



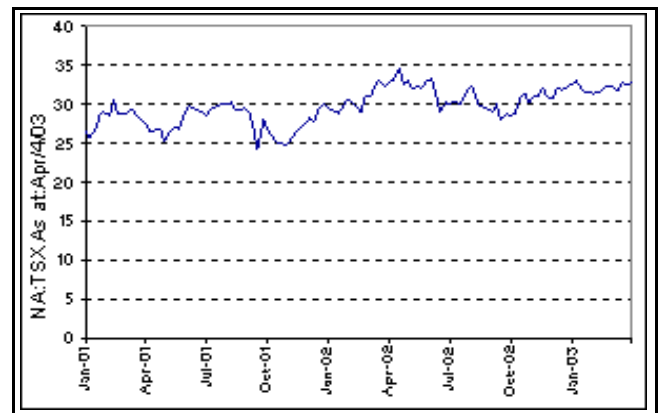
THE COMPANY

National Bank, Canada's sixth largest chartered bank, provides financial and banking services to consumers, small and medium-sized enterprises and large corporations. National Bank is the leading Quebec-based banking institution although it has branches throughout Canada and operations in the United States and Europe. Through a series of mergers and acquisitions, including the recent purchase of First Marathon, National Bank and its subsidiaries are involved in investment banking, securities trading and brokerage, insurance, wealth management, mutual funds and retirement planning.

FINANCIAL DATA

	2000	2001	2002
Earnings per Share (\$)	2.54	2.87	2.86
Price to Earnings (times)	12.6	11.1	11.2
Dividend (\$)	0.76	0.82	1.04
Dividend Yield (%)	2.38	2.56	3.25
Book Value (\$)	17.60	19.04	19.72
Price to Book Value (times)	1.82	1.68	1.62

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT NATIONAL BANK

We believe that significant changes in the financial services sector are just around the corner. The federal government's white paper on financial services reform is expected by mid-summer and should propose a change in the current ownership limitations. Today, only 10% of a Canadian Schedule I bank may be closely held but because of the worldwide trend towards consolidation in the financial services industry, we expect a loosening of Canadian ownership restrictions. National Bank is one of the most attractive takeover candidates because of its relative size and improving profitability.

Good financial performance should continue as the First Marathon acquisition and other initiatives make a greater contribution to revenue growth. Share price appreciation has been steady from a January 2000 price low of \$16.25 to \$23.10 this past March. Though the share price has recently retreated, due to concerns over possible interest rate hikes, National Bank is still fundamentally undervalued. The bank is currently trading at under 9 times expected 2000 earnings and at approximately 1.3 times book value. The cash dividend was raised from \$0.66 in 1998 to \$0.70 in 1999 and in 2000 the bank will pay at an elevated rate of \$0.76. This cash payout yields approximately 3.6% at current price levels.

National Bank is ideally positioned to benefit from the proposed changes contained in the federal government's white paper on financial services reform. It is expected that banks with equity capitalization of under \$5.0 billion will be allowed to request permission, from the Minister of Finance, to be closely held. Because National Bank has approximately \$4.0 billion of shareholders' equity, a change of ownership would be possible. Though unable to act before the proposed changes become law, Mr. André Bérard, National Bank's Chairman and CEO, has acknowledged that the bank is open to discussions with other financial institutions. In the meantime, the bank is proceeding with smaller acquisitions and partnerships to improve geographic diversification, to provide expanded services to large corporate clients and to enhance its competitiveness in the financial services industry. We expect this trend to continue until the Bank Act is officially revised. At that point, we expect the National Bank to become a prime takeover target.

Given the present global trend of mergers and acquisitions, we believe that consolidation in the Canadian financial services sector is far from over. With the expectation of changes in ownership regulations, the National Bank is uniquely positioned as the largest Schedule I bank takeover candidate. Potential acquirers might include large U.S. institutions, insurance companies, global mutual funds or other financial service providers.

UPDATES

National Bank has reported its third quarter financial results for the period ended July 31, 2000. The bank demonstrated improved operational performance, growth across its business segments and a focus on its information technology infrastructure. With regard to the banking industry, anticipated merger or takeover activity has yet to materialize despite perceived progress on financial services sector reform. We continue to wait patiently for concrete developments from the federal government on banking reform.

Since the relatively smooth integration of First Marathon, National Bank has posted solid financial results. Earnings per share before goodwill charges were \$0.67 for the quarter versus \$0.58 for the similar period last year. Based on reported earnings, the return on equity was 15.8% compared to 15.4% for the third quarter of 1999. Importantly, each of the three main business segments contributed to profitability. The Personal and Wealth Management segment reported net income of \$69 million, a 44% increase from the comparable quarter last year. The Commercial Banking segment reported net income of \$43 million, an increase of 26% and the Financial Markets, Treasury and Investment Banking division reported net income of \$43 million, an increase of 65%.

With the release of its third quarter results, National Bank also provided information regarding several interesting strategic developments. The bank has finalized the sale of its information technology subsidiary (SIBN Inc.) to Cognicase Inc. in return for approximately 8.5 million shares. National Bank purchased 800,000 additional shares of Cognicase to boost its stake to approximately 35% of the company. The Bank also announced the launch of "ClickOn-Markets", a wireless Internet portal for Canadian businesses designed to provide various financial services, including electronic purchases, financial settlement, expense account processing and market profiles and information. National Bank Discount Brokerage has updated its Web site, InvesNet.com, in order to provide more information, trading options and services to its clients. Finally, National Bank Securities announced an alliance with Fidelity Investments Canada in order to expand National Bank's existing family of mutual funds.

With the end of this cycle of interest rate tightening in sight, we are expecting good performance from the financial sector. Once the regulatory framework for consolidation in the banking sector is put into place, we believe that National Bank will attract a great deal of interest from potential suitors. Solid operating performance and significant business developments only enhance National Bank's attractiveness as a takeover candidate.

ABC Funds
September 8, 2000

With renewed Liberal leadership, the passage of Bill C-38, legislating financial services sector reform, is more likely than not. As we have discussed before, National Bank would become a prime consolidation candidate under these new regulations. The potential for a take-over premium provides added incentive to hold the stock. In the meantime, National has continued to develop new products, strengthen its customer and client relationships and improve its operating performance.

For fiscal 2000, income before goodwill charges reached \$531 million, well above the half billion-dollar level. After goodwill charges, earnings per share amounted to \$2.54, an increase of 13% from fiscal 1999. The Financial Markets, Treasury and Investment Banking segment reported particularly good performance, with revenue growth of 68% due to the inclusion of First Marathon for the full 12 month period. Despite some recent concerns regarding credit quality across the banking sector, National Bank reported essentially stable loan performance and, reassuringly, did not book any unexpected loan loss provisions. All in all, we are quite pleased with National's financial performance and we anticipate that the sector will continue to perform well as interest rates decline further.

ABC Funds
January 12, 2001

While we await the passage of Bill-C8 (formerly known as Bill-C38) on or about June 15th, National Bank reported another solid financial performance. Income before goodwill charges amounted to \$0.72 per share in the second quarter of 2001, up 5.1% from the corresponding period in 2000. Margins increased across the retail, commercial and corporate banking segments as operating expenses fell to 62.6% of total revenue, which generated a return on common shareholders' equity of 16.6%.

Of slight concern was the deteriorating credit quality of U.S. commercial loans, primarily due to a slowing economic environment. Loan loss provisions were raised to \$59 million in the period from \$44 million a year ago and net impaired loans grew to \$78 million or 0.17% of net loans and acceptances. During the second quarter conference call, management made assurances that the worst has past. Interestingly, the credit quality of Canadian commercial loans actually improved in the

UPDATES (cont'd)

At the start of the current fiscal year, National Bank had outlined several specific financial objectives and now is an opportune time to assess management's progress. National Bank wished to achieve income before goodwill charges growth greater than 10% per year. Actual growth for the first half of fiscal 2001 was an acceptable 10.8%. Return on common shareholders' equity before goodwill charges was 16.3%, which was well within the desired range of 15.5% to 17.5%. Management also hoped to have the efficiency ratio down to 60% by 2003, and the Bank is only 2.4% from this goal after the first six months of fiscal 2001. Finally, National Bank planned to maintain the Tier 1 capital ratio between 7.75% and 8.50%. Currently, the Tier 1 Capital ratio is 9.1%, slightly more conservative than forecasted. In short, we believe that National Bank is performing admirably despite weak capital markets and the slowing North American economy.

ABC Funds
June 8, 2001

Despite a difficult economic environment, National Bank reported record third quarter financial and operating results. Earnings per share before goodwill were \$0.73 for the quarter, up 9% from the \$0.67 earned in the similar period in 2000. Year to date, earnings per share before goodwill totaled \$2.16, an increase of 10.9% over the previous year. Return on common shareholders' equity was 15.9% for the quarter and 16.2% for the first nine months of fiscal 2001.

On a consolidated basis, total revenues reached \$844 million for the quarter, an increase of 7% from \$790 million in the third quarter of 2000. This improvement stemmed from a larger corporate loan portfolio in the Financial Markets, Treasury and Investment Banking segment and from branch network and card services revenue growth in the Personal Banking and Wealth Management segment. Net interest income improved 11.6% to \$385 million in the quarter, as the spread for the Personal, Commercial and Corporate Banking segments widened and treasury operations increased as a proportion of total revenue. Despite the impressive revenue growth, the efficiency ratio (operating expenses as a percentage of total revenue) declined from 65.1% to 62.1%, indicative of good expense control.

Credit quality declined slightly in the quarter and the provision for credit losses was boosted from \$62 million to \$71 million, which was probably warranted given the weakening North American economies. Net impaired loans were \$82 million versus \$78 million in the second quarter of this year and \$45 million in the third quarter of 2000. Quarter over quarter, impaired loans increased by \$24 million in the real estate segment and decreased by \$29 million in the United States commercial banking segment. We believe that National Bank correctly took a conservative approach with its book of loans and we don't expect any drastic changes going forward.

Overall, National Bank reported another solid quarter in a difficult economic environment. Considering recent events, we believe that the defensive nature of the Banks will offer shelter to nervous investors. The attractiveness of the stable dividend, which is currently yielding over 3%, cannot be overstated. Finally, the potential for a takeover offer to materialize makes National Bank one of our favourites in the financial services sector.

ABC Funds
September 21, 2001

Unlike many industries, the banking sector has been able to report year over year earnings growth despite the recent economic downturn. National Bank has again demonstrated its ability to perform well and has met all of its strategic financial objectives for the 2001 fiscal year. Earnings per share (after goodwill charges) grew 9.4% from \$2.54 to \$2.78 and the book value amounted to \$19.04 per share, as at October 31. The expense ratio declined from 65.8% to 62.7% and the cash ROE, excluding non-recurring items, increased from 14.7% to 15.9% in 2001. National Bank's balance sheet is well capitalized and a dividend increase or share buyback program would certainly be feasible in the near future.

Aside from the solid operating and financial performance, two key announcements were recently released. Firstly, Real Raymond, President of Personal and Commercial Banking since 1999, was chosen to succeed Andre Berard as President and Chief Executive Officer. With over 30 years of experience at National Bank, Mr. Raymond's appointment was well received by the investment community and shareholders alike. Secondly, management made the strategic decision to concentrate on the Bank's core retail banking, wealth management and commercial banking operations. Consequently, National Bank has exited its secured-based lending operations in the United States and has sold approximately US\$1.6 billion in loans to PNC Financial, one of the largest American financial services organizations. As we had previously noted, the U.S. lending operations had been showing signs of deteriorating credit quality and therefore we believe that management has made the correct decision to ensure continued profitable growth.

ABC Funds
February 8, 2002

UPDATES (cont'd)

It should come as no surprise that credit quality has deteriorated for many Canadian banks. However, National Bank's results have held up well in the first half of fiscal 2002. Earnings per share before goodwill charges totaled \$1.35 compared to \$1.42 in the comparable period in 2001. The decline was primarily attributable to larger than expected loan loss provisions related to the Bank's Teleglobe exposure.

In our last comment we were confident that National Bank would perform admirably despite the difficult economic environment. We even suggested that a dividend increase and/or a share buyback were feasible. In fact, in the first quarter of 2002 National did both. The dividend was increased by 14% to \$0.96 per share and a normal course issuer bid was announced for approximately 5% of the Bank's outstanding common shares.

In our previous comment we had also noted that National Bank's capital ratios were above management's targets. They have now put this capital to work. On April 15th, the Bank announced the acquisition of Putnam Lovell Group, an investment boutique based in the United States. Further, on June 11th, National Bank announced the acquisition of Altamira, the well-known mutual fund manager and distributor. Both of these acquisitions will extend National's reach outside of Quebec and will strengthen the Bank's investment banking and wealth management operations. We are pleased that National Bank has taken steps to continue to improve profitability without the assumption of additional credit risk.

ABC Funds

July 5, 2002

After an eventful year, National Bank reported earnings per share of \$2.86 in fiscal 2002 compared to \$2.87 in fiscal 2001, excluding unusual items. Adjusted return on equity declined to 14.7% from 15.9%, in 2002 and 2001 respectively. National Bank's expense ratio was relatively stable at 62.4% compared to 62.7%. Given the difficult economy, credit concerns and the associated loan loss provisions taken in 2002, we were generally pleased with these numbers. We certainly liked the fact that National Bank announced a share buyback program and increased its dividend to \$1.04 per common share, which yields approximately 3.25% at current price levels.

We are relatively optimistic regarding the outlook for the banking sector in 2003 even though interest rates are expected to continue to rise. It is important to remember that the large loan loss provisions that had a detrimental impact on profitability in 2002 will not impact future results. For example, in the first quarter of fiscal 2003, National Bank reported earnings of \$0.88 per share compared to \$0.73 the previous year, an increase of 21%. These earnings exceeded the consensus estimate of \$0.75, as the provision for credit losses declined to \$41 million from \$245 million. Return on shareholders' equity improved to 17.6% from 15.0% and book value reached \$20.22 per share. As at January 31, National Bank had repurchased 1.4 million shares of the 9.1 million shares allowable under its normal course issuer bid. With excess capital on the balance sheet, we expect that National Bank will continue with its share buyback program, which obviously benefits existing shareholders.

ABC Funds

March 17, 2003

After beating consensus earnings estimates in the first quarter of fiscal 2003, National Bank's stock has performed relatively well. The Bank has rallied approximately 25% from its 52-week low of \$26.09 and is trading within 10% of its 52-week high of \$35.15. However, we believe that the Canadian Banks, including National Bank, are trading at or close to fair value. We feel that once the inevitable economic recovery materializes, the capital could be better utilized elsewhere.

The solid quarter and the recent dividend payment generated some buying interest in the stock. Because National Bank is relatively illiquid, especially compared to the big five banks, we took advantage of the demand to sell our entire position in this long-time Value Favourite.

ABC Fund

April 4, 2003