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Edmund P. Jensen
President and
Chief Executive Officer

March 24, 1997

TO: INTERNATIONAL BOARD OF DIRECTORS
FROM: Ed Jensen
SUBJECT: Global Migration Strategy

Tomorrow we will be announcing our migration strategy to support Visa Members as they develop their core businesses using chip-based technologies. I wanted to share the news with you first and have attached a copy of our news release and other materials we are using in our discussions with the media.

As you will see, we are calling the strategy the *Partner Program* to reflect the support that we will provide as Members evolve and expand their products at the speed that best fits their business needs.

Let me reiterate how much I personally appreciate your input as we work to make this critical strategy a reality for the entire Visa Membership.

Attachments

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NEWS RELEASE

For more information:
David Brancoli
(415) 432-3830

VISA SETS GLOBAL STRATEGY TO EVOLVE CORE BUSINESSES USING INNOVATIVE NEW CHIP TECHNOLOGIES

Partner Program Migration Strategy Provides Unique Open Architecture, Tools for Banks to Customize Products and Capitalize on Emerging Opportunities

LONDON, March 25, 1997 -- Visa International today announced a global migration strategy designed to support its Member financial institutions evolve their core businesses (credit, debit) using chip-based technologies and an industry unique open architecture. Called the *Partner Program*, Visa's strategy provides banks worldwide with maximum flexibility to customize their own products and services, thus better differentiating their institution's offerings and proprietary brands.

Visa is already well underway implementing its *Partner Program*. The initial elements of the strategy are available for use now and some of the more advanced components will be available at the end of the year.

"Bottomline, Visa's new *Partner Program* helps our Members evolve and expand their card products in a way and at a speed that best fits their needs," said Edmund P. Jensen, president and chief executive officer of Visa International. "Some banks will choose to move gradually in this process, and others will want to harness the power and possibilities of the chip technologies right away. Either way, we see the chip as a core component of the global card payment industry now and into the next millennium. In support of its Members, Visa has taken a leadership role to bring together all of the players in the industry to agree on the common standards that will be the backbone of this new direction."

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VISA INTERNATIONAL • POST OFFICE BOX 8999 • SAN FRANCISCO, CALIFORNIA 94128-8999 • (415) 432-3200 • TELEX 6771373

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"With every step in this process, Visa will be there as an enabler, supporting our Members in leveraging these developments to maximize the benefits for their customers and shareholders," Jensen said.

The *Partner Program* migration strategy will facilitate the evolution of Visa Members' core business, which for many banks will continue to grow and expand, even as chip technology opens profitable new markets and opportunities.

"Through the *Partner Program*, our Members will be able to customize and differentiate applications on their chip cards, while capitalizing on Visa's leading global acceptance network and brand," said Daniel R. Eitingon, president of Visa International's Strategic Initiatives and Processing Services Group. "Ultimately, this migration strategy is focused on providing Visa Members with the highest level of flexibility, choice and control."

"Visa Members will have the flexibility to use their payment products as independent applications or in concert with each other. They'll have a wider selection of choices in applications, and in the vendors with whom they can work to develop them. And, most importantly, through the unique open architecture platform and the tools and systems Visa will provide, Members will have much greater control designing the products and services that best meet the needs of their customers," added Eitingon.

The *Partner Program* features five components:

- (1) Set of Applications: A set of payment services, including Visa credit, debit and stored value, that can be combined with Members' proprietary applications, such as a loyalty program or others.

- (2) Open Technology Platform: A technologically advanced, open chip and terminal architecture, which makes it easy to combine multiple functions on a single card, maximizes space on a chip, has a high-level language that provides a greater degree of security and interoperability, and enables access from a variety of devices. Visa's chip platform is open to allow multiple service providers, terminal manufacturers and application developers to offer financial institutions a choice of compatible products. The technical architecture is based upon the well proven high-level language, Java. It is an open industry standard endorsed by major

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technology companies that will be used by numerous vendors to assist Members in customizing their products.

Java is the basis for an open Application Programming Interface (API) that provides Members with the capacity to dynamically load applications on a chip, independent of the operating system. In the fourth quarter of 1997, Visa will provide the first specifications and implementation reference code based upon JavaCard API.

Partners working with Visa today on the development of this open technology platform include JavaSoft, IBM, Gemplus, Schlumberger, VeriFone, Philips, SEMP, Siemens, Integrity Arts, Spyros, and Motorola.

- (3) Implementation Tools: A group of implementation processes and tools, which allows Members to easily develop and implement their applications for their customers, thereby providing personalized products and strengthening the institution's relationship with the customer. These processes include an application development workbench and personalization tools.
- (4) Acceptance Infrastructure: A strategy to ensure worldwide acceptance of chip-based cards and to adapt VisaNet, the most comprehensive electronic payments network in the world, to the new strategy. Visa is working with leading terminal manufacturers, such as De La Rue Fortronic and Hypercom, Inc., to develop terminals and access devices to industry and Visa standards.
- (5) Industry Standards: Standards and operating principles developed to drive industry-wide interoperability. The *Parmer Program* initiatives comply with EMV standards initiated by Visa, MasterCard and Europay related to integrated circuit cards for payment systems. Additionally, Visa is driving development of stored-value and chip platform standards and has established operating rules for all chip-based Visa services.

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Providing the *Farmer Program* migration strategy has been a natural evolution of Visa's extensive market expertise in the development and implementation, on behalf of its Members, of its chip payment products (debit, credit and stored value). The latter, called Visa Cash, has been successfully introduced in 18 programs in 13 countries around the world (Argentina, Australia, Brazil, Canada, Colombia, Germany, Italy, Norway, Spain, New Zealand, Hong Kong, Taiwan and the United States), and 11 additional programs are slated to begin in eight new countries within the next 18 months.

Additionally, in the United Kingdom, a chip program combining Visa credit, debit and stored value functionality will be implemented in the fall of 1997.

In Argentina, Colombia, Brazil and Spain, a chip-based card featuring stored value on debit applications has been launched by a number of Members. In France, a program to test the integration of Electronic Commerce Secure Electronic Transactions (SET) with a French chip card is to be launched this June.

In Japan, two chip programs are underway. The first--a program that will test multiple chip applications, including stored value, on Visa credit cards--is scheduled to be operational by this October. The second is also a multi-function chip card program that includes Visa credit cards and Visa Cash and will be launched in the Shibuya district of Tokyo in June, 1998

In South Africa, a multi-function chip-based card with credit, debit and stored value products has also been announced. The product allows offline purchase approval and payment processing. A single function chip card will be piloted this summer in Russia. The card will provide a pre-authorized credit or debit spending limit to the customer.

Visa is the preferred payment brand and the largest consumer payment system worldwide. It plays a pivotal role in advancing new payment products and technologies to benefit its more than 20,700 member financial institutions, their cardholders and the global economy. Visa's 561 million cards are accepted at more than 13 million worldwide locations, including nearly 323,000 ATMs in the Visa Global ATM Network. Visa's Internet address is www.visa.com.

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Partner Program Fact Sheet

WHAT IS IT?

The *Partner Program* is a global migration strategy to support Visa's Member financial institutions in evolving their core businesses (credit, debit) to chip-based technologies in a way that best fits their needs. With the *Partner Program*, Visa acts an enabler, offering Members broad choice and flexibility in customizing their products and services and allowing them to differentiate their institution's offerings and proprietary brands.

With the *Partner Program*, Members can choose whether they prefer to offer stand-alone products, or whether they prefer the multi-function platform in which they can combine proprietary applications with Visa services (Visa credit, Visa debit and Visa Cash) on one card.

WHY CHIP?

Chip cards give Visa Members the power to enhance their customers convenience and deliver added value. Chip cards allow Members to distinguish themselves by customizing card products and services with access anytime and anywhere. Chip cards also allow Members to provide greater security, make dynamic and efficient updates to applications and improve risk management.

MEMBER BENEFITS

Visa's *Partner Program* migration strategy offers many advantages to Members over competitors' chip strategies. These benefits include:

- **Multiple Payment Options** - The *Partner Program* ultimately allows banks to provide their customers with a full set of payment options, including Visa credit, Visa debit and Visa Cash. In addition, Members have complete control and greater flexibility to customize their own products and services, thus better differentiating their institution's offerings. Examples of customization include loyalty programs and risk management parameters set at the cardholder level.
- **Industry Open Architecture** - The strategy offers a technology platform that is open, encouraging maximum flexibility and customization opportunities. This allows Members to choose from multiple service providers, terminal manufacturers and application developers who offer financial institutions a choice of compatible products. Members can use Visa's technical architecture for Visa products and services, their own proprietary applications or other compatible products or services.
- **The Complete Solution** - The strategy enables all aspects of a chip-based payment system, not just the card and chip architecture. Other components of Visa's strategy include a set of applications, a plan to ensure worldwide acceptance of chip-based cards and standards and operating principles to drive industry-wide interoperability.

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MEMBER BENEFITS
(Continued)

- **Visa's Extensive Market Experience** - Visa is far ahead of its competitors. For example, Visa and its Members successfully launched 18 Visa Cash programs in 13 countries over the past two years. Also, several Visa Members are already implementing Visa credit and debit chip programs which combine more than one function on a single card.

HOW DOES IT WORK?

The strategy features five components that incorporate all aspects of the evolution of the payment system to chip technology:

1. **Set of Applications** - A set of payment services, including Visa credit, debit and stored value, that can be combined with Members' proprietary applications, such as a loyalty program.
2. **Open Technology Platform** - A technologically advanced, open chip and terminal architecture, which makes it easy to combine multiple functions on a single card, maximizes space on a chip, has a high-level language that provides a greater degree of security and interoperability, and enables access from a variety of devices.
3. **Implementation Tools** - A group of implementation processes and tools, which allows Members to easily develop and implement their applications for their customers, thereby providing personalized products and strengthening the institution's relationship with the customer.
4. **Acceptance Infrastructure** - A strategy to ensure worldwide acceptance of chip-based cards and to adapt VisaNet, the most comprehensive electronic payments network in the world, to the new strategy.
5. **Industry Standards** - Standards and operating principles to drive industry-wide interoperability.

WHEN AND WHERE?

Each member will migrate to a chip-based system at its own pace, based on its short- and long-term business objectives. Visa understands Members' varying needs and has designed the *Partner Program* to allow Members flexibility in how they approach this opportunity. Visa is an enabler, ready to help any Member in any market when they think the time is right.

Visa is already well underway in implementing the *Partner Program* strategy globally. The initial components of the strategy are available for use now and some of the more advanced components will be available at the end of the year.

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WHEN AND WHERE?
(Continued)

In addition:

- Visa Cash has been successfully introduced in 18 programs in 13 countries around the world (Argentina, Australia, Brazil, Canada, Colombia, Germany, Italy, Norway, Spain, New Zealand, Hong Kong, Taiwan and the United States), and 11 additional programs are slated to begin in eight new countries within the next 18 months
- In the United Kingdom, a chip program combining Visa credit, debit and stored value functionality is being implemented this year.
- In Argentina, Brazil, Colombia and Spain, a chip-based card featuring stored value and debit applications has been launched by a number of Members.
- In France, a program to test the integration of Electronic Commerce Secure Electronic Transactions (SET) with French chip cards is to be launched this June.
- In Japan, two chip programs are underway. The first—a program that will test multiple chip applications, including stored value on Visa credit cards—is scheduled to be operational by this October. The second is also a multi-function chip card program that includes Visa credit cards and Visa Cash and will be launched in the Shibuya district of Tokyo in June, 1998.
- In South Africa, a multi-function chip-based card with credit, debit and stored value products has also been announced. The product allows offline purchase approval and payment processing. A single-function chip card will be implemented in Russia this summer. The card will offer a pre-authorized credit or debit spending limit to the customer.

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**Partner Program
Q&As
(for internal use only)**

Visa's Approach

Q: This *Partner Program* migration strategy sounds just like your relationship strategy from a couple of years ago—what's new and why should we care?

A:

- This is a logical next step in the Relationship Strategy that we have been developing.
- For the first time, some major breakthroughs in technology are allowing us to push this strategy to a whole new level for our Members.
- What is new is that we have developed a strategy and the tools and technological architecture that truly meet the needs of all Members no matter what stage of development they are in. Additionally, our strategy offers Members the ability to customize their services and to tailor services to individual needs. Our strategy is designed to help any Member in any market migrate to a chip-based system when they think the time is right.
- Those Members who are interested in a multi-functional chip platform that allows them to control and customize their products can do so with the technologically advanced open chip platform we are developing.
- Additionally, those who choose to offer a single-function chip product or to continue to offer a magnetic stripe product also will be supported.
- This strategy affords our Members maximum flexibility and choice in adopting the approach that works best for them.

Q: Will banks who have invested in single-function chip programs lose their investment if they migrate to multi-function?

A:

- No.
- Single-function chip programs, such as Visa Cash or a chip-based credit product, have inherent value regardless of the architecture and all functionalities will continue to be supported.
- Visa's multi-function chip platform, however, offers an efficient architecture for those Members who are interested in migrating from magnetic stripe or another chip platform to a multi-functional program.
- The implementation tools in development will assist Members in migrating from a single-function system to a multi-functional program environment if and when they choose to do so.

Q: Will a bank be able to put Visa's competitors' products on a Visa multi-functional chip platform?

A:

- No. Visa's branded credit/debit products cannot reside on a card with other named competitors (i.e. American Express, Discover, MasterCard), regardless of the card's technical architecture.

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Q: The Visa Cash stored-value product does not allow person-to-person transfer. Doesn't that raise costs and impact your business case?

A:

- Visa has chosen a fully auditable and accountable system for its stored value product, a benefit not possible with person-to-person transfers.
- The cost of storing data is minimal and outweighed by benefits of an auditable system.

Q: Is Visa's strategy EMV-compatible?

A:

- Yes, Visa's strategy is entirely EMV-compatible.
- EMV-compatibility enables multiple applications to co-reside on a single chip card or within a single terminal.

Q: Are Visa's chip applications EMV-compliant

A:

- The EMV'96 Application Specification developed by Visa, MasterCard and Europay only addresses credit/debit transactions, so only credit/debit applications can be EMV *compliant*, which is a more rigorous standard than compatibility.
- Visa's credit/debit applications on a chip card are EMV-compliant.

Q: Your Board of Directors has blessed this strategy. Was that a unanimous decision or is there disagreement within Visa?

A:

- It was blessed by all members of the board.
- Everyone at Visa agrees that Visa's role is to provide our Members with tools, processes and support, which enable them to implement their migration strategies and sustain their pre-eminence and competitiveness in the global financial services industry.

Q: Visa has lost several of its top executives in the technology arena. They seem to indicate that Visa is "not there yet." Why are they leaving?

A:

- A few members of Visa's team have left to pursue other career opportunities—that is normal and expected in any business. Frankly, as the industry leader, Visa is a target for competitors looking to augment their executive ranks. We are used to that.
- We have a very strong development team that has been together for several years and is committed to the tradition of leadership and innovation that our Members expect.
- Nothing in this business is based on one or two people alone. Visa has a deep and strong bench of talent, filled with professionals who are excited about the opportunity of helping our Member banks worldwide compete and win in the global financial services marketplace.

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Q: What type of investment will merchants need to make?

A:

- Investments required to accept chip payment methods depend on each merchant's current systems; however, in most cases, merchants will need to update their infrastructure.
- Visa is looking at ways to ease the transition for merchants and is currently partnering with terminal manufacturers to determine the best long-term solution, including development of terminals that will accept a variety of payment methods.

Q: Which banks have partnered with Visa?

A:

- We are working with numerous Members worldwide to ensure that the platform is developed according to Member needs. Communication regarding each Member's multi-function chip objectives and goals is at the discretion of that Member.

Mondex/Competitor Comparisons

Q: How is your migration strategy different from competitors' approaches?

A:

- First, our entire system is open. The architecture is based on a truly open technology platform, which allows multiple service providers, terminal manufacturers and application developers to offer financial institutions a choice of compatible products. As a result, Members have more options in customizing their products and differentiating themselves in the marketplace.
- Secondly, our program is owned by all of our Members. Mondex is a separate institution from banks.
- Thirdly, we offer our members a comprehensive approach. Visa is creating all aspects of the chip-based payment system, not just the card architecture, which is Mondex' sole area of development. Visa's other components include: a set of applications that can be combined with Members' proprietary applications; a group of implementation processes and tools; a strategy to ensure worldwide acceptance of chip-based cards; and standards and operating principles to drive industry-wide interoperability. Competitors are not developing all of these important aspects of a global payment system.
- Finally, Visa has more market experience. Visa Members have launched millions of chip cards; Mondex has only launched a few thousand. Visa Members have successfully launched Visa Cash in 18 programs in 13 countries over the past two years. This year, in addition to more single-function chip implementations, several Visa Members will be launching multi-function chip programs which combine more than one function on a single card.

Q: Why is open so important?

- Our responsibility as a global payments organization is to help create an open environment that leads to unified standards that benefit our Members and the industry.
- Open platforms benefit our Members and the industry by allowing global interoperability and encouraging innovation in new applications and product development.

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- History has shown that open systems spur industry growth. In fact, Visa has been a leader in developing open systems that have contributed to the growth of electronic payments, leading such innovations as the magnetic stripe system, the ATM system and the clearing and settlement system.

Q: If the goal is to replace cash and checks with a strong global electronic payment system, isn't it advantageous for the bankcard associations and other competitors to work together? Why are you always trying to develop competing systems?

A:

- Visa is not in the business of developing competing systems.
- Our responsibility as a global payments organization is to help create an open environment that leads to unified standards that benefit the industry, not to seek a competitive advantage through closed platforms.
- We invite those who are committed to closed platforms to join us in adopting an open platform.

Q: Doesn't an open platform invite non-bank competitors, such as IBM and Microsoft, to compete directly with your Members?

A:

- An open system is the best solution for the industry.
- In working with numerous strategic partners and using Java, a high level language that is itself an industry standard, we believe our system can become the open industry standard and welcome other developers to work with us in providing the industry with the best solution.

Q: Several of Visa's top banks are Mondex members. Will Visa work with them in developing your chip-based initiatives?

A:

- We will work with all of our Members, strategic industry partners and other chip system developers to establish an open environment that benefits our Members and the industry.

Q: Do you regret not purchasing Mondex a couple of years ago when you had the opportunity?

A:

- Absolutely not.
- We looked at acquiring Mondex but decided against it for a number of key reasons:
- First and foremost, we did not purchase it because it was limited in scope and not worth the price; Visa's system was already far ahead of Mondex, and continues to be so.
- Secondly, the Mondex is separate from the banks. Our program is owned by all of our Members.
- Thirdly, the Mondex approach focused only on card architecture, which did not meet our Members' need to have a complete system solution.

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Q: Will a Member be able to work with Visa and MasterCard/Mondex in development of a chip-based program?

A:

- Visa firmly believes in the development of an open industry standard and has based its platform on an open technological architecture.
- Therefore, we invite Mondex to explore synergy between the two platforms, as well as other payment services platforms being developed, to ensure that the open standard is accomplished.

Q: Will Visa's multi-functional chip platform be compatible with Mondex' platform?

A:

- Visa's goal is to provide the best platform for its Members and to minimize the impact of implementation on our Members.
- As a result, while the two architectures are not completely compatible at this early stage of development, we are interested in exploring synergy between the two architectures as they evolve.

Q: Eugene Lockhart was a vocal advocate of MasterCard's and Mondex' technology and leadership role. How will his departure from MasterCard impact the association and Mondex' chip card development? Do you think they will maintain an aggressive stance on chip technology or will they lessen their focus on it?

A:

- You will have to address that question to MasterCard and Mondex. I do not know their approach or strategy.
- Mr. Selander has been highly accomplished in the bankcard industry.
- We look forward to working with him to develop open standards to meet the common goal of a chip-based global payment system.

Q: Lockhart is moving to Bank of America. How will this move impact Visa's relationship with B of A?

- We do not anticipate our relationship with Bank of America changing.
- Bank of America has been supportive of our chip migration strategy, and, in fact, has a Visa Cash program currently underway.

Business Case for Chip

Q: Isn't deregulation of telecommunications worldwide eliminating the need for chip-based payment products?

A:

- Not at all.
- The fact that telecommunications is very expensive in some regions of the world—such as France and Asia/Pacific—has helped drive the development of chip card technology.
- There are many other reasons for a bank to migrate to chip.

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- The chief reason to migrate to a multi-function chip platform has nothing to do with telecommunications, but rather with maximizing flexibility to customize products and services, thus better differentiating an institution's offerings and proprietary brands.

Q: I have yet to hear a viable business case for chip cards. What business case are you presenting to banks?

A:

- There is actually a strong business case for migrating to a multi-function chip platform.
- Most importantly, chip technology allows a bank to differentiate its products and services, thereby increasing market share in an increasingly competitive market.
- With chip cards, Member banks can tailor their products specifically for their customers, enabling the banks to provide more value and convenience. As a result, they can differentiate themselves and capture more market share—that presents a strong business case.
- We are offering to use Visa's financial model for migrating to chip to assist our Members in their strategic business planning for chip.

Q: The cost of a magnetic stripe card is about 25 cents. How can you justify to banks the much higher cost of a chip card?

A:

- Actually, overall costs of migrating to chip balance out with the savings realized by increased efficiencies, greater market share and business expansion opportunities in customizing proprietary products for customers. Visa has developed a financial model that indicates how banks migrating to a multi-functional platform can lower costs by realizing such efficiencies as decreasing the cost of developing new applications and dynamically changing applications without reissuing cards.
- We are offering to use Visa's financial model for migrating to chip to assist our Members in their strategic business planning for chip.

Q: Does this new strategy mean that magnetic stripe has seen its day?

A:

- Absolutely not. Some Members will continue to use magnetic stripe to deliver their products, and Visa will continue to support the magnetic stripe architecture. This migration strategy is all about flexibility and choice. Visa will be there as an enabler for our Member banks to help them leverage this flexibility and choice for the benefit of their customers and shareholders.

Q: The US market has clearly been less active in the area of chip. What is your forecast for how this strategy will unfold in the US? What are the roadblocks in the US?

A:

- Actually, in the stored-value area of our strategy, the US has been quite active.
- We launched our Visa Cash product in Atlanta last year in conjunction with the Olympics and had very favorable results.
- Additionally, other programs are in development now.
- The migration in the US may be slower than in other regions because the magnetic stripe system continues to be a viable option, but the benefits of flexibility to customize products

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and differentiate themselves are the same and will be realized by any Member who migrates to chip.

Q: What evidence or research do you have from consumers that would justify moving ahead in the chip arena? Do consumers want these products?

A:

- Research conducted by the Smart Card Forum, Andersen Consulting and Visa has shown that customers want convenience, value and service.
- Customers will choose financial services providers who can meet those needs. Increasingly, these demands are being met by banks' competitors.
- In such a competitive market, Visa Members can differentiate themselves by offering products and services that can be customized to each customer's specific needs.
- Chip cards make that possible. In fact, chip cards allow the bank to offer alternative delivery channels, customize products, provide greater security, make dynamic and efficient updates to applications and improve risk management.

Q: How will chip cards impact customer fees?

A:

- Fees are based on each Member bank's product and, just like they are with magnetic stripe, will be determined by each Member.

Q: In which areas of the world do you see the greatest potential for chip?

A:

- Visa's chip migration strategy has great potential in every region – our chip-based system is a worldwide initiative.
- Visa is testing elements of this migration strategy, from stored-value applications to multi-functional applications, in all regions.

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