Issuer Fraud Control for banks in Macau) and one prize from MasterCard International (Highest Growth Rate in 2002 - Number of Cards).
- We emphasized the need to promote cross selling of the Bank’s products and services to increase non-interest income and customers’ loyalty, as customers with many products are unlikely to shift their relationship to other bank.
- A second round Credit Pass Promotion, a product which entitles customers, by filling in just one application form, to have pre-defined limits that may be utilised in a credit card, overdraft account, personal loan and housing loan, was successfully conducted in June and July 2002.
- Several marketing campaigns were conducted through road shows and outdoor promotions during the year (totally 10 events), including participation in I.T. week during 4-6/10/2002, and in-campus promotion of University Student Credit Cards at University of Macau, Macau University of Science and Technology, Macau Polytechnic Institute and Institute for Tourism Studies.
- We have sent emails to our customers, several times during the year, with promotion of BNU’s products and services.

- In 2002 the number of credit card issued rose 8%, with an increase of 11% on transactions volume and 12% on commissions received. Debit cards issued, in particular Maestro cards that may be used world-wide, rose 5%.
- Several structured investment products, with capital guaranteed, were promoted to our customers in an environment of low interest rate and where weak stock markets, global and regionally, favoured traditional financial products. During 2002, all branches have invited customers to visit our investment centre in Head Office (launched in 2001), where they may have direct access to online and over-the-counter trading.
- We have developed alternative channels of access to our products and services, which include Internet Banking, phone banking and an ATM network, to provide convenience and service to our customers.

At the same time, we have been improving the operations of our most important points of contact - the branches - making them look appealing, comfortable and a place to provide personalised service and advice.

- Several changes were introduced to the BNU Internet Banking service, namely the possibility of paying Government taxes and school fees to the University of Macau and Institute Polytechnic of Macau as well as navigation improvement.
- We continued to improve the service provided by our ATM network, which is part of JECTO network, and we have installed seven new latest model machines replacing the existing ones. An ATM was installed at the Macau University of Science and Technology, increasing our network to 29 machines.
- Personal lending, which includes advances extended through credit cards and overdraft accounts and personal and housing loans, rose 2,5 per cent.

Personal loans soared 26 percent as the Bank increased the efforts to expand this line of business and the amount of housing loans outstanding stabilised, despite a sluggish market and strong competition in this market segment.

**2. Commercial Banking** Credit policy continues in this area to emphasize the need to know better our customers and the financial situation of their businesses evaluating the profitability of operations based on their risk-adjusted return on equity.

The resolution of bad loan cases, namely the disposal of foreclosed properties received as collateral was speed up.

We initiate the evaluation of Basel II Accord proposal, an issue that is being co-ordinated at the Group level.

In 2002 domestic demand for credit remained weak leading to a decrease of 3,3 percent on loan and advances to local businesses for use in and outside Macau.

BNU participated as Agent and Co-arranger in a MOP 550 million syndicated loan to finance the construction of Fisherman's Wharf, an urban entertainment complex near Macau outer harbour. Five other banks joined the syndicate.

Trade finance, which continued to be affected by the relocation of factories to Mainland China, recovered slightly in the 2nd half of the year as both export and import transactions increased.

Credit limits to some of our local customers were increased to accommodate higher volume of trade finance transactions while credit spreads for better risks was pressured downwards due to intense competition.



The Bank increased significantly the guarantees issued at the request of companies involved in construction, tourism and trade finance business.

In 2002 the number of POS terminals installed increased 8,8 percent, while transaction volume soared 37 per cent, contributing to increase our relationship with small merchants in retail business.

In 2002, BNU provided payroll and auto-pay services to nine new companies, which offers new opportunities to cross sell the Bank's products to those companies and their employees.

Loans and advances to companies outside Macau, including debt instruments issued by external borrowers, declined by 28,7 percent due to narrowing spreads and subdued activity in the Hong Kong syndicated market.

The Bank participated in a syndicate term loan to Korea Development Bank and to Import-Export Bank of Korea.

**3. Human Resources** Our staff technical skill, dedication to customer service, sympathy and capability to understand our customers are sources of competitive advantage that we value at BNU by offering career opportunities, training and reward performance.

Based on evaluation of staff abilities and curriculum, a plan is being carried out to provide training, in-house and by outside resources, in key area like customer service, product knowledge and IT skill set.

The reporting system regarding staff information was improved and bonus and salary annual increases processes were automated.

The Bank employs 286 people (285 in previous year) with 119 being employed in central services and 83 in our branch network.

In compliance with the Decree-Law No. 6/99/M of 8th February, 1999, the Bank transferred the management of pension fund in August 2002 to Companhia de Seguros Fidelidade, S. A., Macau, which is a wholly-owned subsidiary of Caixa Geral de Depósitos. Fund is invested under guidelines established and reviewed annually by the Bank and employees in order to secure a stable return on the investments made.

**4. Organisation and Systems** The maintenance and integration of different systems, in particular the retail, credit card and accounting systems as well as electronic distribution channels were improved and changes were introduced to allow the launching of new products and services.

The new organisation structure, which clearly separates the back office functions from the commercial activity, was consolidated in 2002 and a new "BNU Organisational Chart Manual" was published. Other procedures manuals, like the "Trade Finance Manual", were also produced.

The system of bank regulations, rules and procedures was re-codified and made available through the Intranet.

The credit card system was modified to meet new compliance rules issued by Visa and MasterCard and management information requirements. Visa Access Point was upgraded.

The SWIFT system was upgraded to the latest version and changes were introduced to respond to new requirements in terms of message formats as well as storage, distribution and checking of messages.

The communication system of the ATM network was enhanced, being our objective to reach a level of system availability of 99,9% in the course of 2003.

The fixed asset management system was improved to better interface the accounting system.

We have developed and implemented an Intranet, providing commercial and workflow information that can also be accessed through the branches' workstations. A signature scanning system was made available in our branch network.

**5. Community support** The Bank continued to consider, as an essential part of its activity, support the community where our customers and employees live.

The Bank continued to issue the Tung Sin Tong Visa Card, an affinity card by which a percentage of the sales volume is donated to this benevolent institution.

The Bank sponsored major events like the 49th Macau Grand Prix, the Macau Phillips China/Portugal Football Cup and the Women Volleyball World Championship 2002.

Macau XVI International Music Festival and Macau XII Arts Festival Cultural, which are important events in the culture scene of Macau, continued also to have the support of the Bank.



## C. Results and Balance Sheet

**1 - Results** Banco Nacional Ultramarino S.A. became a bank incorporated in Macau on July 1st, 2001 and, on the same date,  
**Net profits** it took over all assets and liabilities of both the Macau Branch of BNU and Banco BNU Oriente S.A.

The financial analysis regarding the Profit and Loss Account presented below has taken as basis of comparison the consolidated Profit and Loss accounts of Banco BNU Oriente S.A and Banco Nacional Ultramarino S.A. in 2001.

Despite subdued loan demand and the competitive pressures in the banking business, BNU obtained good financial results for the year ended December 31, 2002.

The performance achieved reflects also the success of the strategy that is being implemented, which gave priority to the diversification of the revenue base, the enhancement of cost efficiency and the maintenance of asset quality.

Net Profit on 2002 reached MOP 50.6 million, growing 4,8 percent, with a decline in net interest income being offset by rise in net non-interest income and a decrease in provisions.

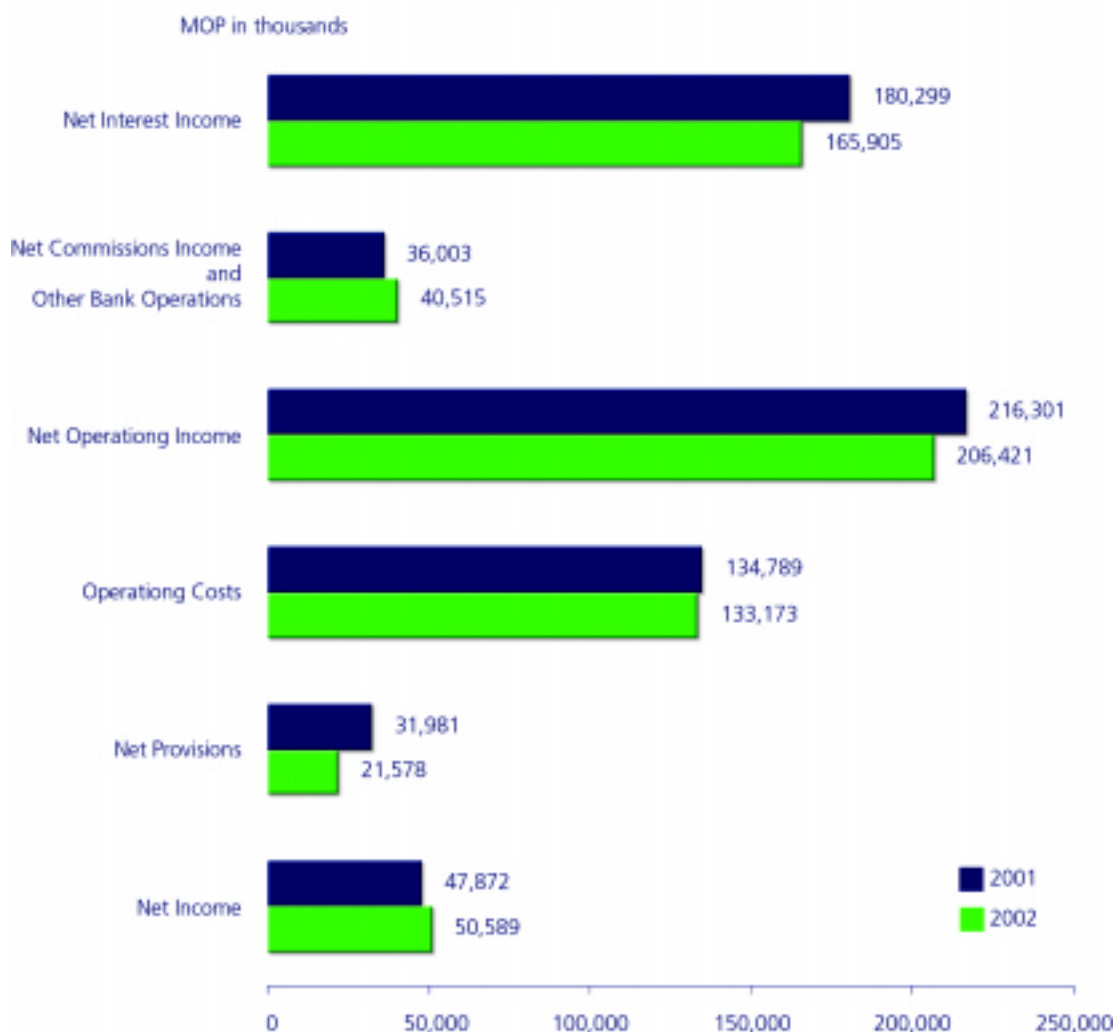
**Net Interest** Net Interest Income amounted to MOP 166 million, less MOP 14.3 million, or 8 percent, compared with MOP 180  
**Income** million recorded in 2001.

Interest income (-39 percent) and interest expense (-50 percent) decreased significantly due to the sharp drop in interest rates.

Net Interest Income was affected by the following main factors:

- Decrease in lending to businesses in Macau and to borrowers outside Macau.
- Lower HKD/MOP interbank market rate, which reduced the profitability of customers non-remunerated account balances, as well as a decrease on the average rate on residential mortgage loans.
- The stability of interest rates reduced the gains from money market operations derived from the management of interest rate risk.

## Results



The growth in local deposits, both savings and time deposits, as well as the increase of the spread between the average rate paid on these deposits and the interbank bid rate, were positive factors influencing the net interest income.

**Net Non-Interest Income** Net Non-Interest Income in 2002 increased by 12,6 percent to MOP 40,5 million from MOP 36 million in the previous year due to:

- Net Commissions and Fees rose by 32.1 percent, mainly as a result of the increase of net commissions from the credit card operation and, in particular, from banking guarantees issued.
- Net Profits from Financial Transactions decreased by 13.9 percent, reflecting, besides a decrease in foreign exchange transactions with customers, the fact that 2001 foreign exchange profits were positively influenced by a large one-time transaction.

**Net Operating Income** Net Operating Income fell by MOP 9.8 million, or 4.6 percent, amounting to MOP 206.4 million, mainly due to the decline in net interest income.

The Net Interest Income contributed with 80.3 percent to the Net Operating Income (83,4 percent in 2001) while Net Commissions and Fees and Net Profits from Financial Transactions made up 12.0 percent and 7.0 percent, respectively (8.7 percent and 7.9 percent in previous year).

**Operating Costs** Operating Costs decreased by MOP 1.6 million in 2002, down 1.2 percent when compared with 2001, totalling MOP 133.1 million, reflecting the following changes in its main components:

- Staff Expenses increased by 2.9 per cent, amounting to MOP 83.6 million, reflecting the rise in salaries and other compensation paid;
- Third Party Supplies and Services rose by 0.9 per cent, amounting to MOP 35.9 million;
- Depreciation decreased by 19.7 per cent, reflecting basically a drop in the amortisation of intangible fixed assets as the period of amortisation of several IT applications and contracts ended.

The ratio cost-to-income<sup>1</sup> at 59 per cent was two percentage points higher than in 2001.

**Provisions** Provisions made in 2002, net of provisions released, amounted to MOP 21.5 million, less MOP 10.4 Million (- 32.5 percent) than the MOP 31.9 million made in 2001.

The net charge for specific provisions fell 62 percent to MOP 8.4 million, due mainly to lower provisions for loans and advances to companies, given that provisions for credit cards and personal loans were lower than in 2001.

Provisions for generic credit risks made in accordance with Monetary Authority of Macau rules rose 168 percent to MOP 7,9 million, while other provisions made decreased 90 percent to MOP 2,5 million.

**2. Proposal for allocation of the net profit** According to the law and the company rules, it is submitted for the approval of the Annual General Assembly, that the Net Profit of MOP 50,589,353.68 be allocated as follows:

- For Legal Reserves, according to the art. 60 of Macau Financial System Act MOP 10.117.871,00
- For Other Reserves, the remaining amount MOP 40.471.482,68

**3. Balance Sheet Structure and Changes** As of December 31st, 2002 Net Total Assets amounted to MOP 13,605 million, an increase of 1 percent over 2001.

The weight of Placements with banks in Net Total Assets rose 5 percentage points to 62.4 percent in 2002 while the weight of loans and advances to customers in Macau maintained the same level (15 per cent) and lending to borrowers outside the Territory dropped 2 percentage points.

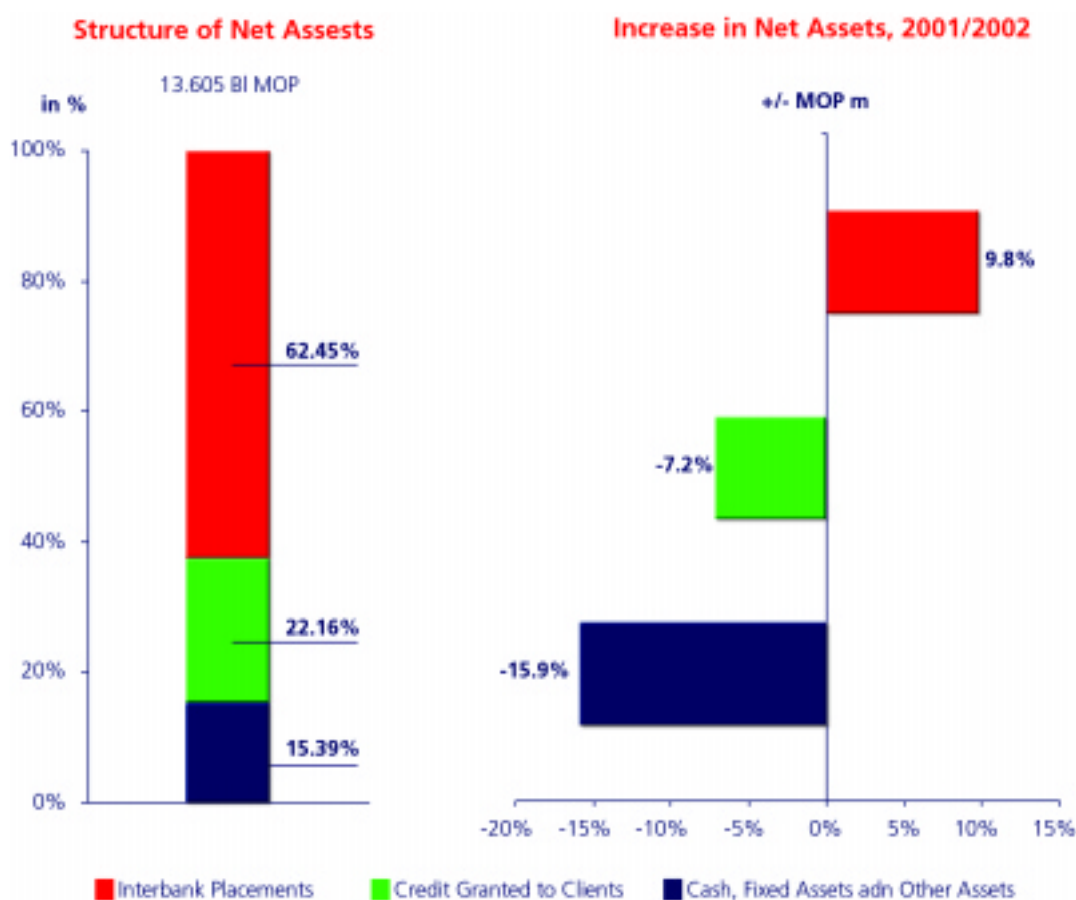
**Loans and advances** Total loans and advances amounted to MOP 3 billion, a decrease of 7,5 per cent, as domestic and external credit declined by 3,3 percent and 15,6 per cent, respectively.

Loans and advances to businesses in Macau fell by 6.4 per cent. Personal lending, which rose 2,5 percent, benefited from an increase in personal loans and credit card advances.

---

<sup>1</sup>(Staff Expenses + Third Party Supplies and Services + Other Administrative expenses) / Net Operating Income

The amount of housing loans outstanding remained stable due to weak demand and strong competition.



**Interbank Placements** Placements with banks rose 9.8 percent as a decline in the lending activity and an increase in customer deposits generated additional liquidity in particular in Hong Kong dollars and Patacas.

The liquidity position of the Bank is strong and is expected to improve further in 2003.

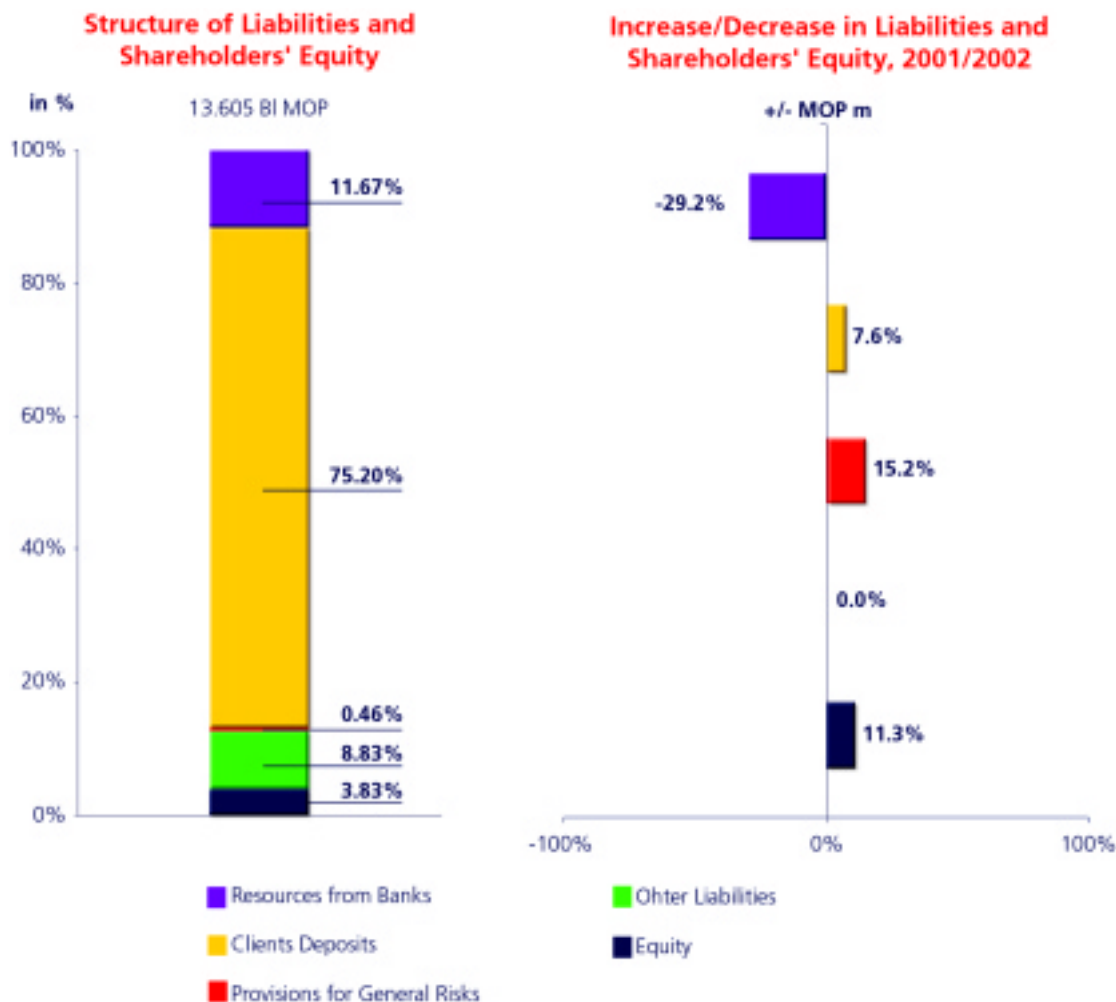
**Customer Deposits** Customer Deposits, from the private and public sectors, which amounted to MOP 10,228 million, increased by 7.6 per cent.

Time deposits rose 9 percent and current and savings deposits increased 10 per cent.

Time Deposits totalled MOP 8,6 billion as of December 31st 2002, accounting for 85 percent of Total Deposits, against 80 percent at the end of 2001.

**Amounts due From Banks** Amounts due from banks totalled MOP 1,588 million, which decreased by MOP 654 million, made up 12 percent of the total liabilities, a fall of 5 percentage points.

**Capital Adequacy Ratio** The capital adequacy ratio is calculated according to Notice no. 012/93-AMCM and Notice no. 013-AMCM dated August 27, 1993 and Circular no. 003/A/94 and Circular no. 004/A/94 issued by the Monetary Authority of Macau.



The total capital ratio increased from 11.69 percent in 2001 to 13.09 percent in 2002, being 8 percent the minimum established.

Total capital amounted to MOP 589,3 million, higher than MOP 581,3 recorded in 2001, and the total risk-weighted assets stood at MOP 4,504 million in 2002, against MOP 4,974 million in 2001, a decrease due to a fall in loans and advances to customers and debt instruments held in portfolio that more than offset an increase in off-balance sheet operations resulted from guarantees issued.



## Governing and Auditing Bodies

### BOARD OF THE GENERAL MEETING

Chairman : Joaquim Jorge Perestrelo Neto Valente  
Vice-Chairman : Liu Chak Wan  
Secretary : Maria de Lurdes Nunes Mendes da Costa

---

### BOARD OF DIRECTORS

Chairman : CAIXA GERAL de DEPÓSITOS, S.A.,  
represented by  
Miguel José Pereira Athayde Marques

Vice-Chairman : Herculano Jorge Sousa

Members : COMPANHIA DE SEGUROS FIDELIDADE, S.A.,  
represented by  
Leonel Alberto Range Rodrigues

CAIXA - PARTICIPAÇÕES SGPS, S.A., represented by  
Alberto Manuel Sarmento Azevedo Soares

Artur Jorge Teixeira Santos

---

### EXECUTIVE COMMITTEE:

President : Herculano Jorge Sousa

Vice-President : Artur Jorge Teixeira Santos

Member : COMPANHIA DE SEGUROS FIDELIDADE, S.A.,  
represented by  
Leonel Alberto Range Rodrigues

---

**SOLE SUPERVISOR** : Chui Sai Cheong



## Accounts

### BANCO NACIONAL ULTRAMARINO, S.A. BALANCE SHEET AS OF DECEMBER 31, 2002

ASSETS	GROSS ASSETS	PROVISIONS, AMORTIZATIONS AND NET VALUE	NET ASSETS
CASH	62,165,709.07"	0.00	62,165,709.07
DEPOSITS WITH AMCM	122,558,403.31	0.00	122,558,403.31
DEBT CERTIFICATES ISSUED BY THE MACAU GOVERNMENT	1,041,704,395.33	0.00	1,041,704,395.33
ACCOUNTS RECEIVABLE	17,595,768.82	0.00	17,595,768.82
DEPOSITS WITH OTHER CREDIT INSTITUTIONS IN MACAU	8,000,903.76	0.00	8,000,903.76
DEPOSITS WITH OTHER CREDIT INSTITUTIONS ABROAD	55,819,641.39	0.00	55,819,641.39
GOLD AND SILVER	0.00	0.00	0.00
OTHER CURRENT ASSETS	2,326,489.60	0.00	2,326,489.60
CREDIT GRANTED	3,167,858,168.22	152,471,480.27	3,015,386,687.95
PLACEMENTS WITH CREDIT INSTITUTIONS IN MACAU	1,564,105,800.00	0.00	1,564,105,800.00
DEPOSITS AT CALL AND TIME DEPOSITS WITH CREDIT INSTITUTIONS ABROAD	6,931,762,465.26	0.00	6,931,762,465.26
"SHARES, BONDS AND QUOTAS"	516,986,467.41	24,926,784.50	492,059,682.91
INVESTMENT OF ASSIGNED FUNDS	0.00	0.00	0.00
DEBTORS	958,192.36	0.00	958,192.36
OTHER PLACEMENTS	0.00	0.00	0.00
FINANCIAL INVESTMENTS	34,592,250.00	6,000,000.00	28,592,250.00
PROPERTY	172,936,145.18	30,971,749.61	141,964,395.57
EQUIPMENT	62,555,252.63	54,162,322.55	8,392,930.08
DEFERRED COST	5,404,406.00	2,677,385.10	2,727,020.90
START-UP EXPENDITURE	65,349.00	65,348.00	1.00
FIXED ASSETS IN PROGRESS	0.00	0.00	0.00
OTHER FIXED ASSETS	1,372,503.79	0.00	1,372,503.79
INTERNAL AND ADJUSTMENT ACCOUNTS	107,401,539.21	0.00	107,401,539.21
<b>TOTAL</b>	<b>13,876,169,850.34</b>	<b>271,275,070.03</b>	<b>13,604,894,780.31</b>

**BANCO NACIONAL ULTRAMARINO, S.A.**  
**BALANCE SHEET AS OF DECEMBER 31, 2002**

<b>LIABILITIES</b>	<b>SUB - TOTAL</b>	<b>TOTAL</b>
BANK NOTES IN CIRCULATION		1,071,289,610.00
CURRENT DEPOSITS	1,530,234,602.80	
DEPOSITS AT CALL	0.00	
TIME DEPOSITS	6,965,411,301.07	8,495,645,903.87
GOVERNMENT DEPOSITS	1,732,811,448.25	
AMOUNTS DUE TO CREDIT INSTITUTIONS IN MACAU	103,681,196.55	
AMOUNTS DUE TO OTHER LOCAL ENTITIES	0.00	
AMOUNTS DUE TO CREDIT INSTITUTIONS ABROAD	1,484,606,178.41	
ASSIGNED FUNDS	0.00	
PAYABLE BANK CHEQUES	325,946.82	
CREDITORS	19,687,485.15	
OTHER LIABILITIES	16,184,646.16	3,357,296,901.34
INTERNAL AND ADJUSTMENT ACCOUNTS		96,575,495.74
PROVISIONS FOR RISKS		85,625,086.62
CAPITAL	400,000,000.00	
OTHER RESERVES	47,872,429.06	447,872,429.06
NET PROFIT BROUGHT FORWARD		0.00
NET PROFIT FOR THE YEAR		50,589,353.68
<b>TOTAL</b>		<b>13,604,894,780.31</b>

**BANCO NACIONAL ULTRAMARINO, S.A.**  
**BALANCE SHEET AS OF DECEMBER 31, 2002**

<b>MEMORANDUM ACCOUNTS</b>	<b>AMOUNT</b>
VALUES RECEIVED FOR SAFE KEEPING	93,726,367.24
BILLS FOR COLLECTION	96,120,952.77
SECURITIES RECEIVED	6,510,430,683.09
GARANTEES ON ACCOUNT OF CUSTOMERS	1,293,318,047.47
LETTERS OF CREDIT OUTSTANDING	119,502,526.54
BILLS AND ACCEPTANCES AVAILABLE FOR DISCOUNT	0.00
SECURITIES DEPOSITED	0.00
FORWARD FOREIGN EXCHANGE PURCHASES	16,943,194.80
FORWARD FOREIGN EXCHANGE SALES	16,894,484.07
OTHER MEMORANDUM ACCOUNTS	3,318,296,075.21
OF WHICH: PUBLIC TREASURY-CURRENT ACCOUNT	18,756,055.57

**BANCO NACIONAL ULTRAMARINO, S.A.**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR 2002**  
**INCOME STATEMENT**

DEBIT	AMOUNT	CREDIT	AMOUNT
INTEREST EXPENSE	230,897,429.37	INTEREST INCOME	395,545,077.32
STAFF COST	83,629,963.69	BANK OPERATIONS INCOME	34,325,813.52
OF WHICH:			
REMUNERATION OF BOARD OF DIRECTORS AND SUPERVIS OR COMMITTEE	4,791,607.00	OTHER BANK OPERATING INCOME	17,607,736.78
SALARIES AND WAGES	68,933,368.08	INCOMES FROM SECURITIES AND FINANCIAL INVESTMENTS	1,257,716.35
BENEFITS	9,207,067.99	OTHER BANK INCOME	5,248,457.16
OTHER	697,920.62	NON-BANKING INCOME	66,889.54
THIRD PARTY SUPPLY EXPENSES	4,878,891.13	OPERATING LOSSES	0.00
THIRD PARTY SERVICE EXPENSES	31,069,773.81		
OTHER BANK COSTS	15,047,693.87		
TAXES	715,744.50		
NON-BANKING EXPENSES	1,685,824.92		
DEPRECIATIONS	12,878,596.46		
PROVISIONS	24,537,813.68		
OPERATING INCOME	48,709,959.24		
<b>TOTAL</b>	<b>454,051,690.67</b>	<b>TOTAL</b>	<b>454,051,690.67</b>

**BANCO NACIONAL ULTRAMARINO, S.A.**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR 2002**  
**PROFIT AND LOSS ACCOUNTS**

DEBIT	AMOUNT	CREDIT	AMOUNT
OPERATING LOSSES	0.00	OPERATING INCOME	48,709,959.24
ACCUMULATED LOSSES FROM PREVIOUS YEARS	13,714,935.13	ACCUMULATED INCOME FROM PREVIOUS YEARS	8,333,133.01
EXTRAORDINARY LOSSES	117,433.60	EXTRAORDINARY INCOME	4,930,085.16
INCOME TAX	9,983,864.00	PROVISIONS USED	12,432,409.00
PROFIT FOR THE YEAR	50,589,353.68	LOSS FOR THE YEAR	0.00
<b>TOTAL</b>	<b>74,405,586.41</b>	<b>TOTAL</b>	<b>74,405,586.41</b>

**HEAD OF ACCOUNTING**

**PRESIDENT OF EXECUTIVE COMMITTEE**

MARIA CLARA FONG

HERCULANO JORGE SOUSA



## Shareholders with Qualified Holdings

According to the terms of the Financial System Act of Macau, a qualified holding is that which, either directly or indirectly, represents 10% or more of the share capital or voting rights, or any other form which confers the possibility to exercise a significant influence over the management of the institution.

Shareholders with a qualified holding:

- Caixa Geral de Depósitos, S.A. ----- 97,13 %



## Equity Investments

List of the companies where Banco Nacional Ultramarino has equity holdings higher than 5% of the respective issued quoted capital or higher than 5% of the own resources, and respective percentual value:

- SEAP - Serviços, Administração e Participação, Lda ----- 25%



## Principal Accounting Policies

### **(a) - Revenue recognition**

Provided it is probable that the economic benefits associated with a transaction will flow to the Bank and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

- i Interest income is recognised in the profit and loss account as it accrues, except in the case of non-accrual loans and advances where interest is credited to a suspense account.

Non-accrual loans and advances represent credits that are overdue for more than 3 months. For prudence purpose, interest income from non-accrual loans and advances which has been credited to the profit and loss account is reversed and transferred to the above suspense accounts. Suspended interest recovered is recognised in the profit and loss account when received.

- ii Fees and commission income are taken into account when earned, unless they relate to transactions involving an interest rate risk or other risks that extend beyond the current period, in which case they are amortised over the period of the transactions.
- iii Dividend income is recognised when received.

### **(b) - Loans and advances**

Loans and advances are stated in the balance sheet after deducting specific and general provisions for possible losses. Provision for loans and advances are made in accordance with the notice No.18/93, AMCM of 21st December 1993 as required. Provision is deducted from loans and advances. The Provisions made are reviewed periodically and adjustments are made when considered necessary by the directors.

### **(c) - Investment in securities**

Investment in debt securities is carried at amortised cost less any provision for impairment in value. Investment in equity securities are held for long term purposes and are included in the balance sheet at cost less any provision for impairment in value.

The carrying amounts of investment in securities are reviewed at each balance sheet date to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when the carrying amounts are not expected to be recovered and are recognised as an expense in the income statement.

Provision against the carrying value of investment in securities is reversed to the income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal or transfer of the investments in securities, any profit and loss thereon is accounted for in the income statement.

#### **(d) - Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life. The annual rates are as follows:

Land and buildings	2%
Leasehold improvements and software	33.33%
Office equipment, furniture and fixtures	10% to 50%

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the income statement.

At each balance sheet date, internal and external information is used to assess whether any fixed assets are impaired. If any such indication exists, the recoverable amount of the fixed asset is estimated and where relevant, an impairment loss is recognised to reduce the fixed asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant fixed asset, and is recognised in the profit and loss account.

#### **(e) - Foreign currencies**

The books and records are maintained in original currencies and being revalued into Macau Patacas. Transactions in foreign currencies are translated into Macau Patacas at exchange rates at the transactions dates. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into Macau Patacas at rates of exchange in effect at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

#### **(f) - Operating leases**

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental applicable to such operating leases is charged to the profit and loss account on a straight-line basis over the period of the relevant leases.

#### **(g) - Off balance sheet instruments**

Off balance sheet financial instruments arise from futures, forward and swap transactions undertaken by the Bank in the foreign exchange and interest rate markets.

Financial instruments designated and qualified as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any gain or loss is recognised on the same basis as that arising from the related assets, liabilities or positions being hedged.

Interest rate swap transactions undertaken as part of the management of asset and liability portfolios are separately identified and the net swap payments/receipts are accrued and included in interest income or expense.

Assets, including gains, resulting from off balance sheet interest rate and exchange rate contracts that are marked to market are included in "Other accounts". Liabilities, including loss, resulting from such contracts, are included in "Other accounts and provisions".

#### **(h) - Impairment of assets**

Assets, other than financial assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded as income or as a revaluation increase.

#### **(i) - Provision for overall banking risk**

The provision is created in order to provide against possible financial assets' impairment. The provision made is based on estimates made by the Bank and is reviewed periodically. Adjustments are made when considered necessary.

#### **(j) - Employee benefits**

The Bank provides a defined contribution plan for all employees. The defined contribution plan requires members of the plan and the Bank to contribute 5% and 10% of basic salary respectively. The Bank's contributions to the defined contribution plans are charged to the profit and loss account in the year to which they relate. The Bank also operates a non-contributory retirement scheme for 4 employees and 3 retired employees, which provides benefits derived from a formula under the Portugal Retirement Fund Scheme in Portugal.

In accordance with the advice of holding company CGD, the Bank's contribution to defined benefits pension is charged to the profit and loss account so as to spread the regular cost over the service lives of the 4 employees. Retirement fund payment to the 3 retired employees is charged to the provision account in the year in which they relate.



## **External Auditors' Report To The Shareholders Of Banco Nacional Ultramarino, S.A. (Incorporated In Macau With Limited Liability)**

We have audited the financial statements of Banco Nacional Ultramarino, S.A. for the year ended 31st December 2002 and have issued an audit report thereon with an unqualified opinion on 19 March 2003.

We have compared the attached financial statements summary with the above mentioned audited financial statements. The financial statements summary is the responsibility of the bank's directors.

In our opinion, the financial statement summary is consistent with the above mentioned audited financial statements.

In order to obtain a more comprehensive understanding of the bank's financial condition and operating results, the financial statements summary should be read in conjunction with the audited financial statements.

Lowe Bingham & Matthews - PricewaterhouseCoopers  
Certified Public Accountants

Macau, 19 March 2003

Opinion of the Sole Supervisor





## Shareholders:

In accordance with article 32 (e) of the Articles of Association, the Board of Directors of Banco Nacional Ultramarino, S.A. submitted to the Sole Supervisor the balance sheet, accounts and annual report in relation to the bank's operation in year 2002. In addition, the external auditors' report as prepared by \_Lowe Bingham & Mathews - PricewaterhouseCoopers\_ for the bank in relation to its activity in same year was also provided.

During the year, the Sole Supervisor had maintained regular contacts with the Board of Directors, consulted on the bank's activity and always received the collaboration as well as necessary clarification in an efficient manner.

After reviewing the documents as presented by the Board of Directors, it was found that the documents reflected clearly the financial and economical situation of the Bank.

The Report of the Board of Directors also explained clearly the business development of the bank's activity in the referred year of operation.

The Sole Supervisor had also reviewed the external auditors' report and found that the report reflected truly the financial situation and performance of the bank as at close of business on 31st December 2002, as well as result of activity for the year then ended and which were prepared under the accounting principles applicable on banking activity.

As such, the Sole Supervisor decided to recommend the approval of:

1. The balance sheet and profit and loss account,
2. The annual report of the Board of Directors.

Macau, 7th April, 2003

Sole Supervisor

Chui Sai Cheong



## **MOST IMPORTANT ADDRESSES:**

### **CAIXA GERAL DE DEPÓSITOS**

Av. João XXI, 63, 1000-300 Lisboa  
Tel.: 21 795 30 00  
Fax: 21 790 50 51  
Web Site: <http://www.cgd.pt>  
Swift: CGDIPTLXXX

### **BANCO NACIONAL ULTRAMARINO, S.A.**

#### **Head Office**

Av. Almeida Ribeiro, nº. 22  
Tel.: 355111  
Fax: 355653  
Telex:88202BNUMC OM 88351 BNUFX OM  
E-mail: [markt@bnu.com.mo](mailto:markt@bnu.com.mo)  
Web Site: <http://www.bnu.com.mo>  
Swift:BNULMOMX

#### **Credit Card Centre**

Av. Almeida Ribeiro, 22  
Tel.: 335533  
Fax: 713119

#### **BNU Branch Network**

##### **Central Branch**

Av. Almeida Ribeiro, 22  
Tel.: 355111  
Fax: 355130

##### **Mercado Vermelho**

Av. Almirante Lacerda, Nº. 90-92  
Telef.: 371166  
Fax: 211619

##### **Sidónio Pais**

Av. Sidónio Pais, Nº. 20-20A  
Tel.: 584436  
Fax: 524589

##### **Fai Chi Kei**

Rua Comandante João Belo R/C Edf. Teng Pou Kok  
Tel.: 260165  
Fax: 260637

##### **Agência Aeroporto de Macau**

Aeroporto de Macau  
Tel.: 861309  
Fax: 861310

##### **Taipa**

Rua de Évora, "Flower City", R/C Quarteirão 40, Taipa  
Tel.: 833633  
Fax: 833622

##### **Iao Hon**

Rua 1 do Bairro Iao Hon, Edf Iao Kai  
Tel.: 571921  
Fax: 400395

##### **São Lourenço**

Rua João Lécaros, Nº 5-5B  
Telef.: 572259  
Fax: 933200

##### **Horta e Costa**

Av. Horta e Costa, Nº 54-56  
Tel.: 517962  
Fax: 527853

##### **Areia Preta**

Estrada Marginal do Hipódromo, 147 - C  
Tel.: 470032  
Fax: 470160

##### **Chong Fu**

Alameda Heong San, Nº 58 Edf. Chong Fu R/C  
Tel.: 703478  
Fax: 705180