

Edgar Filing: NB CAPITAL CORP - Form 10-Q

NB CAPITAL CORP
Form 10-Q
May 17, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 1-14103

NB CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

52-2063921

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

125 West 55th Street, New York, New York

10019

(Address of principal executive offices)

(Zip Code)

212-632-8580

(Registrant's telephone number, including area code)

(N/A)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years:

Indicate by check mark whether the registrant has filed all documents and

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reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court. Yes _____ No _____

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class -----	Outstanding at May 15, 2004 -----
Common Stock par value \$0.01 per share	100

NB CAPITAL CORPORATION

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 This report contains certain forward-looking statements and information relating to NB Capital Corporation (the "Company" or "NB Capital") that are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company's management with respect to future events and the Company's future performance and are subject to certain risks, uncertainties and assumptions. Should management's current view of the future or underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. The Company does not intend to update these forward-looking statements.

References to \$ are to United States dollars; references to C\$ are to Canadian dollars. As of March 31, 2004, the Canadian dollar exchange rate was C\$1.3113 = \$1.00 and certain amounts stated herein reflect such exchange rate.

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NB CAPITAL CORPORATION

BALANCE SHEETS

	March 31, 2004 (Unaudited)	December 200
(in thousand of US dollars)		
----- \$		
Assets		
Cash and cash equivalents	61,300	19,
Due from an affiliated company	10,873	11,
Promissory notes	408,817	448,
Prepaid Expenses	30	
Accrued interest on cash equivalents	1	

	481,021	478,
=====		

Liabilities

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Due to the parent company	391	
Accounts payable	30	
	421	

Stockholders' equity		
Capital stock and Additional paid-in capital	476,764	476,
Retained earnings	3,836	1,
	480,600	478,
	481,021	478,

See accompanying notes to financial statements.

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NB CAPITAL CORPORATION

STATEMENTS OF INCOME

(Unaudited)

(in thousand of US dollars)	Three-month periods ended	
	2004	2003
	\$	\$
Revenue		
Interest income		
Cash equivalents	80	54
Promissory notes	8,805	9,577
	8,885	9,631
Expenses		
Servicing and advisory fees	391	368
Legal and other professional fees	54	66
	445	434
Net income	8,440	9,197
Preferred stock dividends	6,267	6,267

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Income available to common stockholders	2,173	2,930
=====		
Weighted-average number of common shares outstanding	100	100

Earnings per common share - basic and diluted	22	29
=====		

See accompanying notes to financial statements.

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NB CAPITAL CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(in thousand of US dollars)	Three-month periods ended	
	2004	March 31, 2003
	2004	2003
	\$	\$

PREFERRED STOCK		
Balance, beginning and end of period	3	3

COMMON STOCK AND PAID-IN CAPITAL		
Balance, beginning and end of period	476,761	476,761

RETAINED EARNINGS		
Balance, beginning of period	1,663	5,128
Net income	8,440	9,197
Preferred stock dividends	(6,267)	(6,267)

Balance, end of period	3,836	8,058

TOTAL STOCKHOLDERS' EQUITY	480,600	484,822
=====		

See accompanying notes to financial statements.

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NB CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousand of US dollars)	Three-month periods end	
	2004	2003
	March 31,	March 31,
	\$	\$
OPERATING ACTIVITIES		
Net income	8,440	9,440
Items not affecting cash resources		
Prepaid Expenses	(2)	(2)
Due from an affiliated company	238	(1,000)
Due to the parent company	(24)	(24)
Accounts payable	(11)	(11)
Accrued interest receivable on cash equivalents	4	4
-----	-----	-----
Net cash provided by operating activities	8,645	7,440
FINANCING ACTIVITIES		
Dividends	(6,267)	(6,267)
-----	-----	-----
Net cash used in financing activities	(6,267)	(6,267)
INVESTING ACTIVITIES		
Investment in promissory notes	0	0
Repayments of promissory notes	39,516	33,516
-----	-----	-----
Net cash used in investing activities	39,516	33,516
Supplemental Information		
Cash and cash equivalents, beginning of period	19,406	5,406
-----	-----	-----
Cash and cash equivalents, end of period	61,300	40,000
=====	=====	=====

See accompanying notes to financial statements.

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NB CAPITAL CORPORATION

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NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004

(unaudited)

(in thousand of U.S. dollars)

1) Incorporation and nature of operations

NB Capital Corporation (the "Company") was incorporated in the State of Maryland on August 20, 1997. The Company's principal business is to acquire, hold, finance and manage mortgage assets. The Company issued, through an Offering Circular dated August 22, 1997, \$300,000 of preferred stock and simultaneously, National Bank of Canada, the Company's parent company, made a capital contribution in the amount of \$183,000. The Company used the aggregate net proceeds of \$477,000 to acquire promissory notes ("Promissory notes") issued by NB Finance, Ltd., a wholly-owned subsidiary of National Bank of Canada.

2) Significant accounting policies

Financial statements

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and are expressed in U.S. dollars.

The interim financial statements for the three-month period are unaudited, however, the financial statements include, in the opinion of management, all adjustments necessary for a fair presentation. The unaudited financial statements should be read in conjunction with the audited financial statements included in the Company's annual report filed on Form 10-K. The results of the interim financial statements may not be an indicator of the results anticipated in the full year.

Promissory notes

In accordance with Statements of Financial Accounting Standards ("SFAS") No.115 "Accounting for certain Investments in Debt and Equity Securities" and based on the Company's intentions regarding these instruments, the Company has classified the Promissory notes as held to maturity and has accounted for them at amortized cost.

Income taxes

The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") under the Internal Revenue Code of 1986, as amended, and accordingly, is generally not liable for United States federal income tax to the extent that it distributes at least 90% of its taxable income to its stockholders, maintains its qualification as a REIT and complies with certain other requirements.

Per share data

Basic and diluted earnings per share with respect to the Company for the three-month periods ended March 31, 2004 and 2003 are computed based upon the weighted average number of common shares outstanding during the period.

Estimates

The preparation of financial statements in conformity with accounting

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principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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NB CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004

(unaudited)

(in thousand of U.S. dollars)

3) Promissory notes

The Company entered into loan agreements evidenced by Promissory notes with NB Finance, Ltd., an affiliated company. The Promissory notes are collateralized by mortgage loans which are secured by residential first mortgages and insured by the Canada Mortgage and Housing Corporation.

The promissory notes have maturities ranging from April 2004 to December 2012, at rates ranging from 5.49% to 10.21%, with a weighted average rate of approximately 8.32% per annum.

These rates approximate market interest rates for loans of similar credit and maturity provisions and, accordingly, management believes that the carrying value of the promissory notes receivable approximates their fair value.

Promissory notes as of December 31, 2003	\$ 448,333
Acquisitions	-
Principal repayments	(39,516)
Promissory notes as of March 31, 2004	\$ 408,817

The scheduled principal repayments as of March 31, 2004 are as follows:

2004	\$72,095	2009	\$24,103
2005	\$64,507	2010	\$32,283
2006	\$132,275	2011	\$21,368
2007	\$9,115	2012	\$32,981
2008	\$20,090		

4) Transactions with an affiliated company

During the three-month periods ended March 31, 2004 and March 31, 2003, the Company earned interest from NB Finance, Ltd. on the Promissory notes in the amount of \$8,805 (\$9,577 in 2003) (see Note 3).

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The amount of \$10,873 due from an affiliated company as of March 31, 2004 and \$11,112 as of December 31, 2003 represent interest and principal repayments due on the promissory notes.

5) Transactions with the parent company

The Company has entered into agreements with National Bank of Canada in relation to the administration of the Company's operations. The agreements are as follows:

Advisory agreement

In exchange for a fee equal to \$100 per year (30\$ per year in 2003), payable in equal quarterly installments, National Bank of Canada will furnish advice and recommendations with respect to all aspects of the business and affairs of the Company. During the three-month periods ended March 31, 2004 and March 31, 2003, fees of \$25 (8\$ in 2003) were charged to the Company.

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NB CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004

(unaudited)

(in thousand of U.S. dollars)

5) Transactions with the parent company (continued)

Servicing agreement

National Bank of Canada services and administers the Promissory notes and the collateralized mortgage loans and performs all necessary operations in connection with such servicing and administration in exchange for a monthly fee based upon the outstanding balance of the collateralized mortgage.

The monthly fee equals to one-twelfth (1/12) of 0.25% per annum of the aggregate outstanding balance of the collateralized mortgage loans as of the last day of each calendar month. For the three-month periods ended March 31, 2004 and March 31, 2003, the average outstanding balance of the collateralized mortgage loans were \$529,266 and \$562,248 respectively. During the three-month periods ended March 31, 2004 and March 31, 2003, fees of \$366 and \$360 respectively, were charged to the Company.

Custodial agreement

National Bank of Canada holds all documents relating to the collateralized mortgage loans. During the three-month periods ended March 31, 2004 and March 31, 2003, no fee was charged to the Company.

6) Stockholders' equity (in U.S. Dollars)

Common stock

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The Company is authorized to issue up to 1,000 shares of \$ 0.01 par value common stock as follows:

- o 100 shares have been authorized and issued to the National Bank of Canada.

Preferred stock

The Company is authorized to issue up to 10,000,000 shares of \$0.01 par value preferred stock as follows:

- o 300,000 shares have been authorized and issued as 8.35% Non-cumulative Exchangeable Preferred Stock, Series A, non-voting, ranked senior to the common stock and junior to the Adjustable Rate Cumulative Senior Preferred Shares, with a liquidation value of \$1,000 per share, redeemable at the Company's option on or after September 3, 2007, except upon the occurrence of certain changes in tax laws in the United States or in Canada, on or after September 3, 2002. These Series A shares are traded on the New York Stock Exchange in the form of Depository Shares, each representing a one-fortieth interest therein.
- o Each Series A share is exchangeable, upon the occurrence of certain events, for one newly issue 8.45% Non-cumulative First Preferred Share, Series Z, of National Bank of Canada.
- o 1,000 shares have been authorized and 110 shares have been issued as Adjustable Rate Cumulative Senior Preferred Shares, non-voting, ranked senior to the common stock and to the 8.35% Non-cumulative Exchangeable Preferred Stock, Series A, with a liquidation value of \$3,000 per share, redeemable at the Company's option at any time and retractable at the holder's option on December 30, 2007 and every ten-year anniversary thereof.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's principal business objective is to acquire, hold, finance and manage assets consisting of obligations secured by real property as well as other qualifying REIT assets ("Mortgage Assets"). The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, and accordingly, is generally not liable for United States federal income tax to the extent that it distributes at least 90% of its taxable income, subject to certain adjustments, to its stockholders.

Critical accounting policies

We believe that there are no critical accounting policies in connection with the preparation of the financial statements of the Company.

Results of operations (in thousand of U.S. dollars)

For the the three-month periods ended March 31, 2004 and March 31, 2003, the

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Company reported net income of \$8,440 and \$9,197 respectively. Revenues, which were comprised entirely of interest income, were \$8,885 and \$9,631 respectively, and expenses were \$445 and \$434, respectively. Since the Company has elected to be taxed as a REIT, no income tax was recorded during the period.

Ninety-nine percent of revenues for the three-month period ended March 31, 2004 and the ninety-nine percent of revenues for the three-month period ended March 31, 2003 were derived from the Mortgage Assets issued by NB Finance, Ltd., an affiliated company ("NB Finance"). The Mortgage Assets issued by NB Finance are collateralized by the "Mortgage Loans" that consist of fifty-nine pools of residential first mortgages insured by the Canada Mortgage and Housing Corporation and which are secured by real property located in Canada. The balance of the revenues result from interest on cash equivalents.

Expenses for the three-month periods ended March 31, 2004 and 2003 totaled \$445 and \$434, respectively, of which \$391 and \$368, respectively, represent servicing and advisory fees paid to National Bank of Canada, the Company's direct parent (the "Bank") pursuant to the Servicing Agreement between the Bank and the Company (the "Servicing Agreement") and the Advisory Agreement between the Bank and the Company (the "Advisory Agreement"), whereby the Bank performs all necessary operations in connection with administering the Mortgage Assets issued by NB Finance and the Mortgage Loans. Legal and other professional fees include payment to the transfer agent and other professional fees.

During the three-month period ended March 31, 2004, the Board of Directors of the Company authorized dividends, in the aggregate, of \$6,267 compared to \$6,267 for the three-month period ended March 31, 2003, on its Adjustable Rate Cumulative Senior Preferred Shares (the "Senior Preferred Shares") and 8.35% Non-cumulative Exchangeable Preferred Stock, Series A (the "Series A Preferred Shares") and, accordingly, the Depository Shares. Such dividends were paid on March 31, 2004.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Capital Resources and Liquidity (in thousand of U.S. dollars)

The Company's revenues are derived from interest payments from the Mortgage Assets. As of March 31, 2004, \$409 million of Mortgage Assets issued by NB Finance were collateralized by C\$749 million (\$511 million) of Mortgage Loans. The Company believes that the amounts generated from the payment of interest and principal on such Mortgage Loans will provide more than sufficient funds to make full payments with respect to the Mortgage Assets issued by NB Finance and that such payments will provide the Company with sufficient funds to meet its operating expenses and to pay quarterly dividends on the Senior Preferred Shares and the Series A Preferred Shares and, accordingly, the Depository Shares. To the extent that the cash flow from its Mortgage Assets exceeds those amounts, the Company will use the excess to fund the acquisition of additional Mortgage Assets and make distributions on the Common Stock.

The Company does not require any capital resources for its operations and, therefore, it is not expected to acquire any capital assets in the foreseeable future.

As of March 31, 2004, the Company had cash equivalents of \$61,300 representing

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12.74% of total assets, compared to \$19,406 representing 4.05% of total assets, as of December 31, 2003. The increase in liquidity is attributable to repayment of Mortgage Assets. It is expected that the Company will invest in additional Mortgage Assets once cash resources are close to, but not exceeding, 20% of total assets. While this continues to be the Company's investment policy, the Company maintains flexibility in this regard. The liquidity level is sufficient for the Company to pay fees and expenses pursuant to the Servicing Agreement and the Advisory Agreement.

The Company's principal short-term and long-term liquidity needs are to pay quarterly dividends on the Senior Preferred Shares and the Series A Preferred Shares and, accordingly, the Depository Shares, to pay fees and expenses of the Bank pursuant to the Servicing Agreement and the Advisory Agreement, and to pay franchise fees and expenses of advisors, if any.

Disclosure of Contractual Obligations

The Company does not have any indebtedness (current or long-term), other material capital expenditures, balloon payments or other payments due on other long-term obligations. No negative covenants have been imposed on the Company.

Off-Balance Sheet Accounting

The Company does not have any off-balance sheet obligations.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in the market risk faced by the Company since December 31, 2003. For information regarding the Company's risk refer to the information under the caption 'Disclosure About Market Risk' under this item and to the Company's 2003 Form 10-K.

Disclosure About Market Risk

Any market risk to which the Company would be exposed would result from fluctuations in interest rates that would affect the interest payments received by the Company in respect of the Mortgage Assets issued by NB Finance. Since the Mortgage Assets are significantly overcollateralized by the Mortgage Loans, interest rate fluctuations should not present significant market risk. The Company expects that the interest and principal generated by the Mortgage Loans should enable full payment by NB Finance of all of its obligations as they become due.

ITEM 4. CONTROLS AND PROCEDURES

Based on their evaluation as of the end of the period covered by this report, the Company's President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not the subject of any material litigation. The Company is not currently involved in, nor to the Company's knowledge, currently threatened with any material litigation other than routine litigation arising in the ordinary course of business, most of which is expected to be covered by liability insurance.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit No. -----	Description -----
11	Computation of Earnings Per Share
31.1	Certification of Chairman and President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Written Statement of Chairman and President Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
32.2	Written Statement of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

(b) Reports on Form 8-K:

No Reports on Form 8-K were filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NB CAPITAL CORPORATION

Date May 17, 2004

/s/ Serge Lacroix

Serge Lacroix
Chairman of the Board and President

Date May 17, 2004

/s/ Jean Dagenais

Jean Dagenais
Chief Financial Officer