

Annual Report 2005

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Swissquote....

Is the leading provider of online financial and trading services in Switzerland.
Creates sustainable added value for its customers, employees and shareholders.
Is an independent company, listed on the SWX Swiss Exchange.

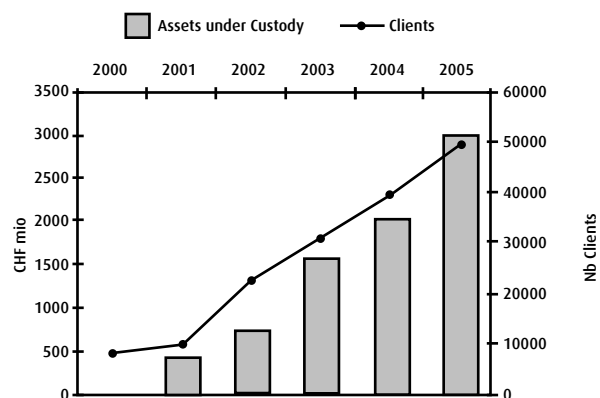
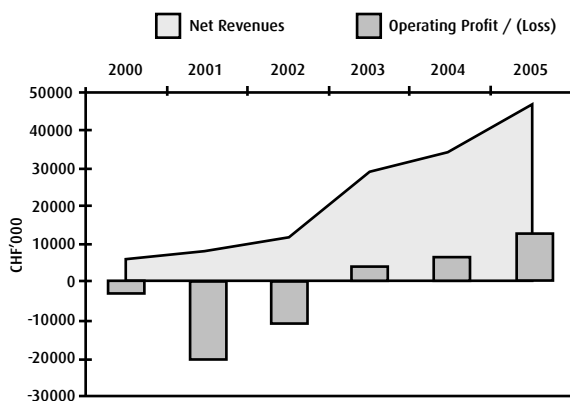
Section 1: Key Figures

All amounts in thousands	2005	2004	2003	2002	2001
Net revenues (1)	46,628	34,273	28,737	12,079	8,109
% change	36.0%	19.3%	137.9%	49.0%	33.3%
Operating Expenses (1)	(30,647)	(25,897)	(22,937)	(20,607)	(25,890)
% change	18.3%	12.9%	11.3%	-20.4%	217.3%
EBITDA (1)	15,981	8,376	5,800	(8,528)	(17,781)
% change	90.8%	42.9%	168.7%	52.0%	NA
Margin [%]	34.3%	24.4%	20.3%	-70.6%	-219.3%
Operating Profit / (Loss) (1)	12,993	5,816	3,660	(11,378)	(20,651)
% change	123.4%	58.9%	132.2%	44.9%	-671.7%
Net Profit / (Loss) (2)	14,683	6,235	5,129	(15,311)	(17,921)
% change	135.5%	21.6%	133.5%	14.6%	NA
Margin [%]	31.5%	18.2%	17.8%	-126.8%	-221.0%
Equity	66,978	50,086	42,897	35,424	53,166
Equity ratio [%] (2)	9.7%	11.0%	11.3%	15.0%	39.0%
Employees (2)	127	117	101	80	165
% change	10.3%	15.8%	26.3%	-51.5%	3.1%
Clients	49,057	39,531	30,926	22,500	10,161
% change	24.1%	27.8%	37.5%	121.4%	20.5%
Assets under Custody (3) in mio	2,986	2,017	1,560	733	310
% change	48.0%	29.3%	112.8%	136.5%	NA

(1) continued operations, excluding goodwill amortisation, restructuring and other non-recurring items

(2) including discontinued operations

(3) including cash deposited by clients at the Bank



Swissquote Share

Stock market trading

The registered shares, each with a nominal value of CHF 10, are listed on SWX Swiss Exchange under securities number 1,067,586 and ISIN number is CH0010675863. Their ticker symbols are: SQN (Swissquote); SQZ.S (Reuters); SQNSW (Bloomberg); SQN (Telekurs).

Development of stock market share price (January to December 2005)



Stock market prices in CHF

	2005	2004	2003	2002	2001
High	149.50	144.50	100.75	34.75	137.50
Low	89.50	79.50	15.55	13.60	17.00
31 December	149.50	100.00	87.00	23.80	35.00

Stock market capitalisation in CHF mio

	2005	2004	2003	2002	2001
High	211.3	201.5	140.0	47.8	186.5
Low	124.4	110.8	21.2	18.7	23.4
31 December	211.3	139.4	121.0	32.7	48.2

Share indicators in CHF

	2005	2004	2003	2002	2001
Net revenue per share	33.54	25.11	21.93	9.23	5.97
Net profit per share	10.56	4.57	3.91	(11.70)	(13.19)
Equity per share	47.39	35.92	31.11	25.74	38.64

Report to the Shareholders

Dear Shareholders,

We are delighted to be able to report on a highly successful 2005 financial year in the following review of business activities. Swissquote achieved a record result with above average rates of growth: compared with the previous year, revenues rose by 36.0 percent to CHF 46.6 million and net profit by 142.4 percent to 14.7 million, while customer numbers increased by 24.1 percent and assets under custody by 48.0 percent. For the first time, the Board of Directors will propose to the Annual General Meeting a distribution of profits to the shareholders.

Strong growth in customer base ensures sustainability

The strong and sustainable revenue growth of 36.0 percent to CHF 46.6 million (previous year CHF 34.3 million) has been driven by both internal and external factors. Externally, the main driver in 2005 was the lively tone of the markets in the second half of the year. Internally, growth was fuelled partly by the steady increase in the customer base and partly by the continuous expansion and further development of the company's offering.

Within the last four years, Swissquote has achieved a fivefold increase in customer numbers. In 2005 alone, this figure rose by 9,526 in comparison with the previous year to 49,057, placing it in the target growth area of 20 to 25 percent per year. In line with the expansion in the customer base and supported by the favorable market climate, assets under custody grew by 48.0 percent, reaching CHF 3.0 billion. Average assets under custody per client rose by 19.4 percent in 2005 to CHF 60,900 (CHF 51,000). With inflows of new money of over CHF 2 million per day, CHF 512 million in total, we were able to meet the growth targets in this area as well.

Focus on high profitability

While revenues increased by 36.0 percent in 2005, operating costs rose by only 17.5 percent to CHF 30.6 million, resulting in an EBITDA of CHF 16.0 million (CHF 8.2 million), representing a 94.9 increase over the previous year. The EBITDA margin increased from 23.9 percent to 34.3 percent of revenues. In comparison with the previous year, operating profit (excluding non-recurring items) rose by 130.5 percent to CHF 13.0 million (CHF 5.6 million). Net profit, at CHF 14.7 million (CHF 6.1 million), registered a gain of 142.4 percent, which corresponds to a profit margin of 31.5 percent (17.7 percent). The strong growth in profitability can also be measured by the average expenditure per customer, which could be cut by 6.5 percent to CHF 692 (CHF 740) in 2005, while revenues per customer rose by 8.2 percent to CHF 1,053 (CHF 973).

First-time distribution to the shareholders

In light of the high profit growth the Board of Directors will propose at the next Annual General Meeting the first-time distribution of profits to the shareholders in the form of a capital reduction of CHF 2 per share and a dividend of CHF 1 per share.

Highlights in 2005

With a view to assuring its leading position in the Swiss online trading sector, in 2005 Swissquote once again launched a wide range of new products and services:

- ▶ The development and expansion of our online wealth management service, which is of major significance for high net worth private clients in particular, was stepped up in 2005. Thus, in the spring, the personal asset management tool 'Value at Risk', a risk and profit indicator, went live. In the autumn, we were able to equip this tool with additional features and to activate the chart analysis tool 'Trade Signals', which shows purchase and sale signals on individual securities in a portfolio. In 2006, the online wealth management service is to be enhanced with additional tools.
- ▶ Since the summer, it has been possible to trade stocks listed on the Bern eXchange as well as the products of the German floor-based exchanges online via the Swissquote platform. On 16 January 2006, Swissquote also became a member of the Bern eXchange.
- ▶ Likewise in the summer, various areas of the Swissquote website were redesigned, in which connection Swissquote became a partner in the launch of 'Google Mini' (a website internal search engine) in Switzerland.
- ▶ Initiated at the end of August, sales of the Swissquote Box in 90 Swisscom shops all over Switzerland made good progress. In five months, 1,000 new clients grasped the opportunity to open an online account with Swissquote at one of the Swisscom shops without having to go through an otherwise time-consuming procedure. The buyer's identity is verified directly in the shop and client data is entered by the Swisscom sales advisor – then, within 48 hours, the new client is ready to engage in online exchange trading with Swissquote.

Report to the Shareholders

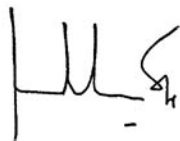
- ▶ Since September, it has been possible to trade more than 9,000 bonds from 90 countries in 17 different currencies online and at a low cost. Swissquote offers this service with bridport & cie s.a., an independent financial services provider specializing in the bond markets. For electronic bond trading, a special tool was developed which enables a targeted search to be run in accordance with a variety of criteria.
- ▶ Since recently, derivative and structured products from the three large German issuers (Deutsche Bank, Citibank and Commerzbank) can be traded offexchange from 8am to 10pm joining the existing system put in place with Vontobel Derivative Products.

2006: further growth of 25 percent

Swissquote's growth strategy remains unchanged for 2006: we want to increase customer numbers and assets under custody by around 25 percent. This means that in 2006 we aim to have over 60,000 customers and some CHF 3.7 billion assets under custody. To support sustainable growth and ensure that it continues in the long term, Swissquote will once again invest significantly in the further development of its offering in 2006. The intention is to integrate other exchanges into the online trading service and to develop additional online services. A further focal point for investment in 2006 will be the expansion of the company's online wealth management tools.

Acknowledgements

On behalf of the Board of Directors and Group Management, we would like to thank our customers, who, in actively using our platform, are making a crucial contribution to Swissquote's business success. Their suggestions and requests help us to drive that success - as does their criticism. Our thanks also go out to our shareholders for the confidence they have in our company. It is with satisfaction that we note that the price of the Swissquote share largely developed in line with the company's business success in the course of 2005. Thank you to all employees for their personal commitment and readiness to achieve the exceptional again and again. And finally, we also owe a debt of gratitude to our cooperation partners for their expertise and support in helping us to grow our business.



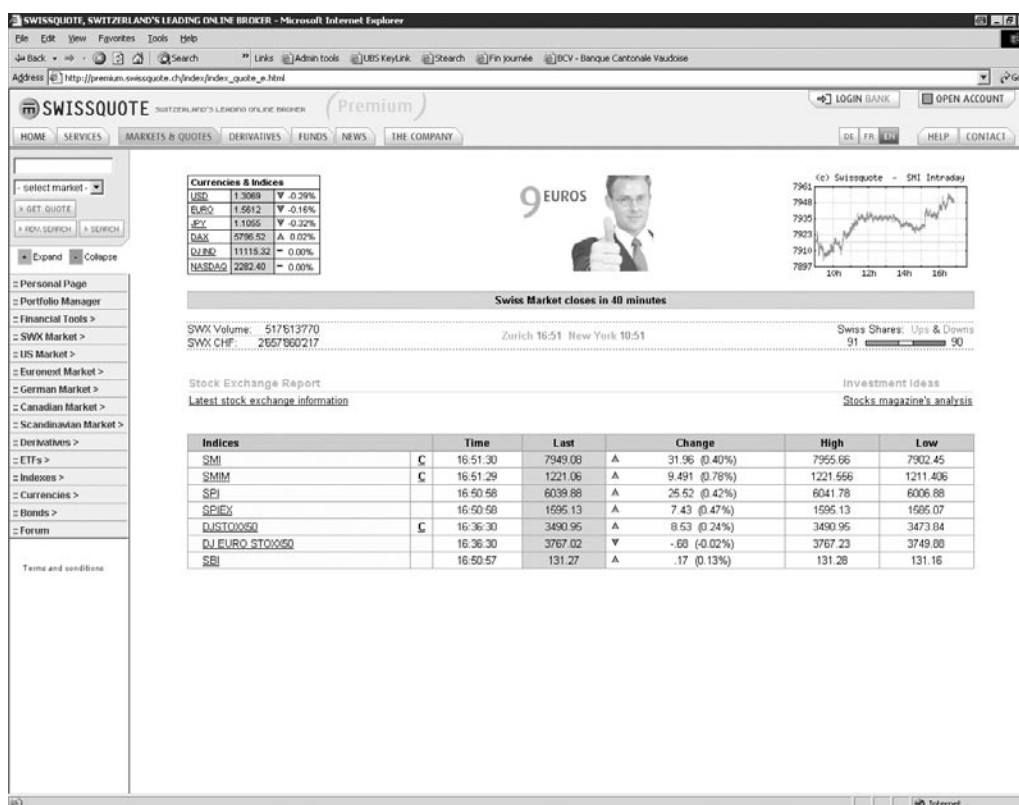
Mario Fontana
Chairman of the Board of Directors



Marc Bürki
Chief Executive Officer

Range of Services

The development of Swissquote's range of services is geared towards meeting the current and future needs of our customers. The platform is user-friendly, costs are transparent, and the information and tools provided are aimed at people who want to manage their assets themselves online.



Banking Services, Account & Safe Custody Account Trading Platform

- ▶ Accounts in the main currencies CHF, EUR and USD (and in any other currency desired on request)
- ▶ Interest paid on Swiss and foreign currency accounts
- ▶ All Securities accepted for Safekeeping
- ▶ Lombard Loans
- ▶ Equities, Warrants, Structured Products, Funds & Bonds
- ▶ Fixed-term deposits, Fiduciary deposits
- ▶ Forex Transactions
- ▶ Credit Cards
- ▶ Three-level Security Solution
- ▶ Online Payment System
- ▶ Bank Hold Mail & Numbered Accounts

Platform for Asset Managers and Financial Advisors

Platform for Employee Stock Option Plans

Online Markets

- ▶ SWX, Virt-x
- ▶ Nasdaq, Nyse, Amex
- ▶ German Markets (Xetra, Euwax, Hannover, Stuttgart, Hamburg, Berlin, Bremen and Frankfurt)
- ▶ Euronext (Paris, Amsterdam, Brussels)
- ▶ Scandinavia (Stockholm, Helsinki, Oslo, Copenhagen)
- ▶ Berne Exchange
- ▶ Off Exchange of Derivative Products (Vontobel, Deutsche Bank, Citibank and Commerzbank)
- ▶ Toronto, Vancouver

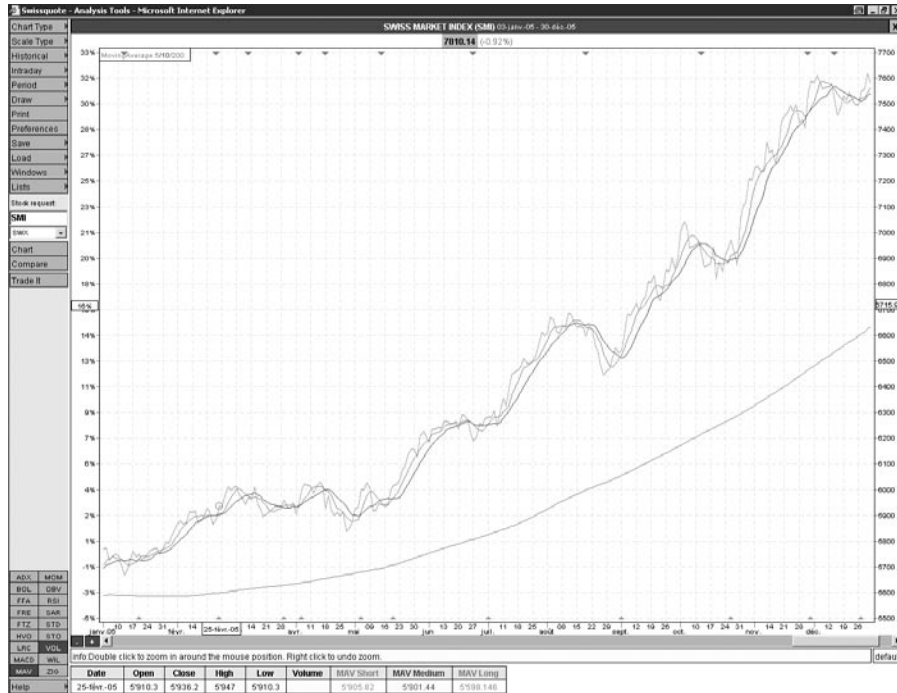
To be released soon

- ▶ London & Ireland
- ▶ Nasdaq OTC-BB
- ▶ Eurex Trading
- ▶ Milan
- ▶ Off Exchange of Derivative Products (Goldman Sachs, HSBC)

Transactions can be carried out by telephone through Swissquote's Trading Desk on 60 Exchanges in more than 40 Countries

Range of Services

Financial Information Platform & Tools



Trading Tools

- ▶ Realtime Account Management
- ▶ Advanced Trading Mask with Limit, Stop Loss, Stop Limit,
- ▶ On Stop and Market Orders
- ▶ Transaction Pricer ("Pricer")

Portfolio Tools

- ▶ Value at Risk
- ▶ Equity & Portfolio Analyzer
- ▶ Trade Signals

Charting Tools

- ▶ Historical Charts and Analysis Tool
- ▶ Live Intraday Charts

Customer Support

- ▶ Multilingual Customer Care & Platform (German, French, English and Italian)
- ▶ Various Seminars organized all over Switzerland
- ▶ Online Glossary
- ▶ Forum

Financial Information Tools

- ▶ Full quote with Realtime Information on major Stock

Exchanges

- ▶ Monitoring of paid Prices
- ▶ Level 2 Data with Live Order Book
- ▶ Live Updates ("Runner")
- ▶ Business & Economical News (AFX &AWP)
- ▶ Stock Exchange Report
- ▶ Investment Ideas
- ▶ Stocks News Alerts
- ▶ Wap, Vodafone-live & SMS support
- ▶ Stock Request

Search Tools

- ▶ Warrants Selection Tool ("Warrants Chooser")
- ▶ Advanced Search Tools ("Ranking Search" & "Advanced Search")
- ▶ Morningstar Funds Finder
- ▶ Funds Optimizer
- ▶ Toolbar
- ▶ Ranking

Section 2: Financial Report 2005

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

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Consolidated Balance Sheet

	Notes	2005	2004
ASSETS			
Cash and balances with central bank	1	51,943,506	94,502,518
Due from other banks	1	573,884,032	310,116,643
Derivatives financial instruments	2	2,128,854	814,429
Loans and advances to customers	3	40,545,076	32,235,047
Pledged investment securities and deposits	5	10,324,672	6,878,295
Goodwill	7	3,000,000	3,000,000
Information technology systems	8	5,242,848	4,682,934
Property, plant and equipment	9	836,320	1,307,770
Other assets	10	1,800,712	1,329,703
Deferred tax assets, net	11	2,326,458	636,458
Total assets		692,032,478	455,503,797
LIABILITIES AND EQUITY			
Liabilities			
Due to other banks	1	385,095	351,563
Derivatives financial instruments	2	2,128,854	814,429
Due to customers	4	610,017,832	396,441,597
Trade and other payables	6	11,632,774	6,508,715
Provisions	12	890,266	1,301,500
Total liabilities		625,054,821	405,417,804
Equity			
Ordinary shares	14.1	14,133,920	13,943,040
Share premium and reserves		32,021,971	29,899,614
Share option reserve	14.2	368,580	371,735
Treasury shares	14.3	(846,458)	(588,511)
Retained earnings		21,299,644	6,460,115
Total equity		66,977,657	50,085,993
Total liabilities and equity		692,032,478	455,503,797

Financial Report 2005

Consolidated Statement of Operations

	Notes	2005	2004
Fee and commission income	15	39,392,843	30,936,131
Fee and commission expense		(4,647,950)	(3,317,302)
Net fee and commission income		34,744,893	27,618,829
Interest income		7,080,496	3,555,731
Interest expense		(1,722,753)	(845,748)
Net interest income	16	5,357,743	2,709,983
Net trading income		3,979,698	2,202,723
Other operating income	17	2,545,794	1,741,763
Operating income		46,628,128	34,273,298
Operating expenses	18	(30,646,522)	(26,074,751)
Operating profit before depreciation, amortization and provisions		15,981,606	8,198,547
Depreciation, amortization and provisions:			
Depreciation	8 / 9	(2,988,636)	(2,507,006)
Impairment charge on loans and advances	3	-	(53,660)
Amortization, provisions and restructuring	8 / 12	-	419,513
Operating profit		12,992,970	6,057,394
Income tax, net	11	1,690,000	-
Net profit		14,682,970	6,057,394
<i>Earning per share</i>	19	10.56	4.43
<i>Diluted earning per share</i>	19	10.33	4.31

Financial Report 2005

Consolidated Changes in Shareholders' Equity

	Share capital	Share premium & reserves	Share Option reserve	Treasury shares	Retained earnings	Total
Balance reported in the Annual Report 2004	13,790,200	61,723,981	-	(1,902,255)	(30,714,575)	42,897,351
<i>Restatements:</i>						
Employee Stock option plan:						
Value of services provided	-	-	351,650	-	(351,650)	-
Treasury stocks at cost	-	-	-	1,325,219	(1,325,219)	-
Allocation of Share premium & reserves to Retained earnings	-	(32,391,444)	-	-	32,391,444	-
Restated balance at 1 January 2004	13,790,200	29,332,537	351,650	(577,036)	-	42,897,351
Capital increase resulting from the exercise of options	152,840	567,077	-	-	-	719,917
<i>Employee stock option plan:</i>						
Value of services provided	-	-	177,819	-	-	177,819
Reclassification of value of services provided for stock options exercised, lapsed or expired in the period	-	-	(157,734)	-	157,734	-
Purchase of treasury shares	-	-	-	(135,556)	-	(135,556)
Sale of treasury shares	-	-	-	124,081	244,987	369,068
Net profit of the period	-	-	-	-	6,057,394	6,057,394
Restated balance at 31 December 2004	13,943,040	29,899,614	371,735	(588,511)	6,460,115	50,085,993
Restated balance at 1 January 2005	13,943,040	29,899,614	371,735	(588,511)	6,460,115	50,085,993
Capital increase resulting from the exercise of options	190,880	572,564	-	-	-	763,444
<i>Employee stock option plan:</i>						
Value of services provided	-	-	153,404	-	-	153,404
Reclassification of value of services provided for stock options exercised, lapsed or expired in the period	-	-	(156,559)	-	156,559	-
Purchase of treasury shares	-	-	-	(1,098,356)	-	(1,098,356)
Sale of treasury shares	-	1,549,793	-	840,409	-	2,390,202
Net profit of the period	-	-	-	-	14,682,970	14,682,970
Balance at 31 December 2005	14,133,920	32,021,971	368,580	(846,458)	21,299,644	66,977,657

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Consolidated Cash Flow Statement

	Notes	2005	2004
Cash flow from / (used) in operating activities			
Fees and commission receipts		39,527,224	31,256,435
Fees and commission paid		(4,458,117)	(3,430,848)
Interest receipts		6,982,413	3,534,515
Interest paid		(1,722,753)	(845,748)
Net trading income		3,979,698	2,202,723
Other income		2,298,281	1,581,584
Cash payments to employees and suppliers		(26,897,328)	(25,512,309)
Provision used	12	(411,234)	(1,222,776)
Cash flow from operating profit before changes in operating assets and liabilities		19,298,184	7,563,576
<i>Net (increase) / decrease in operating assets and net increase / (decrease) in operating liabilities</i>			
Loans and advances to customers		(8,310,029)	(13,271,781)
Other assets		247,847	238,779
Due to customers		213,576,235	70,213,554
Trade and other payable		830,798	(402,064)
Net cash from operating activities		225,643,035	64,342,064
Cash flow from / (used) in investing activities			
Purchase of property, plant and equipment and information technology systems	8 / 9	(3,077,100)	(2,601,767)
Redemption of pledged investment securities	5	2,000,000	-
Pledged investment securities and deposits		(5,446,377)	(1,595,499)
Net cash used in investing activities		(6,523,477)	(4,197,266)
Cash flow from / (used) in financing activities			
Net proceeds of issue of ordinary shares		2,156,678	719,917
Purchase of treasury shares		(941,802)	(135,556)
Sale of treasury shares		840,409	369,068
Net cash from financing activities		2,055,285	953,429
INCREASE IN CASH AND CASH EQUIVALENTS		221,174,843	61,098,227
Movements in cash and cash equivalents			
Balance at beginning of year		404,267,598	343,169,367
Increase		221,174,845	61,098,227
Balance at 31 December		625,442,443	404,267,594

Non-cash transactions:

The principle non-cash transactions was the issue of shares as consideration for services provided by employees as reported in note 14.2.

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Notes to the 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") through its financial web portal swissquote.ch.

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 127 employees (full time equivalent) at the end of December 2005 (31 December 2004: 117).

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 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 2005 consists of 1,413,392 ordinary shares of CHF 10 nominal value (2004: 1,394,304). There is also a conditional share-capital and an authorized share-capital. Details are stated in Note 14.1.

The main shareholders at 31 December are:

	2005	2004
Mr. Marc Bürki	15.08%	15.28%
Mr. Paolo Buzzi	15.08%	15.28%
Mr. Jean Pfau	7.84%	7.95%
AIG Equity Fund Switzerland	7.37%	0.00%
Mr. Thomas Matter	0.00%	5.02%

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 regulations, the free float at 31 December 2005 is 54.63% (2004: 56.47%).

The consolidated financial statements were approved for issue by the Board of Directors of the Company on 16 February 2006.

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Notes to the Consolidated Financial Statements

SECTION II : ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group adopted all of the new and revised Standards and Interpretation issued by the International Accounting Standard Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretation has resulted in changes to the Group's accounting policies. With the exception of IFRS 2 (Share based payments), these changes had no impact on the current and previous year financial statements.

The adoption as per 1 January 2005 of share option reserve required the restatement of the 2004 financial statements, for comparison purpose. The impacts are the following:

- ▶ creation at 1 January 2004 of a share option reserve of CHF 351,650, which counterparty is a decrease of the Retained earnings of the same amount;
- ▶ increase CHF 177,818 of Operating expenses.

As a matter of information, the new treatment of Goodwill (IFRS 3, IAS 36 revised and IAS 38 revised) was early adopted in Q2-2004 with retroactive effect on 1 January 2004.

Further and in the context of these major changes, the Company has decided:

- ▶ to directly reflect in the Changes in Shareholders' Equity the footnote stated in the 2004 Annual Report relating to the offset of the Accumulated losses through the allocation of the Share premium, but to limit this offset to the Consolidated accumulated losses at 1 January 2004 (CHF 32,391,444), whereas the offset approved by the shareholders for the Statutory Financial Statements of Swissquote Group Holding Ltd amounted to CHF 50,426,493. The CHF 18,035,049 balance is a free reserve that is included in share premium and reserve. This restatement has neither an impact on any net profit reported to date, nor on the total amount of the equity;
- ▶ to present treasury shares at cost with retroactive effect on 1 January 2004. Previously, treasury shares were valued at market. This restatement has no impact on any net profit reported, nor on the total amount of the equity;
- ▶ to compute the 2004 and 2005 diluted EPS taking into consideration only outstanding stock options which are in the money. Previously, diluted EPS was calculated based on all stock options outstanding;
- ▶ from 1 January 2005, to allocate realised gains and losses on disposal of treasury shares to Share premium and reserves.

With respect to certain new accounting standards and IFRIC interpretations that have been published to the date of these Consolidated Financial Statements and that are mandatory for accounting periods beginning on or after 1 January 2006, the Group does not consider that these new standards and interpretations will impact its financial statements.

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Consolidated Financial Statements

SECTION III : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of presentation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards. 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, share based payments and all derivative contracts.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

B. Consolidation

(B1) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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Notes to the Consolidated Financial Statements

SECTION III : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(B2) List of consolidated subsidiaries

Subsidiaries	Headquarters/Country	Interest at 31 December	
		2005	2004
Swissquote Bank	Gland/Switzerland	100.0%	100.0%
Swissquote Trade Ltd	Gland/Switzerland	100.0%	100.0%

C. Foreign currency translation

(C1) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in CHF, which is the functional and presentation currency of the parent and the subsidiaries.

(C2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement under Net trading income. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

D. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The set-up of the Group's operations (i.e. integrated online brokerage services and one single operating legal entity), implies that the Group operates in a sole business segment.

E. Derivative financial instruments and hedge accounting

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.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits on day 1.

Changes in the fair value of derivatives are included in Net trading income. The Group does not apply hedge accounting as defined by IAS 39.

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Notes to the Consolidated Financial Statements

SECTION III : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. 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.

G. Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(G1) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The Group does not trade in such financial assets, except for transactions on derivative financial instruments entered into to satisfy client needs. These derivatives are categorised as held for trading.

(G2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

(G3) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(G4) Available-for-sale

Available-for-sale investments are those 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 or equity prices.

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available-for-sale are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

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Notes to the Consolidated Financial Statements

SECTION III : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Interest earned whilst holding investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared.

H. Impairment of financial assets

(H1) Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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Notes to the Consolidated Financial Statements

SECTION III : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general banking reserve as an appropriation of retained earnings.

(H2) Assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

I. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

J. Information technology systems

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software under the item "Proprietary Software". Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives but not exceeding a period of three to five years.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life (three to five years).

Hardware 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 life, but not exceeding a period of three years.

Information technology systems are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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Notes to the Consolidated Financial Statements

SECTION III : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

K. Property, plant and equipment

All Property, plant and equipment is recorded at historical cost, less depreciation. Depreciation is calculated on the straight-line method to write-off the cost of these assets to their residual values over their estimated useful life. As the Group does not own any property and plant, Property, plant and equipment mainly consists in leasehold improvements and office equipment which is amortised using the straight-line method over their useful lives but not exceeding a period of four to five years.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposal of Property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

L. Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

M. 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 recognised to the extent that taxable profits are expected to be generated in the future and will be offset by the tax losses carried forward.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

N. Pension obligations

In addition to the legally prescribed social benefits, the Group maintains two employee pension plans. The pension plans have been set-up in accordance with the Swiss defined contribution plans. However, they do not fulfill all of the criteria of a defined contribution pension plan according to IAS 19 and are therefore disclosed as defined benefit pension plans.

The Group insures its staff with collective foundations and insurance companies, which provide benefits on retirement or in the event of death, disability or termination of employment. The level of contributions to be paid by the employees and the relevant Group companies is determined by the plan rules. The pension benefits are based on the contributions paid by the insured persons and the Group (individual savings accounts). The assets are independently managed by the collective foundations or insurance companies.

For accounting purposes in accordance with IAS 19, pension obligations and expenses are determined according to the projected unit credit method. The corresponding calculations are made by actuaries on a periodical basis. The pension expense entered in the profit and loss account corresponds to the actuarially determined expense less employee contributions.

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Notes to the Consolidated Financial Statements

SECTION III : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Actuarial gains and losses that exceed both 10% of the present value of the plan obligations and 10% of the fair value of plan assets are systematically amortised over the remaining working lives of employees participating in the plan.

O. Provisions

Provisions for restructuring costs and legal claims are recognized when:

- ▶ the Group has a present legal or constructive obligation as a result of past events;
- ▶ it is more likely than not that an outflow of resources will be required to settle the obligation;
- ▶ and the amount has been reliably estimated.

P. Share-Capital / Share Issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders.

Q. Stock Option Plan

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the vesting period. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions and the number of options anticipated to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

R. Treasury shares

Where the Company or other members of the consolidated Group purchases the Company's equity share-capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

S. Fee and commission income / expense and other income

Fee and commission income / expense and other income are recognized on an accrual basis when the services have been provided to the customer, usually on a time-appropriate basis, net of sales tax and discount.

T. Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

U. Net trading income

Net trading income is recognised on foreign exchange transactions done by clients and also on foreign currency translation of balances with bank's and clients denominated in other than Swiss Francs.

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Notes to the Consolidated Financial Statements

SECTION III : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

V. Leases

The leases entered into by the Group are operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

W. Fiduciary activity

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

X. 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.

Y. Material differences between IFRS and Swiss GAAP

Under IFRS, goodwill resulting from acquisitions is not subject to amortization as this is the case in Swiss GAAP but is tested annually for impairment.

Z. Comparatives

When required, the 2004 comparative figures have been adjusted to conform to changes in presentation in the current year.

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Notes to the Consolidated Financial Statements

SECTION IV : CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgments in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Section III, circumstances may lead management to make judgments that have most significant effect on the amounts recognised in the financial statements. At 31 December 2005 there are no such circumstances and related judgments to be reported.

Key sources of estimation uncertainty

The process of applying the Group's accounting policies may require the use of key assumptions concerning the future, and / or key other sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustments to the carrying amount of assets and liabilities within the next financial year. Key assumptions are discussed below:

Deferred tax assets

The recognition and extent of recognition of Deferred tax assets requires the use of several key assumptions such as the applicable tax rate and the future level of taxable profit. Detailed sensitivity analysis has been carried-out and management is confident that the carrying amount of Deferred tax recognised to date will be recovered in the future.

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Notes to the Consolidated Financial Statements

SECTION V : FINANCIAL RISK MANAGEMENT

A. Scope of Swissquote Group operations

The Group's operations consist of:

- ▶ operating an online 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;
- ▶ providing stock brokerage services:
 - ▶ to self-directed investors by mean of tools to route the orders to stock exchanges via the Internet against brokerage fees, as well as tools to assist them in their decision making;
 - ▶ to Independent Asset Managers by mean of 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;
 - ▶ by telephone on all stock markets which cannot be accessed otherwise via above mentioned tools.
- ▶ providing:
 - ▶ custodian services against fees and foreign exchange;
 - ▶ margin loans to customers against pledging of assets (lombard loans);
 - ▶ fiduciary placements on behalf and at the risks of clients against commission fees;
 - ▶ services to corporations for the management of their stock option programs;
- ▶ selling advertising space and providing financial information against subscription on the Group's financial portal.

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.

B. Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. The Group also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lombard lending. The Board places limits on the level of exposure that can be taken in relation to both overnight and intra-day positions.

C. Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have incurred at the balance sheet date. Management carefully manages its exposure to credit risk. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers with respect to their credit rating, as well as the level of security margin required which depends on the types of securities and portfolio profiles. Lombard credits are monitored using a real time system comparing the fair value of the collateral with the actual credit granted to each customer. Counterparty credit risks are monitored on a revolving basis and subject to an annual or more frequent reviews. Limits on the level of credit risk as well as the Lombard margins are approved by the Board of Directors.

The exposure to any borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

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Notes to the Consolidated Financial Statements

SECTION V : FINANCIAL RISK MANAGEMENT

D. Geographical concentration of assets, liabilities and off-balance sheet items

The Group has credit exposure outside Switzerland mainly through its credit risk with financial institutions domiciled outside Switzerland and to a lesser extent to clients domiciled outside of Switzerland to whom the Group has granted Lombard loans. The geographical analysis of assets and liabilities items based on the domicile of the counterparties is analyzed below:

	Switzerland	Europe	Others	Total
At 31 December 2005				
Assets				
Cash and balances with central bank	51,943,506	-	-	51,943,506
Due from other banks	433,837,680	103,624,222	36,422,130	573,884,032
Loans and advances to customers	31,331,655	7,127,868	2,085,553	40,545,076
Pledged investment securities and deposits	10,324,672	-	-	10,324,672
Goodwill	3,000,000	-	-	3,000,000
Information technology systems	5,242,848	-	-	5,242,848
Property, plant and equipment	836,320	-	-	836,320
Others (Derivatives, Other assets and Deferred tax)	6,256,024	-	-	6,256,024
Total assets	542,772,705	110,752,090	38,507,683	692,032,478
Liabilities				
Due to other banks	385,095	-	-	385,095
Due to customers	493,873,198	95,762,226	20,382,408	610,017,832
Provisions	890,266	-	-	890,266
Others (Derivatives and Trade and other payables)	13,752,587	8,044	997	13,761,628
Total liabilities	508,901,146	95,770,270	20,383,405	625,054,821
Difference between total assets and liabilities	33,871,559	14,981,820	18,124,278	66,977,657
At 31 December 2004				
Total assets	341,828,797	102,455,918	11,219,082	455,503,797
Total liabilities	316,961,004	60,615,980	27,840,820	405,417,804
Difference between total assets and liabilities	24,867,793	41,839,938	(16,621,738)	50,085,993

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Notes to the Consolidated Financial Statements

SECTION V : FINANCIAL RISK MANAGEMENT

E. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The Group's exposure to changes in market interest rates is limited. The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

At 31 December 2005	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Non interest Bearing	Total
Assets						
Cash and balances with central bank	51,943,506	-	-	-	-	51,943,506
Due from other banks	573,884,032	-	-	-	-	573,884,032
Loans and advances to customers	40,545,076	-	-	-	-	40,545,076
Pledged investment securities and deposits	10,258,365	-	-	-	66,306	10,324,672
Other Assets	-	98,030	-	-	15,237,162	15,335,192
Total assets	676,630,979	98,030	-	-	15,303,468	692,032,478
Liabilities						
Due to other banks	385,095	-	-	-	-	385,095
Due to customers	610,017,832	-	-	-	-	610,017,832
Provisions	-	-	-	-	890,266	890,266
Other Liabilities	-	-	-	-	13,761,628	13,761,628
Total liabilities	610,402,927	-	-	-	14,651,894	625,054,821
Net on balance sheet interest sensitivity gap	66,228,052	98,030	-	-	651,574	66,977,657
Off balance sheet interest sensitivity gap	-	-	-	-	-	-
Total interest sensitivity gap	66,228,052	98,030	-	-	651,574	66,977,657

Interest rates applicable at 31 December 2005:

	CHF	EUR	USD
Assets			
Due from other banks	0.86%	2.22%	4.25%
Loans and advances to customers	4.17%	5.65%	7.56%
Pledged investment securities and deposits	0.63%		
Liabilities			
Due to customers	0.23%	0.60%	1.08%

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Notes to the Consolidated Financial Statements

SECTION V : FINANCIAL RISK MANAGEMENT

At 31 December 2004	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Non interest Bearing	Total
Assets						
Cash and balances with central bank	91,870,000	-	-	-	2,632,518	94,502,518
Due from other banks	310,116,643	-	-	-	-	310,116,643
Loans and advances to customers	32,235,047	-	-	-	-	32,235,047
Pledged investment securities and deposits	6,710,000	-	-	-	168,295	6,878,295
Other Assets	352,299	228,647	-	-	11,190,348	11,771,294
Total assets	441,283,989	228,647	-	-	13,991,161	455,503,797
Liabilities						
Due to other banks	351,563	-	-	-	-	351,563
Due to customers	396,441,597	-	-	-	-	396,441,597
Provisions	-	-	-	-	1,301,500	1,301,500
Other Liabilities	352,298	-	-	-	6,970,846	7,323,144
Total liabilities	397,145,458	-	-	-	8,272,346	405,417,804
Net on balance sheet interest sensitivity gap	44,138,531	228,647	-	-	5,718,815	50,085,993
Off balance sheet interest sensitivity gap	-	-	-	-	-	-
Total interest sensitivity gap	44,138,531	228,647	-	-	5,718,815	50,085,993

Interest rates applicable at 31 December 2004:

	CHF	EUR	USD
Assets			
Due from other banks	0.55%	2.02%	2.25%
Loans and advances to customers	4.18%	7.17%	7.28%
Pledged investment securities and deposits	5.50%		
Liabilities			
Due to customers	0.17%	0.54%	0.57%

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F. Currency risk

The table below summarises the Group's exposure to foreign currency risk at 31 December. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by currency.

	CHF	USD	EURO	Others	Total
At 31 December 2005					
Assets					
Cash and balances with central bank	50,563,443	549,157	830,906	-	51,943,506
Due from other banks	388,998,395	55,103,363	116,449,137	13,333,137	573,884,032
Loans and advances to customers	22,734,534	6,646,356	10,551,401	612,785	40,545,076
Pledged investment securities and deposits	10,324,672	-	-	-	10,324,672
Goodwill	3,000,000	-	-	-	3,000,000
Information technology systems	5,242,848	-	-	-	5,242,848
Property, plant and equipment, net	836,320	-	-	-	836,320
Others (Derivatives, Other assets and Deferred tax)	4,931,453	324,373	981,791	18,407	6,256,024
Total assets	486,631,665	62,623,249	128,813,235	13,964,329	692,032,478
Liabilities					
Due to other banks	375,614	8,711	-	770	385,095
Due to customers	408,826,745	62,064,072	127,446,695	11,680,320	610,017,832
Provisions	890,266	-	-	-	890,266
Others (Derivatives and Trade and other payables)	12,311,186	410,372	1,020,977	19,093	13,761,628
Total liabilities	422,403,811	62,483,155	128,467,672	11,700,183	625,054,821
Net on balance sheet position	64,227,854	140,094	345,563	2,264,146	66,977,657
Off balance sheet notional position	-	-	-	-	-
Credit commitments	-	-	-	-	-
At 31 December 2004					
Total assets	312,904,761	53,311,838	9,571,744	79,715,454	455,503,797
Total liabilities	264,677,858	52,938,169	8,257,419	79,544,358	405,417,804
Net on balance sheet position	48,226,903	373,669	1,314,325	171,096	50,085,993
Off balance sheet notional position	-	-	-	-	-
Credit commitments	-	-	-	-	-

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G. Liquidity risk

The Group is exposed to daily withdrawals on its available cash resources from overnight deposits, current accounts and maturing deposits. The Group 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 table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
At 31 December 2005						
Assets						
Cash and balances with central bank	51,943,506	-	-	-	-	51,943,506
Due from other banks	573,884,032	-	-	-	-	573,884,032
Loans and advances to customers	40,545,076	-	-	-	-	40,545,076
Pledged investment securities and deposits	10,324,672	-	-	-	-	10,324,672
Other Assets	4,172,656	678,369	914,721	490,278	9,079,168	15,335,192
Total assets	680,869,942	678,369	914,721	490,278	9,079,168	692,032,478
Liabilities						
Due to other banks	385,095	-	-	-	-	385,095
Due to customers	610,017,832	-	-	-	-	610,017,832
Provisions	49,214	-	841,052	-	-	890,266
Other Liabilities	12,023,545	589,462	784,495	364,126	-	13,761,628
Total liabilities	622,475,686	589,462	1,625,547	364,126	-	625,054,821
Net liquidity gap	58,394,256	88,907	(710,826)	126,152	9,079,168	66,977,657
At 31 December 2004						
Total assets	440,256,359	5,141,043	310,657	9,795,738	-	455,503,797
Total liabilities	403,876,276	188,442	491,417	861,669	-	405,417,804
Net liquidity gap	36,380,083	4,952,601	(180,760)	8,934,069	-	50,085,993

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SECTION V : FINANCIAL RISK MANAGEMENT

H. Market risk

The Group's market risk is substantially limited to the features of its online brokerage operations, i.e. to fluctuation in the trading activity of its clients, which depends on market conditions. The Group monitors this exposure through a careful management of its cost base.

I. Fiduciary activities

As mentioned above, the Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These services are mainly rendered through its web-portal and therefore the Group is exposed to the operational risks associated with the use of this technology. At the balance sheet date, the Group clients' financial assets under custody amount to CHF 2.4 bn (2004: CHF 1.6 bn).

J. 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.

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1. Cash and cash equivalents

	2005	2004
Cash and balances with central bank	51,943,506	94,502,518
Due from other banks	573,884,032	310,116,643
Due to other banks	(385,095)	(351,563)
Total net	625,442,443	404,267,598

2. Derivative financial instruments

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 2005			31 December 2004		
	Positive Fair Value	Negative Fair Value	Contract Amount	Positive Fair Value	Negative Fair Value	Contract Amount
Futures	31,828	31,828	6,040,548	-	-	2,905,190
Options	2,097,026	2,097,026	306,834,266	814,429	814,429	59,497,127
Total	2,128,854	2,128,854	312,874,814	814,429	814,429	62,402,317

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 customers.

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3. Loans and advances to customers

Loans and advances to customers mainly consist in advances covered by the pledging of the customers portfolio consisting of cash and securities, which are held with the Bank.

	2005	2004
Loans and advances		
Covered loans	40,460,217	32,170,721
Overdrafts	214,859	194,326
Total	40,675,076	32,365,047
Impairment allowance	(130,000)	(130,000)
Total net	40,545,076	32,235,047
Impairment allowance		
Balance at 1 January	130,000	106,500
Increase	-	53,660
Bad debts written-off	-	(30,160)
Balance at 31 December	130,000	130,000

4. Due to customers

Amounts due to customers mainly consist of current accounts remunerated at variable rates.

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5. Pledged investment securities and deposits

	2005	2004
Investment held-to-maturity		
Bonds - at amortized cost : listed	-	2,000,000
Total investment securities	-	2,000,000
Deposits	10,324,672	4,878,295
Total	10,324,672	6,878,295

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 nil at 31 December 2005 (2004: CHF 2,000,000).

Deposits consist of cash deposits with counterparties which purpose is to secure settlement risks.

Movements in investments held-to-maturity only include redemption and acquisition and the carrying value adjustment related to the amortization of the cost. Movements in investment securities available-for-sale (none in 2005) are summarised as follows:

	2005	2004
At 1 January		
Additions	-	1,060,831
Disposals (sale and redemption)	-	(1,022,685)
Losses from impairment of available-for-sale equity securities	-	-
Losses from changes in fair value	-	(38,146)
At 31 December	-	-

6. Trade and other payables

	2005	2004
Trade payable	2,400,324	1,569,526
Social security and other taxes	204,710	446,082
Accrued expenses	8,058,553	4,050,095
Deferred revenues	969,187	443,012
Total	11,632,774	6,508,715

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7. Goodwill

	2005	2004
Balance 1 January	3,000,000	3,000,000
Amortization charge	-	-
Impairment charge	-	-
Total net	3,000,000	3,000,000

The goodwill relates to the acquisition of Consors (Schweiz) AG in 2002. The goodwill is assessed for impairment based on its comparison with the actual revenues generated by the clients of the former Consors (Schweiz) AG.

8. Information technology systems

	Software Third Party Licences	Proprietary Software	Hardware	Total
At 31 December 2003				
Cost	3,775,046	4,559,325	6,812,955	15,147,326
Accumulated amortization / depreciation	(2,696,580)	(2,016,270)	(6,023,289)	(10,736,139)
Net book amount	1,078,466	2,543,055	789,666	4,411,187
Year ended 31 December 2004				
Opening net book amount	1,078,466	2,543,055	789,666	4,411,187
Addition	434,485	1,055,517	695,139	2,185,141
Amortization / depreciation	(432,448)	(940,192)	(540,754)	(1,913,394)
Closing net book amount	1,080,503	2,658,380	944,051	4,682,934
At 31 December 2004				
Cost	4,209,531	5,614,842	7,508,094	17,332,467
Accumulated amortization / depreciation	(3,129,028)	(2,956,462)	(6,564,043)	(12,649,533)
Net book amount	1,080,503	2,658,380	944,051	4,682,934
Year ended 31 December 2005				
Opening net book amount	1,080,503	2,658,380	944,051	4,682,934
Addition	560,231	1,703,275	533,847	2,797,353
Amortization / depreciation	(521,445)	(1,236,120)	(479,874)	(2,237,439)
Closing net book amount	1,119,289	3,125,535	998,024	5,242,848
At 31 December 2005				
Cost	4,769,762	7,318,117	8,041,941	20,129,820
Accumulated amortization / depreciation	(3,650,473)	(4,192,582)	(7,043,917)	(14,886,972)
Net book amount	1,119,289	3,125,535	998,024	5,242,848

An amount of CHF 1,384,245 own cost was capitalized in 2005 (2004: CHF 834,591).

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9. Property, plant and equipment

	2005	2004	2003
At 31 December			
Cost	4,880,471	4,600,724	4,184,098
Accumulated depreciation	(4,044,151)	(3,292,954)	(2,699,342)
Net book amount	836,320	1,307,770	1,484,756
Year ended 31 December			
Opening net book amount	1,307,770	1,484,756	
Addition	279,747	416,626	
Depreciation	(751,197)	(593,612)	
Closing net book amount	836,320	1,307,770	

Property, plant and equipment consists of leasehold improvements and office equipment.

10. Other assets

	2005	2004
Trade receivables	495,558	248,045
Prepayments	36,371	253,604
Other receivables	1,268,783	828,054
Total	1,800,712	1,329,703

Other receivables include CHF 98,030 (2004: CHF 228,647) 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 was payable until 30 June 2004. Thereafter interest is 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.

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11. Deferred tax assets, net

	2005	2004
Deferred tax assets		
Tax loss carried forward	3,112,570	1,422,570
Permanent differences	10,838	10,838
Total	3,123,408	1,433,408
Deferred tax liabilities		
Temporary differences	(796,950)	(796,950)
Total net	2,326,458	636,458
Movements in net deferred taxes analyzed as follows:		
Balance, beginning of period	636,458	636,458
Net credit to statement of operations	1,690,000	-
Balance, end of period	2,326,458	636,458

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 14% (2004: 16%).

The principal source of the temporary differences is the treatment of Goodwill that has been completely amortised on 6 May 2003 in the statutory financial statements of Swissquote Bank.

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 2005 (carry forward losses available).

Considering the fact that the Group started its banking activities in 2001, when determining the deferred tax assets, and the related provision for impairment, the Group takes into account the historical record of profitability of the respective subsidiaries, which is reviewed annually.

The deferred tax assets on tax loss carried forward are stated net of a CHF 11.8 mio (2004: CHF 18.5 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 uncertain (refer to section IV). Under the current tax laws in Switzerland, tax losses may be carried forward up to 7 years.

Unrecognized tax losses (CHF mio)	2005	Lapse of losses between
Swissquote Group holding Ltd	36.6	2006-2009
Swissquote Bank	46.5	2006-2010
Total	83.1	

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12. Provisions

	Balance 1 January	Increase (decrease)	Used	Balance 31 December
Year 2005	1,301,500	-	(411,234)	890,266
Year 2004	2,943,789	(419,513)	(1,222,776)	1,301,500

The balance provision at 31 December 2005 mainly corresponds to a long-term lease obligation maturing on 31 December 2008 to which the company is committed to in connection with the acquisition in 2002 of Consors (Schweiz) AG.

13. Pension

The Group operates two pension plans, which are both organized under Swiss Law. The main features are the following:

- ▶ the pension plans are defined benefit plans under IAS 19;
- ▶ 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 2005, the rate was 2.50% per annum (2003: 2.25% per annum).

The main actuarial assumptions used for the calculation of the pension cost and the projected benefit obligations are:

	2005	2004
Discount Rate	2.75%	3.25%
Rate of future increase in compensations	1.00%	1.00%
Rate of future increase in current pensions	0.50%	0.50%
Interest rate credited on savings accounts	3.75%	2.50%
Expected long-term rate of return on plan assets	4.25%	4.25%
Retirement age	According to rules	According to rules
Turnover	20% on average	20% on average

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.

	Actuarial	
(all amounts in thousands CHF)	2005	2004
Fair value of plan assets	6,861.5	5,822.8
Defined benefit obligation	(7,582.5)	(6,112.1)
Funded status	(721.0)	(289.3)

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The annual actuarial Company pension cost according to IAS 19 is as follows:

<i>(all amounts in thousands CHF)</i>	Actuarial	
	2005	2004
Service cost	(1,001.1)	(934.7)
Interest cost	(198.6)	(191.8)
Expected return on plans assets	247.5	208.1
Employees contribution	575.9	518.1
Impact of §58 and 58A limit	(212.6)	(130.9)
Company's pension cost	(588.9)	(531.2)

The actuarial pension cost compares with the actual company's contribution as follows:

<i>(all amounts in thousands CHF)</i>	2005	2004
Company pension cost (actuarial)	(588.9)	(531.2)
Company's pension contribution (financial)	588.9	531.2
Difference: movement in prepaid pension cost	-	-

The analysis of the reported pension obligation is summarized as follows:

<i>(all amounts in thousands CHF)</i>	2005	2004
Beginning of year	-	-
Change	212.6	130.9
Impact of §58 and 58A	(212.6)	(130.9)
End of year	-	-

The reconciliation between funded status and prepaid pension cost is as follows:

<i>(all amounts in thousands CHF)</i>	2005	2004
Funded status	(721.0)	(289.3)
Unrecognized (gain) / loss	933.6	420.2
Limit on balance sheet (§58 & 58A of IAS19)	(212.6)	(130.9)
Reported prepaid pension cost	-	-

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14. Equity

14.1 Structure of Capital

Number of shares	Ordinary Shares Issued	Unissued Shares		Total Shares Issued and Unissued
		Conditional Capital	Authorized Capital	
At 1 January 2004	1,379,020	37,010	-	1,416,030
Increase of the Conditional Capital and creation of an Authorized Capital	-	68,913	200,000	268,913
Options exercised in 2004 against issue of new shares	15,284	(15,284)	-	-
At 31 December 2004	1,394,304	90,639	200,000	1,684,943
At 1 January 2005	1,394,304	90,639	200,000	1,684,943
Options exercised in 2005 against issue of new shares	19,088	(19,088)	-	-
At 31 December 2005	1,413,392	71,551	200,000	1,684,943

The purpose of the conditional capital is to allow the exercise of the options granted to Group employees and Board members in accordance with the Group Stock Option Plan.

The provision ruling the utilisation of the Authorized capital provides that the Board of Directors is authorized to increase the share-capital of the Company by a maximum of CHF 2,000,000 by issuing no more than 200,000 new registered shares with a nominal value of CHF 10 within two years from 1 April 2004, i.e. before 31 March 2006. The provision further provides details on the capital increase process and exercise of preferential subscription rights.

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14.2 Share options reserve

	31 December	
	2005	2004
Value of services to be reclassified to Accumulated profits when outstanding options will lapse, expire or be exercised	563,186	526,991
Value of services to be amortized through profit and losses over the residual vesting periods of options	(194,606)	(155,256)
Share options reserve	368,580	371,735

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 seven 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 preceeding 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 price 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 ranging between CHF 27.85 and CHF 113.90. 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 become exercisable is two years.

The 6th allocation is reserved to Group employees. It provides that one option grants the right to acquire one SQN share. The strike price is equal to the 10-day average closing price of SQN preceeding the date of grant. Options granted are exercisable in three equal tranches. The first tranche becomes exercisable on the date of the first anniversary of the date of grant, the second on the second anniversary and the third on the third anniversary. The options granted in 2004 have a strike price of CHF 113.90.

The options granted under the 7th allocation in July 2005 are made under the following terms:

- ▶ one option grants the right to acquire one share;
- ▶ the strike price is equal to CHF 170.00;
- ▶ exercise:
 - ▶ options granted to members of the Board (11,700) are first exercisable three years after the date of grant. The exercise period is two years, starting on the date options first become exercisable;
 - ▶ options granted to Group employees (13,150) are exercisable in three equal tranches. The first tranche becomes exercisable on the date of the first anniversary of the grant date, the second tranche on the date of the second anniversary and the third tranche on the date of the third anniversary. Each tranche is exercisable during a period of two years, starting from the date it first becomes exercisable.

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

	3rd Allocation	4th Allocation	5th Allocation	6th Allocation	7th Allocation	Total	Conditional shares available for exercise
Balance at 1 January 2004	11,712	48,000	16,450	-	-	76,162	37,010
Increase of the Conditional Capital further to resolution of the AGM on 30 March 2004							68,913
Grants	-	600	-	7,998	-	8,598	
Exercised							
Covered by the issue of new shares	(6,134)	-	(9,150)	-	-	(15,284)	(15,284)
Covered by treasury shares	-	-	-	-	-	-	
Lapsed	(245)	-	-	(81)	-	(326)	
Balance at 31 December 2004	5,333	48,600	7,300	7,917	-	69,150	90,639
Balance at 1 January 2005	5,333	48,600	7,300	7,917	-	69,150	90,639
Grants	-	-	-	-	24,850	24,850	
Exercised							
Covered by the issue of new shares	(3,698)	(12,000)	(2,725)	(665)	-	(19,088)	(19,088)
Covered by treasury shares	-	-	-	-	-	-	
Lapsed	-	-	-	(473)	-	(473)	
Balance at 31 December 2005	1,635	36,600	4,575	6,779	24,850	74,439	71,551
<i>Less option outstanding</i>							(74,439)
<i>Shortfall</i>							(2,888)
<i>Number of treasury shares available at 31 December 2005</i>							8,022
<i>Balance Shares available for future grants</i>							5,134

Fair value and cost of stock options

The fair value of options is determined based on Black-Scholes, taking into account the following factors:

- ▶ the estimated future volatility, which is derived from the historical volatility;
- ▶ the difference between the strike price and the spot price at grant;
- ▶ the level of the risk free interest rate at date of grants;
- ▶ the time components of duration of vesting and exercise periods;
- ▶ the churn rate of optionees;
- ▶ the underlying social security costs.

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In determining the fair value of the options granted in the 7th allocation, the Company derived the estimated future volatility from the historical volatility measured over the 180 days prior to the date of grant, taking into consideration trading restrictions imposed to the optionees by the Company. The difference between the strike and spot price at grant is CHF 47.50. The level of risk free interest rate is based on the yield-to-maturity of bonds issued by the Swiss Confederation at dates close to the grant date. The reduction of the fair value due to the estimated churn rate of employees is assumed to be compensated by the social security costs payable by the Company in connection with the grant of the options. Depending on the tranche, the fair value of options ranges between CHF 6.46 and CHF 8.18 per option.

The movements (fair value) in stock options is the following:

	Allocation					Total
	#3	#4	#5	#6	#7	
Balance at 1 January 2004	226,369	180,000	61,688	-	-	468,057
Grants	-	15,120	-	201,550	-	216,670
Exercise	(115,205)	-	(34,312)	-	-	(149,517)
Lapsed	(6,176)	-	-	(2,042)	-	(8,218)
Balance at 31 December 2004	104,988	195,120	27,376	199,508	-	526,992
Balance at 1 January 2005	104,988	195,120	27,376	199,508	-	526,992
Grants	-	-	-	-	192,753	192,753
Exercise	(72,691)	(45,000)	(10,219)	(16,758)	-	(144,668)
Lapsed	-	-	-	(11,920)	-	(11,920)
Balance at 31 December 2005	32,297	150,120	17,157	170,830	192,753	563,157

a) Strike value of stock options outstanding and movements

	Allocation					Total
	#3	#4	#5	#6	#7	
Balance at 1 January 2004	973,312	1,336,800	458,133	-	-	2,768,245
Grants	-	68,340	-	910,972	-	979,312
Exercise	(492,663)	-	(254,828)	-	-	(747,491)
Lapsed	(32,171)	-	-	(9,226)	-	(41,397)
Balance at 31 December 2004	448,478	1,405,140	203,305	901,746	-	2,958,669
Balance at 1 January 2005	448,478	1,405,140	203,305	901,746	-	2,958,669
Grants	-	-	-	-	4,224,500	4,224,500
Exercise	(310,439)	(334,200)	(75,891)	(75,743)	-	(796,273)
Lapsed	-	-	-	(53,875)	-	(53,875)
Balance at 31 December 2005	138,039	1,070,940	127,414	772,128	4,224,500	6,333,021

Financial Report 2005

Notes to the Consolidated Financial Statements

SECTION VI : OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

b) Maturity of stock options outstanding

Allocation #	Strike Price	Number Options	Exercise Period Start	End
4 & 5	27.85	1,175	May-04	April-06
		3,400	May-05	April-07
		36,000	May-05	April-07
3	54.30	50	July-04	June-06
		50	July-05	June-07
3	86.39	520	March-04	February-06
		1,015	March-05	February-07
4 & 6	113.90	2,513	May-05	April-07
		2,433	May-06	April-08
		2,433	May-07	April-09
7	170.00	4,369	August-06	July-08
		4,377	August-07	July-09
		16,104	August-08	July-10
	Total	74,439		

14.3 Treasury Shares

The Company owned 8,022 treasury shares at 31 December 2005 (2004: 19,024). During 2005, the Company disposed of 11,002 shares net (2004: disposal of 2,841 shares, net) resulting from the acquisition of 9,023 shares at a unit price ranging from CHF 95.50 to CHF 135 (average cost of CHF 121.08 per share) and of the disposal of 20,025 shares at unit prices ranging from CHF 100.90 to CHF 119.50 (average per share of CHF 119.48).

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 2004 and 2005, there are no distributable reserves.

Financial Report 2005

Notes to the Consolidated Financial Statements

SECTION VI : OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Fee and commission income

	2005	2004
Brokerage and related	35,747,778	28,065,145
Custody and others	3,645,065	2,870,986
Total	39,392,843	30,936,131

16. Interest income, net

	2005	2004
Interest income		
Cash and short-term funds	5,530,330	2,517,272
Investment securities	-	69,504
Loans to customers	1,550,166	968,955
	7,080,496	3,555,731
Interest expense		
Banks	-	(2,833)
Due to customers	(1,722,753)	(842,915)
Total net	5,357,743	2,709,983

17. Other operating income

Other operating income mainly 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 2005

Consolidated Financial Statements

SECTION VI : OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. Operating expenses

	2005	2004
Payroll & related expenses	14,695,498	12,581,136
Production expenses	5,632,322	5,231,317
Marketing expenses	4,849,531	3,522,208
Administration and other operating expenses	5,469,171	4,740,090
Total	30,646,522	26,074,751

Payroll and related expenses consist of:

	2005	2004
Wages and salaries	14,085,567	11,725,653
Social security costs	1,994,176	1,690,074
	16,079,743	13,415,727
Less capitalized costs	(1,384,245)	(834,591)
Total	14,695,498	12,581,136
Average headcount	123	115

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

19. Earning per share

Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.

	2005	2004
Net Profit	14,682,970	6,057,394
Weighted average number of ordinary shares in issue	1,390,310	1,366,203
Basic earning per share	10.56	4.43

Financial Report 2005

Consolidated Financial Statements

SECTION VI : OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Share options is the only type of dilutive potential ordinary shares : a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2005	2004
Net Profit	14,682,970	6,057,394
Weighted average number of ordinary shares in issue	1,390,310	1,366,203
Adjustments for share options	31,449	40,000
Weighted average number of ordinary shares for diluted earnings per share options	1,421,759	1,406,203
Diluted earning per share	10.33	4.31

20. Related party transactions

Related party transactions are defined as transactions and balances with members of the Board and of the Executive Management, as well as with shareholders with an interest in the Group of more than 5%.

	2005	2004
Remuneration		
Short term benefits	1,388,400	1,354,666
Long term benefits	167,149	158,379
Share based compensation	95,706	15,120
Loans and advances to customers	-	-
Due to customers	8,307,336	9,533,911

21. Commitments

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

Payable:	2005	2004
Not later than 1 year	700,126	644,000
Later than 1 year and not later than 5 years	977,624	966,000
Later than 5 years	-	-

Purchase commitments: In connection with the insuring of adequate office infrastructure to support its growth, the company engaged itself into the construction of its new headquarter. The estimated amount of the project is CHF 16 mio, which payment is scheduled in various tranches over 18 months from the date of the delivery to the company of the construction authorisation.

Report of the Group Auditors to the General Meeting of Swissquote Group Holding Ltd Gland

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) included on pages 9 to 47 Swissquote Group Holding Ltd for the year ended 31 December 2005.

These consolidated financial statements are the responsibility of the board of directors. 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 Swiss Auditing Standards and with the International Standards on Auditing, 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 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

PricewaterhouseCoopers SA



JC Pernollet



M Caputo

Geneva, 16 February 2006

Section 2 Financial Report 2005

Statutory Financial Statements

STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 OF SWISSQUOTE GROUP HOLDING Ltd

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Statutory Financial Statements

BALANCE SHEET AT 31 DECEMBER 2005

	Notes	2005	2004
ASSETS			
Current assets			
Cash and banks		1,283,412	1,211,863
Receivables and prepayments		3,357	3,096
Securities (own shares)	5	1,199,289	1,902,400
Total current assets		2,486,058	3,117,359
Non-current assets			
Investments in subsidiaries	2	40,698,952	40,698,952
Receivables from subsidiaries		21,685,778	17,647,241
		62,384,730	58,346,193
Provision		(25,238,794)	(31,938,794)
Total Net		37,145,936	26,407,399
Long-term loan	4	98,030	228,647
Formation costs and intellectual property rights, net	3	2,189,883	3,584,915
Total non current assets		39,433,849	30,220,961
TOTAL		41,919,907	33,338,320
LIABILITIES AND EQUITY			
Current liabilities			
Creditors and accrued liabilities		224,790	201,378
Total current liabilities		224,790	201,378
Equity			
Share-capital	5	14,133,920	13,943,040
Share premium	6	18,720,007	18,405,391
Reserve for own shares	6	846,459	588,511
Retained earnings		7,994,731	200,000
Total equity		41,695,117	33,136,942
TOTAL		41,919,907	33,338,320

Financial Report 2005

Statutory Financial Statements

STATEMENT OF OPERATIONS FOR THE YEAR 2005

	2005	2004
Income		
Revenues from investments	192,753	200,000
Gain on own shares	588,735	233,661
Interest income	12,832	15,540
Royalties	2,151,544	1,846,615
Reversal of provision on investment and receivable from subsidiaries	6,700,000	464,071
Total	9,645,864	2,759,887
Expenses		
Operating expenses	471,742	407,004
Amortization	1,379,391	2,172,883
Total	1,851,133	2,579,887
Net profit	7,794,731	180,000
Retained earnings, beginning of year	200,000	20,000
Retained earnings, end of year	7,994,731	200,000

Financial Report 2005

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 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:

	2005	2004
Mr. Marc Bürki	15.08%	15.28%
Mr. Paolo Buzzi	15.08%	15.28%
Mr. Jean Pfau	7.84%	7.95%
AIG Equity Fund Switzerland	7.37%	0.00%
Mr. Thomas Matter	0.00%	5.02%

2. Investments in and Receivables from subsidiaries

Investments in subsidiaries consist of:

	2005		2004	
	%	CHF	%	CHF
Swissquote Bank	100.00%	40,460,002	100.00%	40,460,002
Swissquote Trade Ltd	100.00%	238,950	100.00%	238,950
Total		40,698,952		40,698,952

The receivables from subsidiaries include a total amount of CHF 10.0 mio subordinated in favour of the creditors of Swissquote Bank.

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 level at 31 December 2004, except for CHF 6,700,000 (2004: CHF 464,071) that were reversed in the statement of operations in 2005.

3. Formation costs and intellectual property

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

Financial Report 2005

Statutory Financial Statements

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

4. Long-term loan

The amount of CHF 98,030 (2004: CHF 228,647) corresponds to the balance of a CHF 300,000 loan granted to Marvel Communications Ltd. The terms are:

- ▶ no interest was payable until 30 June 2004. Thereafter interest is 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

	2005	2004
Ordinary issued share-capital :		
Number of shares in issue	1,413,392	1,394,304
Nominal value of each share (Registered shares)	10	10
Ordinary share-capital	14,133,920	13,943,040
Unissued share-capital		
Conditional share-capital	715,510	906,390
Authorized share-capital	2,000,000	2,000,000

Ordinary issued Share-Capital

At the date of approval of these financial statements by the Board of Directors, the number of issued shares registered at the Commercial Registry was 1,394,304 registered shares of CHF 10 nominal value each. The difference between the number of shares registered at the Commercial Registry and the number of shares reported in these financial statements (1,413,392) corresponds to stock options exercised in the period from 9 February 2005 to 31 December 2005.

Conditional Share-Capital

The increase of the conditional share-capital to CHF 1,000,000 was approved at the General Meeting of Shareholders on 30 March 2004. 19,088 stock options were exercised in 2005 (2004: 15,284).

Authorized Share-Capital

The provision ruling the utilisation of the Authorized capital provides that the Board of Directors is authorized to increase the share-capital of the Company by a maximum of CHF 2,000,000 by issuing no more than 200,000 new registered shares with a nominal value of CHF 10 within two years from 1 April 2004, i.e. before 31 March 2006. The provision further provides details on the capital increase process and exercise of preferential subscription rights.

Own Shares

The Company owned 8,022 shares at 31 December 2005 (2004: 19,024). During 2005, the Company disposed of 11,002 shares net (2004: disposal of 2,841 shares, net) resulting from the acquisition of 9,023 shares at a unit price ranging from CHF 95.50 to CHF 135 (average cost of CHF 121.08 per share) and of the disposal of 20,025 shares at unit prices ranging from CHF 100.90 to CHF 119.50 (average per share of CHF 119.48).

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 2005 and 2004, the amount of such non-distributable reserves is nil.

Financial Report 2005

Statutory Financial Statements

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

6. Share premium and reserve for own shares

	2005	2004
Share premium		
At beginning of year	18,405,391	17,844,540
Allocation to Reserve for own shares	(257,948)	(11,275)
Share premium on new shares issued	572,564	572,126
At end of year	18,720,007	18,405,391
Reserve for own shares		
At beginning of year	588,511	577,236
Allocation from Share premium	257,948	11,275
At end of year	846,459	588,511

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

Financial Report 2005

Statutory Financial Statements

PROPOSAL OF THE BOARD OF DIRECTORS REGARDING AVAILABLE EARNINGS AT 31 DECEMBER 2005

The Board of Directors proposes to utilise the available earnings as follows:

Available earnings	CHF
Retained earnings at 1 January 2005	200,000
Net profit of year 2005	7,794,731
Total available earnings	7,994,731

Proposed appropriation of available earnings	CHF
Dividend of CHF 1.00 gross per share (1)	1,413,392
Retained earnings to be carried forward at 1 January 2006	6,581,339
Total	7,994,731

(1) Amounts based on the number of shares issued at 31 December 2005.

Report of the Statutory Auditors to the General Meeting of Swissquote Group Holding Ltd Gland

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, statement of operations and notes) included on pages 50 to 55 of Swissquote Group Holding Ltd for the year ended 31 December 2005.

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 Swiss Auditing Standards, 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, 16 February 2006

Corporate Governance Report

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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 2005

Compared to 2004, there were few changes in the Corporate Governance Regulations and Framework. The main events were:

- ▶ the election of Mr. Markus Dennler at the Board of Swissquote Group Holding Ltd at the General Meeting of Shareholders on 15 March 2005;
- ▶ the appointment of BDO Visura as Internal Auditor as of 3 August 2005, in replacement of Fiduciaire Dynadev SA.

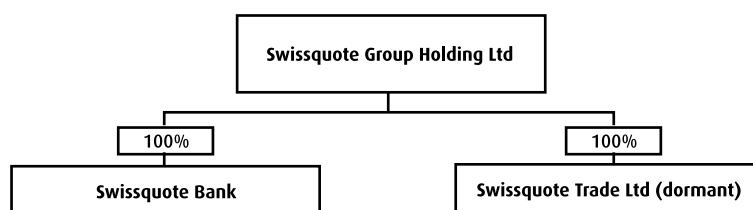
2. Group Structure and Shareholding

2.1 Scope of operations

Swissquote Group Holding Ltd and its subsidiaries (“the Group”) are 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. The Legal structure of the Group is the following:



All Group companies are domiciled in Switzerland and their scope of operations is in Switzerland.

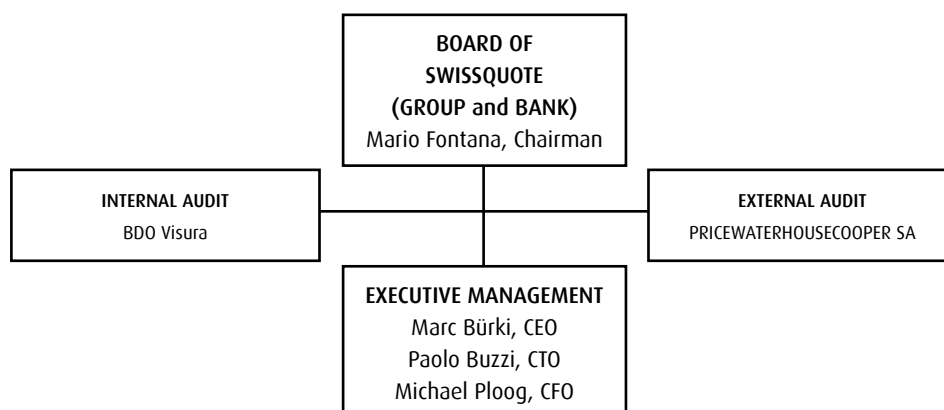
The shares of Swissquote Group Holding Ltd are listed on the Swiss Stock Exchange since 29 May 2000. The ticker is SQN, the security number is 1,067,586 and the ISIN Number is CH0010675863.

Corporate Governance Report

2.3 Organization

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:

	2005	2004
Mr. Marc Bürki	15.08%	15.28%
Mr. Paolo Buzzi	15.08%	15.28%
Mr. Jean Pfau	7.84%	7.95%
AlG Equity Fund Switzerland	7.37%	0.00%
Mr. Thomas Matter	0.00%	5.02%

3. Structure of the Equity

3.1 Capital at 31 December 2005

At 31 December 2005, the issued share-capital consists of 1,413,392 ordinary registered shares of CHF 10 nominal value each. The Company owned 8,022 treasury shares. Further, a conditional share-capital of CHF 715,510 consisting of 71,551 ordinary conditional shares of CHF 10 nominal value and an authorized capital of CHF 2 mio consisting of 200,000 authorized shares of CHF 10 nominal value each were outstanding at 31 December 2005.

The purpose of the conditional capital 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

The provision of the Articles of Incorporation ruling the utilisation of the Authorized capital provides that the Board of Directors is authorized to increase the share-capital of the Company by a maximum of CHF 2,000,000 by issuing no more than 200,000 new registered shares with a nominal value of CHF 10 within two years from 1 April 2004, i.e. before 31 March 2006. The amount of the issue, the point of time at which the shares confer a dividend entitlement, the method of payment in full for contributions and the subscription procedure shall be determined by the Board of Directors. An increase in tranches or a partial increase is also possible. The amount of the increase must be fully paid-up in accordance with procedures to be defined by the Board of Directors. The provisions of the Articles of Incorporation relating to the restriction on the transferability of shares shall also apply to the new shares. The General Meeting may decide to abolish preferential subscription rights in the sole event that the increase in share-capital is adopted with a view to acquiring another undertaking or parts of undertakings or holdings in accordance with the terms of Article 652b, paragraph 2 of the Swiss Code of Obligations. In other instances of increases in share-capital decided within the framework of this provision, preferential subscription rights may be exercised by shareholders in proportion to their previous holding. Regarding preferential subscription rights assigned but not exercised, the Board of Directors may, without having to put it to a General Meeting first, either allow these to lapse or else offer them – respectively, to offer the corresponding new shares – wholly or in part to other shareholders in proportion to their previous holding, or offer them wholly or in part to one or more third parties, under such conditions as it sees fit to decide. Only shareholders listed in the share register may exercise their preferential subscription right. The Board of Directors shall determine the conditions of registration of shareholders who purchased shares in the company prior to the decision of the Board of Directors to increase the share-capital, but who have not yet been registered to the share register. The Board of Directors may require the subscription in trust by a third party and define the corresponding procedure as it sees fit.

3.2 History of share-capital

<i>Number of shares</i>	Ordinary Shares Issued	Unissued Shares		Total Shares Issued and Unissued
		Conditional Capital	Authorized Capital	
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
At 1 January 2004	1,379,020	37,010	-	1,416,030
Increase of the Conditional Capital and creation of an Authorized Capital	-	68,913	200,000	268,913
Exercise of employees' Stock Options	15,284	(15,284)	-	-
At 31 December 2004	1,394,304	90,639	200,000	1,684,943
At 1 January 2005	1,394,304	90,639	200,000	1,684,943
Exercise of employees' Stock Options	19,088	(19,088)	-	-
At 31 December 2005	1,413,392	71,551	200,000	1,684,943

Corporate Governance Report

3.3 History of the free float

All shares in issue at 31 December 2005 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 2005 is 54.63% (2004: 56.47%).

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 seven 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 preceeding 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 price 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 ranging between CHF 27.85 and CHF 113.90. 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 become exercisable is two years.

The 6th allocation is reserved to Group employees. It provides that one option grants the right to acquire one SQN share. The strike price is equal to the 10-day average closing price of SQN preceeding the date of grant. Options granted are exercisable in three equal tranches. The first tranche becomes exercisable on the date of the first anniversary of the date of grant, the second on the second anniversary and the third on the third anniversary. The options granted in 2004 have a strike price of CHF 113.90.

The options granted under the 7th allocation in July 2005 are made under the following terms:

- ▶ one option grants the right to acquire one share;
- ▶ the strike price is equal to CHF 170.00;
- ▶ exercise:
 - ▶ options granted to members of the Board (11,700) are first exercisable three years after the date of grant. The exercise period is two years, starting on the date options first become exercisable;
 - ▶ options granted to Group employees (13,150) are exercisable in three equal tranches. The first tranche becomes exercisable on the date of the first anniversary of the grant date, the second tranche on the date of the second anniversary and the third tranche on the date of the third anniversary. Each tranche is exercisable during a period of two years, starting from the date it first becomes exercisable.

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

	3rd Allocation	4th Allocation	5th Allocation	6th Allocation	7th Allocation	Total	Conditional shares available for exercise
Balance at 1 January 2003	14,524	48,000	20,300	-	-	82,824	40,000
Grants	-	-	-	-	-	-	
Exercised							
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	37,010
Balance at 1 January 2004	11,712	48,000	16,450	-	-	76,162	37,010
Increase of the Conditional Capital further to resolution of the AGM on 30 March 2004							68,913
Grants	-	600	-	7,998	-	8,598	
Exercised							
Covered by the issue of new shares	(6,134)	-	(9,150)	-	-	(15,284)	(15,284)
Covered by treasury shares	-	-	-	-	-	-	
Lapsed	(245)	-	-	(81)	-	(326)	
Balance at 31 December 2004	5,333	48,600	7,300	7,917	-	69,150	90,639
Balance at 1 January 2005	5,333	48,600	7,300	7,917	-	69,150	90,639
Grants	-	-	-	-	24,850	24,850	
Exercised							
Covered by the issue of new shares	(3,698)	(12,000)	(2,725)	(665)	-	(19,088)	(19,088)
Covered by treasury shares	-	-	-	-	-	-	
Lapsed	-	-	-	(473)	-	(473)	
Balance at 31 December 2005	1,635	36,600	4,575	6,779	24,850	74,439	71,551

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The options outstanding at 31 December 2005 are maturing as follows:

Allocation #	Strike Price	Number Options	Exercise Period	
			Start	End
4 & 5	27.85	1,175	May-04	April-06
		3,400	May-05	April-07
		36,000	May-05	April-07
3	54.30	50	July-04	June-06
		50	July-05	June-07
3	86.39	520	March-04	February-06
		1,015	March-05	February-07
4 & 6	113.90	2,513	May-05	April-07
		2,433	May-06	April-08
		2,433	May-07	April-09
7	170.00	4,369	August-06	July-08
		4,377	August-07	July-09
		16,104	August-08	July-10
	Total	74,439		

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3.5 History of equity

	Share capital	Share premium & reserves	Share option reserve	Treasury shares	Retained earnings	Total
Balance reported in the Annual Report 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
Movement in deferred taxes	-	21,754	-	-	-	21,754
Capital increase against exercise of options	29,900	72,100	-	-	-	102,000
Net profit of the period	-	-	-	-	5,129,120	5,129,120
Restated balance at 1 January 2004	13,790,200	61,723,981	-	(1,902,255)	(30,714,575)	42,897,351
Balance reported in the Annual Report 2004	13,790,200	61,723,981	-	(1,902,255)	(30,714,575)	42,897,351
Restatements:						
Stock option plan:						
Value of services provided	-	-	351,650	-	(351,650)	-
Treasury stocks at cost	-	-	-	1,325,219	(1,325,219)	-
Allocation of Share premium & reserves to Accumulated losses	-	(32,391,444)	-	-	32,391,444	-
Restated balance at 1 January 2004	13,790,200	29,332,537	351,650	(577,036)	-	42,897,351
Capital increase resulting from the exercise of options	152,840	567,077	-	-	-	719,917
Employee stock option plan:						
Value of services provided	-	-	177,819	-	-	177,819
Reclassification of value of services provided for stock options exercised, lapsed or expired in the period	-	-	(157,734)	-	157,734	-
Net change in investment securities available-for-sale	-	-	-	-	-	-
Net change in treasury shares	-	-	-	(11,475)	244,987	233,512
Net profit of the period	-	-	-	-	6,057,394	6,057,394
Restated balance at 31 December 2004	13,943,040	29,899,614	371,735	(588,511)	6,460,115	50,085,993
Restated balance at 1 January 2005	13,943,040	29,899,614	371,735	(588,511)	6,460,115	50,085,993
Capital increase resulting from the exercise of options	190,880	572,564	-	-	-	763,444
Employee stock option plan:						
Value of services provided	-	-	153,404	-	-	153,404
Reclassification of value of services provided for stock options exercised, lapsed or expired in the period	-	-	(156,559)	-	156,559	-
Purchase of treasury shares	-	-	-	(1,098,356)	-	(1,098,356)
Sale of treasury shares	-	1,549,793	-	840,409	-	2,390,202
Net profit of the period	-	-	-	-	14,682,970	14,682,970
Balance at 31 December 2005	14,133,920	32,021,971	368,580	(846,458)	21,299,644	66,977,657

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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. Since 15 March 2005, the Board has been comprised of four non-executive members. The Board of Swissquote Group acts at the same time as the Board of Swissquote Bank.

The Board shall meet at least 4 times a year. In 2005, the Board met 7 times, out of which one meeting was for a two-days 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 2005, there were two such Committees at the level of the Group: the Audit Committee and the Remuneration and Nomination Committee. For banking regulating reasons, there is no Audit Committee at the level of Swissquote Bank. All Audit and Compliance issues are directly treated by the Board of the Bank.

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)

Member of the Board of Swissquote Group since April 2001
Chairman of the Board of Swissquote Group since April 2002
Chairman of the Board of Swissquote Bank since March 2004
Chairman 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 for over 15 years as General Manager for Hewlett-Packard, 10 years leading HP Switzerland, then the Computer Business in Germany and Europe and at the end 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.

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

Member of the Board of Swissquote Group since April 2002
Vice Chairman of the Board of Swissquote Bank since March 2004
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 1989, 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.

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Otto E. Nägeli (1949 / Swiss national, domiciled in Switzerland)

Member of the Board of Swissquote Group since March 2004

Member of the Board of Swissquote Bank since May 2003

Member of the Audit Committee

After obtaining a commercial degree in Zurich, Otto E. Nägeli 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. Nägeli 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. Nägeli 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.

Markus Dennler (1956 / Swiss national, domiciled in Switzerland)

Member of the Board of Swissquote Group since March 2005

Member of the Board of Swissquote Bank since March 2005

Member of the Remuneration and Nomination Committee

Markus Dennler completed his studies at the University of Zurich with a doctorate in law and subsequently is admitted to the Bar of Zurich. Further, he attended the International Bankers School in New York and the Harvard Business School in Boston (AMP). Following a period working with a law office, Markus Dennler moved in 1986 to what is now the Credit Suisse Group, where he spent 18 years in a variety of management functions. He began his career with Credit Suisse as assistant to President of the Executive Board and branch manager. He subsequently held the positions of Managing Director of CS Columna, Chief Executive Officer of Winterthur Columna, Member of the Corporate Executive Board of Winterthur and, ultimately, member of the Executive Board of Credit Suisse Financial Services. At the beginning of 2005, Markus Dennler went independent, concentrating on various directorships. Currently, he serves on various Boards and is a councillor of the British Chamber of Commerce.

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4.1.2 Members of the Board who resigned in 2005

None.

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 choose 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.

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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 CEO.

4.5 Group Audit Committee

Board members on the committee: Paul E. Otth, Otto E. Nägeli.

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 four times a year and has met four times in 2005.

4.6 Group Remuneration and Nomination Committee

Board members on the committee: Mario Fontana, Markus Dennler.

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 2005, it met twice.

4.7 Functions delegated to the CEO 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.

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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.

The position of internal auditor reporting independently to the Board of Directors of Swissquote Bank is outsourced to BDO Visura, Lausanne. The duties of the internal auditor are governed by the Federal Law on Banks and Saving Banks and the Bank's Internal Regulations.

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 2005, are listed in the following table:

	Mario Fontana	Paul E. Otth	Otto E. Nägeli	Markus Dennler
Swissquote				
Swissquote Group Holding Ltd	Chairman	Board Member	Board Member	Board Member
Swissquote Bank	Chairman	Vice-Chairman	Board Member	Board Member
Other companies				
Amazys	Chairman			
Ascom Holding AG		Vice-Chairman		
Batigroup Holding AG				Chairman
Converium Holding AG				Board Member
Dufry Ltd	Board Member			
EAO Holding AG		Chairman		
Inficon Holding AG	Board Member	Vice-Chairman		
SBB AG	Board Member	Board Member		
ShareComm Service AG			Board Member	
Sulzer Ltd	Board Member			
Zurich - Swiss Value Ltd			Chairman	
Zurich - Swiss Value Invest			Chairman	
Former positions with Swissquote Group	None	None	None	None
Public Offices	None	None	None	None

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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 2005

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

Chief Executive Officer (CEO)

Founding partner of Swissquote Group

Marc Bürki is a graduate from the Swiss Federal Institute of Technology (EPFL) in Lausanne, in 1987, with a degree in electrical engineering. 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)

Chief Technology Officer (CTO)

Founding Partner of Swissquote Group

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. He is Chief Technology Officer of Swissquote Bank.

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

Chief Financial Officer (CFO)

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.

5.2.2 Executive Management who left in 2005

None

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5.2.3 Organization chart of the enlarged Management Group



Giuseppe Tafuro (1959 / 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 organize the Customer Care 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 Client Relations

René Krebs joined Swissquote in February 2004 as Head of the newly created Client Relations department. 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.

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

Head of Product Development

Loïc Guezennec joined Swissquote in 1999 as Project Manager in charge 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.

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François Junod (1964 / Swiss National, domiciled in Switzerland)

Head of IT Department & Security

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 an Engineer and 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 Trading & Treasury

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 Trading & Treasury. He graduated from the Lausanne Hotel School. He is holder of the SWX traders and the Investment Fund Advisor Licences.

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

Head of Backoffice and Banking Process

Lino Finini joined Swissquote in 2001 as Head of Banking Process & Quality and became Head of Backoffice and Banking process after these two departments were merged in June 2004. 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.

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. He has been serving as Secretary of the Board since 1 April 2004.

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)

Head of Reporting & Controlling

Gilles Chantrier joined Swissquote in 2000 as Deputy Head Accounting and was appointed Head of the Backoffice in February 2002. In July 2003, he was entrusted with the position of Internal Controller and in October 2005, he also became in charge of Accounting and Reporting. Prior to join Swissquote, he worked as an Accountant since 1995 and obtained in 2000 a B.Sc. in Economics from the HEG.

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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.

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

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 Management in place at 31 December 2005			Board Members and Management who left the Group in 2005		
	Non- Executive Board Members	Executive Management	Total	Non- Executive Board Members	Executive Management	Total
Base remuneration / fees (1)	CHF 285,000	CHF 960,000	CHF 1,245,000	-	-	-
Bonus paid in 2005	-	CHF 143,400	CHF 143,400	-	-	-
Accrued bonus	-	CHF 478,000	CHF 478,000	-	-	-
Fringe benefits (2)	pm	pm	pm	-	-	-
Consulting and other fees	CHF 15,000	-	CHF 15,000	-	-	-
Departure indemnities	-	-	-	-	-	-
Shares granted (units)	-	-	-	-	-	-
Value of shares granted	-	-	-	-	-	-
Price paid for shares granted	-	-	-	-	-	-
Shares bought back by company						
- Number of shares	-	-	-	-	-	-
- CHF Value	-	-	-	-	-	-
Stock options						
Options granted in 2005 (units) (3)	11,700	-	11,700.00	-	-	-
CHF Value	95,706.00	-	95,706.00	-	-	-
Strike price / per share	170.00	-	170.00	-	-	-
Options granted, but not exercised at 31 Dec.2005	36,300	3,400	39,700	-	-	-
Of which exercisable	24,600	3,400	28,000	-	-	-
Ownership in the Company at 31 December 2005:						
- Number of shares	61,847	437,010	498,857	-	-	-
- % of share-capital in issue	4.38%	30.92%	35.30%	-	-	-
Contingent compensation (4)	-	-	-	-	-	-

(1) Base remuneration and fees paid in 2005 consist of the base salary for management and of the remuneration decided by the Board for members of the Board.

(2) 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.

(3) Options granted – the options granted will be first exercisable one year after the date of grant. One option gives the right to acquire one SQN share at a strike price of CHF 170.00. The exercise period is two years starting on the date options first become exercisable.

(4) Contingent remuneration – Consists of contractual terms, if any, that provide certain compensation, in case of dismissal.

Corporate Governance Report

6.2 Highest remuneration of the Board

The highest aggregate compensation paid to a member of the Board amounted to CHF 151,902 in 2005 (CHF 120,000 in 2004).

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 agree to take a malus of 25% of their base salary should the objectives set by the Board not be reached.

6.4 Loans and lending activity

Loans to members of the Board of Directors and Executive Management are granted based on the same conditions than third party clients.

As of 31 December 2005, the total credit facilities (Lombard loans) granted to members of the Board of Directors and of the Executive Management amounted to CHF 500,000. The credit facilities were not used on that date.

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.

Corporate Governance Report

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, Europa-Strasse 29, CH-8152 Glattbrugg, to maintain the Company's Share registry.

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 provides 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.

Corporate Governance Report

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".

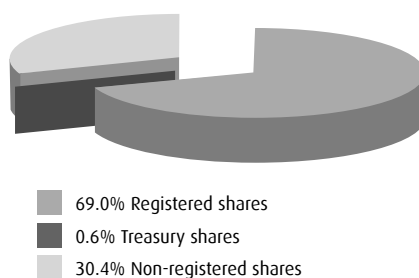
The Chairman of the Board chairs the General Meeting, or if absent, another member of the Board does, or otherwise a chairman, who shall not necessarily be a shareholder, is elected by the General Meeting.

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

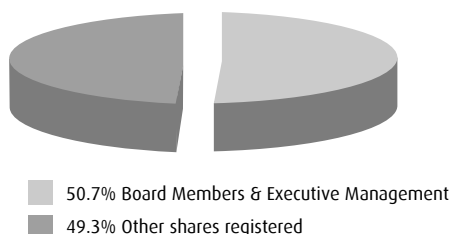
- ▶ the number, type, value and classes of shares represented by shareholders, corporate bodies, independent proxies of voting;
- ▶ rights and proxies for deposited shares;
- ▶ the resolution and results of elections;
- ▶ the request of information and the respective replies;
- ▶ the statements for records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

7.4 Analysis of the voting rights at 31 December 2005

At 31 December 2005 the issued share-capital consists of 1,413,392 ordinary registered shares of CHF 10 nominal value each. The shareholders registered in the Shareholders Register held 975,031 shares and the company owned 8,022 treasury shares. The distribution of the shareholdings in the company is the following:



Further, the registered shareholders at 31 December 2005 are analysed as follows:



Corporate Governance Report

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).

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 utilisation 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 SA 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 2005 to December 2005, the auditors met four times 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 2005 is analysed as follows:

	2005	2004
Audit fees	320,500	295,500
Other fees:		
Audit related services	73,000	54,000
Tax	19,000	14,000
Total	412,500	363,500

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, including the regulatory audit of the bank, for the year ended 31 December 2005.

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 rumours 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 February, followed by a press conference and / or a telephone conference for analysts and media. The General Meeting normally takes place in March. 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 and a press conference for the half-year results. The quarterly reports are released on the Company's website.

The releases of the quarterly results in 2006 are scheduled as follows:

Quarter 1 Interim Financial Statements at 31 March 2006:	26 April 2006
Quarter 2 Interim Financial Statements at 30 June 2006:	28 July 2006
Quarter 3 Interim Financial Statements at 30 September 2006:	26 October 2006

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".

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