

Edgar Filing: NB CAPITAL CORP - Form 10-Q

NB CAPITAL CORP
Form 10-Q
November 15, 2001

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 SEPTEMBER 30, 2001

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 (I.R.S. Employer Identification No.)
incorporation or organization)

125 West, 55th Street, New York, New York 10019
(Address of principal executive offices) (Zip Code)

212-632-8532
(Registrant's telephone number, including area code)

(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 X 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 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.

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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 November 15, 2001
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

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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 September 30, 2001, the Canadian dollar exchange rate was C\$1.5785 = \$1.00 and certain amounts stated herein reflect such exchange rate.

NB CAPITAL CORPORATION

BALANCE SHEETS

(in U.S. dollars)	September 30, 2001 Unaudited	December 31, 2000
<hr/>		
Assets		
Cash and cash equivalents	\$ 10,346,000	\$ 97,133,758
Due from an affiliated company	10,597,524	5,285,479
Promissory notes	468,867,008	379,543,070
Accrued interest on cash equivalents	1,645	75,850
	<hr/>	<hr/>
	\$ 489,812,777	\$ 482,038,157
<hr/>		
Liabilities		
Due to the parent company	338,937	302,486
Accounts payable	49,478	46,979
Dividend payable	0	1,500,000
	<hr/>	<hr/>
	388,415	1,849,465
<hr/>		
Stockholders' equity		
Preferred stock, \$0.01 par value per share; 10,000,000 shares authorized, 110 Senior preferred shares issued and outstanding	1	1
300,000 Series A shares issued and outstanding	3,000	3,000
Common stock, \$0.01 par value per share; 1,000 shares authorized, 100 shares issued and outstanding	1	1
Additional paid-in capital	476,761,014	476,761,014
Retained earnings	12,660,346	3,424,676
	<hr/>	<hr/>
	489,424,362	480,188,692
<hr/>		
	489,812,777	482,038,157

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See accompanying notes to financial statements.

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NB CAPITAL CORPORATION

STATEMENTS OF INCOME

(Unaudited)

(in U.S. Dollars)	Three-month periods ended		Nine-Month pe
	2001	September 30, 2000	September 2001
Revenue			
Interest income			
Cash equivalents	\$ 325,527	\$ 1,407,683	\$ 1,450,804
Promissory notes	10,670,556	8,050,951	27,770,415
	10,996,083	9,458,634	29,221,219
Expenses			
Servicing and advisory fees	338,942	300,367	1,012,011
Legal and other professional fees	62,461	35,154	162,674
	401,403	335,521	1,174,685
Net income	10,594,680	9,123,113	28,046,534
Preferred stock dividends	6,270,288	6,270,627	18,810,864
Income available to common stockholders	4,324,392	2,852,486	9,235,670
Weighted average number of common shares outstanding	100	100	100
Earnings per common share - basic	43,244	28,525	92,357

See accompanying notes to financial statements.

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NB CAPITAL CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

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(in U.S. dollars)	Three-month periods ended September 30		Nine-month period September
	2001	2000	2001
PREFERRED STOCK			
Balance, beginning and end of period	\$ 3,001	\$ 3,001	\$3,001
COMMON STOCK AND PAID-IN CAPITAL			
Balance, beginning and end of period	476,761,015	476,761,015	476,761,015
RETAINED EARNINGS			
Balance, beginning of period	8,335,954	8,874,402	3,424,676
Net income	10,594,680	9,123,113	28,046,534
Preferred stock dividends	(6,270,288)	(6,270,627)	(18,810,864)
Balance, end of period	12,660,346	11,726,888	12,660,346
TOTAL STOCKHOLDERS' EQUITY	489,424,362	488,490,904	489,424,362

See accompanying notes to financial statements.

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NB CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS

(Unaudited)

(in U.S. dollars)	Nine-month periods ended September 30,	
	2001	2000
OPERATING ACTIVITIES		
Net Income	\$ 28,046,534	\$ 26,632,365
Items not affecting cash resources		
Due from an affiliated company	(5,312,045)	16,953,110
Due to the parent company	36,451	(27,440)
Accounts payable	2,499	7,790
Accrued interest receivable on cash equivalents	74,205	53,595
Net cash provided by operating activities	22,847,644	43,619,420
FINANCING ACTIVITIES		
Dividends	(20,310,864)	(21,811,880)
Net cash used in financing activities	(20,310,864)	(21,811,880)

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INVESTING ACTIVITIES		
Investment in promissory notes	(284,500,923)	(166,159,779)
Repayments of promissory notes	195,176,985	150,908,364

Net cash provided by (used in) investing activities	(89,323,938)	(15,251,415)

Cash position, beginning of period	97,133,758	58,048,336

Cash position, end of period	10,346,600	64,604,461

See accompanying notes to financial statements

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NB CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2001

(unaudited)

(in 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 million of preferred stock and simultaneously, National Bank of Canada, the parent company, made a capital contribution in the amount of \$183 million. The Company used the aggregate net of proceeds of \$477 million to acquire promissory notes of 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 months and nine months periods 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 indicator of the results anticipated in the full year.

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 95% of its taxable income to its stockholders, maintains its qualification as a REIT and complies with certain other requirements.

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Per share data

Basic earnings per share with respect to the Company for the three-month and nine-month periods ended September 30, 2001 and 2000 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 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

September 30, 2001

(unaudited)

(in 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 only by mortgage loans that are secured by residential first mortgages and insured by the Canada Mortgage and Housing Corporation.

The promissory notes have maturities ranging from October 2001 to September 2006, at rates ranging from 7.312% to 10.211%, with a weighted average rate of approximately 8.273% 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 June 30, 2001	\$ 465,313,188
Acquisitions	55,963,732
Principal repayments	(52,409,912)

Promissory notes as of September 30, 2001	\$ 468,867,008

The scheduled principal repayments as of September 30, 2001 are as follows:

2001	\$33,345,922
2002	42,427,861
2003	96,666,046

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2004	143,379,093
2005	105,444,169
2006	47,603,917

4) Transactions with an affiliated company

During the quarters ended September 30, 2001 and September 30, 2000, the Company earned interest from NB Finance, Ltd. on the promissory notes in the amount of \$10,670,556 and \$8,050,951, respectively (see Note 3).

The amount of \$10,597,524 due from an affiliated company as of September 30, 2001 and \$5,285,479 as of December 31, 2000, represent interest and principal repayments due on the promissory notes.

5) Transactions with the parent company

The Company 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 \$25,000 per year, 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 September 30, 2001 and September 30, 2000, fees of \$6,250 were charged to the Company.

Servicing agreement

National Bank of Canada will service and administer the promissory notes and the collateralized mortgage loans and will perform all necessary operations in connection with such servicing and administration.

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NB CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2001

(unaudited)

(in U.S. dollars)

The fee will equal 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 September 30, 2001 and September 30, 2000, the average outstanding balance of the collateralized mortgage loans were \$550,462,170 and \$481,649,108, respectively. During the three-month periods ended September 30, 2001 and September 30, 2000, fees of \$332,692 and \$294,117 respectively, were charged to the Company.

Custodian agreement

National Bank of Canada will hold all documents relating to the collateralized mortgage loans. During the three-month periods ended September 30, 2001 and September 30, 2000, no fee was charged to the Company.

6) Stockholders' equity

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Common stock

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

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 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 of America and in Canada, on or after September 3, 2002.
- 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 These Series A shares are traded in the form of Depositary Shares, each representing a one-fortieth interest therein.
- o 1,000 shares authorized and 110 shares 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.

7) Recent Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations ("FAS 141") and No. 142, Goodwill and Other Intangible Assets ("FAS 142"). FAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The Company has concluded that the adoption of the provisions of FAS 141 and 142 will have no material effect on its results of operations and financial position.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS 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 95% of its taxable income, subject to

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certain adjustments, to its stockholders.

Results of operations:

For the three-month periods ended September 30, 2001 and September 30, 2000, the Company reported net income of \$10,594,680 and \$9,123,113, respectively. Revenues, which were comprised entirely of interest income, were \$10,996,083 and \$9,458,634 respectively, and expenses were \$401,403 and \$335,521, respectively. Since the Company has elected to be taxed as a REIT, no income tax was recorded during the period.

Ninety-seven percent of revenues for the three-month period ended September 30, 2001 and eighty-five percent of revenues for the three-month period ended September 30, 2000 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 thirty-six pools of residential first mortgages insured by 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 September 30, 2001 and 2000, totaled \$401,403 and \$335,521, respectively, of which \$338,942 and \$300,367, 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, annual fees to Security Exchange Commission and other professional fees.

During the three-month period ended September 30, 2001, the Board of Directors of the Company authorized dividends, in the aggregate, of \$6,270,288, compared to \$6,270,627 for the three-month period ended September 30, 2000, on its Preferred Stock (i.e., 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 Depositary Shares. Such dividends were paid on September 28, 2001.

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

Capital Resources and Liquidity:

The Company's revenues are derived from its Mortgage Assets. As of September 30, 2001, \$469 million of Mortgage Assets issued by NB Finance were over-collateralized by the C\$884 million (\$586 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 Depositary 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

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future.

As of September 30, 2001, the Company had cash equivalents of \$10,346,600 representing 2.1% of total assets, compared to \$97,133,758, representing 20% of total assets, as of December 31, 2000. The decrease in liquidity is attributable to investment in Mortgage Assets. It is expected that the Company will invest in additional Mortgage Assets once cash resources exceed 20% of total assets. While this continues to be the Company's investment policy, the Company maintains flexibility in this regard. On September 24, 2001, the Company bought \$56 million in additional Mortgage Assets in order to reduce increased liquidity. 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 Depositary 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.

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.

Disclosure About Market Risk

Any market risk to which the Company would be exposed would result from fluctuations in (a) interest rates and (b) currency exchange rates affecting 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 became due. Since the Mortgage Loans are guaranteed by a fixed ratio of exchange, predetermined on the date of purchase and applicable until the maturity of the Mortgage Loans pursuant to the Mortgage Loan Assignment Agreement, fluctuations in currency exchange rates should not present significant market risk.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit No.	Description
11	Computation of Earnings Per Share
27	Financial Data Schedule

(b) Reports on Form 8-K:

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

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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 November 15, 2001

/s/ Tom Doss

Tom Doss
Chief Financial Officer and Treasurer

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EXHIBIT 11

NB CAPITAL CORPORATION COMPUTATION OF EARNINGS PER SHARE

	Three-month period ended September 30, 2001	Three-month period ended September 30, 2000
Net income	\$10,594,680	\$ 9,123,113
Deduct: Senior preferred stock and series A preferred stock dividends	6,270,288 -----	6,270,627 -----
(A)	\$4,324,392	\$ 2,852,486
Common share outstanding	(B) 100	100
Earnings per share	(A/B) \$43,243.92	\$ 28,524.86

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EXHIBIT 27

NB CAPITAL CORPORATION

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FINANCIAL DATA SCHEDULE

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NB CAPITAL CORPORATION'S UNAUDITED BALANCE SHEET AS OF SEPTEMBER 30, 2001 AND UNAUDITED STATEMENT OF INCOME FOR THE QUARTER ENDED SEPTEMBER 30, 2001 INCLUDED IN NB CAPITAL CORPORATION'S QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2001 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

NB CAPITAL CORPORATION	
Period type	3-MOS
Fiscal year end	DEC-31-2001
Period start	JAN-01-2001
Period end	SEP-30-2001
Cash	10,346,600
Securities	0
Receivables	479,466,177
Allowances	0
Inventory	0
Current assets	489,812,777
PP&E	0
Depreciation	0
Total assets	489,812,777
Current liabilities	388,415
Bonds	0
Preferred mandatory	0
Preferred	3,001
Common	1
Other-SE	489,421,360
Total liability and equity	489,812,777
Sales	0
Total revenues	10,996,083
CGS	0
Total costs	0
Other expenses	401,403
Loss provision	0
Interest expense	0
Income - pre tax	10,549,680
Income - tax	0
Income - continuing	10,549,680
Discontinued	0
Extraordinary	0
Changes	0
Net income	10,549,680
EPS - primary	43,244
EPS - diluted	43,244