
# ANNUAL REPORT 2004

KEMPEN & CO

*Merchant Bank*

# Profile of Kempen & Co

Kempen & Co is an independent Dutch merchant bank providing various specialised financial services in asset management, corporate finance and securities brokerage. Clients include high-net-worth individuals, foundations and institutional investors, corporates, financial institutions as well as public and semi-public institutions.

Founded in 1903, Kempen & Co has a track record of developing long-term relationships with its clients providing them with customized and high-quality advice. In a world of abundant information flows, Kempen & Co and its staff emphasise selectivity and versatility, focusing services on segments where in-depth research and advice can add real value, for example medium sized and smaller companies and property companies.

**Kempen Capital Management** ('KCM'), a fully-owned subsidiary of Kempen & Co, provides asset management services. KCM manages portfolios in European equities, bonds and real estate securities for a range of high-net-worth individuals, foundations and institutional investors, through mandates and investment funds, including the well-known Orange funds. The emphasis is to generate superior investment returns by having a focused approach and dedicating specialized teams to the investment management activities.

**Kempen & Co Corporate Finance**, a fully-owned subsidiary of Kempen & Co, focuses on providing advice on mergers and acquisitions as well as capital market transactions. Clients include both listed and non-listed Dutch companies as well as foreign companies who have entered the Dutch market or are intending to do so.

**Kempen & Co Securities** focuses on securities brokerage, with a special emphasis on Dutch stocks and derivatives and European real estate securities, serving professional investors in primarily Europe and the US. Kempen & Co Securities provides clients with high-quality research and order execution.

## Clients come first, employees are our assets

Kempen & Co seeks to balance the interests of its key stakeholders: clients, staff, shareholders, business partners, the community and the wider environment it operates in. As a specialised financial services provider - highly dependent on human know-how and the ability to operate as a team - Kempen & Co in essence has a dual mission: serving the interests of its clients and furthering the development of its staff. Client primacy provides Kempen & Co with the right organisational focus.

# Information

**Supervisory Board**

P. Winsemius, *chairman*

F.W. Fröhlich

A.J.L. Slippens

W.O. Wentges

**Management Board**

W.H.M. Pot, *chairman*

L. Deuzeman

I.A. Sevinga

**Kempen & Co NV**

Beethovenstraat 300

PO Box 75666

1070 AR Amsterdam

The Netherlands

Telephone +31 20 348 8000

Telefax +31 20 348 8400

www.kempen.com

Commercial register Amsterdam no. 34186722

Kempen & Co is a credit institution ('kredietinstelling') within the meaning of the Wet toezicht kredietwezen (Credit Institutions (Supervision) Act 1992), and as such subject to the supervision of De Nederlandsche Bank NV.

Furthermore Kempen & Co is registered as a securities institution ('effecteninstelling') with the Authority Financial Markets.

Kempen & Co is a member of Euronext, and is therefore subject to its regulations.

# Contents

# REPORT OF THE SUPERVISORY BOARD

# Report

We hereby present you with the Annual Accounts of Kempen & Co for 2004, as prepared by the Management Board, for your approval. The accounts have been audited by PricewaterhouseCoopers Accountants. The Supervisory Board approves the appropriation of the result as stated in the annual accounts.

Upon the completion of the management buy-out of Kempen & Co on 15 November 2004, the composition of the Supervisory Board was changed and this was authorised in an extraordinary shareholders' meeting. Mr P. Winsemius joined the Board as its new chairman, and Messrs F.W. Fröhlich and A.J.L. Slippens were simultaneously appointed to the Board as members. Furthermore, Mr W.O. Wentges agreed to stay on as a member. The intention is to expand the Board to five members in due course. Upon the transfer of the shares in Kempen & Co from Dexia Group to the new shareholders, Messrs D.G.M. Bruneel, S.L.G. Decraene and M. Hoffmann retired from the Supervisory Board. Mr W.H.M. Pot had earlier retired in the year. We are grateful to Messrs Bruneel, Decraene and Hoffmann for their contribution to Kempen & Co and their efforts to complete the buy-out succesfully.

Mr E.K. Greup, chairman of the Management Board stepped down effective 15 November 2004 and was succeeded by Mr Pot. Mr Greup will remain affiliated with the company on a part-time basis.
The other members of the Management Board, apart from Mr Pot, are Messrs L. Deuzeman and I.A. Sevinga.

The Supervisory Board met four times in the presence of the Management Board in the year under review. These meetings featured discussions on issues of ongoing concern, such as the development of the business in the various departments, the governance charter, risk management, compliance, cost control and the budget. The Supervisory Board has also looked closely at the strategy concerning the bank's independent positioning. These strategic discussions resulted in the management buy-out which was completed on 15 November 2004. Management and staff of Kempen & Co together own 35% of the shares in Kempen & Co, while Friesland Bank, HAL Investments and NPM Capital each own 20%. A further 5% of the shares is owned by clients of the bank. The management buy-out has positioned Kempen & Co as an independent merchant bank and the prospects for future growth look promising. The shareholder structure facilitates the ability to attract and retain staff, attract new professionals and allows us a medium to long-term view with respect to investing in the business.

We appreciate the work undertaken by the Management Board and the staff to effect the buy-out and the results achieved in 2004.

*Amsterdam, 3 March 2005*
On behalf of the Supervisory Board
P. Winsemius, chairman

# REPORT OF THE MANAGEMENT BOARD

# General

The year 2004 was dominated by the buy-out of Kempen & Co from its former parent Dexia Group. Following the operational and legal split effected in the preceding year, the buy-out was agreed upon in 2004 when the ownership was transferred to the management and staff together with three outside investors, Friesland Bank, HAL Investments and NPM Capital. A letter of intent was signed on 29 April and resulted in the final selling/purchase agreement on 10 June 2004. The transaction took effect on 15 November 2004 after the approval was obtained from all the supervisory bodies. It is worth noting that the majority of our staff elected to participate in the equity offering, evidencing their commitment as well as confidence in the future of Kempen & Co. The buy-out completed a process of transition and Kempen & Co is now well-placed to strengthen its position as an independent and entrepreneurial merchant bank.

The year 2004 witnessed an up-trend in the stock markets in the first half year. Kempen & Co took advantage of this environment and achieved a satisfactory net result for the first six months. Activity levels in the financial markets further improved somewhat in the second half of the year and this had an effect on the revenues. Towards the end of the year, the outlook became even more positive, and the second half of the year ultimately produced a relatively solid net result. The full-year net profit of € 9.7 million (2003: € 6.7 million excluding incidentals and € - 7.3 million statutory) should be considered as satisfactory, also bearing in mind that a considerable amount of time was devoted to the transaction and attracting new staff. All parts of the business contributed to the net result.

Internally, the financial separation from the previous owner and its Dutch subsidiaries required considerable time and effort. The efficiency improvement projects that had been launched in 2003 for the back-office produced the intended results. The advanced level of automation allowed for a smooth administrative processing of transactions at lower costs. Efficiency gains in order and settlement processing also helped to push down costs while improving quality and service levels.

# Asset Management

*Kempen Capital Management NV ('KCM'), a fully-owned subsidiary of Kempen & Co, provides services in the field of asset management. KCM manages portfolios in European shares, bonds and property for a range of high-net-worth individuals, foundations and institutional investors through mandates and investment funds, including the well-known Orange funds. The focus is to provide products with superior investment returns in conjunction with a high level of service.*

## The performance is 'above average'

Superior investment returns are the cornerstone of any specialised asset management firm. Our private clients and institutional investors benefited fully from KCM's investment policy in 2004. KCM delivered satisfactory investment results in both absolute and relative terms in 2004. Results were particularly solid for our Orange funds, the specialised investment funds in Dutch and European smallcap and midcap companies, as well as the European property investment funds and mandates under our management. Very satisfactory results were achieved. Assets under management rose from € 4.8 billion to € 5.3 billion.

**Performance overview (Wtb)-investment funds (on the basis of intrinsic value per share / participation)**

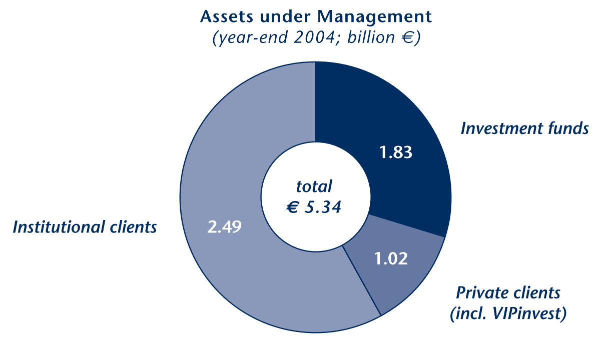
| *Funds* | 2004 | *Benchmark* | 2004 |
|---|---|---|---|
| Orange Fund | 28.3% | GPR Dutch SC Index (Total investment result) | 24.0% |
| Orange European Property Fund | 41.5% | GPR-250 Europe Index 'adjusted' | 38.3% |
| Orange European Smallcap Fund | 18.5% | HSBC Smaller Europe Index 'adjusted' | 21.4% |
| Orange SeNSe Fund | 24.7% | HSBC Smaller Europe Index 'adjusted' | 21.4% |
| | | Kempen/SNS SRI Smallcap Europe Index | 20.8% |
| Orange European Midcap Fund | 18.2% | FTSE EuroMid ex UK | 22.8% |
| Orange European Largecap Fund | 9.2% | Dow Jones Europe STOXX 50 Index (Total investment result) | 7.1% |
| Orange Deelnemingen Fund | 45.8% | GPR Dutch SC Index (Total investment result) | 24.0% |
| Orange Largecap Fund | 7.8% | AEX (Total investment result) | 6.8% |
| Orange Wine Fund | 22.0% | FTSE World Index [1] | 5.5% |
| | | FTSE World Beverages Index [1] | -2.7% |
| Kempen Real Estate Securities Index Sampling Fund | 37.0% | GPR-250 Kempen Sampling Fund 'adjusted' | 36.7% |
| Hidden Value Fund [2] | 23.1% | GPR Dutch SC Index (Total investment result) | 24.0% |

1 There is no current benchmark for the Orange Wine Fund. For purposes of reference these indices are used.
2 The performance of the Hidden Value Fund has been corrected for the dividends that have been paid out.

The above table shows our investment results of the public investment funds under our management compared with their benchmark. Obvious annual fluctuations in performance notwithstanding, our performance across the board is above average.

## Organisation and client care

The management buy-out completed on 15 November was important to the management and the staff, but also to our clients. Private clients in particular are very appreciative of Kempen & Co's renewed independence, a status considered far better suited to an entrepreneurial bank such as Kempen & Co. In light of the ongoing growth of our business considerable time and effort was spent to broaden the KCM leadership, which resulted in Messrs P.A.M. Gerla (KCM Institutional Investors) and P.P.E.M. Mol (KCM Private Clients)



joining as directors. KCM is proud that it has proved to be well-equipped to maintain, and improve where needed, the quality of its service throughout the year through a solid investment performance, transparent reporting and strong client care. Well-qualified and motivated staff are critically important to serving the needs of both individual and institutional clients. We are constantly focused on providing a personal service of excellent quality. We also devoted substantial time and effort in 2004 to the implementation and refinement of advanced systems. 'Straight through processing' was further expanded and additional systems for risk management and compliance were implemented ensuring a continued efficient execution of risk management and reporting to clients.

### Distribution

In addition to the aforementioned elements of 'performance' and 'organisation and client care', the organisation's success depends on a careful integration of new clients and products. We made particularly good progress in 2004 in one of our core specialities, public quoted real estate. A solid performance contributed to strong interest from abroad in our specialised property product. In addition, the multi-management concept operated by other asset managers is generating keen interest in our investment capabilities. Examples in point are Icecapital and IST in property, and Sycomore, the latter being a French-European smallcap fund which entrusted the management of its Dutch smallcap portfolio to KCM.

The VIPinvest product is KCM's online service allowing clients to implement their investment profile via the Internet and have their assets managed on the basis of a multi-manager concept. Because of its concept and structure, VIPinvest is also highly suitable for compliance-conscious companies that wish to see their managers and staff invest in a 'controlled' fashion in investment funds offered by a number of different institutions. Furthermore, the structure is well-suited for pension funds wishing to implement a modern defined-contribution concept. Other financial services firms have expressed an interest in launching the VIPinvest product under their own label.

### Outlook

The above-average performance, a solid infrastructure and a client base with strong ties to Kempen & Co provide a good foundation for success in 2005.

# Securities

*Kempen & Co Securities ('Securities') is active in brokerage, particularly in Dutch equities, derivatives as well as European publicly-traded property companies. Our clients are institutional investors primarily in Europe and the United States. Securities delivers high-quality research, sales coverage and agency execution as well as block trading capabilities.*

## The market

The AEX stock index remained almost level in 2004, edging up from 342.70 at the start of the year to 348.08 at the end of 2004. Kempen & Co Securities is strongly dependent on the volume of business on Euronext Amsterdam for its own business volume and results. Stock market volume was rather slack early in the year but picked up considerably in the second half to our benefit. Thanks to our focus on Dutch midcap and smallcap stocks, we also profited from the solid performance of this segment of the market and the strong increase in trading volumes witnessed in this sector.

## Small and midcaps

Our market share in the smallcap and midcap segments remains high but we see room for further growth. We have managed to retain and, indeed, expand our client base during 2004 and we are determined to strengthen our research, sales and trading capabilities in order to improve our position as one of the leading players in the market.

## Property

Kempen & Co has further strengthened its pre-eminent position in pan-European listed property in the year under review by serving a growing number of property funds. Kempen & Co staged its second European property seminar in Amsterdam in 2004. The event was very well attended and has further strengthened and confirmed our position in this segment. Securities was also involved in a number of corporate transactions which included companies such as Citycon and NDI. The market for European property funds enjoyed good performance in 2004, which can be partly explained by the low level of interest rates. The property team was expanded by three professionals during the year and this has allowed us to add to our already strong position in Europe. Future performance will partly depend on interest rate developments and new REIT (Real Estate Investment Trusts) introductions in a number of countries.

## Focus

Securities partly shifted and enhanced its focus in 2004. The management was strengthened by Mr F.J.S.M. Verhees, who joined us in the final quarter. Much time and effort has been devoted to strengthening client penetration and increasing the focus on the products and the value-added of our services. The derivatives department, for example, successfully introduced several new products, examples being the FLEUR Note, Global Commodities Performance Note, Kempen Credit Linked Note and the Kempen Asia Note, which for the greater part attracted demand from a wide range of investors. Kempen & Co will deliver its added-value by producing top-quality research on Dutch companies, focusing on the smallcap and midcap segments and on European property shares. Providing liquidity to clients will become an important element in Kempen & Co's service proposition in 2005. In addition to the focus as described, we are also planning further improvements in order processing and risk management systems in 2005 to ensure that we make a balanced move forward towards the higher level of business volume that we intend to achieve. The efficiency of internal order processing will also require considerable effort in order to make further advances in 'straight through processing'.

## Outlook

Although Securities is strongly dependent on external circumstances, such as the developments on the Exchange and the trend in interest rates, we are positive about the prospects for this business and our ability to show growth. The increased activity level of the recent months, the improvement in the general economic outlook and the shift in focus combined with the strengthening of the Securities organisation all should help us to benefit fully from the improved market conditions, thus increasing the contribution by Securities to the bank's overall result.

# Corporate Finance

*Kempen & Co Corporate Finance BV ('CF'), a fully-owned subsidiary of Kempen & Co, focuses on providing advice on mergers and acquisitions as well as capital market transactions. Clients include both listed and non-listed Dutch companies as well as foreign companies who have entered the Dutch market or are intending to do so. In addition, we have a rapidly growing franchise with real estate companies in different parts of Europe providing advice and allowing them to access the capital markets.*

We were once again involved in a large number of prominent transactions in 2004, tangible evidence that clients value our approach. CF has the necessary understanding of the conditions and relations in the Dutch market and combines a high-quality service level with a personal approach. In other words: 'Anglo-Saxon quality with a Dutch touch'.

Sector specialisation is one of the key characteristics of our service proposition. Each of our teams closely follows market developments in its specific sector and translates these into issues of strategic concern for the leading players in the field. Because of our specific expertise, we are a trusted partner for executives and shareholders. CF's leading fields of expertise are listed smallcap and midcap companies, the property, construction and energy sectors.

## Capital market developments

In terms of new issues, 2004 was a very poor year. Listed companies continued to focus on achieving further recovery in their results and financial position in 2004 and kept a low profile in the mergers and acquisitions market. Nevertheless, CF was involved in several public offerings. We advised Rodamco Asia on the bid by ING Real Estate, Alpinvest Partners in respect of their offer for Delft Instruments, and the Dutch Ministry of Finance in connection with the takeover discussions concerning Pink Roccade, in which the Dutch state holds a major stake.

In spite of the lack of IPO's on Euronext Amsterdam (apart from Spyker), there was further recovery in issuing activity. For example, Kempen & Co was a member of the syndicate for the Belgacom IPO on Euronext Brussels and the issues for Draka and Docpharma. Our focus on Property was reflected, among others, in us assisting Nieuwe Steen Investments, the Finnish property company Citycon and the Austrian property company Conwert in their desire to access the capital markets. The open capital market was tapped mainly for the purpose of 'financial restructuring', Hagemeijer being one example. Major lending banks are typically in the driving seat in these issues borne of necessity. However, owing to our independence, Kempen & Co is increasingly being asked to provide fairness opinions on financial restructurings. Examples in 2004 were Laurus and Teleplan (the latter listed on the Frankfurt stock exchange).

## Mergers and acquisitions

The market for mergers and acquisitions ('M&A') in 2004 remained well below the levels of two to four years ago in terms of the number of deals and the overall volume. This particularly concerned the segment that CF focuses on, i.e. a transaction value from about € 50 million onwards. Transactions required more time than in the past and CF was confronted more often with transactions being called off at a very late stage. Fortunately, we were also involved in a number of successful deals, both on the purchase and on the selling side. Examples are the successful completion of the sale of spices firm Silvo to McCormick and the sale of IHC Holland to a consortium of investors.

## Outlook

CF will continue to expand its services in 2005. This expansion will be based on the increased demand for independent advice related to funding and M&A. CF is becoming increasingly active in arranging debt funding in both financial restructurings and 'buy-outs'. CF is well-equipped with the necessary competencies and skills for this role.

The market for buy-outs will continue to recover owing to the growing demand among private equity firms for attractive investment opportunities. We feel this will result in further de-listings and acquisitions, and CF wants to play an important role as an advisor in such deals. We also detect growing interest in IPO’s, and we are already involved in the early stages of a number of deals.

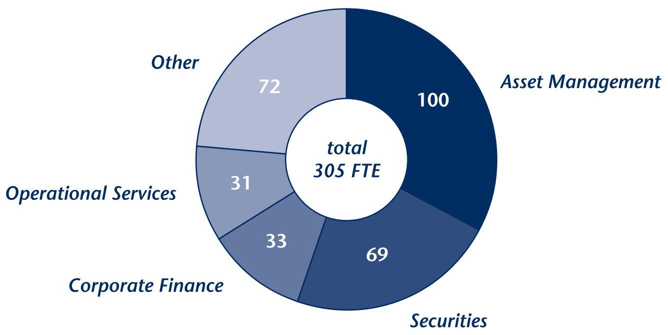
In summary, we expect that CF will see an increase in business activity in 2005 which will provide a substantial benefit to Kempen & Co through a higher contribution to total profit.

# ▷ Organisation and Staff

Kempen & Co aims to be recognized as a specialised niche player offering high-quality advice and delivering superior performance. We will only achieve this goal if we are able to attract and retain the best professionals, work as a team, and focus on developing and nourishing a distinctive culture. With this objective in mind, the introduction in 2003 of our new policy on the conditions of employment, in combination with the related reward system, was followed up in 2004 with a fresh initiative to build our Talent Management capability, an area in which HR professionals are working closely with the management. For the coming year, several priorities have been set in consultation with the management:

- Increasing the inflow of young professionals in all business units;
- Intensifying coaching;
- Improving teamwork;
- Establishing a development path for young professionals;
- Increasing internal mobility.

**Number of staff**
*(year-end 2004; FTE)*




Much time and effort went into the structuring of the Kempen & Co equity participation scheme for the employees. The effort clearly has paid off, given that the overwhelming majority of our staff are now also shareholders of Kempen & Co. The equity participation scheme also adds to Kempen & Co's attractiveness to new talent, a feature that is also borne out by the many new professionals who joined the firm in the final months of 2004. At the end of 2004, Kempen & Co had 305 staff members on a full-time basis, including its units in Belgium, Scotland and the United States. We expect further growth of the total number of employees as we plan to recruit more highly-qualified professionals in 2005.

Sickness absenteeism in 2004 was 2.97% (2003: 3.36%), which is relatively low compared to the financial sector as a whole.

Our staff members once more had to operate under considerable pressure in what has been a year of significant change. We are grateful to all employees for their positive contribution to the result that Kempen & Co has achieved in 2004 and their efforts to serve the needs of our clients throughout the year.

# Financial overview for 2004

The figures for the 2003 financial year included incidental income and expense items related to the merger, the split and the reorganisations. As a result, it is not meaningful to compare the results for 2004 with the statutory results for 2003. Therefore, the notes on the accounts in this report will emphasise the results for 2004 as compared with the results for 2003 excluding incidental income and expense items.

## Income

Interest income was under pressure in 2004 as a result of low interest rates in the money and capital markets. Given that it is Kempen & Co's established policy to take almost no positions in the interest market, low interest rates have a dampening effect on the interest result. Some added pressure on the interest result in 2004 came from the competitive rates offered by other banks on client deposits.

The Securities business witnessed substantial fluctuations in volumes on the market. On the whole, volumes were rather low, causing revenue from securities trading and commission income to fall short of expectations. Fees generated by Corporate Finance were also below expectations owing to very little activity in the primary issue market and reduced activity in mergers and acquisitions. The results from asset management were up to expectations in 2004 resulting in a higher income from management fees compared to 2003. The bank's own positions in various KCM funds benefited from a good performance of the underlying funds and this translated in investment income being above expectations, generating an increase in income from financial transactions.

## Expenses

The reorganisations and cost control in 2003 reduced the cost level in 2004. The efficiency improvement initiatives allowed us to do more with fewer people, which resulted in lower staff costs. Staff costs were also lower because vacancies were filled late in the year, but the effect was partly undone by higher pension fund contributions.

Other administrative expenses were down from the 2003 level owing to cost control and the organisation's reduced size. Depreciation was also down from 2003 as no new investments were made that would have countered discontinued depreciation. The tax charge is relatively low because a considerable share of the income was subject to the participation exemption.

**Profit and loss account 2004 and 2003 taking into account incidental income and expenses as well as 2003 statutory**

*(In thousands of euros)*

| | 2004 | 2003 [1)] | statutory result 2003 |
|---|---|---|---|
| **Total income** | **68 491** | **67 141** | **74 605** |
| **Total operating expenses** | **55 981** | **59 819** | **83 917** |
| Value adjustments to receivables and assets | 25 | -447 | -3 374 |
| **Result before tax** | **12 535** | **6 875** | **-12 686** |
| Tax | -2 853 | -198 | 5 404 |
| **Group result after tax** | **9 682** | **6 677** | **-7 282** |
| **Net result** | **9 682** | **6 677** | **-7 282** |

1 excluding incidental income and expenses

## Capital and ratios

**Capital**

Tier 1 and Tier 2 Capital combined amounted to € 102 million at the end of 2004 (2003: € 93 million). The equity included in this figure consisted of € 20 million in share capital (2003: € 20 million), a premium reserve of € 44.8 million (2003: € 44.8 million), a revaluation reserve of € 0.1 million (2003: € 0.1 million) and other reserves of € 4.6 million (2003: € - 5.1 million). Tier 2 includes a subordinated loan of € 33 million (2003: € 33 million).

**Solvency**

Dutch Central Bank regulation calls for the bank's capital to be compared with on and off balance sheet assets, weighted for the risk involved. There are also capital requirements to be met for the market risk which is related to trading activities. The minimum of the total capital requirement (the so-called 'BIS ratio') is 8%; at the end of 2004, Kempen & Co had a BIS ratio of 37.8% (2003: 33%).

**Qualifying Capital and BIS**

*(In millions of euros)*

| | **2004** | **2003** |
|---|---|---|
| Share capital | 20 | 20 |
| Share premium reserve | 45 | 45 |
| | | |
| Other reserves | 4 | -5 |
| Minority interests | - | - |
| **Tier 1 Capital** | **69** | **60** |
| | | |
| Revaluation reserve | - | - |
| Subordinated loans (for purposes of qualifying capital): | | |
| - lower Tier 2 | 33 | 33 |
| **Tier 2 Capital** | **33** | **33** |
| **Total Capital** | **102** | **93** |
| | | |
| **Deductible items** | - | - |
| | | |
| **Risk weighted Assets** | **270** | **281** |
| **BIS-ratio** | **37.8%** | **33%** |

# Risk management

Risk management is an important issue of ongoing concern for Kempen & Co. In the design of its risk management structure, Kempen & Co has sought to align its practices as much as possible to the requirements set by the Dutch central bank in its Regulation on Organisation and Control.

Kempen & Co has instituted five risk management committees, each chaired by a member of the Management Board. These committees are detailed below. Daily risk management at Kempen & Co is the responsibility of the Risk Management & Compliance department. The key responsibilities of this department are to monitor compliance with the limits imposed by the risk management committees, and report its findings to the responsible management and relevant committees.

## Operational Risk Committee

The Operational Risk Committee assesses all operational risks and the IT risks that Kempen & Co is expected to manage. The operational risk involves existing or future threats to the institution's capital and results owing to the following factors:

1. Flaws in the daily processing of transactions with clients or other stakeholders, the follow-up of these transactions and flawed procedures, and measures for the timely detection of flaws;
2. Quantitative and qualitative shortcomings or limitations in human capability;
3. Flawed decision-making caused by insufficient management information.

The IT risk involves existing or future threats to the institution's capital and results caused by an inadequate strategy and policy or by shortcomings in the technologies applied and/or practice concerning the processing of information and communication, causing risks related to strategy, management, exclusiveness, integrity, controllability, continuity and users.

## Credit Risk Committee

The Credit Risk Committee assesses the credit risk, comprising existing or future threats to the institution's capital and results caused by the failure of counterparts to honour their financial or other contractual obligations towards the institution, including possible limitations or obstacles in making payments from abroad. Areas of concern are credits and counterparts in so far as individual relations are concerned.

## Asset & Liability Committee

The Asset & Liability Committee assesses the liquidity risk, which involves the existing or future threats to the institution's capital and results concerning the possibility that, at any given moment, the institution finds itself unable to meet its short-term payment obligations without incurring unacceptable costs or losses. Areas of concern are the balance sheet structure, liquidity management, the interest mismatch and interest rate policy.

## Market Risk Committee

The Market Risk Committee monitors the market risk, being the existing or future threats to the institution's capital and results caused by changes in market prices. The market risk thus includes price risk, interest risk and currency risk, both within and outside the trading portfolio. This committee's areas of concern are the limits concerning all of the bank's own accounts exposed to market risk.

### Commitment Committee

The Commitment Committee assesses the market risk which stems from capital market transactions. This committee looks closely at the capital market transactions and issues in which the institution is involved as a member of the syndicate placing the securities concerned.

### Working Group on Compliance & Control

In addition to the aforementioned risk management committees, a Working Group on Compliance & Control was instituted in 2004. This working group is chaired by the CFO of Kempen & Co and also includes representatives of the departments that are involved, each from their own specific perspective, in managing the bank's risks and monitoring this management practice. The following departments are involved: Risk Management & Compliance, Legal Affairs, Finance & Control, Internal Audit and the Security Officer (ICT).

The Working Group is intended first and foremost for further improving coordination, efficiency and effectiveness in the area of compliance and control. Areas of concern (regulation, monitoring, control) and supervisory bodies are discussed in the Working Group in order to share knowledge and experience with a view to achieving a proper and accurate execution of the work at hand. Furthermore it allows the participants to coordinate the work in such a manner that relevant developments receive proper attention without unduly burdening the organisation.

It should be noted explicitly that each of the participating departments remain individually responsible for carrying out the functions entrusted to them at Kempen & Co.

# ▷ Outlook

The buy-out has given a strong impetus to the company's prospects for the period ahead and a further improvement in our performance can therefore be expected. Our clients and our people have responded very positively to the developments at Kempen & Co and as we continue to strengthen our talent pool as well as our capabilities we should be able to gain market share in this environment.  Also the efficiency improvement initiatives that were planned for 2004 have started to be implemented successfully, and further efficiency drives are planned for 2005 with a view to obtaining an improved cost/revenue ratio.

As already mentioned in this report within the sections on the different business lines, our performance is heavily influenced by external conditions, e.g. of the financial market, which are beyond our control, and it is therefore impossible to issue a more explicit forecast.

*Amsterdam, 3 March 2005*
The Management Board
Kempen & Co NV

W.H.M. Pot (chairman)
L. Deuzeman
I.A. Sevinga

# ANNUAL ACCOUNTS 2004

# Consolidated balance sheet

## as at 31 December 2004 after appropriation of result

| *In thousands of euros* | | **31/12/2004** | | 31/12/2003 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | | **10 987** | | 14 245 |
| Short-dated government paper | | **-** | | - |
| Banks | | **181 172** | | 189 138 |
| *Loans and advances to the public sector* | **10 000** | | - | |
| *Loans and advances to the private sector* | **155 780** | | 181 089 | |
| Loans and advances | | **165 780** | | 181 089 |
| Interest-bearing securities | | **38** | | 354 |
| Shares | | **54 360** | | 38 134 |
| Participating interests | | **11** | | 11 |
| Property and equipment | | **11 243** | | 14 893 |
| Other assets, prepayments and accrued income | | **15 537** | | 28 107 |
| | | **439 128** | | 465 971 |
| **Liabilities** | | | | |
| Banks | | **63 549** | | 41 173 |
| Funds entrusted | | **250 923** | | 299 859 |
| Other liabilities (including short positions) | | **4 079** | | 5 819 |
| Accruals and deferred income | | **14 437** | | 21 052 |
| Provisions | | **3 701** | | 5 252 |
| | | **336 689** | | 373 155 |
| Subordinated loans | | **33 000** | | 33 000 |
| Shareholders' equity | **69 439** | | 59 816 | |
| Minority interest | **-** | | - | |
| Group equity | | **69 439** | | 59 816 |
| | | **439 128** | | 465 971 |
| **Contingent liabilities** | | | | |
| Commitments arising from guarantees | | **9 786** | | 25 537 |
| Rental Commitments | | **28 070** | | 32 080 |

# Consolidated profit and loss account

## for 2004

| *In thousands of euros* | | **2004** | | 2003 |
|---|---|---|---|---|
| **Income** | | | | |
| Interest income | **9 987** | | 16 394 | |
| Interest expense | **- 6 532** | | -11 106 | |
| | | **3 455** | | 5 288 |
| Income from securities and participating interests | | **1 504** | | 772 |
| Commission income | **59 488** | | 56 245 | |
| Commission expense | **- 4 180** | | -3 270 | |
| | | **55 308** | | 52 975 |
| Results from financial transactions | | **7 897** | | 7 585 |
| Other income and expenses | | **327** | | 7 985 |
| **Total income** | | **68 491** | | 74 605 |
| **Expenses** | | | | |
| Personnel expenses | **35 515** | | 54 470 | |
| Other administrative expenses | **16 564** | | 24 419 | |
| Depreciation | **3 902** | | 5 028 | |
| Operating expenses | | **55 981** | | 83 917 |
| Value adjustments to receivables and assets | | **- 25** | | 3 374 |
| **Total expenses** | | **55 956** | | 87 291 |
| **Result before tax** | | **12 535** | | -12 686 |
| Tax | | **- 2 853** | | 5 404 |
| **Group result after tax** | | **9 682** | | -7 282 |
| **Net result** | | **9 682** | | -7 282 |

# Consolidated cash flow statement

## for 2004

| *In thousands of euros* | | **2004** | | 2003 |
|---|---|---|---|---|
| Net result | **9 682** | | -7 282 | |
| Depreciation | **3 902** | | 5 028 | |
| Revaluation investment portfolio | - | | 98 | |
| Provisions | **- 1 551** | | 4 706 | |
| Value adjustments and impairments | - | | 3 374 | |
| Other assets, prepayments and accrued income | **12 570** | | 5 697 | |
| Accruals and deferred income | **- 6 615** | | -10 983 | |
| Income from participating interests | - | | - | |
| **Net cash flow from net result** | | **17 988** | | **638** |
| Short-dated government paper | - | | - | |
| Banks (assets) | **7 966** | | 28 402 | |
| Banks (liabilities) | **22 376** | | -50 848 | |
| Loans and advances | **15 309** | | 80 501 | |
| Funds entrusted | **- 48 936** | | -65 139 | |
| Trading portfolio | **- 19 746** | | 10 980 | |
| Other liabilities | **- 1 740** | | 5 819 | |
| Other movements from operating activities | **935** | | -6 738 | |
| **Net cash flow from operating activities** | | **-23 836** | | **2 977** |
| Participating interests | - | | 870 | |
| Property and equipment | **-252** | | 10 478 | |
| Investment portfolio | **3 777** | | - | |
| **Net cash flow from investment activities** | | **3 525** | | 11 348 |
| Subordinated loans (interest) | **- 935** | | -726 | |
| **Net cash flow from financing activities** | | **- 935** | | -726 |
| **Net cash flow** | | **- 3 258** | | 14 237 |
| Cash balance at start of year | | **14 245** | | 8 |
| Cash balance at end of year | | **10 987** | | 14 245 |

# Notes

## General

These notes refer to both the company and the consolidated balance sheet and profit and loss account, unless otherwise stated in the notes under the heading concerned.

The bank has, as a registered credit institution, drawn up its annual accounts in accordance with the stipulations laid down on 17 March 1993 in Title 9, Book 2 of the Dutch Civil Code (Burgerlijk Wetboek) and the recommendations and resolutions associated with it.
All shares of the company were held by Dexia Nederland Holding NV until November 2004.

## Principles of consolidation

The assets and liabilities of the group companies of Kempen & Co NV are fully incorporated in the consolidated annual accounts. The group companies are summarised in the notes to the company's financial statement (page 47). Results from the participating interests acquired during the year under review are consolidated from the moment of economic acquisition. Minority interests, if any, are determined in proportion to the minority interests in the issued capital of the participating interest concerned.

## Principles for valuation of assets and liabilities and determination of results

### Assets and liabilities

Assets and liabilities are stated at face value, unless otherwise indicated. Where necessary, downward adjustments have been made, which are described in the note to the items involved.

### Foreign currencies

Assets and liabilities in foreign currencies are stated at the exchange rates prevailing at the balance sheet date. Exchange rate differences are taken to the profit and loss account and are included in results from financial transactions.

### Banks, loans and advances

Receivables are stated at face value less provisions deemed necessary.

### Investment and trading portfolios

The investment portfolio consists of all interest-bearing securities as well as shares and other non interest-bearing securities that are intended for permanent use in connection with the bank's activities.

The trading portfolio consists of all interest-bearing securities as well as shares and other non-interest-bearing securities that are held for trading purposes and which are in principle intended for achieving transaction results. Transfers between the portfolios are effected at market value. The results of transfer are accounted for as though the assets were sold.

### Interest-bearing securities

The interest-bearing securities included in the investment portfolio are stated at redemption value, net of any unamortised discount or premium arising on acquisition. This discount or premium, which has the character of interest, is recognised as interest income over the period to maturity. Positive results of transactions are accounted for in the result in proportion to the weighted average term of the portfolio; negative results are charged directly to the result. The interest-bearing securities included in the trading portfolio are stated at market value. The differences in value arising from revaluation are charged to result.

### Shares

The shares included in the investment portfolio are stated at market value. The valuation adjustments, taking into account the deferred tax liabilities, are reflected in the revaluation reserve. In so far as this reserve is insufficient to cover negative changes in value, such changes are charged to the result.

The shares included in the trading portfolio are stated at market value, which for listed companies is the stock exchange price at the balance sheet date and for unlisted companies, the estimated net realisable value. The differences in value arising from the valuation are included in the result.

Derivative financial instruments included in the trading portfolio are reported in the balance sheet at fair value, and associated gains and losses are reported in the profit and loss account under 'Results from financial transactions'. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. All derivates are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

### Participating interests

The participating interests in which the bank has a significant influence interest are stated at net asset value. The income generated by these interests is included in the item 'Income from securities and participating interests'.

The participating interests, over which the bank does not have a significant influence on policy and/or not have a long-term contribution to the Bank's activities, are valued at net realisable value. Changes in value are reflected in shareholders' equity. In so far as this reserve is insufficient to cover negative changes in value, such changes are charged to the result. The dividends received from these companies are included in the item 'Income from securities and participating interests'.

### Equipment
Equipment is valued at cost price less accumulated depreciation, calculated on a straight-line basis over its estimated useful life, taking into account any residual value. When necessary assets are impaired to net realisable value.

### Provisions
- Provision for deferred taxation
  Deferred tax assets and liabilities, if any, are recognised for temporary differences between the carrying amounts used for financial reporting purposes and the fiscal valuation of assets and liabilities against nominal value. Deferred tax assets are recognised to the extend that the amounts involved can be offset against tax liabilities in the future.
- Pension provisions
  Commitments relating to pensions payable, which are not insured with third parties, are covered by a special provision based on actuarial calculations. Allocations to these provisions are charged to the result.
- Reorganisation provision
  A provision for reorganisation costs is recognised when there is a demonstrable legal or constructive commitment to reorganise and a reliable estimate of the amount of the liability can be made.

### Results
Income and expenditure are recognised in the financial year to which they relate, regardless of whether they produced cash flows. As the consolidated profit and loss account includes the bank profit and loss account of Kempen & Co NV, only an abridged bank profit and loss account is given, in accordance with Article 402, Book 2 of the Netherlands Civil code.

### Taxation
Taxation is calculated on the result before tax according to the applicable tax rates on profits, allowing for exempted income and disallowed expenditure.

Until November 2004 Kempen & Co NV formed part of the fiscal unity with Dexia Bank Nederland NV and with Dexia Nederland Holding NV as parent entity. Actual tax assets and liabilities until that date are transferred to the head of the fiscal unity Dexia Nederland Holding NV.

### Interest income
Interest income is accrued based on the underlying loan principle and advances. Interest income is not recognised on loans and advances that are more than ninety days past due.

### Cash flow statement
The cash flow statement shows the origin of the cash that became available during the year, and the way funds were allocated. The cash flow statement conforms to the Directives of the Council for Annual Reporting, which require that the cash flows are split into operational, investment and financing activities. Cash includes bank notes and coins in foreign currencies, as well as demand deposits held with De Nederlandsche Bank NV.

The cash flow statement has been drawn up using the indirect method, whereby net profits are translated into cash flows after making adjustments to these profits. Changes in assets and liabilities arising from the acquisition of group companies for consolidation, are excluded from the determination of cash flow.

### Risk and uncertainties
The preparation of the annual accounts requires management to make estimates and assumptions that affect amounts reported in the annual accounts. Changes in such estimates and assumptions may affect the amounts reported in future periods, and such affects could be material.

# ▷ Notes to the consolidated balance sheet

| *In thousands of euros, unless otherwise stated* | **31/12/2004** | 31/12/2003 |
|---|---|---|

## ▷ Assets

| | | |
|---|---|---|
| **Cash** | **10 987** | 14 245 |

This covers cash, including bank notes and coins in foreign currencies as well as the deposits held with De Nederlandsche Bank NV, payable on demand.

| | | |
|---|---|---|
| **Banks** | **181 172** | 189 138 |

This relates to receivables from domestic and foreign credit institutions, including overnight loans, balances on demand and receivables arising from unsettled securities transactions not payable on demand.

This item comprises:

| | | |
|---|---|---|
| Receivables payable on demand | **53 013** | 101 250 |
| Receivables not payable on demand, with a remaining term of: | | |
| - three months or less | **126 626** | 87 888 |
| - three months to one year | **1 533** | - |
| - one year to five years | - | - |
| | **181 172** | 189 138 |
| **Amounts receivable from group companies** | - | ***76 487*** |

The receivables payable on demand bear a floating interest on a daily basis. The receivables with a remaining term consist mainly of deposits bearing fixed short term rates of on average 2%.

| | | |
|---|---|---|
| **Loans and advances** | **165 780** | 181 089 |

This relates to receivables from domestic and foreign, public and private sector clients, including overnight loans, balances on demand, advances in current accounts against collateral in the form of securities, loans and receivables arising from unsettled securities transactions with a fixed term.

The receivables with an indeterminate term bear a floating interest on a daily basis.

This item comprises:

| | | |
|---|---|---|
| Receivables with an indeterminate term | **153 358** | 173 968 |
| Receivables with a remaining term of: | | |
| - three months or less | **13 249** | 7 881 |
| - three months to one year | **598** | 866 |
| - one year to five years | - | - |
| - more than five years | - | - |
| | **167 205** | 182 715 |
| Less provision for loan losses | **- 1 425** | -1 626 |
| | **165 780** | 181 089 |

| *In thousands of euros, unless otherwise stated* | **31/12/2004** | 31/12/2003 |
|---|---|---|
| **Interest-bearing securities** | **38** | 354 |
| This item comprises: | | |
| Bonds issued by public bodies | | |
| - listed | - | - |
| Other bonds and interest-bearing securities | | |
| - listed | **38** | 354 |
| | **38** | 354 |
| Maturing within one year | **38** | 354 |
| The breakdown into portfolios is as follows: | | |
| Investment portfolio | - | - |
| Trading portfolio | **38** | 354 |
| | **38** | 354 |

| | | |
|---|---|---|
| **Shares** | **54 360** | 38 134 |
| This relates to shares and other variable-yield securities, such as derivatives, if any. | | |
| This item comprises: | | |
| Listed | **30 638** | 18 906 |
| Unlisted | **23 722** | 19 228 |
| | **54 360** | 38 134 |
| The breakdown into portfolios is as follows: | | |
| Investment portfolio | **1 934** | 5 770 |
| Trading portfolio | **52 426** | 32 364 |
| | **54 360** | 38 134 |
| Movements in the investment portfolio: | | |
| Balance at start of year | **5 770** | 20 627 |
| Sales | **-3 777** | - |
| Transfer to trading portfolio | - | -14 955 |
| Revaluation | **- 59** | 98 |
| Balance at end of year | **1 934** | 5 770 |

In the trading portfolio a short position is included of 75 futures on the AEX - index (FTI Contract Jan 05). The total notional amount of this position is - 5 225. These futures are cash settled on a daily basis.

| *In thousands of euros, unless otherwise stated* | **31/12/2004** | 31/12/2003 |
|---|---|---|
| **Participating interests** | **11** | 11 |

This item concerns the participating interests relating to unlisted non-credit institutions.

Movements in the participating interests:

| | | |
|---|---|---|
| Balance at start of year | **11** | 881 |
| Divestments | - | -870 |
| Balance at end of year | **11** | 11 |

The item 'participating interests' includes the following unlisted companies:

| Name of participating interest | Percentage of issued shares held by the bank | Place of business |
|---|---|---|
| Allshare BV | **22%** | Amsterdam |
| Intelli Partners Ltd | **35%** | London |
| Property Euro BV | **5%** | Amsterdam |

| | | |
|---|---|---|
| **Equipment** | **11 243** | 14 893 |

This relates to office equipment, and other operating assets.

Movements in equipment and other operating assets:

| | **Equipment & other** |
|---|---|
| Balance at start of year | 14 893 |
| Investments | 298 |
| Disposals | - 46 |
| Depreciation | - 3 902 |
| Impairments | - |
| Balance at end of year | 11 243 |

This item is specified as follows:

| | **Depreciation** | **Purchase price** | **Cumulative depreciation year-end 2003** | **Impairments 2004** | **Depreciation 2004** | **Book value 2004** |
|---|---|---|---|---|---|---|
| Equipment and other | 2-10 | 34 390 | - 19 245 | - | - 3 902 | 11 243 |

| *In thousands of euros, unless otherwise stated* | **31/12/2004** | 31/12/2003 |
|---|---|---|
| **Other assets, prepayments and accrued income** | **15 537** | 28 107 |

Includes interest receivables, unamortized premiums on the investment portfolio and other prepaid and accrued items.

This item can be broken down as follows:

| | | |
|---|---|---|
| Interest receivable | **1 381** | 1 603 |
| Tax related assets | **4 465** | 9 489 |
| Other | **9 691** | 17 015 |
| Total other assets, prepayments and accrued income | **15 537** | 28 107 |

The tax related assets includes € 4 465 amounts receivable from Dexia Group. (2003: € 5 428)

## Liabilities

| | | |
|---|---|---|
| **Banks** | **63 549** | 41 173 |

This relates to obligations to domestic and foreign credit institutions overnight loans, payables on demand, deposits and obligations not payable on demand, and amounts arising out of unsettled securities transactions.

This item comprises:

| | | |
|---|---|---|
| Liabilities payable on demand | **50 433** | 35 285 |
| Liabilities not payable on demand, with a remaining term of: | | |
| - three months or less | **12 993** | 5 591 |
| - three months to one year | **123** | 174 |
| - one to five years | - | 123 |
| - longer than five years | - | - |
| | **63 549** | 41 173 |

| | | |
|---|---|---|
| Amounts payable to group companies | - | 12 555 |

The liabilities payable on demand bear a floating interest rate on a daily basis.

| | | |
|---|---|---|
| **Funds entrusted** | **250 923** | 299 859 |

This relates to liabilities to domestic and foreign private-sector clients, including deposits (not savings accounts), current accounts, overnight loans and liabilities arising from unsettled securities transactions with a fixed term.

| *In thousands of euros, unless otherwise stated* | **31/12/2004** | 31/12/2003 |
|---|---|---|
| This item comprises: | | |
| Liabilities with an indeterminate term | **238 889** | 281 177 |
| Liabilities with a remaining term of: | | |
| - three months or less | **4 317** | 13 010 |
| - three months to one year | **2 045** | - |
| - one year to five years | **5 672** | 5 672 |
| - longer than five years | - | - |
| | **250 923** | 299 859 |

The liabilities with an indeterminate term bear a floating interest rate on a daily basis. The liabilities with a remaining term consist mainly of deposits from clients bearing fixed short-term rates of on average 3.6%.

| | | |
|---|---|---|
| **Other liabilities** | **4 079** | 5 819 |

This relates to short positions in securities ( € 1486) and tax liabilities (€ 2593).

| | | |
|---|---|---|
| **Accruals and deferred income** | **14 437** | 21 052 |

This mainly relates to interest payable and other accrued expenses.

| | | |
|---|---|---|
| **Provisions** | **3 701** | 5 252 |
| This item comprises: | | |
| Pension commitments | - | 40 |
| Reorganisation and relocations | **3 701** | 5 212 |
| Other provisions | - | - |
| | **3 701** | 5 252 |
| Movements in provisions: | | |
| Balance at start of year | **5 252** | 546 |
| Appropriations | **- 1 768** | -117 |
| Release | - | -389 |
| Additions | **217** | 5 212 |
| Balance at end of year | **3 701** | 5 252 |

The provisions are predominantly of a long term nature.

| | | |
|---|---|---|
| **Subordinated loan** | **33 000** | 33 000 |

This loan from Dexia SA Brussels is subordinated to all present and future liabilities. This liability, € 33 million, is due in 2010. The quarterly interest rate is equal to the total of 3-month Euribor plus 150 bps. Total interest charge in 2004 amounts to € 935 (2003: € 726).

# Notes to the consolidated balance sheet

continue

| *In thousands of euros, unless otherwise stated* | **31/12/2004** | 31/12/2003 |
|---|---|---|
| **Shareholders' equity** | **69 439** | 59 816 |

Movements in comprehensive income and shareholders' equity are as follows:

| | Share capital | Sharere Premium reserve | Revaluation reserve | Legal reserve | Retained earnings | Total 2004 | Total 2003 |
|---|---|---|---|---|---|---|---|
| Balance at start of year | 20 000 | 44 791 | 98 | 15 | - 5 088 | 59 816 | 67 000 |
| Transfer property | - | - | - | - | - | - | - |
| Revaluation | - | - | - 59 | - | - | - 59 | 98 |
| Other movements | - | - | - | - | - | - | - |
| Appropriation of result | - | - | - | - | 9 682 | 9 682 | - 7 282 |
| Balance at end of year | 20 000 | 44 791 | 39 | 15 | 4 594 | 69 439 | 59 816 |

| | | |
|---|---|---|
| **Issued paid-up share capital** | **20 000** | 20 000 |

The authorised share capital of the bank amounts to € 100 million, divided into 100 million shares with a nominal value of € 1 of which 20 million shares were issued and fully paid.

| | | |
|---|---|---|
| **Share premium reserve** | **44 791** | 44 791 |

This reflects the premium paid on paid up share capital.

| | | |
|---|---|---|
| **Revaluation reserve** | **39** | 98 |

The revaluation reserve reflects the valuation adjustments to the investment portfolio and properties, after the deduction of deferred tax liabilities. This reserve cannot be distributed to shareholders.

| | | |
|---|---|---|
| **Legal and statutory reserves** | **15** | 15 |

The legal reserve relates to results not freely payable, and to obligations relating to minimum capital requirements of participating interests. These reserves cannot be transferred to shareholders.

| | | |
|---|---|---|
| **Retained Earnings** | **4 594** | -5 088 |

Reflects appropriation of the result 2004 and realized revaluation reserve.

*In thousands of euros, unless otherwise stated*

| | **31/12/2004** | 31/12/2003 |
|---|---|---|
| **BIS-ratio** *(in millions of euros)* | **37.8%** | **33.0%** |
| Share capital | 20 | 20 |
| Share premium reserve | 45 | 45 |
| Legal and statutory reserves | - | - |
| Other reserves | 4 | -5 |
| Minority interests | - | - |
| **Tier 1 Capital** | **69** | **60** |
| Revaluation reserve | - | - |
| Subordinated loans (for purposes of qualifying capital): | | |
| - Upper Tier 2 | - | - |
| - Lower Tier 2 | **33** | 33 |
| **Tier 2 Capital** | **33** | **33** |
| **Total Capital** | **102** | **93** |
| Deductible items | - | - |
| **Total Qualifying Capital** | **102** | **93** |
| **Risk Weighted assets** | **270** | **281** |
| **BIS-ratio** | **37.8%** | **33.0%** |

| *In thousands of euros, unless otherwise stated* | **31/12/2004** | 31/12/2003 |
|---|---|---|
| **Foreign currencies** | | |
| The euro equivalents of the foreign currency units included in the balance sheet are: | | |
| Assets | **20 202** | 15 314 |
| Liabilities | **19 984** | 15 667 |

This item can be broken down as follows:

| | **31/12/2004** | 31/12/2003 |
|---|---|---|
| **Assets** | | |
| USD | **14 488** | 11 087 |
| GBP | **3 144** | 2 300 |
| SEK | **1 766** | 260 |
| Other | **804** | 1 667 |
| Total Assets | **20 202** | 15 314 |
| **Liabilities** | | |
| USD | **14 437** | 11 094 |
| GBP | **3 011** | 2 646 |
| SEK | **1 761** | 260 |
| Other | **775** | 1 667 |
| Total Liabilities | **19 984** | 15 667 |

## Market risk

Market risk is the risk that market variables will move and result in profit or loss on positions kept. The market risk is managed by risk limits for trading positions and position concentration. The risk limits are set-up within the market risk committee of Kempen & Co and periodically judged to the external market developments. Line management is responsible for control on the limits on a daily basis assisted by the risk management department.

## Interest risk

Interest risk is the sensitivity of bank's funding by fluctuations in long and short term interest rates, which fluctuations can result in profit or loss on positions kept. The treasury function manages the interest risks, based on strict limits set by the Asset and Liability Committee and are monitored on a daily basis by the risk manager.
Kempen & Co's interest risk is limited because of the short-term character of loans and advances related to the funding.

## Credit risk

The lending activity of the bank principally consists of loans collateralized by securities to private clients and institutions, established in the Netherlands.
Because of the collateralized loans and advances, Kempen & Co's credit risk is limited.

## Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behaviour and system or from external events. To manage the operational risk, the bank roots this risk within the Operational Risk Committee. The guiding principle in this respect is that line management at all levels is responsible for directing and controlling operational risks. The line management is supported by the risk management department for risk identification and assistance to manage operational risks.

| *In thousands of euros, unless otherwise stated* | **31/12/2004** | 31/12/2003 |
| --- | --- | --- |

**Obligations not shown in the balance sheet**

**Contingent liabilities**

| | | |
| --- | --- | --- |
| **Commitments arising from guarantees** | **9 786** | 25 537 |

All transactions where the bank has guaranteed the obligations of a third party are included. They mostly concern secured bank guarantees issued at the request of clients. Contingent liabilities include also future third party commitments of the bank.

| | | |
| --- | --- | --- |
| **Other** | **28 070** | 32 080 |

Rental commitments for the period to 2011 amount to € 28 million (€ 4 million due in 2005).

Until November 2004 Kempen was part of the fiscal unity with Dexia Nederland Holding NV. It can be held joint and severally liable for the tax obligations of all entities belonging to the fiscal unity. Kempen & Co is indemnified by Dexia SA for the damages resulting from this joint and several liability.

In 2004, Kempen & Co was named as defendant in a class action in the United States of America in connection with its role as underwriter in an offering of securities in September 2001. On 21 December 2004, the US Courts dismissed all claims made against Kempen & Co for lack of subject matter jurisdiction, stating that Kempen & Co engaged in no conduct and had no effects in the United States.

As plaintiffs were granted the right to replead against the lead underwriters in the offering, there might still be a remote possibility of some adverse financial consequences for the syndicate. Kempen & Co and the issuer of the securities have signed an agreement in September 2001 that requires the issuer to indemnify Kempen & Co against all penalties and losses arising out of Kempen & Co's involvement in the offering. In addition to this Dexia SA has indemnified Kempen & Co NV for all damages arising from this claim.

**Other contingent liabilities**

Although the bank has been separated of Dexia Bank Nederland as at 11 April 2003, it remains liable for claims of Dexia Bank Nederland's leaseholders. In accordance with article 2: 334t BW the Bank's liability is limited to the equity of Kempen& Co NV at the time of the separation.

Kempen & Co NV is indemnified by Dexia SA for damages resulting from its joint and several liability by virtue of section 334t of book 2 of the Dutch Civil Code for obligations of Dexia Bank Nederland NV

# Notes to the consolidated profit and loss account

| *In thousands of euros, unless otherwise stated* | **31/12/2004** | 31/12/2003 |
|---|---|---|
| **Interest income and expenses** | **3 455** | 5 288 |

This represents all interest income and expense associated with the lending, respectively borrowing of funds, as well as commissions that have the character of interest.

The item interest income comprise:

| | | |
|---|---|---|
| Interest from interest-bearing securities | **95** | 49 |
| Others | **9 892** | 16 345 |
| | **9 987** | 16 394 |

| | | |
|---|---|---|
| **Income from securities and participating interests** | **1 504** | 772 |

This item comprises:

| | | |
|---|---|---|
| Income from shares | **1 213** | 428 |
| Income from other participating interests | **291** | 344 |
| Divestment of group companies | - | - |
| Income from the sale of participating interests | - | - |
| | **1 504** | 772 |

| | | |
|---|---|---|
| **Commission income and expenses** | **55 308** | 52 975 |

This includes revenues from fees for services supplied to third parties, and expenses or fees for services supplied by third parties. These primarily consist of commissions and margins from securities transactions, securities custodianship, and securities lending. They also include fees and expenses from asset management services and corporate finance activities.

| | | |
|---|---|---|
| **Results from financial transactions** | **7 897** | 7 585 |

Includes the valuation differences on securities and foreign-currency transactions.

This item comprises:

| | | |
|---|---|---|
| Results of trading portfolio | **7 308** | 7 098 |
| Other results | **589** | 487 |
| | **7 897** | 7 585 |

| | | |
|---|---|---|
| **Other income and expenses** | **327** | **7 985** |

This item comprises:

| | | |
|---|---|---|
| Other income | **416** | 8 263 |
| Other expenses | **- 89** | -278 |
| | **327** | 7 985 |

In 2003 Other income includes the result on disposal of the Bank's property at the Herengracht 176 - 182 amounting to € 7 464. This amount can be classified as incidental and exceptional income.

| *In thousands of euros, unless otherwise stated* | **31/12/2004** | 31/12/2003 |
|---|---|---|
| **Personnel expenses** | **35 515** | 54 470 |
| This item comprises: | | |
| Salaries including bonuses | **24 744** | 45 393 |
| Social security charges | **1 672** | 1 369 |
| Pension costs | **4 581** | 3 443 |
| Other personnel expenses | **4 518** | 4 265 |
| | **35 515** | 54 470 |

In 2004, an average of 324 persons (2003: 327) were employed (Foreign Offices 24 persons). In 2003 this item also comprises personnel costs out of the merger (retention) and the split-off and reorganisation in total amounting to € 18 948. These costs can be classified as incidental or exceptional of nature. At year-end the Management Board was composed of three members. The total Management Board's remuneration for the full financial year 2004 amounts € 2.2 million (2003: € 3.3 million). The Supervisory Board consists of four members with a remuneration of € 77 thousand for the full financial year (2003: € 75 thousand).

| | | |
|---|---|---|
| **Other administrative expenses** | **16 564** | 24 419 |

This item covers accommodation expenses, IT costs, costs of data collection, and other general expenses.

In 2003 € 5 151 of the other administrative expenses can be classified as incidental costs and mainly relates to onerous contracts and provisions for relocations.

| | | |
|---|---|---|
| **Depreciation** | **3 902** | 5 028 |

Consists of depreciation of property, office inventory and computer software.

| | | |
|---|---|---|
| **Value adjustment to receivables and assets** | **- 25** | 3 374 |

Comprise value adjustments to and changes in provisions for loans and advances and for which collection is unsure and impairment of fixed assets where needed.

In 2003 an amount of € 2 927 can be classified as incidental or exceptional costs and relates to impairment of assets following the split-off of Kempen & Co NV.

| | | |
|---|---|---|
| **Taxes** | **- 2 853** | 5 404 |

Corporate income tax due has been calculated on the basis of pre-tax financial results and the current rate of taxation (34.5%), taking into account existing tax facilities relating to corporate income tax. The difference between the effective and the nominal tax rate is mainly due to tax-exempted results from investments and participating interests.

In 2003 an amount of € 5 602 is tax benefits related to incidental and exceptional costs.

# ▷ Company balance sheet

## as at 31 December 2004 after appropriation of result

| *In thousands of euros* | | **31/12/2004** | | 31/12/2003 |
|---|---|---|---|---|
| **▷ Assets** | | | | |
| Cash | | **10 987** | | 14 245 |
| Short-dated government paper | | **-** | | - |
| Banks | | **176 399** | | 215 076 |
| Loans and advances | | **182 104** | | 321 263 |
| Interest-bearing securities | | **38** | | 354 |
| Shares | | **54 360** | | 28 829 |
| Participating interests | | **235 474** | | 246 211 |
| Property and equipment | | **10 968** | | 14 601 |
| Other assets, prepayments and accrued income | | **13 949** | | 16 677 |
| | | **684 279** | | 857 256 |
| **▷ Liabilities** | | | | |
| Banks | | **64 184** | | 40 037 |
| Funds entrusted | | **499 264** | | 694 931 |
| Debt securities | | **-** | | - |
| Other liabilities (including short positions) | | **2 708** | | 1 440 |
| Accruals and deferred income | | **11 983** | | 22 780 |
| Provisions | | **3 701** | | 5 252 |
| | | **581 840** | | 764 440 |
| **Subordinated loans** | | **33 000** | | 33 000 |
| Issued and paid-up share capital | **20 000** | | 20 000 | |
| Premium reserve | **44 791** | | 44 791 | |
| Revaluation reserve | **39** | | 98 | |
| Legal and statutory reserve | **15** | | 15 | |
| Retained Earnings | **4 594** | | - 5 088 | |
| Shareholders' equity | | **69 439** | | 59 816 |
| | | **684 279** | | 857 256 |
| **Contingent liabilities** | | | | |
| Commitments arising from guarantees | | **9 786** | | 25 537 |
| Rental commitments | | **28 070** | | 32 080 |

# Company profit and loss account

for 2004

| *In thousands of euros* | **31/12/2004** | 31/12/2003 |
|---|---|---|
| Results from participating interests after tax | **11 641** | 14 947 |
| Balance of other income and expenditure after tax | **- 1 959** | -22 229 |
| **Net profit** | **9 682** | -7 282 |

# Notes to the company balance sheet

| *In thousands of euros, unless otherwise stated* | **31/12/2004** | 31/12/2003 |
|---|---|---|

## Assets

| | **31/12/2004** | 31/12/2003 |
|---|---|---|
| **Loans and advances** | **182 104** | 321 263 |
| Loans and advances includes debts: | | |
| - on participating interests | **16 324** | 140 174 |
| **Participating interests** | **235 474** | 246 211 |

Consists of entities, which are non-credit institutions.

Movements in participating interests:

| | **Group companies** | **Non-consolidated participating interests** | **Total** |
|---|---|---|---|
| Balance at start of year | 246 200 | 11 | 246 211 |
| Result | 11 641 | - | 11 641 |
| Dividend | -11 587 | - | - 11 587 |
| Investments | - | - | - |
| Divestments | 10 154 | - | 10 154 |
| Change in consolidation scope | - 20 945 | - | - 20 945 |
| Balance at end of year | 235 463 | 11 | 235 474 |

The following unlisted group companies are included in the consolidation:

| **Name of group company** | **Percentage of issued shares held by the bank** | **Place of business** |
|---|---|---|
| Kempen Custody Services (Nederland) NV | 100% | Amsterdam |
| Kempen Capital Management NV | 100% | Amsterdam |
| Kempen Securities USA Inc. | 100% | New York |
| Kempen Capital Management (UK) Ltd | 100% | Edinburgh |
| Kempen & Co Corporate Finance BV | 100% | Amsterdam |
| Kempen Deelnemingen BV | 100% | Amsterdam |
| Global Property Research NV | 100% | Amsterdam |
| Kempen Finance BV | 100% | Amsterdam |
| Kempen Bewaarder NV | 100% | Amsterdam |
| Kempen Management BV | 100% | Amsterdam |
| Kempen Trust (Antilles) NV | 100% | Curacao |
| Kempen Management Services Ltd | 100% | Jersey |

Kempen & Co NV also participates directly or indirectly in a number of companies that have no business activities or activities of minor interest.

A list of the names and addresses of these companies is available for inspection at the offices of the Trade Register in Amsterdam.

*In thousands of euros, unless otherwise stated*

| | **31/12/2004** | 31/12/2003 |
|---|---|---|
| **Equipment** | **10 968** | 14 601 |

This relates to office equipment and operating assets.

Movements

| | **Equipment & other** |
|---|---|
| Balance at start of year | 14 601 |
| Investments | 127 |
| Disposals | - 17 |
| Depreciation | - 3 743 |
| Impairments | - |
| Balance at end of year | 10 968 |

This item is specified as follows:

| | **Depreciation period in years** | **Purchase price** | **Cumulative depreciation year-end 2003** | **Impairments 2004** | **Depreciation 2004** | **Book value 2004** |
|---|---|---|---|---|---|---|
| Equipment & other | 2-10 | 33 460 | - 18 749 | - | - 3 743 | 10 968 |

| | | |
|---|---|---|
| **Funds entrusted** | **499 264** | 694 931 |
| Funds entrusted includes debts to participating interest | **248 341** | 395 071 |
| **Shareholders' equity** | **69 439** | 59 816 |

An overview of the components and movements of shareholders' equity is included in the notes to the consolidated balance sheet.

*Amsterdam, 3 March, 2005*

| Supervisory Board | Management Board |
|---|---|
| P. Winsemius (chairman) | W.H.M. Pot (chairman) |
| F.W. Fröhlich | L. Deuzeman |
| A.J.L. Slippens | I.A. Sevinga |
| W.O. Wentges | |

Signed by all the members of the Management Board and Supervisory Board.

# Other information

To: The shareholders of Kempen & Co NV

## Auditors' report

### Introduction

We have audited the financial statements of Kempen & Co NV, Amsterdam, ('the Bank') for the year 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

### Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2004, and of the result for the year then ended, in accordance with accounting principles generally accepted in the Netherlands, and comply with the financial reporting requirements included in Part 9, Book 2 of the Dutch Civil Code.

*Amsterdam, 3 March 2005*

PricewaterhouseCoopers Accountants NV

## Appropriation of result

In accordance with Article 28, sections 1 and 2 of the Articles of Association, the result after addition to the reserves, is at the disposal of the Annual General Meeting of Shareholders. The positive results of 2004 are added to the other reserves.



# Addresses

### Kempen & Co NV
Beethovenstraat 300
PO Box 75666
1070 AR Amsterdam
Telephone +31 (0)20 348 8000
Fax +31 (0)20 348 8400
www.kempen.com

### Securities
Securities (Amsterdam)
Beethovenstraat 300
PO Box 75666
1070 AR Amsterdam
Equities & Derivatives
Telephone +31 (0)20 348 8000
Fax +31 (0)20 348 8968

*Kempen & CO USA Inc*
Securities (New York)
747 Third Avenue, 22nd Floor
New York, New York 10017
United States of America
Telephone +1 212 3760 130
Fax +1 212 3760 139

### Corporate Finance
*Kempen & Co Corporate Finance BV*
Beethovenstraat 300
PO Box 75666
1070 AR Amsterdam
Telephone +31 (0)20 348 8500
Fax +31 (0)20 348 8550

### Asset Management
*Kempen Capital Management NV*
Beethovenstraat 300
PO Box 75666
1070 AR Amsterdam
Institutional Asset Management
Telephone +31 (0)20 348 8700
Fax +31 (0)20 348 8750
Private Client Asset Management
Telephone +31 (0)20 348 8800
Fax +31 (0)20 348 8850

*Kempen Capital Management*
Private Client Asset Management (Antwerp)
Frankrijklei 103
B-2000 Antwerp
Belgium
Telephone +32 3 2248 200
Fax +32 3 2248 226

*Kempen Capital Management (UK) Ltd*
Institutional Asset Management (Edinburgh)
41 Melville Street
EH3 7JF Edinburgh
Scotland
Telephone +44 131 2266 985
Fax +44 131 2266 984

KEMPEN & CO
*Merchant Bank*