NB CAPITAL CORP
Form 10-Q
August 14, 2002

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

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30,2002
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)

212-632-8532
(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.
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 August 14, 2002
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 June 30, 2002, the Canadian dollar exchange rate was C$1.5162 = $1.00 and certain amounts stated herein reflect such exchange rate.

NB CAPITAL CORPORATION

BALANCE SHEETS

(in U.S. dollars)		June 30, 2002 (1)
Assets		
Cash and cash equivalents	$	10,012,275
Due from an affiliated company		8,260,850
Promissory notes		469,028,122
Accrued interest on cash equivalents		1,208
		487,302,455
Liabilities		
Due to the parent company		347,220
Accounts payable		34,718
		381,938
Stockholders' equity		
Preferred stock, $0.01 par value per share; 10,000,000 shares authorized,		
110 Senior preferred shares issued and outstanding		1
300,000 Series A shares issued and outstanding		3,000
Common stock, $0.01 par value per share; 1,000 shares authorized,		
100 shares issued and outstanding		1
Additional paid-in capital		476,761,014
Retained earnings		10,156,501
		486,920,517

487,302,455

(1) Unaudited

See accompanying notes to financial statements.

NB CAPITAL CORPORATION

STATEMENTS OF INCOME

(Unaudited)

(in U.S. dollars)	Three month periods ended June 30, 2002	2001
Revenue		
Interest income		
Cash equivalents	$ 140,079	$ 52
Promissory notes	9,121,284	8,07
	9,261,363	8,60
Expenses		
Servicing and advisory fees	347,227	32
Legal and other professional fees	45,341	5
	392,568	38
Net income	8,868,795	8,21
Preferred stock dividends	6,267,639	6,27
Income available to common stockholders	2,601,156	1,94
Weighted average number of common shares outstanding	100	
Earnings per common share - basic	26,012	1

(in U.S. dollars)	Six month periods ended June 30 2002	2001
Revenue		
Interest income		
Cash equivalents	$ 248,842	$ 1,
Promissory notes	18,609,154	17,
	18,857,996	18,
Expenses		
Servicing and advisory fees	695,017	
Legal and other professional fees	114,952	
	809,969	
Net income	18,048,027	17,
Preferred stock dividends	12,535,280	12,
Income available to common stockholders	5,512,747	4,
Weighted average number of common shares outstanding	100	
Earnings per common share - basic	55,127	

See accompanying notes to financial statements.

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NB CAPITAL CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(in U.S. dollars)	Three month periods ended June 30, 2002	2001

PREFERRED STOCK		
Balance, beginning and end of period	$ 3,001	$
COMMON STOCK AND PAID-IN CAPITAL		
Balance, beginning and end of period	476,761,015	476,
RETAINED EARNINGS		
Balance, beginning of period	7,555,345	6,
Net income	8,868,795	8,
Preferred stock dividends	(6,267,639)	(6,
Balance, end of period	10,156,501	8,
TOTAL STOCKHOLDERS' EQUITY	486,920,517	485,

	Six month periods ended June 30	
(in U.S. dollars)	2002	2001
PREFERRED STOCK		
Balance, beginning and end of period	$ 3,001	$
COMMON STOCK AND PAID-IN CAPITAL		
Balance, beginning and end of period	476,761,015	476,
RETAINED EARNINGS		
Balance, beginning of period	4,643,754	3,
Net income	18,048,027	17,
Preferred stock dividends	(12,535,280)	(12,
Balance, end of period	10,156,501	8,
TOTAL STOCKHOLDERS' EQUITY	486,920,517	485,

See accompanying notes to financial statements.

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NB CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS

(Unaudited)

(in U.S. dollars)	Six month periods June 30 2002	
OPERATING ACTIVITIES		
Net income	$ 18,048,027	$
Items not affecting cash resources		
Due from an affiliated company	3,871,345	
Due to the parent company	16,489	
Accounts payable	(14,257)	
Accrued interest receivable on cash equivalents	5,502	
Net cash provided by operating activities	21,927,106	
FINANCING ACTIVITIES		
Dividends	(12,535,280)	
Net cash used in financing activities	(12,535,280)	
INVESTING ACTIVITIES		
Investment in promissory notes	(136,087,443)	
Repayments of promissory notes	82,942,287	
Net cash used in investing activities	(53,145,156)	
Cash position, beginning of period	53,765,605	
Cash position, end of period	10,012,275	

See accompanying notes to financial statements.

NB CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002
(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 month and six month 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.

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 subject 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 earnings per share with respect to the Company for the three-month periods ended June 30, 2002 and 2001 are computed based upon the weighted average number of common shares outstanding during the period.

(in U.S. dollars)

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.

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 which are secured by residential first mortgages and insured by the Canada Mortgage and Housing Corporation.

The promissory notes have maturities ranging from July 2002 to September 2009, at rates ranging from 7.312% to 10.211%, with a weighted average rate of approximately 8.317% 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 March 31, 2002	$ 441,531,129
Acquisitions	64,221,363
Principal repayments	(36,724,370)
Promissory notes as of June 30, 2002	$ 469,028,122

The scheduled principal repayments as of June 30, 2002 are as follows:

2002	$13,547,313	2008	26,021,820
2003	83,837,861	2009	26,596,199
2004	126,681,116		
2005	100,649,369		
2006	83,436,369		
2007	8,258,075		

4) Transactions with an affiliated company

During the quarters ended June 30, 2002 and June 30, 2001, the Company earned interest from NB Finance, Ltd. on the promissory notes in the amount of $9,121,284 and $8,073,195, respectively (see Note 3).

The amount of $8,260,850 due from an affiliated company as of June 30, 2002 and $12,132,195 as of December 31, 2001 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 $30,000 per year ($25,000 in 2001), 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 June 30, 2002 and June 30, 2001, fees of $7,500 and $6,250, respectively were charged to the Company.

5) Transactions with the parent company (continued)

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.

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 June 30, 2002 and June 30, 2001, the average outstanding balance of the collateralized mortgage loans were $547,208,233 and $524,873,644, respectively. During the three-month periods ended June 30, 2002 and June 30, 2001, fees of $339,727 and $318,687 respectively, were charged to the Company.

Custodial agreement

National Bank of Canada will hold all documents relating to the collateralized mortgage loans. During the three-month periods ended June 30, 2002 and June 30, 2001, no fee was charged to the Company.

6) Stockholders' equity

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:

- 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.

- 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.

- These Series A shares are traded in the form of Depositary Shares, each representing a one-fortieth interest therein.

- 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.

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 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 NB Capital Corporation.

Results of operations:

For the three-month periods ended June 30, 2002 and June 30, 2001, the Company reported net income of $8,868,795 and $8,218,991, respectively. Revenues, which were comprised entirely of interest income, were $9,261,363 and $8,602,874 respectively, and expenses were $392,568 and $383,883, respectively. Since the Company has elected to be taxed as a REIT, no income tax was recorded during the period.

Ninety-eight percent of revenues for the three-month period ended June 30, 2002 and ninety-four percent of revenues for the three-month period ended June 30, 2001 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-one 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 June 30, 2002 and 2001 totaled $392,568 and $383,883, respectively, of which $347,227 and $324,937, 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 Securities Exchange Commission and other professional fees.

During the three-month period ended June 30, 2002, the Board of Directors of the Company authorized dividends, in the aggregate, of $6,267,639,compared to 6,270,288 for the three-month period ended June 30, 2001, 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 June 28, 2002.

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 June 30, 2002, $469 million of Mortgage Assets issued by NB Finance were over-collaterized by the C$895 million ($590 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 future.

As of June 30, 2002, the Company had cash equivalents of $10,012,275 representing 2.1% of total assets, compared to $53,765,605, representing 11.2% of total assets, as of December 31, 2001. 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 June 20, 2002, the Company bought $64 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.

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.

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 August 14, 2002

/s/ Donna Goral

Donna Goral
Director; Chairman of the Board;
President and Chief Executive Officer

EXHIBIT 11

NB CAPITAL CORPORATION
COMPUTATION OF EARNINGS PER SHARE

	Three-month period ended June 30, 2002	Three-mon ended June 30, 2001
Net income	$8,868,795	$ 8,218,991

Deduct: Senior preferred stock and series A preferred stock dividends		6,267,639	6,270,288
		---------	---------
	(A)	$2,601,156	$ 1,948,703
Common share outstanding	(B)	100	100
Earning per share	(A/B)	$ 26,012	$ 19,487

EXHIBIT 27

NB CAPITAL CORPORATION
FINANCIAL DATA SCHEDULE

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NB CAPITAL CORPORATION'S UNAUDITED BALANCE SHEET AS OF JUNE 30, 2002 AND UNAUDITED STATEMENT OF INCOME FOR THE QUARTER ENDED JUNE 30, 2002 INCLUDED IN NB CAPITAL CORPORATION'S QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2002 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

NB CAPITAL CORPORATION

Period type	3-MOS
Fiscal year end	DEC-31-2002
Period start	JAN-01-2002
Period end	JUN-30-2002
Cash	10,012,275
Securities	0
Receivables	477,290,180
Allowances	0
Inventory	0
Current assets	487,302,455
PP&E	0
Depreciation	0
Total assets	487,302,455
Current liabilities	381,938
Bonds	0
Preferred mandatory	0
Preferred	3,001
Common	1
Other-SE	486,917,516
Total liability and equity	487,302,455
Sales	0
Total revenues	9,261,363
CGS	0
Total costs	0
Other expenses	392,568
Loss provision	0
Interest expense	0
Income - pre tax	8,868,795

Income - tax	0
Income - continuing	8,868,795
Discontinued	0
Extraordinary	0
Changes	0
Net income	8,868,795
EPS - primary	26,012
EPS - diluted	26,012