

## Payment Transactions

With its divisions Multipay and Cards & Payments, the Payment Transactions business field offers customer-friendly, secure and efficient solutions, systems and services for all partners involved in cashless payment transfers in Switzerland and abroad.

The Multipay division provides solutions for the acceptance of credit card payments (Visa, MasterCard, JCB), debit cards (Maestro, V PAY, Visa Electron) and the prepaid card CASH, including value-added services such as Mobile Voucher, GiftCard and Mobile Coupon.

The Cards & Payments division is responsible for integrated card processing across the entire value chain: from processing for card issuers through to the acceptance of card payments, including routing services, point of sale (POS) infrastructures, services for ATM operators, automated reconciliation of financial flows and customer services. It also performs direct debit operations and processes electronic invoices (PayNet). Furthermore, the Cards & Payments division executes payments between banks in Swiss francs and euro and provides access to national and international payment transactions. Local branches in Germany, Luxembourg, Sweden, the UK and the USA ensure market and customer proximity.

Key figures of the Payment Transactions business field

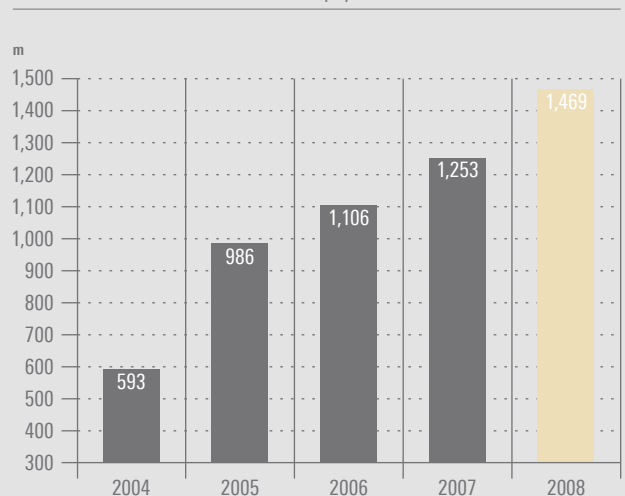
Multipay division	2008	2007
Turnover revenue <sup>1</sup> (in CHF 1,000)	324,402	188,438 <sup>3</sup>
Workforce in full-time equivalents <sup>2</sup>	147.8	144.0
Turnover revenue <sup>1</sup> per employee (in CHF 1,000)	2,195	1,309
Credit card turnover (in CHF m)	12,289	11,112
Number of debit card transactions (in m)	222.7	204.8
<b>Cards &amp; Payments division</b>		
Turnover revenue <sup>1</sup> (in CHF 1,000)	204,885	190,467
Workforce in full-time equivalents <sup>2</sup>	532.8	461.2
Turnover revenue <sup>1</sup> per employee (in CHF 1,000)	385	413
Number of transactions in card business (in m)	1,052.3	853.5
Number of payment transactions (in m)	417.4	400.5

<sup>1</sup> Turnover revenue according to the internal management information system

<sup>2</sup> Workforce = Average number of full-time equivalents between 01.01. and 31.12.

<sup>3</sup> As compared with the previous year, the turnover revenues of the Multipay division contain gross proceeds to some extent due to a newly established accounting standard as of 01.01.2008.

Processed transactions in the card and payment transfer business



The figure contains the processed transactions from the acquiring and issuing processing of the card business as well as the processed transactions in the payment transfer business (SIC, euroSIC, LSV and PayNet).

- *Luxembourg-based SIX Pay S.A. now acts as the contractual partner of vendors domiciled in the EU.*
- *SEPA transfers successfully launched in Switzerland.*
- *SIX Group is working together with CETREL in Luxembourg's financial center.*

### Market opening

The market environment in cashless payments is undergoing a period of transformation. The European Union and the European Central Bank are pushing ahead with the creation of a Single Euro Payments Area (SEPA). Concomitantly, legal frameworks and technical standards for the settlement of cashless payment transactions are being harmonized. These efforts aim to make the Eurozone markets freer and more open. Cashless payments will undoubtedly become still more popular, and cross-border goods and payment transfers need to be simplified accordingly.

The first milestone was set by the European Payments Council (EPC) with the introduction of SEPA transfers in 31 European countries, including Switzerland and Liechtenstein, in January 2008. SEPA Direct Debit will be launched in November 2009, with SEPA card payments to follow in 2010. Against this backdrop, the needs of trading and service companies are growing with regard to geographical coverage and the acceptance of various payment instruments. At the same time, providers of cashless payment transfers face heightened competition and cost pressure.

### Systematic geographic expansion

Efforts to internationalize the Payment Transactions business field are being intensified in a move to offer the Swiss financial center – a relatively small market in terms of the number of payments – a competitive infrastructure for payment transfers. Higher volumes allow for large investments to be depreciated sooner, which in turn brings down the cost per unit. Powerful technology, the integrated value chain and the value-added services that complete the offering are the bedrock of an outstanding price/performance ratio and important points of demarcation vis-à-vis competitors. The payments business field makes a comprehensive range of cashless means of payment and electronic payment services available to customers. Banks, invoice issuers and trading and service companies thus have a one-stop shop at their disposal for all cashless payment transactions.

Both divisions of the Payment Transactions business field continued to expand geographically in 2008. The Cards & Payments division reached a number of important milestones in its drive towards further internationalization: First, it strengthened its cooperation with leading Austrian card issuer and acquirer PayLife Bank to form a strategic partnership. This assignment will double the processing volume. Second, the business field launched a joint venture together with Cetrel S.A., Luxembourg's leading cards and payments processor, in December 2008. Cetrel's establishment of a new credit issuing platform will complete the service offering.

The Multipay division too is on the path of successful international growth. A sales organization is being set up to aid the division's expansion and facilitate access to retailers around the world. The division's strategy with regard to the processing of international markets rests on two pillars: One is the principle "follow and support the customers", i.e. assist them in all their activities abroad; the other involves offering internationally operating companies attractive solutions for the centralized settlement of payments from different countries. This helps them to simplify their processes considerably and save costs. In its operations abroad, the acquirer focuses on branch retail, hospitality, petrol and e-commerce. The long-term objective, to expand operations primarily in the big, fast-growing European markets, was successfully initiated. For Germany, Austria, Poland, Slovenia, the Czech Republic and Hungary, the Multipay division posted an increase in turnover of 100% or more. In December, the company SIX Pay S.A. was founded in Luxembourg in anticipation of the advent of the Single Euro Payments Area (SEPA). SIX Pay S.A. will operate as a contractual partner for vendors domiciled in the EU (keyword: PSD – Payment Services Directive).

The Payment Transactions business field has customers in 25 countries and is directly linked to its key partners. By increasing the combined sales effort, both divisions of the Payment Transactions business field were able to raise transaction volumes and extend their market share.

### Multipay's successful expansion

SIX Multipay recorded strong growth rates in the 2008 business year. Both the turnover and the number of settled transactions rose significantly. The turnover revenue from settled cashless card transactions earned by the Multipay division as an acquirer climbed to CHF 324 m. This positive result is attributable to so-called distance payments – payments where the card owner is not physically present, e.g. in e-commerce – which increased by approximately 40%. This can in turn be put down to the intensified sales effort in Switzerland and Germany as well as the good state of the economy at the beginning of the year. The latter factor, coupled with the low Swiss franc, proved to be a boon for the petrol pump business as well, which gained considerable ground. With tourism reaching an all-time high in 2008, the retail business and the hospitality segment (gastronomy and hotels) closed 10% higher than in the previous year. The growth rates of high-turnover customers were particularly cheering, enabling the Multipay division to maintain and extend its market share in all segments.

### Integrated markets

An ever-increasing number of vendors are demanding one-stop shopping and a single point of contact for card-based payment transactions. In response to this need, the Multipay division intensified its efforts to offer customers comprehensive packages from a single source in 2008. Prime examples of this are the integrated products Secure E-Commerce Complete, Mail-/Phone-Order EASY and the integrated terminal offer. An all-inclusive product line must contain a balanced portfolio of payment methods. With this in mind, the Multipay division took on JCB International Co. Ltd.'s Swiss customer portfolio with approximately 15,000 acceptance points on 1 May 2008. This was complemented by measures to optimize customer service and shorten the queue times of customers calling the hotline. These enhancements will further raise the quality of SIX Multipay's customer care service.

### Innovative products

The Multipay division's new products and services also fared well in 2008, creating added value for the customer and increasing the offering's appeal as a whole:

- GiftCard is an electronic gift card which can be easily processed at EMV/ep2 terminals – from activation through to final booking.
- Mobile Buy is an innovative payment solution which connects the mobile phone to the credit card. The Multipay division launched this solution in time for the 08/09 winter season in collaboration with the famous ski resort Davos Klosters and technology partners xsmart and Swatch.
- Mobile Coupon is based on the principle of the discount coupon and enables vendors to send their customers electronic vouchers via SMS in the event of promotions, sales or special offers.
- Mobile Voucher, the tried-and-tested software that turns a payment terminal into a loading unit for prepaid mobile phones, is now additionally installed at more than 3,000 ATMs in Switzerland.

These value-added services do not necessitate any additional infrastructure investments by the customers of the Multipay division. What is more, they provide full data protection.

The Multipay division extended its fully automated Dynamic Currency Conversion (DCC) to ATMs. Visitors from abroad can thus withdraw cash in their credit or debit card currency. Furthermore, the Multipay division launched pilot testing of contactless payments via mobile phone and credit card in cooperation with its partners Credit Suisse, PostFinance, Swisscard, Swisscom and Visa Europe. The solution being tested is based on NFC technology (Near Field Communication) and particularly suited to sites with a high customer frequency, such as supermarkets and ticket machines.

- *SIX Multipay takes on JCB International's Swiss customer portfolio.*
- *PayLife Bank, the leading Austrian card issuer and acquirer, chose the Cards & Payments division as its partner for card processing.*

Security is given the highest priority in the development of these solutions. This includes sensitizing customers to data protection issues – keyword: Payment Card Industry Data Security Standard (PCI DSS) – and security products, such as Secure PayGate. In an analogy of e-commerce, this new software enables vendors to settle orders by phone, fax or post. Instead of entering the card details, the vendor sends the customer an e-mail containing a link to a payment window on the Internet, where the cardholder can make his payment as securely and simply as in a webshop.

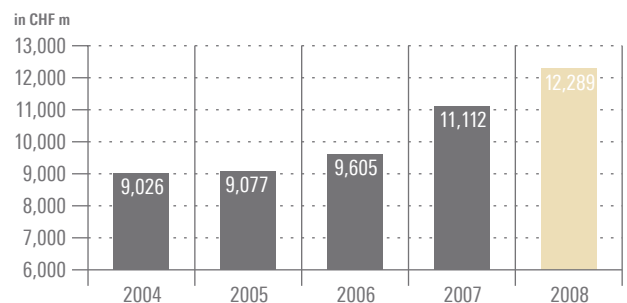
#### Cards & Payments on a growth curve

The Cards & Payments division again substantially increased its turnover revenue by 7.6% to CHF 204.9 m in 2008. The number of processed transactions rose by 17% to 1,470 m – or, broken down into components, 177 m automatic teller transactions (+7.4%), 452 m payment transactions by credit, debit or prepaid card (+42%), 352 m transactions (+15%) for issuers of debit and bank cards, 71 m transactions (+8%) for value-added services, such as Mobile Voucher, Mobile Coupon, etc., 376 m transactions via the Interbank payment systems SIC and euroSIC (+4.2%) and 41.5 m (+4.4%) direct debit and electronic invoice transactions. Transactions processed by Cards & Payments for foreign customers saw particularly strong growth, namely by +308% to 110 m transactions. No less than 182,000 e-banking customers (+39%) are registered in the PayNet network, and 95% of the Swiss banks offer an e-billing service.

#### New customers

PayLife Bank, Austria's universal provider of cashless payments, is extending its strategic partnership with the Cards & Payments division. As of 2010, the division will be responsible for the entire contractual partner management and transaction processing of PayLife (Acquiring Processing) as well as the processing of debit cards issued by PayLife (Maestro bancomat cards).

Transaction turnover with credit cards



The figure contains the turnover in credit card transactions processed by Multipay in Switzerland and abroad.

The Cards & Payments division also won the contract to perform all processing tasks connected to the new M-Card of Migros Bank. This involves issuing cards and processing card transactions.

Banque Cantonale Vaudoise, Zürcher Kantonalbank, Raiffeisen Switzerland, RBA (a joint undertaking of the Swiss regional banks) and further banks realized the Online-to-Issuer (OTIS) link in 2008 for amount authorization in connection with Maestro transactions. Today, payments and cash withdrawals can be authorized directly against the bank account balance for over 80% of all Swiss Maestro cards.

The market for infrastructures at point of sale had a very good year. The Cards & Payments division delivered over 15,000 EMV/ep2 terminals to Swiss vendors and service providers, the highest number ever. Many transport firms as well as the Swiss Federal Railways (SBB) chose the davinci terminal for payments at ticket machines and sales counters. The 3C Integra product for the hotel and gastronomy sector was particularly successful outside Switzerland. 3C Integra allows for a full integration of hotel management systems and payment functions. The customers of the Cards & Payments division include top-tier hotels, such as "Atlantis The Palm" in Dubai.

**More security for Maestro customers**

Visa and MasterCard again raised security requirements for the processing of credit and debit card payment transactions. These requirements are set out in the Payment Card Industry Data Security Standard (PCI DSS). The entire card processing infrastructure of the Cards & Payments division was duly certified as compliant with the standard.

Swiss banks are now upgrading their Maestro cards, processed by the Cards & Payments division, with the new EMV1 08 chip generation. The chip meets all known technical requirements in the Single Euro Payments Area (SEPA) in accordance with the guidelines issued by the European Payments Council (SEPA Cards Framework).

**Successful expansion of the PayNet network**

Electronic invoices (e-bills), as sent to e-banking customers, had a successful year. Both the number of participants and the number of transmitted e-bills increased significantly. Further invoicing parties began to dispatch invoices electronically to their private customers. They include Billag AG, CAP Rechtsschutz-Versicherungsgesellschaft AG, KPT Krankenkasse AG, Sanitas and Swisscard AECS AG. For e-banking customers, e-billing became even more convenient as new functions were added.

The Cards & Payments division also expanded its network in the business-to-business (B2B) segment. Developments in the health sector were particularly gratifying: The hospital Inselspital Bern and the Valais Health Network, consisting of ten hospitals, were taken on as receivers of e-bills. What is more, the Hirslanden Group began spreading the service to suppliers.

Efforts in the new business year will be focused on further expanding the network. In the B2B segment, the business process e-procurement will be included in the offering. Moreover, PayNet participants will find it easier to gain access to their partners abroad thanks to specific improvements.

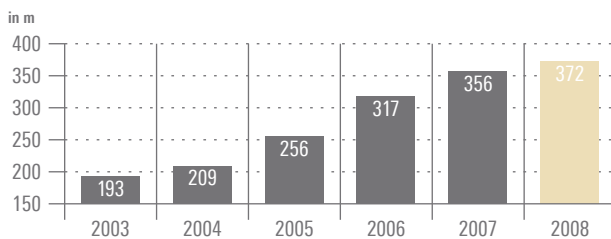
**Strong growth in interbank payments**

SIX Interbank Clearing, organizationally a part of the Cards & Payments division, continued to expand with its payment systems SIC and euroSIC in the report year. With an average availability of over 99.9%, the SIC system settled nearly 372 m transactions between financial institutions in 2008, which were worth CHF 58 trillion. This corresponds to an increase of 4 respectively 11% year on year. Operating income in the SIC segment decreased by 2.7% to CHF 21.3 m. In the same period, the turnover in euroSIC rose by 11% respectively 45% to 3.9 m transactions worth EUR 1.4 trillion.

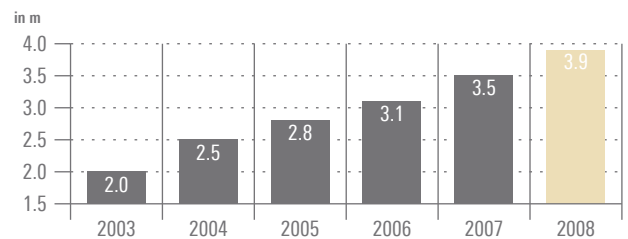
Equity before profit distributions decreased by 8.9% to CHF 7.2 m at year-end, whereas SIX Interbank Clearing AG's total assets remained unchanged at CHF 12.1 m. The financial key figures of SIX Interbank Clearing AG are consolidated within SIX Group's annual report.

– *Billag, the third-largest invoice issuer in Switzerland, sends its e-bills via PayNet.*

Transactions in SIC



Transactions in euroSIC



In the context of the Swiss financial center's business continuity planning, which is coordinated with the Swiss National Bank (SNB), a third computing center for the systemically significant payment and securities settlement systems SIC and SECOM was launched in November 2008. Thanks to this, the Swiss financial center can now guarantee the highest degree of operational security for its financial market infrastructure pursuant to international recommendations.

On behalf of the Swiss financial center, SIX Interbank Clearing lends its support to local financial institutions with regard to administrative aspects of the SEPA procedures as National Adherence Support Organization. In this role, it succeeded in registering over 140 participants from Switzerland and Liechtenstein for the transfer procedure in 2008. Of these, 110 or a third of all Swiss banks are in a position to execute payment transfers for customers in accordance with SEPA guidelines via the euroSIC system, which settled nearly half a million SEPA transactions worth over EUR 4.6 bn last year.

### Outlook

The Payment Transactions business field will systematically expand its business operations abroad in the next few years, thereby strengthening its competitiveness and potential for innovation to the benefit of the Swiss financial center.

In the direct debit segment, preparations were made in 2008 for the participation of Swiss banks in the euro direct debit procedure SEPA Direct Debit (SDD). The Swiss banks will participate in SEPA Direct Debit from the first day of live operation, which is scheduled for November 2009.