

NB CAPITAL CORP  
Form 10-Q  
May 13, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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(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, 2005

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

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**NB CAPITAL CORPORATION**

(Exact name of registrant as specified in its charter)

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**Maryland**  
(Jurisdiction of incorporation)

**52-2063921**  
(I.R.S. Employer Identification No.)

**65 East 55th Street,  
New York, New York**  
(Address of principal executive offices)

**10022**  
(Zip Code)

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**212-632-8697**

(Registrant's telephone number, including area code)

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(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 [X] No [ ]

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

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

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Class  
Common Stock par value \$0.01 per share

Outstanding at May 13, 2005  
100

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**NB CAPITAL CORPORATION**

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This report contains certain forward-looking statements and information relating to NB Capital Corporation (the "Company") 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

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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. On March 31, 2005, the Canadian dollar exchange rate posted by the Bank of Canada was C\$1.2096 = \$1.00 and certain amounts stated herein reflect such exchange rate.

### PART I. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

#### *NB CAPITAL CORPORATION*

#### *BALANCE SHEETS*

<i>(in thousands of US dollars)</i>	<b>March 31, 2005 (Unaudited)</b>	<b>December 31, 2004</b>
<b>Assets</b>	\$	\$
<b>Current assets</b>		
Cash and cash equivalents	17,399	58,327
Due from an affiliated company	8,877	9,474
Accrued interest on cash equivalents	1	26
Prepaid expenses	31	30
Promissory notes - current portion	55,575	51,678
	81,883	119,535
<b>Promissory notes</b>	398,020	358,228
	<b>479,903</b>	<b>477,763</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Due to the parent company	413	414
Accounts payable	39	30
	452	444
<b>Stockholders' equity</b>		
Capital stock and Additional paid-in capital	476,764	476,764

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<i>(in thousands of US dollars)</i>	<b>March 31, 2005 (Unaudited)</b>	<b>December 31, 2004</b>
Retained earnings	2,687	555
	479,451	477,319
	<b>479,903</b>	<b>477,763</b>

See accompanying notes to financial statements.

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***NB CAPITAL CORPORATION***

***STATEMENTS OF INCOME***

<b>(Unaudited)</b>	<b>Three-month periods ended March 31,</b>	
<i>(in thousands of US dollars, except per share amounts)</i>	<b>2005</b>	<b>2004</b>
<b>Revenue</b>	\$	\$
<i>Interest income</i>		
Cash and cash equivalents	226	80
Promissory notes	8,662	8,805
	<b>8,888</b>	<b>8,885</b>
<b>Expenses</b>		
Servicing and advisory fees	413	391
Legal and other professional fees	75	54
	<b>488</b>	<b>445</b>
<b>Net income</b>	<b>8,400</b>	<b>8,440</b>

<b>(Unaudited)</b>	<b>Three-month periods ended March 31,</b>	
Preferred stock dividends	6,268	6,267
<b>Income available to common stockholders</b>	<b>2,132</b>	<b>2,173</b>
Number of common shares outstanding	100	100
<b>Earnings per common share - basic and diluted</b>	<b>21</b>	<b>22</b>

See accompanying notes to financial statements

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***NB CAPITAL CORPORATION***

***STATEMENTS OF STOCKHOLDERS' EQUITY***

<b>(Unaudited)</b>	<b>Three-month periods ended March 31,</b>	
<i>(in thousands of US dollars)</i>	<b>2005</b>	<b>2004</b>
<b>PREFERRED STOCK</b>		
Balance, beginning and end of period	\$ 3	\$ 3
<b>COMMON STOCK AND PAID-IN CAPITAL</b>		
Balance, beginning and end of period	476,761	476,761
<b>RETAINED EARNINGS</b>		
Balance, beginning of period	555	1,663
Net income	8,400	8,440
Preferred stock dividends	(6,268)	(6,267)
<b>Balance, end of period</b>	<b>2,687</b>	<b>3,836</b>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>479,451</b>	<b>480,600</b>

Three-month periods ended  
March 31,

(Unaudited)

See accompanying notes to financial statements.

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**NB CAPITAL CORPORATION****STATEMENTS OF CASH FLOWS**

(Unaudited)

Three-month periods ended  
March 31,

(in thousands of US dollars)

**OPERATING ACTIVITIES**

	2005	2004
Net income	8,400	8,440
Item not affecting cash resources :		
Prepaid expenses	(1)	(2)
Due from an affiliated company	598	238
Due to the parent company	(1)	(24)
Accounts payable	8	(11)
Accrued interest receivable on cash equivalents	25	4
<b>Net cash provided by operating activities</b>	<b>9,029</b>	<b>8,645</b>

**FINANCING ACTIVITIES**

Dividends	(6,268)	(6,267)
<b>Net cash used in financing activities</b>	<b>(6,268)</b>	<b>(6,267)</b>

**INVESTING ACTIVITIES**

Investment in promissory notes	(73,038)	0
Repayments of promissory notes	29,349	39,516

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<b>(Unaudited)</b>	<b>Three-month periods ended March 31,</b>	
Net cash (used in) provided by investing activities	<b>(43,689)</b>	<b>39,516</b>
Cash and cash equivalents, beginning of period	58,327	19,406
<b>Cash and cash equivalents, end of period</b>	<b>17,399</b>	<b>61,300</b>

See accompanying notes to financial statements.

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***NB CAPITAL CORPORATION***

***NOTES TO THE FINANCIAL STATEMENTS***

*March 31, 2005*

(unaudited)

*(in thousand of U.S. dollars)*

**1) Incorporation and nature of operations**

NB Capital Corporation (the Company) was incorporated under the laws of 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 a Prospectus dated August 22, 1997, \$300,000 of preferred stock and simultaneously, National Bank of Canada (the Bank), 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. (NB Finance), a wholly-owned subsidiary of the Bank.

**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 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 for the year ended December 31, 2004 filed on Form 10-K. The

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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, 2005 and 2004 are computed based on the 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***

*March 31, 2005*

(unaudited)

(in thousand of U.S. dollars)

### ***Interest on Promissory notes and cash equivalents***

Interest income on the Promissory notes and cash equivalents is accrued using the simple interest method based on the amount of principle outstanding. The accrual of interest is discontinued when management believes that the collection of interest is doubtful.

3) **Promissory notes**

The Company entered into loan agreements evidenced by Promissory notes with NB Finance, 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 2005 to January 2015, at rates ranging from 5.49% to 10.21%, with a weighted average rate of approximately 8.13% per annum.

The fair value of the Promissory notes as at March 31, 2005 is \$462,428. Fair value is estimated by using the present value of expected future cash flows and may not be indicative of the net realizable value.

Promissory notes as of December 31, 2004	\$ 409,906
Acquisitions	73,038
Principal repayments	(29,349)
<hr/>	
Promissory notes as of March 31, 2005	\$ 453,595
<hr/>	

The scheduled principal repayments on a year end basis as of March 31, 2005 are as follows:

2005	\$ 40,776	2011	\$79,604
2006	\$100,121	2012	\$47,437
2007	\$ 36,589	2013	\$ 9,228
2008	\$ 34,744	2014	\$ 4,382
2009	\$ 41,275	2015	\$ 8,585
2010	\$ 50,854		

4) **Transactions with an affiliated company**

During the three-month periods ended March 31, 2005 and March 31, 2004, the Company earned interest from NB Finance, on the Promissory notes in the amount of \$8,662 (\$8,805 in 2004) (see Note 3).

The amount of \$8,877 due from NB Finance as of March 31, 2005 and \$9,474 as of December 31, 2004 represents interest and principal repayments due on the promissory notes.

5) **Transactions with the parent company**

The Company has entered into agreements with the Bank 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, payable in equal quarterly installments, the Bank 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, 2005 and March 31, 2004, fees of \$25 (\$25 in 2004) were charged to the Company.

**NB CAPITAL CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

March 31, 2005

(unaudited)

(in thousand of U.S. dollars)

**5) Transactions with the parent company (continued)**

***Servicing agreement***

The Bank 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, 2005 and March 31, 2004, the average outstanding balance of the collateralized mortgage loans were \$549,655 and \$529,266 respectively. During the three-month periods ended March 31, 2005 and March 31, 2004, fees of \$388 (\$366 in 2004) were charged to the Company.

***Custodial agreement***

The Bank holds all documents relating to the collateralized mortgage loans. During the three-month periods ended March 31, 2005 and March 31, 2004, no fee was charged to the Company for custodial services.

***Interest on bank account and short-term investments***

The Company received interest on term deposits held with National Bank of Canada in the amounts of \$226 for the three-month period ended March 31, 2005, and 80\$ for the three-month period ended March 31, 2004.

**6) Stockholders equity**

(in U.S. Dollars)

***Common stock***

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

100 shares have been authorized and issued to the Bank.

***Preferred stock***

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

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300,000 shares of preferred stock have been authorized and issued as 8.35% Non-cumulative Exchangeable Preferred Stock, Series A ( Series A Preferred Shares ), 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 Preferred Shares are traded on the New York Stock Exchange in the form of Depository Shares, each Depository Share representing a one-fortieth interest therein.

Each Series A Preferred Share is exchangeable, upon the occurrence of certain events, for one newly issue 8.45% Non-cumulative First Preferred Share, Series Z, of the Bank.

1,000 shares of preferred stock have been authorized (110 issued) as Adjustable Rate Cumulative Senior Preferred Shares, non-voting, ranked senior to the common stock and to the Series A Preferred Shares 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**

*This discussion summarizes the significant factors affecting the Company's results of operations, financial condition and liquidation / cash flows for the first quarter ended March 31, 2005, compared to the same periods in 2004. This discussion should be read in connection with the financial statements and notes included in the Company's annual report on Form 10-K for the year ended December 31, 2004.*

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 three-month periods ended March 31, 2005 and March 31, 2004, the Company reported net income of \$8,400 and \$8,440 respectively. Revenues, which were comprised almost entirely of interest income, were \$8,888 and \$8,885 respectively, and expenses were \$488 and \$445 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 March 31, 2005 and ninety-nine percent of revenues for the three-month period ended March 31, 2004 were derived from the Mortgage Assets issued by NB Finance. The Mortgage Assets issued by NB Finance are collateralized by the Mortgage Loans that consist of 72 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. The Company believes that the majority of revenues will continue to be generated by the Mortgage Assets issued by NB Finance.

Expenses for the three-month periods ended March 31, 2005 and 2004 totaled \$488 and \$445, respectively, of which \$413 and \$391, respectively, represent servicing and advisory fees paid to the Bank, the Company's direct parent, 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.

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

During the three-month period ended March 31, 2005, the Board of Directors of the Company authorized dividends, in the aggregate, of \$6,268 compared to \$6,267 for the three-month period ended March 31, 2004, 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, 2005.

**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, 2005, \$453 million of Mortgage Assets issued by NB Finance were collateralized by C\$782 million (\$566 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, 2005, the Company had cash equivalents of \$17,399 representing 3.63% of total assets, compared to \$58,327 representing 12.21% of total assets, as of December 31, 2004. 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. The Company expects to make an investment in Mortgage Assets in June 2005, in its normal course of business.

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 legal and professional 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 Arrangements**

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

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There has been no significant change in the market risks faced by the Company since December 31, 2004. For information regarding the Company's risks refer to the information under the caption "Disclosure About Market Risk" below and to the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

**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, the Company believes that 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 of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's President and Chief Financial Officer have concluded that such disclosure controls and procedures are effective.

There were no changes in the Company's internal controls over financial reporting identified in connection with their evaluation that occurred during the Company's fiscal quarter that ended March 31, 2005, that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

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**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:

<b><u>Exhibit</u></b>	<b><u>Description</u></b>
<b><u>No.</u></b>	

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)
99.1	Annual Report on Form 10-K of the Registrant for the Year Ended December 31, 2004

(b) Reports on Form 8-K:

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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 May 13, 2004

/s/ Serge Lacroix  
Serge Lacroix  
Chairman of the Board and President

Date May 13, 2004

/s/ Jean Dagenais  
Jean Dagenais  
Chief Financial Officer

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