

**INTERIM REPORT**  
**30 September 2004**



# Interim Report 30 September 2004

## Consolidated Interim Balance Sheet

	Notes	30 September 2004	30 September 2003	31 December 2003
<b>ASSETS</b>				
Cash and balances with central bank		13,280,736	33,761,907	43,490,235
Due from other banks		373,885,842	262,636,077	301,096,041
Derivatives financial instruments		913,845	301,740	169,766
Loans and advances to customers		28,479,680	17,587,076	19,016,926
Receivables and prepayments		2,035,714	2,143,621	1,196,573
Investment securities	4	6,095,570	5,325,413	5,282,796
Goodwill		3,000,000	3,200,000	3,000,000
Property, plant and equipment	5	5,955,117	5,141,655	5,895,943
Other long term assets		1,078,322	487,163	486,626
Deferred tax assets, net		636,458	614,704	636,458
<b>Total assets</b>		<b>435,361,284</b>	<b>331,199,356</b>	<b>380,271,364</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Due to other banks		1,190,899	273,010	1,416,909
Derivatives financial instruments		913,845	301,740	169,766
Due to customers		377,393,326	278,450,307	326,228,043
Trade and other payables		5,916,115	7,673,151	6,615,506
Provisions and pension		1,793,075	3,149,731	2,943,789
<b>Total liabilities</b>		<b>387,207,260</b>	<b>289,847,939</b>	<b>337,374,013</b>
Minority interest	6	-	-	-
<b>EQUITY</b>				
Ordinary shares	7	13,920,540	13,760,300	13,790,200
Share premium and reserves		62,131,354	61,630,127	61,723,981
Treasury shares	7.3	(2,187,280)	(1,627,968)	(1,902,255)
Accumulated losses		(25,710,590)	(32,411,042)	(30,714,575)
<b>Total equity</b>		<b>48,154,024</b>	<b>41,351,417</b>	<b>42,897,351</b>
<b>Total liabilities and equity</b>		<b>435,361,284</b>	<b>331,199,356</b>	<b>380,271,364</b>

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### Consolidated Interim Statement of Operations

	Notes	9 months ended 30 September	
		2004	2003
Fee and commission income		24,106,193	19,945,446
Fee and commission expense		(2,543,191)	(2,187,022)
<b>Net fee and commission income</b>		<b>21,563,002</b>	<b>17,758,424</b>
Interest income		2,390,683	1,487,750
Interest expense		(554,852)	(362,978)
<b>Net interest income</b>		<b>1,835,831</b>	<b>1,124,772</b>
Net trading income		1,639,259	887,818
Other operating income		1,204,977	1,043,150
<b>Operating income</b>		<b>26,243,069</b>	<b>20,814,164</b>
<b>Operating expenses</b>	3	<b>(19,500,941)</b>	<b>(16,871,799)</b>
<b>Operating profit before depreciation, amortization and provisions</b>		<b>6,742,128</b>	<b>3,942,365</b>
<b>Depreciation, amortization and provisions</b>			
Depreciation	5	(1,890,000)	(2,300,000)
Amortization and provisions	6	-	(2,600,000)
Gain on acquisition of minority interest	6	-	4,245,437
<b>Operating profit before minority interest</b>		<b>4,852,128</b>	<b>3,287,802</b>
Minority interest		-	773,800
<b>Net Profit</b>		<b>4,852,128</b>	<b>4,061,602</b>
<i>Earning per share</i>	3	<i>3.56</i>	<i>3.16</i>
<i>Diluted earning per share</i>		<i>3.33</i>	<i>3.07</i>

Quarterly Results: See Note 1

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### Consolidated Interim Changes in Shareholders' Equity

	Share Capital	Share premium & reserves	Treasury shares	Accumulated losses	Total
Balance at 1 January 2003	13,760,300	61,630,127	(2,154,376)	(37,812,188)	35,423,863
Net changes in treasury shares	-	-	526,408	1,339,544	1,865,952
Net profit of the period	-	-	-	4,061,602	4,061,602
<b>Balance at 30 September 2003</b>	<b>13,760,300</b>	<b>61,630,127</b>	<b>(1,627,968)</b>	<b>(32,411,042)</b>	<b>41,351,417</b>
<b>Balance at 1 January 2004</b>	<b>13,790,200</b>	<b>61,723,981</b>	<b>(1,902,255)</b>	<b>(30,714,575)</b>	<b>42,897,351</b>
Capital increase resulting from the exercise of options	130,340	528,914	-	-	659,254
Net change in investment securities available-for-sale	-	(121,541)	-	-	(121,541)
Net changes in treasury shares	-	-	(285,025)	151,857	(133,168)
Net profit of the period	-	-	-	4,852,128	4,852,128
<b>Balance at 30 September 2004</b>	<b>13,920,540</b>	<b>62,131,354</b>	<b>(2,187,280)</b>	<b>(25,710,590)</b>	<b>48,154,024</b>

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### Consolidated Interim Condensed Cash Flow Statement

	Notes	9 months ended 30 September	
		2004	2003
<b>Cash flow from operating activities</b>			
Ordinary		45,971,806	91,597,930
Restructuring and discontinued operations		(1,150,714)	(5,276,879)
<b>Net cash from operating activities</b>		<b>44,821,092</b>	<b>86,321,051</b>
<b>Cash flow used in investing activities</b>			
Purchase of property, plant and equipment	5	(1,949,174)	(2,136,732)
Cash disbursed for the acquisition of minority interest in Swissquote Bank	6	-	(850,000)
Change in other long term assets		(591,696)	(145,043)
Treasury shares		(133,164)	65,782
<b>Net cash used in investing activities</b>		<b>(2,674,034)</b>	<b>(3,065,993)</b>
<b>Cash flow from financing activities</b>			
Net proceeds of issue of ordinary shares		659,254	-
<b>Net cash from financing activities</b>		<b>659,254</b>	<b>-</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>42,806,312</b>	<b>83,255,058</b>
<b>Movements in cash and cash equivalents</b>			
At beginning of year		343,169,367	212,869,916
Increase		42,806,312	83,255,058
<b>At 30 September</b>		<b>385,975,679</b>	<b>296,124,974</b>
<b>Cash and cash equivalents</b>			
Cash and balances with central bank		13,280,736	33,761,907
Due from other banks		373,885,842	262,636,077
Due to other banks		(1,190,899)	(273,010)
<b>Total at 30 September</b>		<b>385,975,679</b>	<b>296,124,974</b>

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## SECTION I ACCOUNTING POLICIES

The consolidated interim financial statements are prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies used in the preparation of the interim consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2003 except for:

- ▶ IFRS 3, which were early adopted by the Company with retroactive effect on 1st January 2004.
- ▶ The reclassification in Q2-2004 of certain amounts recorded in Q1-2004 in Other operating income based on their legal substance to Fee and Commission income based on their economic substance.

The early adoptions of IFRS 3 and IAS 36 (as revised in 2004) implies that the residual CHF 3 mio Goodwill at 1 January 2004 relating to the acquisition in Q4-2002 of Consors (Schweiz) is fair-valued (examination of any impairment requirements) instead of being amortized over 5 years (CHF 200,000 per quarter) in accordance with the former provisions of IAS 22 Business Combinations (i.e. before the early adoption of IFRS 3).

Costs that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would be appropriate to anticipate or defer such costs at the end of the financial year.

The consolidated interim financial statements should be read in conjunction with the 2003 annual consolidated financial statements. Further see Note 4 with respect to the accounting policy on investments securities available-for-sale.

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## SECTION II NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Quarterly Results

	Quarterly Results in 2004			9 months ended 30 Sept. 2004	Comparison of Current Quarter With Previous Year's	
	Q1-2004	Q2-2004	Q3-2004		Q3-2004	Q3-2003
Fee and commission income	10,388,091	7,949,532	5,768,570	24,106,193	5,768,570	8,601,385
Fee and commission expense	(1,072,966)	(766,950)	(703,275)	(2,543,191)	(703,275)	(902,369)
<b>Net fee and commission income</b>	<b>9,315,125</b>	<b>7,182,582</b>	<b>5,065,295</b>	<b>21,563,002</b>	<b>5,065,295</b>	<b>7,699,016</b>
Interest income	617,277	764,667	1,008,739	2,390,683	1,008,739	500,021
Interest expense	(156,411)	(157,255)	(241,186)	(554,852)	(241,186)	(111,140)
<b>Net interest income</b>	<b>460,866</b>	<b>607,412</b>	<b>767,553</b>	<b>1,835,831</b>	<b>767,553</b>	<b>388,881</b>
Net trading income	514,474	647,062	477,723	1,639,259	477,723	396,664
Other operating income	415,817	420,194	368,966	1,204,977	368,966	364,764
<b>Operating income</b>	<b>10,706,282</b>	<b>8,857,250</b>	<b>6,679,537</b>	<b>26,243,069</b>	<b>6,679,537</b>	<b>8,849,325</b>
<b>Operating expenses</b>	<b>(6,890,312)</b>	<b>(6,627,390)</b>	<b>(5,983,239)</b>	<b>(19,500,941)</b>	<b>(5,983,239)</b>	<b>(5,962,678)</b>
<b>Operating profit before depreciation, amortization and provisions</b>	<b>3,815,970</b>	<b>2,229,860</b>	<b>696,298</b>	<b>6,742,128</b>	<b>696,298</b>	<b>2,886,647</b>
<b>Depreciation, amortization and provisions</b>						
Depreciation	(600,000)	(650,000)	(640,000)	(1,890,000)	(640,000)	(700,000)
Amortization and provisions	-	-	-	-	-	(2,600,000)
Gain on acquisition of minority interest	-	-	-	-	-	4,245,437
<b>Operating profit before minority interest</b>	<b>3,215,970</b>	<b>1,579,860</b>	<b>56,298</b>	<b>4,852,128</b>	<b>56,298</b>	<b>3,832,084</b>
Minority interest	-	-	-	-	-	535,000
<b>Net Profit</b>	<b>3,215,970</b>	<b>1,579,860</b>	<b>56,298</b>	<b>4,852,128</b>	<b>56,298</b>	<b>4,367,084</b>

### 2. Operating Expenses

	9 months ended 30 September	
	2004	2003
Payroll & related expenses	9,409,233	8,399,043
Production expenses	4,066,893	3,129,290
Marketing expenses	2,436,268	2,144,062
Administration and other operating expenses	3,588,547	3,199,404
<b>Total</b>	<b>19,500,941</b>	<b>16,871,799</b>

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## 3. Earning per Share

Basic earning per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue (excluding treasury shares) during the period.

	9 months ended 30 September	
	2004	2003
Net profit	4,852,128	4,061,602
Weighted average number of ordinary shares in issue	1,362,881	1,283,981
<i>Basic earning per share</i>	<i>3.56</i>	<i>3.16</i>
<i>Diluted earning per share</i>	<i>3.33</i>	<i>3.07</i>

## 4. Investment Securities

	30 September		31 December
	2004	2003	2003
<b>Investment held to maturity</b>			
Bonds - at amortized cost: listed	5,156,284	5,325,413	5,282,796
<b>Investment available-for-sale</b>			
Equity securities - at fair value: listed	939,286	-	-
<b>Total investment securities</b>	<b>6,095,570</b>	<b>5,325,413</b>	<b>5,282,796</b>

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 held to maturity and available-for-sale investment securities are recognized on trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs. Financial assets are derecognized 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 are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial assets is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in profit or loss. Dividends on available-for-sale equity instruments are recognized in the income statement when the entity's right to receive payment is established.



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## 5. Property, Plant and Equipment

	IT systems	Others	Total
<b>9 months ended 30 September 2003</b>			
Opening net book amount (1.1.2003)	4,607,252	997,671	5,604,923
Addition	1,629,845	506,887	2,136,732
Depreciation	(1,626,964)	(73,036)	(1,700,000)
Amortisation (Note 6)	(900,000)	-	(900,000)
Closing net book amount (30.9.2003)	3,710,133	1,431,522	5,141,655
<b>9 months ended 30 September 2004</b>			
Opening net book amount (1.1.2004)	4,411,187	1,484,756	5,895,943
Addition	1,721,574	227,600	1,949,174
Depreciation	(1,754,500)	(135,500)	(1,890,000)
Closing net book amount (30.9.2004)	4,378,261	1,576,856	5,955,117

Additions to Property, Plant and Equipment include an amount of CHF 640'541 (2003: CHF 200,000) representing own costs capitalized in connection with the development of the systems of the Bank.

## 6. Acquisition of the Minority Interest in Swissquote Bank

Prior to the acquisition by the Group of the remaining 20.58% of Swissquote Bank owned by minority partners on 23 July 2003 ("The Acquisition"), the assets and liabilities, as well as the revenues and expenses of Swissquote Bank were already consolidated in full in the consolidated financial statements of the Group, which were adjusted for the minority interest in the Bank's equity and results.

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

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

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

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## 7. Equity

### 7.1 Structure of Capital

Number of shares	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
At 30 September 2003	1,376,030	40,000	-	1,416,030
At 1 January 2004	1,379,020	37,010	-	1,416,030
Capital increase resulting from options exercised	13,034	(13,034)	-	-
Increase of the Conditional Capital and Creation of an Authorized Capital *	-	68,913	200,000	268,913
At 30 September 2004	1,392,054	92,889	200,000	1,684,943

\* Resolutions passed at the 30 March 2004 AGM

### 7.2 Information on Stock Option

	3rd Allocation	4th Allocation	5th Allocation	6th Allocation	Total	Conditional shares available for exercise
Balance at 1 January 2003	14,524	48,000	20,300	-	82,824	40,000
Grants	-	-	-	-	-	-
Exercised	-	-	(1,400)	-	(1,400)	-
Lapsed	-	-	-	-	-	-
Balance at 30 September 2003	14,524	48,000	18,900	-	81,424	40,000
Balance at 1 January 2004	11,712	48,000	16,450	-	76,162	37,010
Grants	-	600	-	7,998	8,598	-
Exercised	(6,134)	-	(6,900)	-	(13,034)	(13,034)
Lapsed	(200)	-	-	(81)	(281)	-
Increase of the Conditional Capital further to the resolution of the AGM on 30 March 2004	-	-	-	-	-	68,913
Balance at 30 September 2004	5,378	48,600	9,550	7,917	71,445	(71,445)
Balance Conditional Shares available for future grants	-	-	-	-	-	21,444

The options granted under the 4th allocation scheme in Q2-2004 have a strike price of CHF 113.90. One options is valued at CHF 25.20.

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The terms of the 6th allocation are as follows:

- ▶ One option grants the right to acquire one share.
- ▶ The strike price is equal to 10-day-average closing price of SQN at the date of grant (CHF 113.90 per option for the options granted in the Q2-2004).
- ▶ 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 date of the second anniversary and the third on the date of the third anniversary.

## 7.3 Treasury Shares

Treasury shares at 30 September 2004 consist of 23,024 shares valued at the closing price on that date. The following transactions took place in the period from 1 January to 30 September 2004:

- ▶ the acquisition of 1,179 shares at a unit price ranging from CHF 91.00 to CHF 128.00 (average cost of CHF 114.50 per share), and
- ▶ the disposal of 20 shares at a unit price ranging from CHF 121.00 to CHF 122.00 (average net price per share of CHF 121.50).

## **Review Report to the Board of Directors of Swissquote Group Holding Ltd Gland**

According to your request, we have reviewed the condensed consolidated interim financial statements (balance sheet, statement of operations, changes in shareholders' equity, condensed of cash flows statement and notes) set out on pages 1 to 10 of Swissquote Group Holding Ltd for the period ended 30 September 2004. The prior period figures shown in these condensed consolidated interim financial statements are not reviewed.

These condensed consolidated interim financial statements are the responsibility of the Board of Directors. Our responsibility is to issue a report on these condensed consolidated interim financial statements based on our review.

Our review was conducted in accordance with auditing standards promulgated by the Swiss profession and with International Standards on Review Engagements (ISREs), which require that a review be planned and performed to obtain moderate assurance about whether the condensed consolidated interim financial statements are free from material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements has not been properly prepared, in all material respects, in accordance with the International Accounting Standard 34 "Interim Financial Reporting".

Without qualifying our review report, we draw to your attention that the current interim period and the comparative interim period figures are disclosed in note 1 of these condensed consolidated interim financial statements and not on the face of the consolidated interim statement of operations.

PricewaterhouseCoopers SA

JC Pernollet

M Caputo

Geneva, 1st November 2004