

Annual Report 2003

Contents

ANNUAL REPORT 2003		
PART 1	REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS	p.2
PART 2	FINANCIAL REPORT 2003	
A	CONSOLIDATED FINANCIAL STATEMENTS	p. 4
	REPORT OF THE GROUP AUDITORS TO THE GENERAL MEETING OF SHAREHOLDERS ON THE CONSOLIDATED FINANCIAL STATEMENTS 2003	p. 37
B	STATUTORY FINANCIAL STATEMENTS	p. 38
	REPORT OF THE STATUTORY AUDITORS TO THE GENERAL MEETING OF SHAREHOLDERS	p. 45
Corporate Governance Report		p. 46
ADRESSES / CONTACTS		p. 72

Report of the Chairman of the Board of Directors

Dear Shareholders,

We are pleased to report to you today on a successful business year. With revenues of CHF 28.8 million, Swissquote has grown in 2003 by 133 percent over the previous year, while limiting its expense growth to 11.3 percent. The result is a net profit of CHF 5.1 million.

Breakthrough achieved

A year ago we set out on a strategy of growth, both organically and through acquisitions. This plan has paid out in 2003. By growing the client base by 8'400 new clients year-over-year and the somewhat surprising fact that our clients strongly increased their assets base at Swissquote, we could more than double the Assets under Custody to CHF1.5 billion at year-end.

In March 2003, stock exchange indices hit their lowest levels since 1998 and shortly afterwards the financial markets began recovering. Accordingly, and combined with the strong growth in number of Clients and Assets under Custody, our business developed better from quarter to quarter. Our media release for the first quarter carried the heading 'Breakeven in sight', after the second quarter we announced 'Swissquote reports profit', the third quarter report stated 'Swissquote raises revenues and profit again', and at the end of the year we could ascertain that Swissquote is sustainably profitable.

In 2003, Swissquote definitely achieved the breakthrough in profitability and has established itself as the market leader for online trading in Switzerland. This is at the same time an achievement and a commitment to the online trading market for the future.

Profitability strengthened

The strong increase in revenues of over CHF 16 million year-on-year is partly due to favourable market conditions and partly due to the growth of the client and assets base. The operating expenses increased by only CHF 2.3 million.

This produced an EBITDA of CHF 5.9 million and a net profit of CHF 5.1 million. The 2003 result contains a one-off book gain of CHF 2.2 million. The EBITDA margin was 20.3 percent and net profit margin, adjusted for the book gain, equalled 10.2 percent.

The number of clients rose by 37.4 percent year-on-year to 30'926. A quarter of this increase was attributable to external growth (former Youtrade and Skandia Bank clients), and three quarters to organic growth as a result of our own marketing efforts. Assets under custody grew by 112.8 percent to CHF 1.560 billion; inflow of new money accounting for more than half at CHF 451 million.

Significant improvement in productivity.

In 2003, we succeeded in reducing the average costs per customer from each quarter to the next. Parallel to this development, average revenues per customer showed a continuous increase (with the exception of the fourth quarter 2003) from CHF 195.50 in the first quarter to CHF 314.00 in the third. On the strength of a further expansion of our service offering and our customer base and the automation of manual processes, we aim to make processes even more efficient. This should secure the level of profitability required to overcome adverse market conditions. The significance of lower costs was confirmed in the fourth quarter 2003: despite a 10% seasonal contraction in demand (fewer exchange trading days in December), we remained profitable for the third quarter in a row.

Report of the Chairman of the Board of Directors

Highlights in 2003

- In the first quarter we successfully concluded the takeover of Consors on schedule and integrated former Youtrade clients onto our platform. The fourth quarter saw the acquisition of clients of Skandia Bank Switzerland, which ceased operations in November.
- In May we announced that Assets under Custody at Swissquote had crossed the 1 billion franc mark.
- Our efforts to further expand the range of services and financial information tools were a focal point in 2003:
 - for independent asset managers we developed the custom designed IAM tool,
 - with the Equity Analyzer and the Portfolio Analyzer we introduced two analysis tools based on technical models,
 - we launched level 3 of our online security concept,
 - we now offer clients a choice of three credit cards,
 - the new 'Ranking Search' function operates using predefined criteria and the 'Advanced Search' is faster and more convenient,
 - and finally, we linked up for online trading with five more exchanges - Brussels, Stockholm, Helsinki, Oslo and Copenhagen.

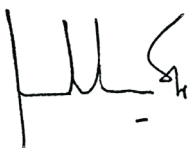
A further milestone was the buyout of minority interests in Swissquote Bank by Swissquote Group Holding Ltd. Since 25 July 2003 we have thus been the sole owner of our bank. The 20.58 percent minority interest was held by Aktiengesellschaft Assuricum a subsidiary of Zurich Financial Services.

Confident for 2004

We intend to continue pursuing our growth strategy in 2004. We are targeting organic growth of over 30 percent in our client base and aim to increase the volume of existing clients' assets under custody by 50%. Our optimism for the current year is driven by internal and external factors impacting positively on our development. The internal influences are a rigid cost management, the ongoing expansion of our service offering, and a vigorous client growth strategy. In addition to the generally upbeat forecasts on the development of the financial markets, external factors include trends towards the development of personal online wealth management. With our business model, we can expect to benefit exceptionally from these trends.

A word of thanks

On behalf of the Board of Directors and Group Management, I would like to thank our clients. In actively using our platform, they are making a crucial contribution to Swissquote's business success. Their suggestions and requests help us to continuously improve. We also thank our shareholders for the trust they place in our company. In this context, I am particularly pleased that the stock performance of SQN is indicating confidence of the market in Swissquote. I extend the thanks to our employees for their personal commitment to Swissquote and their readiness to achieve the exceptional again and again. And finally, I would like to thank our cooperation partners for their expertise, support and assistance in growing our business.



Mario Fontana
Chairman of the Board of Directors

Part 2 Financial Report 2003

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

	Pages
Consolidated Balance Sheet	5
Consolidated Statement of Operations	6
Consolidated Changes in Shareholders' Equity	7
Consolidated Cash Flow Statement	8
Section I: General Information	9
Section II: Accounting Policies	10
Section III: Financial Risk Management	15
Section IV: Notes to Consolidated Financial Statements	17

Financial Report 2003

Consolidated Balance Sheet

	Notes	2003	2002
ASSETS			
Cash and balances with central bank	1	43,490,235	6,987,766
Due from other banks	1	301,096,041	205,982,154
Derivatives financial instruments	2	169,766	123,169
Loans and advances to customers	3	19,016,926	7,792,731
Receivables and prepayments	5	1,196,573	1,707,482
Investment securities held to maturity	7	5,282,796	3,239,627
Goodwill	8	3,000,000	3,800,000
Property, plant and equipment	9	5,895,943	5,604,923
Other long term assets	10	486,626	342,120
Deferred tax assets, net	11	636,458	614,704
Total assets		380,271,364	236,194,676
LIABILITIES AND EQUITY			
Liabilities			
Due to other banks	1	1,416,909	100,004
Derivatives financial instruments	2	169,766	123,169
Due to customers	4	326,228,043	176,736,541
Trade and other payables	6	6,615,506	8,869,664
Provisions and pension	12	2,943,789	7,360,098
Total liabilities		337,374,013	193,189,476
Minority interest	13	-	7,581,337
EQUITY			
Ordinary shares	14	13,790,200	13,760,300
Share premium and reserves		61,723,981	61,630,127
Treasury shares		(1,902,255)	(2,154,376)
Accumulated losses		(30,714,575)	(37,812,188)
Total equity		42,897,351	35,423,863
Total liabilities and equity		380,271,364	236,194,676

Financial Report 2003

Consolidated Statement of Operations

	Notes	2003	2002
CONTINUED OPERATIONS			
Fee and commission income		27,427,432	10,293,661
Fee and commission expense		(2,974,739)	(1,016,674)
Net fee and commission income	15	24,452,693	9,276,987
Interest income		2,093,173	1,554,713
Interest expense		(493,432)	(348,335)
Net interest income	16	1,599,741	1,206,378
Net trading income		1,302,534	357,674
Other operating income	17	1,441,956	1,519,913
Operating income		28,796,924	12,360,952
OPERATING EXPENSES			
Operating expenses	18	(22,937,041)	(20,607,157)
Restructuring charge	12	-	(3,675,982)
Total operating expenses before depreciation, amortization and provisions		(22,937,041)	(24,283,139)
Operating profit / (loss) before depreciation, amortization and provision		5,859,883	(11,922,187)
Depreciation, amortization and provisions			
Depreciation	9	(2,200,000)	(2,810,000)
Goodwill	8	(800,000)	(200,000)
Bad and doubtful debt	3	-	(40,000)
Amortization, provisions and restructuring	9/12	(2,750,000)	(3,900,000)
Gain on acquisition of minority interest	13	4,245,437	-
Profit / (loss) from continued operating activities		4,355,320	(18,872,187)
DISCONTINUED OPERATIONS			
Loss from discontinued operating activities	19	-	(2,204,048)
Total profit / (loss) from continued and discontinued operating activities		4,355,320	(21,076,235)
Income tax, net	11/19	-	65,094
Profit / (loss) after tax		4,355,320	(21,011,141)
Minority interest	13	773,800	5,700,106
Net Profit / (loss)		5,129,120	(15,311,035)
<i>Profit / (loss) per share</i>	20	<i>3.91</i>	<i>(11.70)</i>
<i>Diluted profit per share</i>		<i>3.80</i>	<i>Not applicable</i>

Restatement of 2002 Statement : Financial income from Swissquote Group Holding Ltd stated as a separate item at the level of "Loss after tax" in the Annual Report 2002 is now included in interest income.

Financial Report 2003

Consolidated Changes in Shareholders' Equity

	Share Capital	Share premium & reserves	Treasury shares	Accumulated losses	Total
Balance at 1 January 2002	13,760,300	62,125,044	(527,727)	(22,191,390)	53,166,227
Net changes in treasury shares	-	-	(1,626,649)	(309,763)	(1,936,412)
Movement in deferred taxes	-	(494,917)	-	-	(494,917)
Net loss of the period	-	-	-	(15,311,035)	(15,311,035)
Balance at 31 December 2002	13,760,300	61,630,127	(2,154,376)	(37,812,188)	35,423,863
Balance at 1 January 2003	13,760,300	61,630,127	(2,154,376)	(37,812,188)	35,423,863
Net changes in treasury shares	-	-	252,121	1,968,493	2,220,614
Capital increase resulting from the exercise of options	29,900	72,100	-	-	102,000
Movement in deferred taxes	-	21,754	-	-	21,754
Net profit of the period	-	-	-	5,129,120	5,129,120
Balance at 31 December 2003	13,790,200	61,723,981	(1,902,255)	(30,714,575)	42,897,351

Financial Report 2003

Consolidated Cash Flow Statement

	Notes	2003	2002
Cash flow from operating activities			
Fees and commission receipts		27,162,404	10,293,661
Fees and commission paid		(2,932,683)	(1,016,674)
Interest receipts		2,006,391	1,566,638
Interest expenses paid		(493,432)	(348,335)
Other income		2,744,490	1,877,587
Cash payments to employees and suppliers		(23,086,356)	(20,607,157)
Restructuring & pension expenses paid	12	(6,266,309)	(5,713,073)
Discontinued operations		-	(1,688,568)
Cash flow from operating profit / (loss) before changes in operating assets and liabilities		(865,495)	(15,635,921)
<i>Net increase / (decrease) in operating assets and net increase / (decrease) in operating liabilities</i>			
Loans and advances to customers		(11,224,195)	(397,074)
Receivable and prepayments		64,091	3,728,987
Work in progress		-	73,714
Due to customers		149,491,502	20,940,884
Trade and other payable		(1,420,371)	193,317
Net cash from operating activities		136,045,532	8,903,907
Cash flow from / (used in) investing activities			
Purchase of property, plant and equipment	9	(3,391,020)	(1,407,028)
Investment securities held to maturity		(2,043,169)	-
Other long term assets		(144,506)	(326,063)
Disposal of subsidiaries, net of cash disposed	21	-	676,974
Acquisition of subsidiaries, net of cash acquired	13/22	(850,000)	89,264,760
Treasury shares		580,614	(1,936,412)
Net cash from / (used in) investing activities		(5,848,081)	86,272,231
Cash flow from financing activities			
Net proceeds of issue of ordinary shares		102,000	-
Net cash from financing activities		102,000	-
INCREASE IN CASH AND CASH EQUIVALENTS		130,299,451	95,176,138
Movements in cash and cash equivalents			
Balance at beginning of year		212,869,916	117,693,778
Increase		130,299,451	95,176,138
Balance at 31 December	1	343,169,367	212,869,916

Non-cash transaction: 57,000 treasury shares as part of the acquisition of the residual minority interest in Swissquote Bank

Financial Report 2003

Consolidated Financial Statements

SECTION I GENERAL INFORMATION

Swissquote Group Holding Ltd ("the Company") and its subsidiaries ("the Group") provide Online Financial Services that consist of the services provided by Swissquote Bank ("the Bank") and the swissquote.ch financial web portal operated by Swissquote Info Ltd.

The Group's headquarters are located in Gland (Canton de Vaud) in Switzerland. The operations are located in Switzerland (Gland and Zurich). The Group employed 101 employees (full time equivalent) at the end of December 2003 (31 December 2002: 80).

The parent company of the Group is Swissquote Group Holding Ltd, which is a limited liability company incorporated in Switzerland. The address of its registered office is: Route des Avouillons 16, CH - 1196 Gland.

The shares of Swissquote Group Holding Ltd are listed on the SWX New Market of the Swiss Stock Exchange since 29 May 2000. The ticker is SQN, the security number is 1,067,586 and the ISIN Number is CH0010675863.

The issued share-capital at 31 December 2003 consists of 1,379,020 ordinary shares of CHF 10 nominal value (2002: 1,376,030). There is also a conditional share-capital. Details are stated in Note 14.1.

The main shareholders at 31 December are:

	2003	2002
Mr. Jean Pfau	16.74%	17.50%
Mr. Marc Bürki	15.95%	16.32%
Mr. Paolo Buzzi	16.07%	16.41%
Mr. Thomas Matter	5.08%	0.00%

Except the above-mentioned shareholders, no other shareholder registered in the Shareholder Registry owns 5% or more of the issued share-capital. All shares are freely tradable. SWX Regulations provide that individual shareholdings exceeding 5% are deemed to be permanent investment and are to be excluded from the free float. In accordance with SWX regulation the free float at 31 December 2003 is 46.16%.

The consolidated financial statements were approved by the Board of Directors of the Company on 20 February 2004.

Financial Report 2003

Consolidated Financial Statements

SECTION II ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

A. Basis of preparation

The consolidated financial statements are prepared in accordance with and comply with the International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the IASB. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities held for trading and all derivative contracts.

B. Consolidation

(B1) List of consolidated subsidiaries

Subsidiaries	Headquarters/Country		Interest at 31 December	
			2003	2002
Swissquote Info Ltd	Gland/Switzerland		100.0%	100.0%
Swissquote Bank	Gland/Switzerland	(a)	100.0%	70.6%
Swissquote Trade Ltd	Gland/Switzerland		100.0%	100.0%

(a) On 24 November 2000, Swissquote Group Holding Ltd and Rüd, Blass & Cie AG, Bankers ("RBC"), a wholly owned subsidiary of Zurich Financial Services, formed Swissquote Bank ("the Bank"), a limited company under the laws of Switzerland which is granted a full banking license in Switzerland and is submitted to the banking regulations in Switzerland. Swissquote Group Holding Ltd initially owned 51% of the share capital and related rights of Swissquote Bank, the remaining rights being owned by RBC. The minority interests relating to RBC's investment in Swissquote Bank are determined based on the financial statements of Swissquote Bank prepared in accordance with the Group's accounting policies. In accordance with the agreement signed between Swissquote Group Holding Ltd and RBC on 16 August 2000, 11.5% of the net commission revenues of the Bank are fully retroceded to a wholly owned Group company in exchange for the access to the traffic of the www.swissquote.ch portal, its related services and the Swissquote brand. On 30 September 2002, in the context of a financial reorganization of the Bank, the Company raised its interest in the Bank to 70.6%. With effect on 1 October 2002, the Bank acquired 100% of the share-capital of Consors (Schweiz) AG. Consors was merged on 23 October 2002 into Swissquote Bank. On 6 May 2003, the Company further raised its interest in the Bank to 79.42% and on 23 July 2003 the Company acquired the remaining minority interest in the Bank (see Note 13).

On 1 July 2002, the Company sold 100% of Marvel Communications Ltd to the management of this subsidiary. As a result of this transaction, the Group discontinued its operations in the segment "Web Intelligence" (see Note 19).

Financial Report 2003

Consolidated Financial Statements

SECTION II ACCOUNTING POLICIES

(B2) Subsidiary undertakings

Subsidiary undertakings, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless costs cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

C. Foreign currency translation

Income statements of foreign entities are translated into the Group's reporting currency at the average exchange rates for the year and balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the retranslation of the net investment in foreign subsidiary undertakings are taken to shareholders' equity. On disposal of a foreign entity, accumulated exchange differences are recognized in the income statement as part of the gain or loss on sale.

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transactions; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the income statement.

D. Financial instruments, derivatives and hedging

Derivative financial instruments include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, interest rate options and other derivative financial instruments. They are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Change in the fair value of derivatives is included in Net trading income.

E. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

F. Interest income and expense

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium discounted instruments. Interest income is suspended when loans become doubtful of collection, such as when overdue by more than 90 days, or, when the borrower or securities' issuer defaults, if earlier than 90 days. Such income is excluded from interest income until received.

Financial Report 2003

Consolidated Financial Statements

SECTION II ACCOUNTING POLICIES

G. Fee and commission income / expenses

Fees and commissions are recognized on an accrual basis.

H. Other Income

Other income is recognized upon the delivery and over the time of consumption of the service to the customers, net of sales taxes and discounts.

I. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share in the net assets of the acquired subsidiary undertaking at the date of the acquisition. Goodwill is reported in the balance sheet as an intangible asset and is amortized using the straight-line method over its estimated useful life (5 years). The carrying amount of the goodwill is reviewed when circumstances and events indicate that there may be uncertainties over the carrying amount and written down for impairment where the net present value of the forecast future cash flows of the business are insufficient to support the carrying value.

J. Software development costs

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognized as a capital improvement and added to the original cost of the software. Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives but not exceeding a period of three years (non-bank related software) and five year (bank related software).

K. Property, plant and equipment

All property, plant and equipment is recorded at cost. Depreciation is calculated on the straight-line method to write-off the cost of these assets to their residual values over their estimated useful lives as follows:

Banking software	5 years
IT hardware and other software	3 years
Leasehold improvements and office equipment	4 to 5 years

The depreciation of property, plant and equipment relating to new projects and services starts on the starting date of the commercial operations.

Financial Report 2003

Consolidated Financial Statements

SECTION II ACCOUNTING POLICIES

L. Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of these assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of individual assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in the prior years. A reversal of an impairment loss is recognized immediately as income.

M. Investment securities held to maturity

Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates are classified as available for sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognized at cost (which includes transaction costs). Held-to-maturity investments are carried at amortized cost using the effective yield method, less any provision for impairment. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

Interest earned whilst holding investment securities is reported as interest income.

All regular way purchases and sales of investment securities are recognized at trade date, which is the date that the Group commits to purchase or sell the asset.

N. Receivables

Receivables are carried at anticipated realizable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off during the year in which they are identified.

O. Loans and advances to customers and provision for loan impairment

All loans and advances are recognized when cash is advanced to borrowers. A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate inception. The loan provision also covers losses where there is objective evidence that probable losses are present in the components of a portfolio at the balance sheet date. These have been estimated upon historical patterns that take into consideration the current economic climate. When a loan is uncollectible, it is written off against the related provisions for impairments; subsequent recoveries are credited to the bad and doubtful debt in the statement of operations.

Financial Report 2003

Consolidated Financial Statements

SECTION II ACCOUNTING POLICIES

P. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with the Swiss Central Bank, amounts due from other banks and trading securities.

Q. Pension obligations

The Group operates plans that qualify as defined benefit plans in accordance with IAS 19. The pension plans are funded by employee and employer contributions, based on the plan regulations.

R. Stock option plan

No compensation cost is recognized in the statement of operations for the grant of stock options, except for the underlying social security costs. When options are exercised, the proceeds received are credited, net of any transaction costs, to share capital (nominal value) and share premium.

S. Deferred income taxes

Deferred income taxes are provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from the capitalization of certain assets and related depreciation and amortization as well as from tax losses carried forward. Deferred tax assets relating to tax losses carried forward, are recognized to the extent that taxable profits are expected to be generated in the future and will be offset by the tax losses carried forward.

T. Treasury stock

Where the Company or its subsidiaries purchase the Company's share capital or obtain rights to purchase its share capital, the consideration paid including any attributable transaction costs net of income taxes is shown as a deduction from total shareholders' equity.

U. Fiduciary activity

Assets and income arising thereon together with related undertakings to return such assets to the customers are excluded from these financial statements, where the Group acts in fiduciary capacity such as nominee, trustee or agent.

V. Comparatives

When required, the 2002 comparative figures have been adjusted to conform to changes in presentation in the current year.

Financial Report 2003

Consolidated Financial Statements

SECTION III FINANCIAL RISK MANAGEMENT

A. Scope of Swissquote Group operations and strategy

The Group's operations consist of:

- ▶ operating a Bank that accepts deposits from its customers mainly in CHF, USD and EUR in current account form. The interest rate paid, if any, is fixed at the discretion of the Bank and may be changed at any time without advance notice. The Bank seeks to earn interest margin by investing these funds in high quality short-term assets. These assets consist mainly of fixed rate deposits with other banks with maturities up to 90 days and of tradable bonds;
- ▶ providing to self-directed investors a tool to route the orders to stock exchanges via the Internet against brokerage fees, as well as tools to assist them in their decision making;
- ▶ providing Independent Asset Managers tools that permit to pass grouped orders on behalf of their clients, and to allow such clients to have a real time read access to their account in order to review whenever the need is felt the investment activity of their Independent Asset Manager made on their behalf;
- ▶ providing margin loans to customers against pledging of assets;
- ▶ providing fiduciary placements on behalf and at the risks of clients against commission fees;
- ▶ selling advertising space and providing financial information against subscription on the Group's websites.

The Group does not carry out other banking activities. In particular it does not:

- ▶ provide commercial lending, mortgages, retail borrowings, credit related commitments such as guarantees and standby letters of credit;
- ▶ provide trustee, corporate administration, investment management and / or advisory services to third parties;
- ▶ trade in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take interest of short-term market movements in the equity and bond markets and interest rate and commodity prices, with the exception of spot currency positions in USD and EUR and several other currencies.

The Board of directors of the Bank places currency-trading limits for both overnight and intra-day positions. The Board on a regular basis reviews a detailed risk management manual.

B. Credit risk

The Group manages its credit risk through a careful analysis of the credit worthiness of its clients and counter parties, and of the collateral value of loans provided against the pledging of assets.

Apart from collateralized loans to customers, the Bank takes on exposure to credit risk in the form of "counterparty settlement risk". All transactions are concluded in a settlement cycle of a maximum of three days and are "delivery against payment" thus further reducing the exposure. The list of counterparties is reviewed and approved by the Board of directors.

C. Interest rate risk

The Group's exposure to changes in market interest rates is limited. The Bank takes no exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce the level of income in the event that unexpected movements arise. In the future, it may be possible that the Bank will engage in longer-term deposits. The Board of directors will set limits on the level of mismatch of interest rate re-pricing that may be undertaken, which will be monitored daily.

Financial Report 2003

Consolidated Financial Statements

SECTION III FINANCIAL RISK MANAGEMENT

D. Currency risk

Due to the fact that the Group's operations are mainly denominated in Swiss Francs, the Group has no material exposure to currency fluctuation.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency, exchange rates on its financial position and cash flows. The Board of directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are constantly monitored. In relation to the balance sheet the exposure is not material.

E. Liquidity risk

The Bank is exposed to daily withdrawals on its available cash resources from overnight deposits, current accounts and maturing deposits. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

F. Capital adequacy

The Group's and Bank's capital adequacy is determined based on the principles defined in the Swiss Federal Law on Banks and Savings Banks and the Implementing Ordinance on Banks and Savings Banks.

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note	Index of this section	Page
1	Cash and cash equivalents	18
2	Financial instruments	18
3	Loans and advances to customers	19
4	Due to customers	19
5	Receivable and prepayments	19
6	Trade and other payables	19
7	Investment securities held to maturity	20
8	Goodwill	20
9	Property, plant and equipment	20
10	Other long-term assets	21
11	Deferred tax assets, net	21
12	Provisions and pension	22
13	Minority interest	24
14	Equity	25
15	Fee and commission income, net	28
16	Interest income, net	28
17	Other income	28
18	Other expenses	29
19	Discontinued operations	29
20	Earning per share	30
21	Disposal of subsidiary	30
22	Acquisition of subsidiary	31
23	Related party transactions	31
24	Commitments	31
25	Currency risk	32
26	Interest rate risk	33
27	Maturity risk	35
28	Geographic risk	36

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and cash equivalents

	2003	2002
Cash and balances with central bank	43,490,235	6,987,766
Due from other banks	301,096,041	205,982,154
Due to other banks	(1,416,909)	(100,004)
Total net	343,169,367	212,869,916

2. Financial instruments

The carrying amount of the financial assets and financial liabilities represents their fair value. The Group does not enter into derivative instrument transactions (except for client needs), cash is placed with substantial financial institutions and there are some limited foreign currency exposures.

	31 December 2003			31 December 2002		
	Positive Fair value	Negative Fair value	Contract Amount	Positive Fair value	Negative Fair value	Contract Amount
Futures	-	-	3,800	-	-	1,136,000
Options	169,766	169,766	4,134,097	123,169	123,169	8,079,000
Total	169,766	169,766	4,137,897	123,169	123,169	9,215,000

Forward transactions and derivative financial instruments are reported on a gross basis. The replacement value of stock exchange and over-the-counter contracts are recorded under the items "positive fair value" and "negative fair value" respectively, without taking into consideration the margin coverage deposited by the customer.

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Loans and advances to customers

	2003	2002
Loans and advances		
Overdrafts	366,397	551,500
Covered loans	18,757,029	7,347,731
Total	19,123,426	7,899,231
Provision	(106,500)	(106,500)
Total net	19,016,926	7,792,731
Movement in provision		
Balance at 1 January	106,500	-
Balance taken over from Consors (Schweiz) AG at acquisition	-	66,500
Doubtful debt expenses	-	40,000
Bad debts written-off	-	-
Balance at 31 December	106,500	106,500

Loans and advances to customers mainly consist in advances covered by the pledging of the customers, portfolio.

4. Due to customers

Amounts due to customer mainly consist of current accounts.

5. Receivables and prepayments

	2003	2002
Trade receivables	87,866	72,341
Prepayments	289,712	450,066
Other receivables	818,995	1,185,075
Total	1,196,573	1,707,482

6. Trade and other payables

	2003	2002
Trade payable	1,971,590	1,973,800
Social security and other taxes	480,302	1,289,342
Accrued expenses	3,783,003	5,298,945
Deferred revenues	380,611	307,577
Total	6,615,506	8,869,664

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Investment securities held to maturity

Investment securities held to maturity consist of listed bonds issued by the Swiss Government, with maturities up to January 2005. The nominal value of the bonds is CHF 5,132,000 at 31 December 2003 (2002: CHF 3,130,000). There is no need for provision for impairment neither at 31 December 2003 and 2002.

8. Goodwill

	2003	2002
Balance 1 January	3,800,000	-
Acquisition of subsidiary	-	4,000,000
Amortization charge	(800,000)	(200,000)
Total net	3,000,000	3,800,000

The goodwill relates to the acquisition of Consors (Schweiz) AG (Note 22).

9. Property, plant and equipment

	IT systems	Others	Total
Year ended 31 December 2002			
Opening net book amount	7,704,612	2,810,565	10,515,177
Addition	1,245,649	161,379	1,407,028
Decrease (Note 21)	(217,037)	(82,963)	(300,000)
Depreciation	(2,853,129)	(164,153)	(3,017,282)
Restructuring (Note 12)	(1,272,843)	(1,727,157)	(3,000,000)
Closing net book amount	4,607,252	997,671	5,604,923
At 31 December 2002			
Cost	12,357,467	3,582,937	15,940,404
Accumulated depreciation	(7,750,215)	(2,585,266)	(10,335,481)
Net book amount	4,607,252	997,671	5,604,923
Year ended 31 December 2003			
Opening net book amount	4,607,252	997,671	5,604,923
Addition	2,789,859	601,161	3,391,020
Depreciation	(2,085,924)	(114,076)	(2,200,000)
Amortization (Note 13)	(900,000)	-	(900,000)
Closing net book amount	4,411,187	1,484,756	5,895,943
At 31 December 2003			
Cost	15,147,326	4,184,098	19,331,424
Accumulated depreciation	(10,736,139)	(2,699,342)	(13,435,481)
Net book amount	4,411,187	1,484,756	5,895,943

IT Systems mainly consist of hardware and software. An amount of CHF 762,000 own cost was capitalized in 2003 (2002: CHF 403,000).

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Other long-term assets

Other long-term assets mainly consist of a CHF 299,127 balance of a CHF 300,000 loan granted on 1 July 2002 to Marvel Communications Ltd recorded at nominal value, which is deemed close to its fair value. The terms of the loan are as follows:

- ▶ no interest is payable until 30 June 2004. Thereafter interest will be charged at Libor plus 2% per annum;
- ▶ repayable on a quarterly basis, the first time on 30 September 2004. Each repayment is based on 30% of the free cash flow of Marvel in the respective quarters, but shall not be less than CHF 30,000. Early repayment is possible.

11. Deferred tax assets, net

	2003	2002
Deferred tax assets		
Tax loss carried forward	1,425,620	625,620
Permanent differences	10,838	-
Total	1,436,458	625,620
Deferred tax liabilities		
Permanent differences	-	(10,916)
Temporary differences	(800,000)	-
Total	(800,000)	(10,916)
Total net	636,458	614,704
Movements in net deferred taxes analyzed as follows:		
Balance, beginning of period	614,704	1,188,940
Net debit to statement of operations	-	(79,319)
Net credit / (debit) to share premium and reserves	21,754	(494,917)
Balance, end of period	636,458	614,704

Deferred income taxes are calculated on all temporary differences under the liability method using various tax rates (depending on the tax status applicable to the subsidiary consolidated). The average tax rate applied for deferred taxes is of 16% (2002: range from 7.8 % to 15.0 %).

The deferred tax assets on tax losses carried forward are stated net of a CHF 18.5 mio (2002: CHF 3.9 mio) provision for impairment of deferred tax assets on tax loss carried forward for which an offset within the carry forward period by future taxable profits is unlikely. Under the current tax laws in Switzerland, tax losses may be carried forward up to 7 years.

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unrecognized tax losses	At 31 Dec. 2003	Lapse of losses between
Swissquote Group Holding Ltd	49,758,000	2006-2009
Swissquote Bank	65,639,000	2006-2010
Swissquote Info Ltd	1,292,000	2008-2009
Total	116,689,000	

The principal source of the change in temporary differences is the treatment of Goodwill that has been completely depreciated on 6 May 2003 in the statutory financial statements of Swissquote Bank, whereas it is amortized over 5 years in the consolidated financial statements.

Reconciliation between effective income tax rate and tax rate applied for current taxes: the effective income tax rate applied for current taxes is of 0%, because none of the companies consolidated have a taxable income in 2003 (carry forward losses available).

12. Provisions and pension

	Restructuring Plan announced on 22 February 2002 (a)	Restructuring / Integration of Consors (Schweiz) AG (b)	Pension Obligations (d)	Other Provisions	Total
Balance at 1 January 2002	-	-	-	-	-
Initial estimated cost with impact on the EBITDA	4,500,000	-	-	-	4,500,000
Estimated cost with impact on the fair value of the operations acquired	-	8,497,189	-	-	8,497,189
Amounts paid or payable in 2002	(3,259,417)	(2,377,674)	-	-	(5,637,091)
Revaluation of provisions at 31 December 2002	(900,000)	-	900,000	-	-
Balance at 31 December 2002	340,583	6,119,515	900,000	-	7,360,098
Balance at 1 January 2003	340,583	6,119,515	900,000	-	7,360,098
Amounts paid or payable in 2003	(340,583)	(5,154,096)	(771,630)	-	(6,266,309)
Provision in connection with the acquisition of customer base (c)	-	700,000	-	1,000,000	1,700,000
Other provisions and revaluation of provisions at 31 December 2003	-	-	(128,370)	278,370	150,000
Balance at 31 December 2003	-	1,665,419	-	1,278,370	2,943,789

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(a) On 22 February 2002, the Company announced a major restructuring of its organization in order to adapt its cost structure to the market conditions, as well as to focus its operations on online financial services. As part of the restructuring, the Group centralized its operations in Gland (VD) with the exception of its marketing and sales organization that remained in Schwerzenbach (ZH). The initial estimated restructuring charge was CHF 7.5 mio (of which CHF 4.5 mio with an impact on EBITDA and CHF 3.0 mio in the form of write-offs).

(b) With effect on 1 October 2002, the Company acquired Consors (Schweiz) AG, a major competitor of Swissquote Bank, with the view to transfer the client base to the Swissquote Bank platform. As a result, the operations of Consors (Schweiz) AG were closed on 31 March 2003, which causes restructuring costs such as redundancies and contract terminations. The balance restructuring corresponds to a long-term lease contract until 2008.

(c) The CHF 1.7 mio provision created in 2003 is relating to the process and assessment described in Note 13, in connection with the acquisition of the Minority Interest.

(d) **Pension obligations** - The Group operates two pension plans, which are both organized under Swiss Law. The main features are the following:

- ▶ the fund assets are held independently of the Group assets in separated trustee funds;
- ▶ decisions with respect to the funds (levels of the benefits and of the contributions, as well as investment strategy) are made by a board of trustees in which the employees and the Group are each represented at parity;
- ▶ the pensions benefits are determined based on the contributions paid by the employees and the Group. However, in accordance with Swiss Law;
- ▶ the part of the employees' saving accounts corresponding to the minimum required by law shall be remunerated at a minimal interest rate set by the Swiss Government. In 2003, the rate was 3.25% per annum (2002:4% per annum).

Coverage of the pension short-funding - the valuation of the funds made at 31 December 2002 highlighted a short-funding of CHF 780,000. In the course of 2003 and as part of an agreement made between the Board of Trustees and the Company the following measures were implemented in order to suppress the short-coverage:

- ▶ the Company increased ordinary contribution on salary by 3.0 % basis point, half of the increase at the costs of employees. The related additional cost to the company was CHF 61,547;
- ▶ the Company paid a one-off contribution of CHF 500,000 (2002: nil) and a CHF 202,000 (2002: CHF 76,000) in the form of a conditional contribution reserve;
- ▶ the Interest rate served on the part of the saving accounts that exceed the minimum required by law was reduced to 1.2% from 1 January 2003 on. This rate is reviewed annually.

As a result of these measures, the short-funding could be suppressed at 31 December 2003. The aggregate CHF 763,547 supplemental contributions contributed in 2003 were debited to the CHF 900,000 provision created in 2002. Payments to the conditional contribution reserves can be offset against ordinary contribution of the company if the fund assets exceed the total saving accounts at some point in time in the future. The aggregate contributions paid by the Company to the contribution reserves to date amount to CHF 278,000. Under the current circumstances of the fund coverage, the Company refrained from recognizing an asset against the pension funds at 31 December 2003.

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Ordinary Contributions - the CHF 404,000 (2002: CHF 330,000) ordinary contributions charged to the Statement of Operations corresponds to the actual amount paid in accordance with the provisions of the funds.

According to IAS 19, plan assets have been estimated at market fair value and liabilities have been calculated according to the « Projected Unit Credit » method as follows:

	2003
Fair value of plan assets	5,201,000
Defined benefit obligation	(5,114,000)
Funded status	87,000
Unrecognized transitional obligation	-
Unrecognized net gain	41,000
Non recognized actuarial prepaid pension cost	128,000

The main assumptions used for the calculation of the pension cost and the projected benefit obligation for the year 2003 are:

	2003
Discount Rate	3.75%
Rate of future increase in compensations	1.5%
Rate of future increase in current pensions	1.0%
Interest rate credited on savings accounts	3.50%
Expected long-term rate of return on plan assets	4%
Retirement age	According to rules
Turnover	10% on average

13. Minority interest

	2003	2002
At beginning of year	7,581,337	13,281,443
Share in net loss	(773,800)	(5,700,106)
Consideration paid for the acquisition of Minority interest by the Company	(2,562,100)	-
Gain on acquisition of minority interest	(4,245,437)	-
At end of year	-	7,581,337

Minority interest relates to the interest of Aktiengesellschaft Assuricum a subsidiary of Zurich Financial Services in the Bank, which amounted to 49% on 1 January 2002 and to 29.4% on 1 January 2003. It was further reduced to 20.58% on 6 May 2003. The Company acquired the remaining interest on 25 July 2003. Prior to this date, the assets and liabilities, as well as the revenues and expenses of Swissquote Bank were already consolidated in full in the consolidated financial statements of the Group, which were adjusted for the minority interest in the Bank's equity and results.

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The carrying amount of the minority interest at the date of the acquisition amounted to CHF 7.3 mio, and the total purchase consideration amounted to CHF 2.6 mio, which is lower. IAS 22 provides that the CHF 4.7 mio resulting difference ("the Negative Goodwill") shall be analyzed as follows:

- ▶ the Company shall primarily investigate if the cause of the Negative Goodwill is relating to possible fair-value adjustments of the share of the non-monetary assets underlying the minority interest, the impairment of such assets, and / or any expected future expenses and / or losses. Such portion should be recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets and/or when the expected future expenses and/or losses are recognized;
- ▶ should the amount identified by the above process be less than the Negative Goodwill, the residual part shall be recognized as profit.

In connection with the above process, the Company resolved to create provisions amounting to CHF 2.6 mio relating to needs of accelerated amortization (CHF 0.9 mio – see Note 9) and specific accrued liabilities (CHF 1.7 mio – see Note 12) in connection with past acquisitions of customers, of which CHF 0.5 mio (representing the share of the minority in these provisions) is deducted from the CHF 4.7 mio Negative Goodwill. The resulting CHF 4.2 mio Negative Goodwill (net) posted to the Statement of Operations is a gain on acquisition of Minority interest.

14. Equity

14.1 Structure of Capital

Number of shares	Ordinary Shares Issued	Shares for Stock Option Plan	Shares for Authorised Capital	Total Shares Issued and Unissued
At 1 January 2002	1,376,030	93,970	50,000	1,520,000
Reduction of the conditional share-capital and suppression of the authorized share-capital further to the resolutions of the AGM of 18 April 2002	-	(53,970)	(50,000)	(103,970)
At 31 December 2002	1,376,030	40,000	-	1,416,030
At 1 January 2003	1,376,030	40,000	-	1,416,030
Capital increase resulting from options exercised	2,990	(2,990)	-	-
At 31 December 2003	1,379,020	37,010	-	1,416,030

14.2 Stock Option Plan

The Group operates a Stock Option Plan under which it makes options in common stock available to the Group's employees and directors at the discretion of the Board. Since the creation of the Plan, a total of five allocation schemes were offered. The first and second allocations lapsed in 2001 and 2002.

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The options granted under the third allocation are made under the following terms:

- ▶ one option grants the right to acquire one share;
- ▶ the strike price is equal to the 10-day-average closing price of SQN at the date of grant;
- ▶ options granted are exercisable in four equal tranches of 25%. The first tranche becomes exercisable on the date of the first anniversary of the respective grant date, the second on the date of the second anniversary of the respective grant date, the third tranche on the date of the third anniversary of the respective grant date and the fourth tranche on the date of the fourth anniversary of the respective grant date. Each tranche is exercisable during a period of two years, starting from the date it first becomes exercisable. The exercise prices ranges from CHF 54.30 to CHF 86.39.

The 4th allocation is reserved to the non-executive members of the Board. It provides that the options granted will be first exercisable three years after the date of grant. One option gives the right to acquire one SQN share at a strike price of CHF 27.85. The exercise period is two years starting on the date options first become exercisable.

The 5th allocation is reserved to Group employees. It provides that 50% of the options granted to each employee will become exercisable one year after the date of grant and the remaining 50% after two years. The exercise price is CHF 27.85. The period of exercise of options that becomes exercisable is two years.

The movements in options granted, exercised and lapsed are reported below:

	2nd Allocation	3rd Allocation	4th Allocation	5th Allocation	Total	Conditional shares available for exercise
Balance at 1 January 2002	6,605	22,456	-	-	29,061	93,970
Reduction of number of conditional shares as per resolution of the AGM on 18 April 2002	-	-	-	-	-	(53,970)
Grants	-	-	48,000	20,300	68,300	
Exercise	-	-	-	-	-	
Lapsed	(6,605)	(7,932)	-	-	(14,537)	
Balance at 31 December 2002	-	14,524	48,000	20,300	82,824	40,000
Balance at 1 January 2003	-	14,524	48,000	20,300	82,824	40,000
Grants	-	-	-	-	-	
Exercise						
Covered by the issue of new shares	-	-	-	(2,990)	(2,990)	(2,990)
Covered by treasury shares	-	(540)	-	(860)	(1,400)	
Lapsed	-	(2,272)	-	-	(2,272)	
Balance at 31 December 2003	-	11,712	48,000	16,450	76,162	(76,162)
<i>Short covering of options granted at 31 December 2003 measured on conditional shares available</i>						(39,152)

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The short-covering of outstanding options at 31 December 2003 is partly covered by the 21,865 treasury shares owned by the Company at this date.

The options outstanding at 31 December 2003 are maturing as follows:

Allocation	Strike Price	Number Options	Exercise Period	
			Start	End
4 & 5	27.85	3,800	May-03	April-05
		7,650	May-04	April-06
		5,000	May-05	April-07
		48,000	May-05	April-07
3	54.30	50	July-02	June-04
		50	July-03	June-05
		50	July-04	June-06
		50	July-05	June-07
3	58.27	25	May-02	April-04
		25	May-03	April-05
		130	May-04	April-06
		130	May-05	April-07
3	66.60	275	April-02	March-04
		275	April-03	March-05
		315	April-04	March-06
		315	April-05	March-07
3	86.39	2,443	March-02	February-04
		2,443	March-03	February-05
		2,568	March-04	February-06
		2,568	March-05	February-07
	Total	76,162		

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14.3 Treasury Shares

The Company owned 21,865 treasury shares at 31 December 2003 (2002: 90,520). Their value based on the closing price on this date is CHF 1,902,255 (2002: CHF 2,154,376). During 2003, the Company disposed of 68,655 shares, net (2002: accumulated 71,524 shares, net) resulting from:

- ▶ the acquisition of 4,376 Swissquote Group shares at a unit price ranging from CHF 17.52 to CHF 99.80 (average cost of CHF 23.50 per share) and of the disposal of 71,631 shares at unit prices ranging from CHF 16.23 to CHF 85.78 (average / per share of CHF 58.81);
- ▶ 57,000 out of the 72,631 shares disposed were actually remitted to Aktiengesellschaft Assuricum as part of the consideration paid for the acquisition of their 20.58% interest in Swissquote Bank;
- ▶ 1,400 shares were disposed against the exercise of stock options.

14.4 Dividend

Under Swiss Law, dividends can only be paid out of the distributable reserves that are determined on a non-consolidated basis. In addition, the Tax Authorities in Switzerland have imposed dividend restrictions as long as certain Group companies benefit from special tax arrangements granted to new companies. The Group is not allowed to distribute the portion of the distributable reserves which have been accumulated and that correspond to the tax savings resulting from the benefit of the special tax treatment compared to the ordinary taxation regime.

On 31 December 2002 and 2003, there are no distributable reserves.

15. Fee and Commission Income, Net

Fee and commission income mainly consist of brokerage and custody fees.

16. Interest income, net

	2003	2002
Interest income		
Cash and short-term funds	1,493,451	1,365,200
Investment securities	83,607	46,025
Loans to customers	516,115	143,488
	2,093,173	1,554,713
Interest expense		
Banks	(25,934)	-
Banks, customers	(467,498)	(348,335)
Total net	1,599,741	1,206,378

17. Other income

Other income consists of revenues from the display of advertising banners and the sales of subscription for financial information available against payment on the Group's websites.

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Other expenses

	2003	2002
Payroll & related expenses	10,963,040	9,700,943
Production expenses	4,255,210	3,680,161
Marketing expenses	2,968,111	3,921,210
Administration and other operating expenses	4,750,680	3,304,843
Total	22,937,041	20,607,157

Payroll and related expenses consist of:

	2003	2002
Wages and salaries	10,253,770	8,863,321
Social security costs	1,471,340	1,240,865
	11,725,110	10,104,186
Less capitalized costs	(762,070)	(403,243)
Total	10,963,040	9,700,943
<i>Average headcount</i>	<i>101</i>	<i>85</i>

The costs were capitalized in connection with the development of the Bank's IT systems.

19. Discontinued operations

This loss relates to the operations of Marvel Communications Ltd that were sold on 1 July 2002.

	2002
REVENUES	1,530,901
OPERATING EXPENSES	
Payroll and related expenses	(2,370,358)
Production expenses	(113,823)
Marketing expenses	(306,512)
Administration and other operating expenses	(428,776)
Restructuring charge	-
Depreciation and amortization	(220,567)
Taxes	(144,413)
Result on sale of subsidiary	(150,500)
Loss from operating activities	(2,204,048)

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Earning per share

	2003	2002
Net profit / (loss)	5,129,120	(15,311,035)
Weighted average number of ordinary shares in issue	1,312,928	1,308,175
Basic profit / (loss) per share	3.91	(11.70)
Diluted profit per share	3.80	Not applicable

Basic profit / (loss) per share is calculated by dividing the net profit / (loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the year. In accordance with IAS 33, no diluted loss per share is disclosed.

21. Disposal of subsidiary

On 1 July 2002, the Group disposed of 100% of the share capital of Marvel Communications Ltd. The result of the discontinued operations is stated in Note 19. There was no disposal in 2003.

	2002
Cash and cash equivalents	73,026
Trade and other receivables	882,917
Work in progress	172,592
Property, plant & equipment	300,000
Trade and other payables	(528,035)
Net assets	900,500
Proceeds from sale	750,000
Less cash and cash equivalents in subsidiary sold	(73,026)
Net cash inflow on sale	676,974

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Acquisition of subsidiary

With effect on 1 October 2002, the Group acquired 100% of the share capital of Consors (Schweiz) AG, that was merged with effect on 23 October into Swissquote Bank. The acquired operations contributed CHF 1.4 mio to the operating income for the period from 1 October 2002 to 31 December 2002. There was no acquisition in 2003 with the exception of the one described in Note 13.

	2002
Cash and balances with central banks	7,049,948
Due from banks	92,807,434
Loans and advances to customers	7,314,390
Investment security held to maturity	2,313,916
Other assets	2,727,336
Due to other banks	(1,480,486)
Due to customers	(93,272,274)
Trade payables and accrued liabilities	(3,850,939)
Restructuring provision	(8,497,189)
Net assets	5,112,136
Total purchase consideration paid	9,112,136
Goodwill	4,000,000
Total purchase consideration paid	9,112,136
Less: net cash and cash equivalents in subsidiary acquired	(98,376,896)
Net cash inflow on acquisition	89,264,760

23. Related party transactions

Balances and transactions with related parties are summarized as follows:

	2003	2002
Remuneration of Management and Directors holding each more than 5% interest in the Group	806,600	1,148,000
Treasury shares acquired from a former Director	-	1,371,660

24. Commitments

Operating leases - Operating lease commitments consist of office space leases.

Payable:	2003	2002
Not later than 1 year	686,000	776,000
Later than 1 year and not later than 5 years	1,743,000	2,980,000
Later than 5 years	131,000	400,000

Purchase commitments : none at 31 December 2003

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. Currency risk

	CHF	USD	EURO	Others	Total
At 31 December 2003					
ASSETS					
Cash and balances with central bank	43,234,235	102,000	154,000	-	43,490,235
Due from other banks	205,526,041	28,319,000	57,575,000	9,676,000	301,096,041
Due from customers	12,303,926	3,272,000	2,996,000	445,000	19,016,926
Other short-term assets	1,366,339	-	-	-	1,366,339
Property, plant and equipment, net	5,895,943	-	-	-	5,895,943
Goodwill	3,000,000	-	-	-	3,000,000
Investment securities held to maturity	5,282,796	-	-	-	5,282,796
Other assets	1,123,084	-	-	-	1,123,084
Total assets	277,732,364	31,693,000	60,725,000	10,121,000	380,271,364
LIABILITIES					
Due to other banks	765,909	34,000	409,000	208,000	1,416,909
Due to customers	225,071,043	32,279,000	60,468,000	8,410,000	326,228,043
Trade and accounts payables	6,725,952	42,670	14,000	2,650	6,785,272
Provisions	2,943,789	-	-	-	2,943,789
Total liabilities	235,506,693	32,355,670	60,891,000	8,620,650	337,374,013
Net on balance sheet position	42,225,671	(662,670)	(166,000)	1,500,350	42,897,351
Off balance sheet notional position	-	-	-	-	-
Credit commitments	-	-	-	-	-
At 31 December 2002					
Total assets	188,139,736	17,029,746	30,536,471	488,723	236,194,676
Total liabilities	145,284,047	16,850,097	30,583,654	471,678	193,189,476
Net on balance sheet position	42,855,689	179,649	(47,183)	17,045	43,005,200
Off balance sheet notional position	-	-	-	-	-
Credit commitments	-	-	-	-	-

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. Interest rate risk

At 31 December 2003	Up to 1 month	2 to 12 months	1-5 years	Non interest Bearing	Total
Assets					
Cash and balances with central bank	-	-	-	43,490,235	43,490,235
Due from other banks	301,096,041	-	-	-	301,096,041
Due from customers	19,016,926	-	-	-	19,016,926
Other short-term assets	-	-	-	1,366,339	1,366,339
Property, plant and equipment	-	-	-	5,895,943	5,895,943
Goodwill	-	-	-	3,000,000	3,000,000
Investment securities held to maturity	-	3,178,698	2,104,098	-	5,282,796
Other assets	-	-	-	1,123,084	1,123,084
Total assets	320,112,967	3,178,698	2,104,098	54,875,601	380,271,364
Liabilities					
Due to other banks	1,114,115	-	-	302,794	1,416,909
Due to customers	326,228,043	-	-	-	326,228,043
Trade and accounts payables	169,766	-	-	6,615,506	6,785,272
Provisions	-	-	-	2,943,789	2,943,789
Total liabilities	327,511,924	-	-	9,862,089	337,374,013
Net on balance sheet interest sensitivity gap	(7,398,957)	3,178,698	2,104,098	45,013,512	42,897,351
Off balance sheet interest sensitivity gap	-	-	-	-	-
Total interest sensitivity gap	(7,398,957)	3,178,698	2,104,098	45,013,512	42,897,351

Interest rates applicable at 31 December 2003:

	CHF	EUR	USD
Assets			
Due from other banks	0.11%	1.96%	1.00%
Due from customers	3.74%	7.15%	6.17%
Investment security held to maturity	5.00%	0.00%	0.00%
Liabilities			
Due to customers	0.06%	0.54%	0.29%

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2002	Up to 1 month	2 to 12 months	1-5 years	Non interest Bearing	Total
Assets					
Cash and balances with central bank	-	-	-	6,987,766	6,987,766
Due from other banks	205,982,154	-	-	-	205,982,154
Due from customers	7,792,731	-	-	-	7,792,731
Other short-term assets	-	-	-	1,830,651	1,830,651
Property, plant and equipment	-	-	-	5,604,923	5,604,923
Goodwill	-	-	-	3,800,000	3,800,000
Investment securities held to maturity	-	-	3,239,627	-	3,239,627
Other assets	-	-	-	956,824	956,824
Total assets	213,774,885	-	3,239,627	19,180,164	236,194,676
Liabilities					
Due to other banks	-	-	-	100,004	100,004
Due to customers	176,736,541	-	-	-	176,736,541
Trade and accounts payables	-	-	-	8'992,833	8'992,833
Provisions	-	-	-	7,360,098	7,360,098
Total liabilities	176,736,541	-	-	16,452,935	193,189,476
Net on balance sheet interest sensitivity gap	37,038,344	-	3,239,627	2,727,229	43,005,200
Off balance sheet interest sensitivity gap	-	-	-	-	-
Total interest sensitivity gap	37,038,344	-	3,239,627	2,727,229	43,005,200

Interest rates applicable at 31 December 2002:

	CHF	EUR	USD
Assets			
Due from other banks	0.60%	3.00%	1.30%
Due from customers	6.00%	7.00%	7.00%
Investment security held to maturity	4.50%	-	-
Liabilities			
Due to customers	0.18%	0.79%	0.35%

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27. Maturity risk

At 31 December 2003	Up to 1 month	2-3 months	4 to 12 months	1-5 years	over 5 years	Total
Assets						
Cash and balances with central bank	43,490,235	-	-	-	-	43,490,235
Due from other banks	294,905,041	6,191,000	-	-	-	301,096,041
Due from customers	19,016,926	-	-	-	-	19,016,926
Other short-term assets	962,845	282,968	95,706	24,820	-	1,366,339
Property, plant and equipment	-	-	-	5,895,943	-	5,895,943
Intangible assets	-	-	-	3,000,000	-	3,000,000
Investment securities held to maturity	-	-	3,178,698	2,104,098	-	5,282,796
Other assets	-	169,766	829,350	123,968	-	1,123,084
Total assets	358,375,047	6,643,734	4,103,754	11,148,829	-	380,271,364
Liabilities						
Due to other banks	1,416,909	-	-	-	-	1,416,909
Due to customers	326,150,043	78,000	-	-	-	326,228,043
Trade and accounts payables	4,451,071	872,349	1,461,852	-	-	6,785,272
Provisions	140,446	98,539	271,568	2,433,236	-	2,943,789
Total liabilities	332,158,469	1,048,888	1,733,420	2,433,236	-	337,374,013
Net liquidity gap	26,216,578	5,594,846	2,370,334	8,715,593	-	42,897,351
At 31 December 2002						
Total assets	222,593,302	-	-	13,601,374	-	236,194,676
Total liabilities	187,124,893	4,164,583	1,000,000	900,000	-	193,189,476
Net liquidity gap	35,468,409	(4,164,583)	(1,000,000)	12,701,374	-	43,005,200

Financial Report 2003

Consolidated Financial Statements

SECTION IV NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. Geographic risk

	Switzerland	Abroad	Total
At 31 December 2003			
Assets			
Cash and balances with central bank	43,490,235	-	43,490,235
Due from other banks	213,207,275	87,888,766	301,096,041
Due from customers	15,718,742	3,298,184	19,016,926
Other short-term assets	1,366,339	-	1,366,339
Property, plant and equipment	5,895,943	-	5,895,943
Intangible assets	3,000,000	-	3,000,000
Investment securities held to maturity	5,282,796	-	5,282,796
Other assets	1,123,084	-	1,123,084
Total assets	289,084,414	91,186,950	380,271,364
Liabilities			
Due to other banks	1,213,720	203,189	1,416,909
Due to customers	251,246,872	74,981,171	326,228,043
Trade and accounts payables	6,771,042	14,230	6,785,272
Provisions	2,943,789	-	2,943,789
Total liabilities	262,175,423	75,198,590	337,374,013
Difference between total assets and liabilities	26,908,991	15,988,360	42,897,351
At 31 December 2002			
Total assets	216,648,961	19,545,715	236,194,676
Total liabilities	163,712,704	29,476,772	193,189,476
Difference between total assets and liabilities	52,936,257	(9,931,057)	43,005,200

Group Auditors Report on the Consolidated financial Statements

As auditors of the group, we have audited the consolidated financial statements (balance sheet, statement of operations, statement of changes in shareholders' equity, statement of cash flows and notes) set out on pages 5 to 36 of Swissquote Group Holding Ltd ("the Company") and subsidiaries (collectively, "the Group") as of and for the year ended December 31, 2003.

These consolidated financial statements are the responsibility of the board of directors of the Company. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing issued by the International Federation of Accountants (IFAC), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2003 and the results of its operations and the cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA

JC Pernollet

M Caputo

Geneva, February 20, 2004

Part 2 Financial Report 2003

Statutory Financial Statements

STATUTORY FINANCIAL STATEMENTS AT 31 DECEMBER 2003 OF SWISSQUOTE GROUP HOLDING Ltd

	Pages
Balance Sheet	39
Statement of Operation	40
Notes to the Statutory Financial Statements	41
Proposal of the Board of Directors regarding accumulated profits	44

Financial Report 2003

Statutory Financial Statements

BALANCE SHEET AT 31 DECEMBER 2003

	Notes	2003	2002
ASSETS			
Current assets			
Cash and banks		9,249,807	21,094,725
Receivables and prepayments		86,119	518,552
Securities (treasury shares)	5	1,902,255	2,154,376
Total current assets		11,238,181	23,767,653
Non-current assets			
Investments in subsidiaries	2	40,798,952	30,738,952
Receivables from subsidiaries		10,649,868	7,046,244
		51,448,820	37,785,196
Provision		(32,402,865)	(32,619,735)
Total, net		19,045,955	5,165,461
Long-term loan	4	299,127	300,000
Formation costs and intellectual property rights, net	3	2,024,586	3,424,647
Total non-current assets		21,369,668	8,890,108
TOTAL		32,607,849	32,657,761
LIABILITIES AND EQUITY			
Current liabilities			
Creditors and accrued liabilities		375,873	547,785
Equity			
Share-capital	5	13,790,200	13,760,300
Share premium	6	17,844,540	66,621,793
Reserve for own shares	6	577,236	2,154,376
Accumulated profits / (losses)		20,000	(50,426,493)
Total equity		32,231,976	32,109,976
TOTAL		32,607,849	32,657,761

Financial Report 2003

Statutory Financial Statements

STATEMENT OF OPERATIONS FOR THE YEAR 2003

	2003	2002
Income		
Revenues from investments	-	251,625
Gain on own shares	1,968,493	-
Interest income	37,087	281,171
Total	2,005,580	532,796
Expenses		
Operating expenses	802,450	1,717,685
Loss on liquidation/sale of subsidiary	-	7,215,037
Provision on investments and receivables from subsidiaries	(216,870)	9,379,940
Provision on own shares	-	309,763
Restructuring costs	-	1,556,639
Amortization	1,400,000	1,410,000
Total	1,985,580	21,589,064
Net profit / (loss)	20,000	(21,056,268)
Accumulated losses, beginning of year	-	(29,370,225)
Allocation of Share Premium	-	50,426,493
Accumulated profits, end of year	20,000	-

Financial Report 2003

Statutory Financial Statements

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

1. Introduction

The Company was formed on 12 August 1999. It is registered in the Canton de Vaud, Switzerland, with headquarters in Gland. Swissquote Group Holding Ltd is the parent of Group companies that are active in online financial services.

The shares of Swissquote Group Holding Ltd are listed on the SWX New Market of the Swiss Stock Exchange since 29 May 2000. The ticker is SQN, the security number is 1,067,586 and the ISIN Number is CH0010675863.

The main shareholders are:

	2003	2002
Mr. Jean Pfau	16.74%	17.50%
Mr. Marc Bürki	15.95%	16.32%
Mr. Paolo Buzzi	16.07%	16.41%
Mr. Thomas Matter	5.08%	0.00%

2. Investments in and Receivables from subsidiaries

Investments in subsidiaries consist of:

	2003		2002	
Swissquote Bank	100.00%	40,460,002	70.60%	30,400,002
Swissquote Info Ltd	100.00%	100,000	100.00%	100,000
Swissquote Trade Ltd	100.00%	238,950	100.00%	238,950
Total		40,798,952		30,738,952

The receivable from Group companies include a total amount of CHF 3,0 mio (2002, CHF 5.7 mio) subordinated in favor of the creditors of other group companies.

In the years from 1999 to 2002, the Company created an aggregate CHF 32.6 mio provision representing a fair value adjustment of the amounts invested in its loss making subsidiaries (up to 2002). Though the subsidiaries turned profitable in 2003, and in accordance with the provisions of the Swiss Code of Obligations with respect to the creation of silent reserves, the Company decided to maintain the provision at its 2002 level at 31 December 2003, except for CHF 216,870 that were reversed in the Statement of operations in 2003.

Financial Report 2003

Statutory Financial Statements

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

3. Formation costs and intellectual property

Formation costs and investments are amortized over a period of 5 years (straight line method).

4. Long-term loan

The amount of CHF 299,127 corresponds to the balance of a CHF 300,000 loan granted to Marvel Communications Ltd. The terms are:

- ▶ no interest is payable until 30 June 2004. Thereafter interest will be charged at Libor + 2% per annum;
- ▶ repayable on a quarterly basis, the first time on 30 September 2004. Each repayment is based on 30% of the free cash flow of Marvel in the respective quarters, but shall not be less than CHF 30,000. Early repayments are possible.

5. Share-capital

	2003	2002
Ordinary issued share-capital:		
Number of shares in issue (units)	1,379,020	1,376,030
Nominal value of each share (Registered shares) (CHF per unit)	10	10
Ordinary share-capital (CHF)	13,790,200	13,760,300
Unissued share-capital:		
Conditional share-capital (CHF)	370,100	400,000

Conditional Share-Capital

In 2003, 4,390 options (2002: nil) were exercised, of which 2,990 were covered by the issue of new shares and 1,400 against treasury shares.

Own Shares

The Company owned 21,865 treasury shares at 31 December 2003 (2002: 90,520). Their value based on the closing price on this date is CHF 1,902,255 (2002: CHF 2,154,376). During 2003, the Company disposed of 68,655 shares, net (2002: accumulated 71,524 shares, net) resulting from:

- ▶ the acquisition of 4,376 Swissquote Group shares at a unit price ranging from CHF 17.52 to CHF 99.80 (average cost of CHF 23.50 per share) and of the disposal of 72,631 shares at unit price ranging from CHF 16.23 to CHF 85.78 (average / per share of CHF 58.81);
- ▶ 57,000 out of the 71,631 shares disposed were actually remitted to Aktiengesellschaft Assuricum as part of the consideration paid for the acquisition of their 20.58% interest in Swissquote Bank;
- ▶ 1,400 shares were disposed against the exercise of stock options.

Financial Report 2003

Statutory Financial Statements

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

Dividend Restriction

Certain Group companies' benefit from special tax arrangements granted to new companies. The Group is not allowed to distribute the portion of the distributable reserves which have been accumulated and that correspond to the tax savings resulting from the benefit of the special tax treatment compared to the ordinary taxation regime. At 31 December 2003 and 2002, the amount of such non-distributable reserves is nil.

6. Share premium and Reserve for own shares

	2003	2002
Share premium		
At beginning of year	66,621,793	68,248,442
Allocation to accumulated losses	(50,426,493)	-
Allocation from / (to) reserve for own shares	1,577,140	(1,626,649)
Share premium on new shares issued	72,100	-
At end of year	17,844,540	66,621,793
Reserve for own shares		
At beginning of year	2,154,376	527,727
Allocation (from) / to share premium	(1,577,140)	1,626,649
At end of year	577,236	2,154,376

The reserve for own shares is carried at the average acquisition cost of the own shares.

Financial Report 2003

Statutory Financial Statements

PROPOSAL OF THE BOARD OF DIRECTORS REGARDING ACCUMULATED PROFITS

The Board of directors proposes to carry forward the CHF 20,000 accumulated profits.

Report of the Statutory Auditors to the General Meeting of Shareholders

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, statement of operations and notes) set out on pages 39 to 44 of Swissquote Group Holding SA for the year ended December 31, 2003.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

JC Pernollet

M Caputo

Geneva, February 20, 2004

Corporate Governance Report

Table of Contents

1.	Introduction	48
	1.1 Adoption of Corporate Governance Rules	48
	1.2 Main changes in 2003	48
2.	Group Structure and Shareholding	48
	2.1 Scope of operations	48
	2.2 Legal structure	48
	2.3 Organisation	49
	2.4 Major shareholdings	49
3.	Structure of the equity	49
	3.1 Capital at 31 December 2003	49
	3.2 History of share-capital	50
	3.3 History of the free float	50
	3.4 Stock Option Plan	50
	3.5 History of equity	53
4.	Board of directors	54
	4.1 Presentation of the members of the Board	54
	4.1.1 Non-Executive Directors	54
	4.1.2 Executive Directors	55
	4.1.3 Members of the Board who resigned in 2003	55
	4.1.4 Information on members of the Board of Swissquote Bank	55
	4.2 Functions of the Board of directors	57
	4.3 Decisions of the Board	57
	4.4 Functions delegated to the Chairman	58
	4.5 Audit Committee	58
	4.6 Remuneration and Nomination Committee	58
	4.7 Functions delegated to the CEOs and the Executive Management	59
	4.8 Management information and control over the Executive Management	59
	4.9 Boards, Management and Public position held by members of the Board	59
5.	Executive Management	60
	5.1 Duties and responsibilities	60
	5.2 Presentation of the Executive Management	60
	5.2.1 Executive Management in duties at 31 December 2003	60
	5.2.2 Executive Management who left in 2003	61
	5.2.3 Organigram of the enlarged Management Group	61
	5.3 Work contracts	63

Corporate Governance Report

Table of Content

6.	Remuneration of the Executive Bodies	64
	6.1 Overview	64
	6.2 Highest remuneration of the Board	65
	6.3 Bonus scheme for the Executive Management	65
	6.4 Loans and lending activity	65
7.	Shareholders Meeting and Voting Rights	66
	7.1 Meetings	66
	7.2 Share register and shareholders	66
	7.3 Decisions of the General Meeting of shareholders	67
	7.4 Analysis of the voting rights at 31 December 2003	68
8.	Change of Control and Defensive Measures	68
9.	Auditors	69
10.	Information Policy	70
	10.1 General principles	70
	10.2 Regular reporting	71
	10.2.1 Annual reporting	71
	10.2.2 Quarterly reporting	71
	10.3 Updated information and contacts	71

Corporate Governance Report

1. Introduction

1.1 Adoption of Corporate Governance Rules

Further to the introduction of the SWX Swiss Exchange Corporate Governance Guidelines on 1 July 2002, the Board of Swissquote Group Holding Ltd adopted on 7 August 2002, a formal document – the Swissquote Group Corporate Governance Regulations – that:

- ▶ sets the policies ruling the Internal Regulations (“the Internal Regulations”), the Financial Disclosures and defines the principles applicable with respect to Delegation and Authorization;
- ▶ complements the Articles of Incorporation of the Company and other provisions applicable by Law.

1.2 Main changes in 2003

Compared to 2002, there were few changes in the Corporate Governance Regulations and Framework. The Main events were:

- ▶ the acquisition on 25 July 2003 of the remaining minority interest held by Aktiengesellschaft Assuricum a subsidiary of Zurich Financial Services into Swissquote Bank, which is since then a fully owned subsidiary of the Group. This has permitted a closer cooperation between the Board of the Group and the Board of the Bank. The CV’s of the members of the Board of the Bank are presented in section 4.1.4;
- ▶ the reorganization of the duties of the Executive Management, further to the departure of the Bank’s COO, Mr Beat Trinkler, whose supervising functions were transferred to the CFO and whose operating duties were allocated to the enlarged Management Team which is presented in Section 5.2.3.

2. Group structure and shareholding

2.1 Scope of operations

Swissquote Group Holding Ltd and its subsidiaries (“the Group”) is active in online financial services in Switzerland. The operations consist of Swissquote Bank, a pure Internet bank (<http://bank.swissquote.ch>) that primarily offers online brokerage and cash management services to self-directed investors and Independent Asset Managers. The Group also offers to the Bank’s clients and non-clients a broad range of financial information on its website www.swissquote.ch, that encompass stock quotes, currencies, news, information on investment funds as well as financial analysis tools.

2.2 Legal structure

The Company is headquartered in Gland, Canton de Vaud, Switzerland. At 31 December 2003, the legal structure of the Group was the following:



Corporate Governance Report

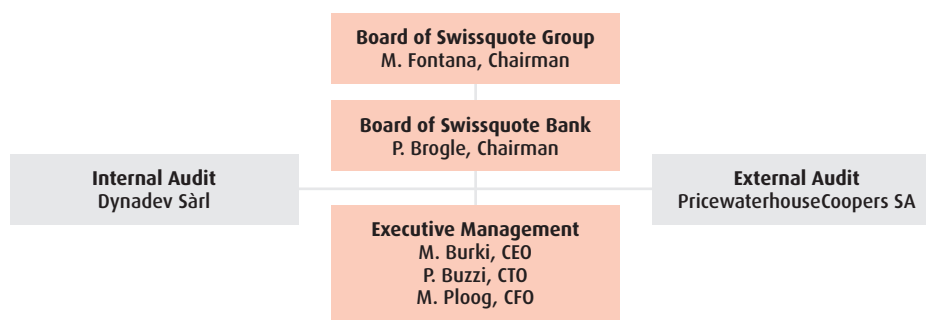
All subsidiary companies are domiciled in Switzerland and their scope of operations is in Switzerland. Swissquote Bank operates the internet bank whereas Swissquote Info Ltd operates the financial information website and develops the Group's Internet technology.

The shares of Swissquote Group Holding Ltd are listed on the SWX New Market of the Swiss Stock Exchange since 29 May 2000. The ticker is SQN, the security number is 1,067,586 and the ISIN Number is CH0010675863.

2.3 Organisation

The Internal Regulations determine the organization as well as the duties and powers of the executive bodies that consist of:

- ▶ the Board of directors (the "Board") and the Chairman of the Board (the "Chairman");
- ▶ the Executive Management and its speaker the Chief Executive Officer ("CEO").



2.4 Major shareholdings

Shareholders with an interest in the Company above 5% are:

	2003	2002
Mr. Jean Pfau	16.74%	17.50%
Mr. Marc Bürki	15.95%	16.32%
Mr. Paolo Buzzi	16.07%	16.41%
Mr. Thomas Matter	5.08%	0.00%

3. Structure of the equity

3.1 Capital at 31 December 2003

At 31 December 2003, the issued share-capital consists of 1,379,020 ordinary registered shares of CHF 10 nominal value each. The Company owned 21,865 treasury shares. Further, a conditional share-capital of CHF 370,100 consisting of 37,010 ordinary conditional shares of CHF 10 nominal value each was outstanding at 31 December 2003, which purpose is to allow the exercise of the options granted to Group employees and Board members in accordance with the Group Stock Option Plan.

Corporate Governance Report

3.2 History of share-capital

Number of shares	Ordinary Shares Issued	Shares for Conditional Capital	Shares for Authorized Capital	Total Shares Issued and Unissued
At 1 January 2001	1,350,000	120,000	50,000	1,520,000
Exercise of employees' Stock Options	26,030	(26,030)	-	-
At 31 December 2001	1,376,030	93,970	50,000	1,520,000
At 1 January 2002	1,376,030	93,970	50,000	1,520,000
Reduction of the conditional share capital and suppression of the authorized share-capital further to the resolutions of the AGM of 18 April 2002	-	(53,970)	(50,000)	(103,970)
At 31 December 2002	1,376,030	40,000	-	1,416,030
At 1 January 2003	1,376,030	40,000	-	1,416,030
Exercise of employees' Stock Options	2,990	(2,990)	-	-
At 31 December 2003	1,379,020	37,010	-	1,416,030

3.3 History of the free float

All shares in issue at 31 December 2003 are freely tradable (i.e. there is no lock-up in place). SWX Regulations however provide that individual shareholdings exceeding 5% are deemed to be permanent investment and are to be excluded from the free float. In accordance with SWX Regulations, the free float at 31 December 2003 is 46.16%.

Historically, the founders (Mr. J. Pfau, Mr. M. Bürki, Mr. P. Buzzi and Mr. A. Moeckli) agreed at the time of the IPO to be bound by a look-up agreement which provided that they shall not sell the following aggregate number of shares they owned in the following respective periods:

- ▶ 821,670 shares during the period from the IPO to 5 June 2001;
- ▶ 547,780 shares during the period from 6 June 2001 to 5 December 2001;
- ▶ 273,890 shares during the period from 6 December 2001 to 29 May 2002.

3.4 Stock Option Plan

The Group operates a Stock Option Plan under which it makes options in common stock available to the Group's employees and directors at the discretion of the Board. Since the creation of the Plan, a total of five allocation schemes were offered. The first and second allocations lapsed in 2001 and 2002. The options granted under the third allocation are made under the following terms:

- ▶ one option grants the right to acquire one share;
- ▶ the strike price is equal to the 10-day-average closing price of SQN at the date of grant;
- ▶ options granted are exercisable in four equal tranches of 25%. The first tranche becomes exercisable on the date of the first anniversary of the respective grant date, the second on the date of the second anniversary of the respective grant date the third tranche on the date of the third anniversary of the respective grant date and the fourth tranche on the date of the fourth anniversary of the respective grant date. Each tranche is exercisable during a period of two years, starting from the date it first becomes exercisable. The exercise prices range from CHF 54.30 to CHF 86.39.

Corporate Governance Report

The 4th allocation is reserved to the non-executive members of the Board. It provides that the options granted will be first exercisable three years after the date of grant. One option gives the right to acquire one SQN share at a strike price of CHF 27.85. The exercise period is two years starting on the date options first become exercisable.

The 5th allocation is reserved to Group employees. It provides that 50% of the options granted to each employee will become exercisable one year after the date of grant and the remaining 50% after two years. The exercise price is CHF 27.85. The period of exercise of options that becomes exercisable is two years.

The movements in options granted, exercised and lapsed is reported below:

In Units	2nd Allocation	3rd Allocation	4th Allocation	5th Allocation	Total
Balance at 1 January 2003		14,524	48,000	20,300	82,824
Grants	-	-	-	-	-
Exercise	-	-	-	-	-
Covered by the issue of new shares	-	-	-	(2,990)	(2,990)
Covered by treasury shares		(540)		(860)	(1,400)
Lapsed	-	(2,272)	-	-	(2,272)
Balance at 31 December 2003	-	11,712	48,000	16,450	76,162

Corporate Governance Report

The options outstanding at 31 December 2003 are maturing as follows:

Allocation	Strike Price	Number Options	Exercise Period	
			Start	End
4 & 5	27.85	3,800	May-03	April-05
		7,650	May-04	April-06
		5,000	May-05	April-07
		48,000	May-05	April-07
3	54.30	50	July-02	June-04
		50	July-03	June-05
		50	July-04	June-06
		50	July-05	June-07
3	58.27	25	May-02	April-04
		25	May-03	April-05
		130	May-04	April-06
		130	May-05	April-07
3	66.60	275	April-02	March-04
		275	April-03	March-05
		315	April-04	March-06
		315	April-05	March-07
3	86.39	2,443	March-02	February-04
		2,443	March-03	February-05
		2,568	March-04	February-06
		2,568	March-05	February-07
	Total	76,162		

Corporate Governance Report

3.5 History of equity

(Swiss Francs)	Share capital	Share premium & reserves	Treasury shares	Accumulated losses	Translation difference	Total
Balance at 1 January 2001	13,500,000	61,790,034	-	(4,270,491)	(4,571)	71,014,972
Capital increase resulting from options exercised	260,300	390,450	-	-	-	650,750
Net cost relating to the issue of new shares (including Swissquote Bank)	-	(55,440)	-	-	-	(55,440)
Net change in treasury shares	-	-	(527,727)	-	-	(527,727)
Net loss of the period	-	-	-	(17,920,899)	-	(17,920,899)
Translation difference	-	-	-	-	4,571	4,571
Balance at 31 December 2001	13,760,300	62,125,044	(527,727)	(22,191,390)	-	53,166,227
Balance at 1 January 2002	13,760,300	62,125,044	(527,727)	(22,191,390)	-	53,166,227
Net change in treasury shares	-	-	(1,626,649)	(309,763)	-	(1,936,412)
Movement in deferred taxes	-	(494,917)	-	-	-	(494,917)
Net loss of the period	-	-	-	(15,311,035)	-	(15,311,035)
Balance at 31 December 2002	13,760,300	61,630,127	(2,154,376)	(37,812,188)	-	35,423,863
Balance at 1 January 2003	13,760,300	61,630,127	(2,154,376)	(37,812,188)	-	35,423,863
Net change in treasury shares	-	-	252,121	1,968,493	-	2,220,614
Movement in deferred taxes	-	21,754	-	-	-	21,754
Capital increase resulting from options exercised	29,900	72,100	-	-	-	102,000
Net profit of the period	-	-	-	5,129,120	-	5,129,120
Balance at 31 December 2003	13,790,200	61,723,981	(1,902,255)	(30,714,575)	-	42,897,351

Corporate Governance Report

4 Board of directors

The Board is a body consisting of a minimum of three members elected by the General Meeting of Shareholders for a one-year term, and who are eligible for reelection. Its members may not act alone on behalf of the Company and may not give instructions on their own, except when the Articles of Incorporation, the Internal Regulations or a resolution of the Board provide otherwise. At 31 December 2003, the Board comprised four members, three being non-executives.

The Board shall meet at least 4 times a year. In 2003, the Board met 7 times, of which once for a two-day strategy session. The Board may form one or several Committees, which consist of members of the Board. The Committees are in charge of proposing Board resolutions to the full Board with respect to specific matters. Such Committees have to report to the Board on a regular basis, at least once a year. In 2003, there were two such Committees: the Audit Committee and the Remunerations and Nomination Committee.

The Internal Regulations further provide that certain functions are delegated to the Chairman and define the scope of functions delegated to the CEO and the Executive Management.

4.1 Presentation of the members of the Board

4.1.1 Non-Executive Directors

Mario Fontana (1946 / Swiss National, domiciled in Switzerland)

First elected to the Board in June 2001

Chairman of the Board since April 2002

Member of the Remuneration and Nomination Committee

After studying engineering at the Federal Institute of Technology in Zurich and at the Georgia Institute of Technology in Atlanta, Mario Fontana started his career in 1970 with IBM Switzerland. In 1977, he moved to Brazil as CIO for Brown Boveri and later started the Swiss subsidiary of Storage Technology. After that, he served over 15 years as General Manager for Hewlett-Packard, 10 years leading HP Switzerland, then the Computer Systems Business in Germany and Europe and at the end he was responsible for the worldwide Business Unit Financial Services in Cupertino. Since the beginning of 1999, Mario Fontana serves on various Boards as Non-Executive Director. He is Chairman of Leica Geosystems and on the Board of SBB, Sulzer and a few other Swiss companies.

Peter Brogle (1942 / Swiss National, domiciled in Switzerland)

First elected to the Board in April 2002

Chairman of the Remuneration and Nomination Committee

Chairman of the Board of Swissquote Bank since April 2002

Peter Brogle made a 27 years career with IBM, where he started in the sales organization and held various national and international management functions until he was appointed in 1991 to the Executive Management of IBM Switzerland, in charge for the areas of personal computers, mid-range systems and distribution channels. From 1994 to 1995, he was CEO of Denner AG. From 1996 to 1998 he was Chairman of the Board and General Manager of AT&T Switzerland and NCR Switzerland. In 1998, he formed Brogle Consulting specializing on top executive management consulting and Board memberships.

Corporate Governance Report

Paul E. Otth (1943 / Swiss National, domiciled in Switzerland)

First elected to the Board in April 2002

Chairman of the Audit Committee

Paul E. Otth is a Swiss Certified Public Accountant. From 1974 to 1988, he worked for Corange Group (Boehringer Mannheim) in Switzerland and abroad in various managing positions. In 1988, he was a partner at Budiger Treuhand AG. In 1999, he joined Landis & Gyr where he was appointed Chief Financial Officer and member of the Group Executive Board in 1994. He occupied the same responsibilities from 1996 to 1997 at Elektrowatt and, in 1998, he became the CFO and member of the Executive Board of Siemens Building Technologies. From 2000 until 31 December 2002, he was CFO and Member of the Group Executive Board of Unaxis Holding AG. He is active as chairman, vice-chairman or member of several Boards.

4.1.2 Executive Directors

Paolo Buzzi (1961 / Swiss National, domiciled in Switzerland)

Founding Partner of Swissquote Group, first elected to the Board in August 1999

CEO Swissquote Info Ltd

Chairman of the Board of Swissquote Info Ltd

Paolo Buzzi is a graduate from the Swiss Federal Institute of Technology (EPFL) in Lausanne, in 1988, with a degree in micro technology. Until 1990, he worked for Rolm Systems, Santa Clara (CA, USA) as a software specialist and technical integration engineer. He is founding partner of Swissquote and held various positions in the Group's Board and management. Paolo is Chief Technology Officer of Swissquote.

4.1.3 Members of the Board who resigned in 2003

None

4.1.4 Information on members of the Board of Swissquote Bank

Peter Brogle (1942 / Swiss National, domiciled in Switzerland)

First elected to the Board of Swissquote Bank in April 2002

Chairman of the Board of Swissquote Bank

See Section 4.1.1.

Robert P. Briner (1955 / Swiss and Canadian National, domiciled in Switzerland)

First elected to the Board of Swissquote Bank in November 2000

Vice-chairman of the Board of Swissquote Bank

After studying law at the University of Geneva, Robert P. Briner took his bar exam in Geneva in 1981. Between 1982 and 1984, he assisted one of Credit Suisse's General Managers at the bank's Zurich Head Office and then moved to New York where he trained in 1984 - 1985 with the law firm of Shearman & Sterling. He then pursued his career as a lawyer with the law firm now known as Lenz & Staehelin (1985-1990) before becoming a partner of Schellenberg & Haissly (now Schellenberg & Wittmer) from 1990 to 1997. He then founded Briner & Brunisholz in 1997 and advises mainly in corporate and finance, as well as in estate planning matters, while serving on the Board of directors of several Swiss and foreign corporations.

Corporate Governance Report

Etienne Gounod (1956 / Swiss and French national, Domiciled in Switzerland)

First elected to the Board of Swissquote Bank in November 2000

After completing his commercial and engineer studies at the University of Brussels, Etienne Gounod accomplished his national duties as under-officer in the French air force. From 1980 to 1985, he worked as a Vice-President at Merrill Lynch Capital Markets, in New York and London, where he was specialized in the field of capital markets. In 1985, he joined UBS Securities Limited in London, as a deputy-director and was responsible for money market activities. From 1988 to 2000, he was employed as a deputy-director in the field of private asset management at Pictet and Cie. Since, he is a Director of Forum Finance Group SA, a company specialized in private asset management.

Otto E. Naegeli (1949 / Swiss national, Domiciled in Switzerland)

First elected to the Board of Swissquote Bank in May 2003

Chairman of the Audit Committee of Swissquote Bank

After obtaining a commercial degree in Zurich, Otto E. Naegeli joined Credit Suisse where he held junior positions in Zurich and in Montreal, Quebec. After his return from Canada, he was appointed branch manager of a suburban branch of Credit Suisse. In 1976, he joined the Bank of Tokyo (Switzerland) Ltd., Zurich and was in charge of primary and secondary market trading and settlement. In 1987, he was appointed CEO of SOFFEX, the first fully electronic Exchange and Clearinghouse for Futures and Options, and became in 1994 also a member of the Management Board of the SWX – Swiss Exchange in Zurich. During this time, Otto E. Naegeli was involved in the merger project of SOFFEX and DTB Deutsche Terminbörse into EUREX. Between 1996 and 1998, he was the functional and organizational project manager for EUREX. With the opening of EUREX in 1998 Otto E. Naegeli was appointed Deputy CEO with the main responsibility for the Clearinghouse of EUREX. In 2001, he returned to the banking industry and became CEO of Rüd, Blass & Cie AG, Private Bankers, Zurich, a member of the Zurich Financial Services Group. In April 2003 he founded OEN-Consulting, Nägeli & Partner, an independent consulting firm specialized in Banking and Exchanges.

Corporate Governance Report

4.2 Functions of the Board of directors

The Board has the following functions :

- ▶ the ultimate direction of the Company and the authority to give the necessary instructions;
- ▶ define and modify the strategy of the Company as well as to pass resolutions about the taking up or ceasing of business activities;
- ▶ establish the organization;
- ▶ based on the proposal of the Remuneration and Nomination Committee, decide on the appointment, suspension and dismissal of the Executive Management and of other signatories of the Company;
- ▶ define the finance and investment policy;
- ▶ approve the annual budget;
- ▶ based on the proposal of the Audit Committee, approve the financial planning, financial control and determine the applicable accounting standards and decide on accounting issues where the accounting standards allow the Company to chose between different solutions;
- ▶ approve the financial disclosure policy;
- ▶ approve the annual financial statements and regular interim financial reporting prior to their disclosure and after clearance by the Audit Committee;
- ▶ supervise the Executive Management, especially with respect to compliance with laws, Articles of Incorporation, internal directives and instructions. The Chairman is responsible for the supervision of the CEO;
- ▶ prepare the annual report and the Shareholder's Meeting as well as to execute decisions;
- ▶ pass resolutions in connection with a capital increase pursuant to Art. 651a, 652g, 653g CO, decisions pursuant to Art. 634a I CO (contributions on shares not fully paid in) and 651 IV CO (increase of share capital in the case of authorized capital);
- ▶ approve mass dismissal of employees in the sense of Art. 335d CO or similar foreign regulations;
- ▶ approve those matters for which the CEO and the Executive Management have to seek approval by the Board or for which the CEO seeks approval of his own accord;
- ▶ notify the Judge pursuant to Art. 725 CO in case of over indebtedness.

More generally, the Board has the power to decide on all matters, which are not vested in the Shareholders' Meeting or by any other body by law, Articles of Incorporation or Internal Guidelines. Further, the Board's approval is required for specific transactions that do not fall under the ordinary business activities and or which financially exceed defined thresholds.

The Boards of subsidiaries are proposed by the Board of the Company. If subsidiaries are subject to special regulatory frameworks and authorities, the Board of the Company shall not interfere in matters that are the sole responsibility of the board of the subsidiaries.

4.3 Decisions of the Board

Valid decisions can only be taken if a majority of all members participate in the meeting. Should this quorum not be met, the Board of directors may pass contingent resolutions under the condition that all members of the Board of directors shall unanimously approve the resolutions in writing after such a Board meeting. For the following decisions a minimum of two thirds of all members of the Board have to be present:

- ▶ motions to be submitted to the Shareholders' Meeting;
- ▶ modifications of these Regulations.

The Chairman has the casting vote.

Corporate Governance Report

4.4 Functions delegated to the Chairman

The Chairman has the following functions:

- ▶ chair the meeting of the Board and the Shareholders' Meeting;
- ▶ represent the Board vis-à-vis the public at large, public officials and the shareholders;
- ▶ supervise the execution of measures, which the Board has enacted;
- ▶ supervise the CEOs.

4.5 Audit Committee

Board member on the committee: Paul E. Otth

The principal duties of the Audit Committee are the supervising of the regular financial reporting, the risk management and the audit function. In particular, the Audit Committee attends the following matters:

- ▶ overview the entire financial reporting;
- ▶ review significant accounting issues and propose changes of accounting standards;
- ▶ review the audit results and supervise the actions taken by the management on the auditor's management letters;
- ▶ advise the Board on whether the existing or new auditors shall be proposed to the General Assembly of Shareholders;
- ▶ check the independence of the auditors;
- ▶ review the audit plan;
- ▶ assess the quality of the auditors and audit work.

The Audit Committee meets at least 4 times a year and has met 5 times in 2003.

4.6 Remuneration and Nomination Committee

Board members on the committee: P. Broghe (Chairman), M. Fontana

The Remuneration and Nomination Committee consists of the Chairman and at least of one non-executive member of the Board. The Committee takes care of the following matters:

- ▶ determine the compensation of the Executive Management and propose the remuneration of the members of the Board;
- ▶ propose the terms and conditions of employee shares or option plans (ESOP) and new profit sharing, bonus or incentive schemes;
- ▶ plan the succession for the CEO and of other executive functions (emergency and long-term planning);
- ▶ propose the appointment of new members of the Board;
- ▶ propose the appointment, suspension and dismissal of Executive Management and of other signatories of the Company;
- ▶ provide guidance in relation to overall management development.

The Committee meets at least twice a year. In 2003, it met two times.

Corporate Governance Report

4.7 Functions delegated to the CEOs and the Executive Management

The Executive Management consists of the CEO and those persons, which the Board appoints. All executive functions within the Group not reserved for the Board or the Chairman are delegated to the CEO and the Executive Management.

4.8 Management information and control over the Executive Management

The Group's Management Information Systems materialize into monthly, quarterly and yearly Management Reports to the Board, which need to be provided by the Executive Management on a timely basis. Such reports include statistics on the development of the revenues, comments on the operations and on the business environment, explanations on the variances between budget / forecasts and actual figures, Risk Management reports as well as any other information which needs to be brought to the Board's attention and / or which the Board may require from time to time. Further, the CEO shall immediately report to the Board material matters outside the ordinary course of business.

In compliance with banking Regulations, the Bank has an Internal Auditor function reporting to the Board of the Bank only. There is no internal audit function at the Group level.

4.9 Boards, Management and Public Positions held by the members of the Board

The Board, Management and Public positions held by the members of the Board at 31 December 2003, are listed in the following table:

Company	Mario Fontana	Peter Brogle	Paul E Otth	Paolo Buzzi
Swissquote Group Holding Ltd	Chairman	Board Member	Board Member	Board Member
Swissquote Bank		Chairman		
Swissquote Info Ltd				Chairman
AC-Services AG		Chairman		
Alupak AG		Board Member		
Ascom Holding AG			Vice-Chairman	
Büro Furrer AG	Board Member			
EAO Holding AG			Chairman	
Esec Holding AG			Board Member	
Inficon Holding AG	Board Member		Vice-Chairman	
Leica Geosystems Ltd	Chairman			
RedIT AG		Chairman		
SBB AG	Board Member		Board Member	
Sulzer AG	Board Member			
Former positions with Swissquote Group	None	None	None	None
Public Offices	None	None	None	None

Corporate Governance Report

5. Executive Management

5.1 Duties and responsibilities

All executive functions within the Group not reserved for the Board members, for the Chairman or for the Board of subsidiaries are delegated to the CEO and the Executive Management.

5.2 Presentation of the Executive Management

5.2.1 Executive Management in duties at 31 December 2003

Marc Burki (1961 / Swiss National, domiciled in Switzerland)

Founding partner of Swissquote Group
CEO Swissquote Bank

Marc Bürki is a graduate from the Swiss Federal Institute of Technology (EPFL) in Lausanne, in 1987. Until 1990, he worked as a telecommunications specialist at the European Space Agency in Noordwijk (Netherlands). He is founding partner of Swissquote and held various positions in the Group's Board and management. In March 2002, he was appointed CEO of Swissquote Bank.

Paolo Buzzi (1961 / Swiss national, domiciled in Switzerland)

Founding partner of Swissquote Group
CEO of Swissquote Info Ltd
Chairman of the Board of Swissquote Info Ltd

Paolo Buzzi is a graduate from the Swiss Federal Institute of Technology (EPFL) in Lausanne, in 1988, with a degree in micro technology. Until 1990, he worked for Rolm Systems, Santa Clara (CA, USA) as a software specialist and technical integration engineer. He is founding partner of Swissquote and held various positions in the Group's Board and management. Paolo is Chief Technology Officer of Swissquote.

Michael Ploog (1960 / Swiss National, domiciled in Switzerland)

CFO Swissquote Group and Swissquote Bank
Member of the Boards of Swissquote Info Ltd
Secretary (non-member) of the Board of Swissquote Group Holding Ltd

Michael Ploog is a graduate from HEC Lausanne (1983) and a Swiss Certified Public Accountant (1990). Prior to joining Swissquote in 1999 as Group CFO, he worked for Deloitte & Touche and PricewaterhouseCoopers in Switzerland and for Touch Ross in London in the fields of audit, corporate finance and restructuring.

Corporate Governance Report

5.2.2 Executive Management who left in 2003

Beat Trinkler, former COO of Swissquote Bank resigned on 30 June 2003 and left the Company on 31 October 2003.

5.2.3 Organigram of the Enlarged Management Group



* Since 1 Feb 2004

Giuseppe Tafuro (1960 / Swiss National, domiciled in Switzerland)

Head of Customer Care

Giuseppe Tafuro joined Swissquote in April 2000 as Head of Customer Care with the mission to launch the Call Center in Zürich. Before he joined the Company, he worked as a communication consultant since 1978 in various companies dealing in the commercial, communication, insurance and banking fields. In 1995, he contributed to the launch of the Call Center Swissline AG for Winterthur Insurance. In 1996, he joined UBS as Head of Office and Vice Director of the Call Center Swiss Life. He has a degree in Marketing from SAWI.

René Krebs (1958 / Swiss National, domiciled in Switzerland)

Head of Middle Office

René Krebs joined Swissquote in February 2004 as Head of the newly created Middle Office. He formerly worked at UBS as Associated Director in the Global Custody Relationship/Custody Support, and prior to 2001 as Trader and department Head at various banks and brokerage companies. He made his commercial apprenticeship at UBS in 1980.

Corporate Governance Report

Lino Finini (1965 / Swiss National, domiciled in Switzerland)

Head of banking Process & Quality

Lino Finini joined Swissquote in 2001 as Head of Banking Process & Quality. Formerly, from 1988, he worked for Crédit Agricole Indosuez as IT Security Officer until 1996, and then joined Lasercom SA, a consulting and software provider company, as a Consultant and e-Business Architect. He graduated in computer science in 1988.

Loïc Guezennec (1968 / Swiss & Australian National, domiciled in Switzerland)

Head of Product Development

Loïc Guezennec joined Swissquote in 1999 as Project Manager in of the development of the trading platform. In 2000, he was appointed Head of Product Development with the mission to define, build and integrate the core of the Bank trading system. Before joining Swissquote, he worked as an IT Specialist for various companies active in the banking, software and medical industries. He graduated with a B.Sc. and a B.Inf.Tech from Queensland University in Brisbane, Australia.

François Junod (1964/ French & French National, domiciled in Switzerland)

Head of IT Department

François Junod joined Swissquote in 2000 as Head of IT Department with the missions to develop the Swissquote IT infrastructure, to define and build the Bank architecture together with the Product Development Department.

He formerly worked 13 years as a Engineer and as a Database Administrator for various companies such as Ingres, Oracle Software, Elizabeth Arden International and the Hospital of the canton de Vaud. He graduated in 1987 with a B.Sc. in Computer Sciences.

Steve Knabl (1972 / Austrian National, domiciled in Switzerland)

Head of Treasury & Trading

Steve Knabl joined Swissquote in 1999 with the missions to organize the Customer Care Center in Suisse romande and to participate to the development of the investment funds business. In 2002, he was appointed Head Treasury & Trading. He graduated from the Lausanne Hotel School. He is holder of the SWX traders and the Investment Fund Advisor Licences.

François Pilet (1967 / Swiss National, domiciled in Switzerland)

Head of Back Office

François Pilet joined Swissquote in July 2003 as Head of Back Office. He formerly worked 10 years for the Cantonal Bank of Argovia and the Swiss Bank Corporation. From 1997 he worked for UBS where he was in charge of the Private Banking Services in Neuchâtel. He followed his apprenticeship at the Cantonal Bank of Neuchâtel.

Corporate Governance Report

Thomas Keller (1973 / Swiss National, domiciled in Switzerland)

Head of Legal, Compliance and Risk Management

Thomas Keller joined Swissquote in 2001 as Head of Legal, Compliance and Risk Management. He formerly worked for the Attorneys at Law Firm Pestalozzi, Lachenal & Patry, as Associate lawyer specialized in Commercial and Banking laws. He graduated with a Law Degree in 1996 and was admitted at the Geneva Bar in 1999.

Luis De La Cruz (1958 / Swiss National, domiciled in Switzerland)

Head of Accounting

Luis De la Cruz joined Swissquote in 1999 as Head of Accounting. Formerly, since 1979 he gained a large experience as an Accountant and as a Financial Analyst in various consulting, auditing and industrial companies, such as Digital and TRW. He graduated from a Business School in 1979.

Tara Yip (1973 / Swiss National, domiciled in Switzerland)

Head of Human Resources

Tara Yip joined Swissquote in 2000 as HR Deputy in charge of recruitment. In February 2002, she was appointed Head of Human Resources. Before joining Swissquote, she worked as a Psychologist for an HR consulting company specialized in the fields of coaching and recruitment. She is a graduated in Psychology from Geneva University.

Gilles Chantrier (1972 / Swiss National, domiciled in Switzerland)

Internal Controller

Gilles Chantrier joined Swissquote in 2000 as Deputy Head Accounting and was appointed Head of the Back Office in February 2002. In July 2003, he was entrusted with the position of Internal Controller. Prior to join Swissquote, he worked as an Accountant since 1995 and obtained in 2000 a B.Sc. in Economics from the HEG.

5.3 Work contracts

The work contracts of the Executive Management are based on the Group's Human Resources Standard Terms and Conditions and provide a 6 months notice period and a "Bel Etage" pension scheme. With the exception of one contract, there is no "golden parachute" provision.

The remuneration and the performances of the Executive Management are reviewed annually after the completion of the audit of the consolidated financial statements.

Corporate Governance Report

6. Remuneration of the Executive Bodies

6.1 Overview

The following table summarizes the compensation and other financial relations between the Board of Swissquote Group, the Executive Management and the Company:

	Board members and Executive Management in place at 31 December 2003			Board members and Executive Management who left the Group in 2003		
	Non-Executive Board Members	Executive Board Members and Management	Total	Non-Executive Board Members	Executive Board Members and Management	Total
Base remuneration / fees (1)	CHF 195,000	CHF 958,600	CHF 1,153,600	-	CHF 240,000	CHF 240,000
Bonus paid (2)		CHF 212,000	CHF 212,000		CHF 212,000	CHF 212,000
Fridge benefits (3)	pm	pm	pm	pm	pm	pm
Consulting and other fees (4)	CHF 50,000	-	CHF 50,000	-	-	-
Departure indemnities	-	-	-	-	-	-
Shares granted (units)	-	-	-	-	-	-
Value of shares granted	-	-	-	-	-	-
Price paid for shares granted	-	-	-	-	-	-
Shares bought back by Company						
- Number of shares	-	-	-	-	-	-
- Value	-	-	-	-	-	-
Stock options						
Options granted in 2003 (units) (5)	-	-	-	-	-	-
Value of options granted	-	-	-	-	-	-
Strike price / per share	-	-	-	-	-	-
Options granted, but not exercised at 31 December 2003	48,000	5,000	53,000	-	-	-
Of which exercisable	-	-	-	-	-	-
Ownership in the Company at 31 December 2002:						
- Number of shares	65,487	450,400	515,887	-	-	-
- % of share-capital in issue	4.75%	32.66%	37.41%	-	-	-
Contingent compensation (6)	-	250,000	250,000	-	-	-

Corporate Governance Report

- (1) Base remuneration and fees paid in 2003 consist of the base salary for management and of the remuneration decided by the Board for members of the Board. Executive Directors and members of the Executive Management being Board members of Swissquote Group Holding Ltd and its subsidiaries are not compensated for their Board functions.
- (2) Bonus paid and payable – see section 6.3.
- (3) Fringe benefits - Members of the Board and the Executive Management are benefiting from special terms with respect to the consumption of services provided by the Group. The monetary value of these benefits is not material.
- (4) Consulting and other fees include the remuneration for Board membership in Group subsidiaries.
- (5) Options granted – the options granted will be first exercisable three years after the date of grant. One option gives the right to acquire one SQN share at a strike price of CHF 27.85. The exercise period is two years starting on the date options first become exercisable.
- (6) Contingent remuneration – Consists of contractual terms with an individual member of the Executive Management, which provide that such a person may be entitled to certain compensation, in case of dismissal.

6.2 Highest remuneration of the Board

The highest aggregate compensation paid to a member of the Board amounted to CHF 400,300 in 2003.

6.3 Bonus scheme for the Executive Management

Members of the Executive Management, can earn a performance bonus of up to 50% of their respective base salary. Further, they also agreed to take a malus of 25% of their base salary should the objectives set by the Board not be reached. Other members of the Executive Management are eligible to a bonus at the discretion of the Board.

6.4 Loans and lending activity

There was no lending activity to either members of the Board or of the Executive Management in 2003.

Corporate Governance Report

7. Shareholders Meeting and Voting Rights

Shareholders in Swiss corporations have extended participatory and protective rights. Protective rights include the right to inspection and information (Code of Obligations 696, 697), the right to a special audit, the right to call a general meeting (CO 699/III), motion rights, the right of appeal (CO 706 f) and the right to instigate liability proceedings (CO 752 ff). Participatory rights primarily include the right to participate at General Meetings, the right to express an opinion and voting rights (CO 694).

All shareholders listed in the company register as having voting rights, are permitted to attend and vote at General Meetings. For organizational reasons, no further entries are permitted 20 days prior to the General Meeting. Shareholders who dispose of their shares prior to the General Meeting are no longer entitled to vote.

The General Meeting of Shareholders is the highest body of the Company. Its non-delegable rights are:

- ▶ the adoption and the amending of the Articles of Incorporation;
- ▶ the election of the members of the Board of directors and of the Auditors;
- ▶ the approval of the Annual Report, including the Consolidated Financial Statements;
- ▶ the approval of the Annual Financial Statements, as well as the resolution regarding the use of the balance sheet profit, in particular, the amount of the dividend and of profit sharing by Directors;
- ▶ the release of the members of the Board of directors;
- ▶ passing any resolution on matters which are by Law or by the Articles of Incorporation reserved to the General Meeting of Shareholders.

The General Meeting of Shareholders is called to meet by the Board in the normal course of business, or otherwise by the Auditors, the Liquidator and the Representatives of Bond Holders.

7.1 Meetings

Ordinary Meetings must be held within 6 months from the date of the financial year-end. Extraordinary Meetings are called whenever required. The General Meetings can also be called by one or more shareholders, who represent in aggregate 10% or more of the share-capital. If all shareholders or their representatives are present, the shareholders can validly hold a meeting, even if the form provided by the Articles of Incorporations has not been met.

Meetings shall be called respecting a notice period of at least 20 days. Invitations to meetings are valid if made in the form of the publication of the invitation in the "Feuille des Avis Officiels" or by mail to each shareholder. The invitation to the Ordinary Meeting shall state that the Annual Report is available for the shareholders at the Company's headquarters.

No decision can be made by the Meeting on matters that are not stated in the agenda, except if all shareholders or their representatives are present and / or with respect to resolution to call an extraordinary General Meeting and / or to resolve a special audit, in accordance with article 699 of the Swiss Code of Obligations.

7.2 Share register and shareholders

Article 6 of the Articles of Incorporation provides that the Company shall maintain a Register of Shareholders that shall include for each shareholder having requested their registration, their name and address, and the number of shares owned. The Board has mandated ShareCommService AG, Europastrasse 29, CH-8152 Glattbrugg, to maintain the Company's Share registry.

Corporate Governance Report

The registration of an acquirer of Swissquote shares is made on the request of the acquirer, who shall on request of the Company, represent that the acquisition was made on his behalf and account. If such a representation is not received, the Board may refuse to proceed to a registration.

For practical reasons, no new registration will be made in the Share Registry in periods up to 20 days before a Meeting. Registered shareholders that dispose of their shares prior to the General Assembly are no longer entitled to exercise their votes.

7.3 Decisions of the General Meeting of shareholders

Article 12 of the Articles of Incorporation provides that one share of a registered shareholder gives the right to one vote. Registered shareholders can be represented at a Meeting. The invitation to Meetings provide instructions as to how a representation shall be formalized in order to be validly recognized by the Company.

A Meeting, which has been called in accordance with the provisions of the Law and Articles of Incorporation, can make decisions, irrespective of the number of shares / shareholders present or represent at a General Meeting. There is no Quorum.

Except when Law and / or the Articles of Incorporation provide otherwise, the decisions are made based on the simple majority of the votes, corresponding to the shares validly represented. In case of even ballot, a second round is organized and if there is still no majority, the Chairman of the Board casts the decisive vote.

A qualified majority (two-thirds of the votes represented and the absolute majority of the par value of the shares represented) is required for resolutions on the following matters:

- ▶ the change in the Company's purpose;
- ▶ the creation of shares incorporating privileged rights;
- ▶ the restriction of the transferability of registered shares;
- ▶ the creation or the increase of a conditional and / or an authorized share-capital;
- ▶ an increase of the share-capital out of equity, or by means of a contribution in kind, or for the purpose of acquisition of assets or in exchange for the grant of special benefits;
- ▶ the limitation or withdrawal of preemptive rights;
- ▶ the dissolution of the Company without liquidation;
- ▶ the conversion of registered shares into bearer shares and conversely.

Unless a secret ballot is requested by one or more shareholders representing an aggregate of 10% or more of the shares represented, ballots are made at "raised hands".

The Chairman of the Board chairs the General Meeting, or if absent, another member of the Board does, or otherwise a chairman, who shall not necessarily be a shareholder, is elected by the General Meeting.

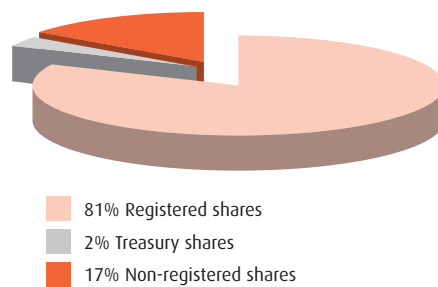
Minutes of each General Assembly shall be kept. They are signed by the Chairman and by the Secretary. Minutes shall include:

- ▶ the number, type, value and classes of shares represented by shareholders, corporate bodies, independent proxies of voting rights and proxies for deposited shares;
- ▶ the resolution and results of elections;
- ▶ the request of information and the respective replies;
- ▶ the statements for records made by shareholders.

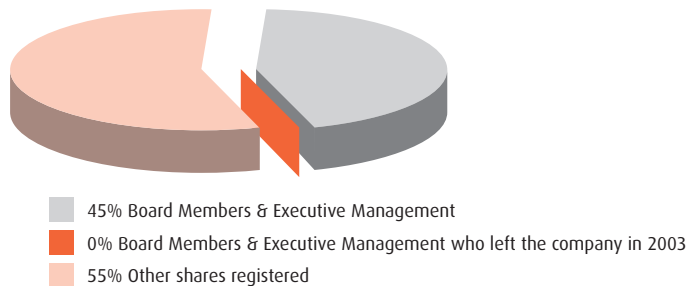
Corporate Governance Report

7.4 Analysis of the voting rights at 31 December 2003

At 31 December 2003 the issued share-capital consists of 1,379,020 ordinary registered shares of CHF 10 nominal value each. The shareholders registered in the Shareholders Register held 1,144,139 shares and the company owned 21,865 treasury shares. The distribution of the shareholdings in the company is the following:



Further, the registered shareholders at 31 December 2003 are analyzed as follows:



8. Change of control and defensive measures

Art. 32 para. 1 of the Federal Act on Stock Exchanges and Securities Trading (SESTA) states that anyone directly or indirectly acquiring equity securities, thereby exceeding the threshold of 33 1/3 per cent of the voting rights of an offeree company, whether or not such rights can be exercised, is obliged to submit an offer to acquire all listed equity securities of the company. In art. 32, SESTA governs the obligation of any potential controlling shareholder to submit an offer for the remaining securities, and in art. 29 it outlines the Board of directors' obligation, in the event of a public takeover bid, to provide shareholders with the information they need to evaluate the offer as well as the prohibition of defensive measures (no significant alteration in the assets or liabilities of the offeree company is permitted as of the time of the bid, aside from transactions that have already been approved by the General Meeting).

Corporate Governance Report

9. Auditors

The duties of the auditors are to report to the General Meeting of Shareholders the results of their audit, the objective of which is to verify that the accounts, the Annual Report and the proposed utilization of the accumulated result complies with Law and with the Articles of Incorporation. The auditors recommend the approval, with or without qualification, or rejection of the Annual Accounts. Further, when the company is required to deliver consolidated financial statements, the auditors shall report their compliance with law and the accounting principles adopted for the consolidation. Auditors must be present at General Meetings, unless a unanimous resolution of the shareholders provides otherwise.

The auditors are elected for one-year terms by the General Assembly and are eligible for reelection. They shall be independent from the Board and from the shareholders.

The Group's accounts and the individual Group companies' accounts are audited by PricewaterhouseCoopers since 1999, and were reelected in each year since then. The supervising auditor, Mr. JC Pernollet, is responsible for the audit of the Group since the year-end 2002 and has been the Lead auditor of Swissquote Bank since the year-end 2001.

Except for tax matters and audit related services, the Group uses consultants who are entirely independent from the company's auditor.

In addition to their audit opinions, the auditors are requested to provide specific information such as their audit findings, comments on accounting issues and audit fee proposals to the Audit Committee, and to meet at least twice a year with it. From January 2003 to December 2003, the auditors met twice with the Audit Committee. The qualification and performance of the auditors as well as the level of their fees is assessed and benchmarked once a year by the Audit Committee.

The total fee charged by the auditors to the Group in 2003 is analyzed as follows:

	2003	2002
Audit fees	270,000	300,500
Other fees:		
- Audit related services	70,000	20,630
- Tax	36,000	19,994
- Legal	-	-
Total	376,000	341,124

Swiss Francs

The amount of the audit fees is based on fees agreed upon for the audits of the consolidated and statutory financial statements of the Group companies for the year ended 31 December 2003.

Corporate Governance Report

10. Information policy

10.1 General principles

The Company aims primarily to promote confidence in its disclosure policy. Thereby it intends to create a better understanding of its business and to develop and maintain realistic investor expectations.

Swissquote Group commits to providing timely and orderly information in accordance with the legal and regulatory requirements. It aims to provide the financial market with consistent, accurate and complete information evenly during good and bad times and ensures that the investment community has fair access to such information.

It is the Company's policy not to release explicit earnings projections, but it may provide certain guidance to the investment community for them to assess the company and its business prospects.

As a general rule, material or price-sensitive information shall be released promptly as soon as the main aspects of such information are established by the Company. However, the Company is permitted under the relevant regulatory provisions to postpone the release of material information, if the information concerns a plan or negotiation of the Company and its premature disclosure would prejudice the legitimate interest of the Company. In such case, the Company will take adequate measures to ensure the effective confidentiality of the information and to prevent insiders from trading on the basis of that information. The Company will adequately inform the investment community in cases where the information previously kept confidential is substantially leaked to the market.

The Company will avoid releasing material and price-sensitive information during trading periods of the shares or shortly before opening of trading. If the information is to be released during normal trading hours of the SWX Swiss Exchange (9 a.m. to 5.30 p.m.) or less than 90 minutes before the opening of trading, the Listing Department of the SWX shall be informed at least 90 minutes prior to the release of such information. In situations where it cannot be avoided that material information is to be disclosed during trading hours, the CEO and CFO shall consider whether a request for a suspension of trading is appropriate. If material and non-public information is divulged unintentionally in a selective setting, such as analyst meetings or conference calls, which are not open to the investment community, the company will publicly disclose such information promptly after the meeting or after it learns of the selective disclosure.

If the Company discovers that the statement made was, in fact, materially incorrect at the time it was disclosed, the Company will publicly issue a corrective statement of such incorrect statement as soon as the error is discovered.

The Company will also issue within due time a corrective statement when new facts have emerged that render a previous disclosure false or misleading.

The Company does not comment on market rumors and speculations.

Corporate Governance Report

10.2 Regular reporting

10.2.1 Annual reporting

The Company announces its annual revenues and results in a press release shortly after the Board of Directors has approved the audited annual reports. This announcement is normally scheduled in March, followed by a press conference and / or call-in conference for analysts and media. The General Meeting normally takes place in May. The Annual Report is released on the Company's website or in print format at the Board's discretion.

10.2.2 Quarterly reporting

The quarterly results are published by a press release shortly after the Board of Directors has approved the quarterly results followed by a call-in conference for analysts and media. The quarterly reports are released on the Company's website

The releases of the quarterly results in 2004 are scheduled as follows:

Quarter 1	(Interim Financial Statements at 31 March 2004)	6 May 2004
Quarter 2	(Interim Financial Statements at 30 June 2004)	4 August 2004
Quarter 3	(Interim Financial Statements at 30 September 2004)	5 November 2004

10.3 Updated information and contacts

Press releases and reports as well as other information made public are accessible on www.swissquote.ch section "The Company".

Adresses contacts

Swissquote Group Holding Ltd

Route des Avouillons 16
CH-1196 Gland

Central

Telephone: +41 22 999 98 98
Fax: +41 22 999 98 99

Administration

Telephone: +41 22 999 98 98
Fax: +41 22 999 96 99
E-mail info@swissquote.ch

Contact person**Investor Relations contact:**

Marc Bürki, CEO Swissquote Bank
Phone +41 22 999 98 98
Fax +41 22 999 94 54
marc.burki@swissquote.ch

Schwerzenbach office

Eschenstrasse 8
CH-8603 Schwerzenbach

Telephone: +41 1 825 88 11

Fax: +41 1 825 88 12