

Edgar Filing: NB CAPITAL CORP - Form 10-Q

NB CAPITAL CORP
Form 10-Q
November 15, 2002

UNITED STATES
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, 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
(State or other jurisdiction of
incorporation or organization)

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

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

10019
(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

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common stock, as of the latest practicable date.

Class	Outstanding at November 15, 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 September 30, 2002, the Canadian dollar exchange rate was

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C\$1.5872 = \$1.00 and certain amounts stated herein reflect such exchange rate.

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NB CAPITAL CORPORATION

BALANCE SHEETS

(in U.S. dollars)	September 30, 2002 (1)	December 31, 2001
<hr/>		
Assets		
Cash and cash equivalents	\$ 41,086,459	\$ 53,765,605
Due from an affiliated company	6,87,849	12,132,195
Promissory notes	442,010,652	415,882,966
Accrued interest on cash equivalents	1,281	6,710
	<hr/>	<hr/>
	490,086,241	481,787,476
<hr/>		
Liabilities		
Due to the parent company	347,881	330,731
Accounts payable	51,814	48,975
	<hr/>	<hr/>
	399,695	379,706
<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	12,922,530	4,643,754
	<hr/>	<hr/>
	489,686,546	481,407,770
	<hr/>	<hr/>
	490,086,241	481,787,476
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(1) Unaudited

See accompanying notes to financial statements.

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NB CAPITAL CORPORATION

BALANCE SHEETS

(Unaudited)

(in U.S. dollars)	Three-month periods ended		Nin
	September 30, 2002	2001	

Revenue			
Interest income			
Cash equivalents	\$ 82,173	\$ 325,527	\$
Promissory notes	9,354,497	10,670,556	27,
	-----	-----	-----
	9,436,670	10,996,083	28,

Expenses			
Servicing and advisory fees	347,888	338,942	1,
Legal and other professional fees	55,112	62,461	
	-----	-----	-----
	403,000	401,403	1,

Net income	9,033,670	10,594,680	27,
Preferred stock dividends	6,267,639	6,270,288	18,

Income available to common stockholder	2,766,031	4,324,392	8,
=====			
Weighted average number of common shares outstanding	100	100	

Earnings per common share - basic and diluted	27,660	43,244	
=====			

See accompanying notes to financial statements.

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STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(in U.S. dollars)	Three-month periods ended		Nine-month Sept
	September 30,		
	2002	2001	2002
PREFERRED STOCK			
Balance, beginning and end of period	\$ 3,001	\$ 3,001	\$ 3,001
COMMON STOCK AND PAID-IN CAPITAL			
Legal and other professional fees	476,761,015	476,761,015	476,761,015
RETAINED EARNING			
Balance, beginning of period	10,156,499	8,335,954	4,643,754
Net income	9,033,670	10,594,680	27,081,696
Preferred stock dividends	(6,267,639)	(6,270,288)	(18,802,920)
Balance, end of period	12,922,530	12,660,346	12,922,530
TOTAL STOCKHOLDERS' EQUITY	489,686,546	489,424,362	489,686,546

See accompanying notes to financial statements.

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NB CAPITAL CORPORATION

BALANCE SHEETS

(Unaudited)

(in U.S. dollars)	Nine-month periods ended	
	September 30,	
	2002	2001
OPERATING ACTIVITIES		
Net income	\$ 27,081,696	\$ 28,046,534
Items not affecting cash resources		
Due from an affiliated company	5,144,346	(5,312,045)
Due to the parent company	17,150	36,451
Accounts payable	2,839	2,499

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Accrued interest on cash equivalents	5,429	74,205
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Net cash provided by operating activities	32,251,460	22,847,644
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FINANCING ACTIVITIES		
Dividends	(18,802,920)	(20,310,864)
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Net cash used in financing activities	(18,802,920)	(20,310,864)
<hr style="border-top: 1px dashed black;"/>		
INVESTING ACTIVITIES		
Investment in promissory notes	(136,087,443)	(284,500,923)
Repayments of promissory notes	109,959,757	195,176,985
<hr style="border-top: 1px dashed black;"/>		
Net cash used in investing activities	(26,127,686)	(89,323,938)
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Cash and cash equivalent, beginning of period	53,765,605	97,133,758
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Cash and cash equivalent, end of period	41,086,459	10,346,600
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See accompanying notes to financial statements

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NB CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

September 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 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

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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 nine 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 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 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 and diluted earnings per share with respect to the Company for the three-month periods and nine-month periods ended September 30, 2002 and 2001 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.

NB CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2002

(unaudited)

(in U.S. dollars)

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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 October 2002 to September 2009, at rates ranging from 7.312% to 10.211%, with a weighted average rate of approximately 8.323% 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, 2002	\$ 469,028,122
Acquisitions	-
Principal repayments	(27,017,470)
Promissory notes as of September 30, 2002	\$ 442,010,652

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

2002	\$7,477,102	2008	25,046,177
2003	77,377,288	2009	25,783,926
2004	120,641,125		
2005	96,693,037		
2006	80,850,184		
2007	8,141,813		

4) Transactions with an affiliated company

During the three month ended September 30, 2002 and September 30, 2001, the Company earned interest from NB Finance, Ltd. on the promissory notes in the amount of \$9,354,497 and \$10,670,556, respectively (see Note 3).

The amount of \$6,987,849 due from an affiliated company as of September 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, the Board approving the increase from \$25,000 to \$30,000 on October 31, 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 September 30, 2002 and September 30, 2001, fees of \$7,500 and \$6,250, respectively were charged to the Company.

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NB CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2002

(unaudited)

(in U.S. dollars)

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 September 30, 2002 and September 30, 2001, the average outstanding balance of the collateralized mortgage loans were \$562,007,364 and \$550,462,170, respectively. During the three-month periods ended September 30, 2002 and September 30, 2001, fees of \$340,388 and \$332,692 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 September 30, 2002 and September 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:

- 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

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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 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 September 30, 2002 and September 30, 2001, the Company reported net income of \$9,033,670 and \$10,594,680, respectively. Revenues, which were comprised entirely of interest income, were \$9,436,670 and \$10,996,083 respectively, and expenses were \$403,000 and \$401,403, 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 September 30, 2002 and ninety-seven percent of revenues for the three-month period ended September 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 September 30, 2002 and 2001 totaled \$403,000 and \$401,403, respectively, of which \$347,888 and \$338,942, 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 September 30, 2002, the Board of Directors

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of the Company authorized dividends, in the aggregate, of \$6,267,639, compared to 6,270,288 for the three-month period ended September 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 September 30, 2002.

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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, 2002, \$442 million of Mortgage Assets issued by NB Finance were over-collaterized by the C\$844 million (\$532 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 September 30, 2002, the Company had cash equivalents of \$41,086,459 representing 8.4% 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. 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.

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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
99.1	Certification of Serge Lacroix, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Jean Dagenais, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

Reports on Form 8-K were filed during the quarter for which this report is filed.

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SIGNATURES

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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, 2002

/s/ DONNA GORAL

Donna Goral
Director

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Section 302 Certification

I, SERGE LACROIX, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NB Capital Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 15, 2002

/s/ SERGE LACROIX

Serge Lacroix
Chief Executive Officer

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Section 302 Certification

I, JEAN DAGENAIS, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NB Capital Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the

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effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 15, 2002

/s/ JEAN DAGENAI

Jean Dagenais
Chief Financial Officer

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