MASTERCARD INC
Form 10-K
February 12, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
Or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-32877
MasterCard Incorporated
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-4172551 (IRS Employer Identification Number)
2000 Purchase Street Purchase, NY (Address of principal executive offices)	10577 (Zip Code)

(914) 249-2000
(Registrant’s telephone number, including area code)

Title of each Class	Name of each exchange on which registered
Class A common stock, par value $0.0001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g): Class B common stock, par value $0.0001 per share
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the registrant’s Class A common stock, par value $0.0001 per share, held by non-affiliates (using the New York Stock Exchange closing price as of June 30, 2015, the last business day of the registrant’s most recently completed second fiscal quarter) was approximately $103.7 billion. There is currently no established public trading market for the registrant’s Class B common stock, par value $0.0001 per share. As of February 4, 2016, there were 1,089,482,218 shares outstanding of the registrant’s Class A common stock, par value $0.0001 per share and 21,256,530 shares outstanding of the registrant’s Class B common stock, par value $0.0001 per share.

Portions of the registrant’s definitive proxy statement for the 2016 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

MASTERCARD INCORPORATED
FISCAL YEAR 2015 FORM 10-K ANNUAL REPORT
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In this Report on Form 10-K ("Report"), references to the "Company," "MasterCard," "we," "us" or "our" refer to the MasterC brand generally, and to the business conducted by MasterCard Incorporated and its consolidated subsidiaries, including our operating subsidiary, MasterCard International Incorporated.

Forward-Looking Statements

This Report contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements. When used in this Report, the words "believe", "expect", "could", "may", "would", "will", "trend" and similar wor intended to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements that relate to the Company's future prospects, developments and business strategies.

Many factors and uncertainties relating to our operations and business environment, all of which are difficult to predict and many of which are outside of our control, influence whether any forward-looking statements can or will be achieved. Any one of those factors could cause our actual results to differ materially from those expressed or implied in writing in any forward-looking statements made by MasterCard or on its behalf, including, but not limited to, the following factors:

- payments system-related legal and regulatory challenges (including interchange fees, surcharging and the extension of current regulatory activity to additional jurisdictions or products);
- the impact of preferential or protective government actions;
- regulation of privacy, data protection and security;
- regulation to which we are subject based on our participation in the payments industry;
- the impact of competition in the global payments industry (including disintermediation and pricing pressure);
- the challenges relating to rapid technological developments and changes;
- the impact of information security failures, breaches or service disruptions on our business;
- issues related to our relationships with our customers (including loss of substantial business from significant customers, competitor relationships with our customers and banking industry consolidation);
- the impact of our relationships with stakeholders, including issuers and acquirers, merchants and governments;
- exposure to loss or illiquidity due to settlement guarantees and other significant third-party obligations;
- the impact of global economic and political events and conditions, including global financial market activity, declines in cross-border activity; negative trends in consumer spending and the effect of adverse currency fluctuation;
- reputational impact, including impact related to brand perception, account data breaches and fraudulent activity;
- issues related to acquisition integration, strategic investments and entry into new businesses;
- potential or incurred liability and limitations on business resulting from litigation; and
- issues related to our Class A common stock and corporate governance structure.

Please see a complete discussion of these risk factors in Part I, Item 1A - Risk Factors. We caution you that the important factors referenced above may not contain all of the factors that are important to you. Our forward-looking statements speak only as of the date of this Report or as of the date they are made, and we undertake no obligation to update our forward-looking statements.

PART I

ITEM 1. BUSINESS

Overview

MasterCard is a technology company in the global payments industry that connects consumers, financial institutions, merchants, governments and businesses worldwide, enabling them to use electronic forms of payment instead of cash and checks. As the operator of what we believe is the world's fastest payments network, we facilitate the processing of payment transactions,

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including authorization, clearing and settlement, and deliver related products and services. We make payments easier and more efficient by creating a wide range of payment solutions and services using our family of well-known brands, including MasterCard®, Maestro® and Cirrus®. We also provide value-added offerings such as loyalty and reward programs, information services and consulting. Our network is designed to ensure safety and security for the global payments system.

A typical transaction on our network involves four participants in addition to us: cardholder (an individual who holds a card or uses another device enabled for payment), merchant, issuer (the cardholder's financial institution) and acquirer (the merchant's financial institution). We do not issue cards, extend credit, determine or receive revenue from interest rates or other fees charged to cardholders by issuers, or establish the rates charged by acquirers in connection with merchants' acceptance of our branded cards. In most cases, cardholder relationships belong to, and are managed by, our financial institution customers.

We generate revenue by charging fees to issuers and acquirers for providing transaction processing and other payment-related products and services, as well as by assessing these customers based primarily on the dollar volume of activity, or gross dollar volume ("GDV"), on the cards and other devices that carry our brands.

Our Strategy

Our ability to grow our business is influenced by personal consumption expenditure growth, driving cash and check transactions toward electronic forms of payment, increasing our share in electronic payments and providing value-added products and services. We achieve our strategy by growing, diversifying and building our business.

Grow. We focus on growing our core businesses globally, including growing our credit, debit, prepaid and commercial products and solutions and increasing the number of payment transactions we process.

Diversify. We look to diversify our business by focusing on:

- diversifying our customer base in new and existing markets by working with partners such as governments, merchants, large digital companies and other technology companies, mobile providers and other businesses;
- encouraging use of our products and solutions in areas that provide new opportunities for electronic payments, such as transit and person-to-person transfers;
- driving acceptance at small business merchants, including those who have not historically accepted electronic payments; and
- broadening financial inclusion for the unbanked and underbanked.

Build. We build our business by:

- taking advantage of the opportunities presented by the evolving ways consumers interact and transact as physical and digital payments converge; and
- using our safety and security products and solutions, data analytics and loyalty solutions to add value.

We grow, diversify and build our business through a combination of organic growth and strategic investments, including acquisitions.

Strategic Partners. We work with a variety of stakeholders. We provide financial institutions with solutions to help them increase revenue and increase preference for their MasterCard-branded products. We help merchants by delivering data-driven insights and other services to help them grow and create better and secure purchase experiences for consumers across physical and digital channels. We partner with large digital companies and other technology companies, mobile providers and telecommunication companies to support their digital payment solutions with our technology, expertise and security protocols. We help national and local governments drive increased financial inclusion and efficiency, reduce costs, increase transparency to reduce crime and corruption and advance social programs. For consumers, we provide better, safer and more convenient ways to pay.

Recent Business and Legal/Regulatory Developments

Product Innovation. We have launched and extended products and platforms that take advantage of the growing digital economy (including the Internet of Things), where consumers are increasingly using technology to interact with merchants. Among our recent developments:

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- In 2015, we expanded the availability of MasterPass™, our global digital payments ecosystem. It provides an easy and secure way to shop by storing payment information in one convenient and secure place and enabling consumers to access that information to make a payment with a simple click or touch.
- We are using our digital technologies and security protocols to develop solutions to make shopping and selling experiences on mobile devices (such as smartphones) simpler, faster and safer for both consumers and merchants. In 2015, we continued to enhance the suite of digital token services we offer through our MasterCard Digital Enablement Service (MDES). We also launched the MDES Express program, a commercial framework that provides financial institutions and digital participants (including large digital companies, merchants and other companies) the ability to quickly scale digital payment offerings to consumers, allowing connected devices to be used as a safe and secure way to pay for everyday shopping.
- In 2015, we launched MasterCard Send™, a service that facilitates the delivery of funds via financial institutions from business to consumer and from consumers to consumers quickly and securely.

Safety and Security. Our focus on security is embedded in our products, our systems and our network, as well as our analytics to prevent fraud:

- We continue to lead the migration to EMV®, the global standard for chip technology, to bring its fraud prevention benefits to our U.S. customers, consumers and merchants. In October 2015, we implemented a new liability hierarchy, making the issuer or merchant with the lowest level of security responsible for the financial impact of any fraudulent transactions they are involved with processing.
- In 2015, we worked with customers to extend to consumers globally the benefit of “zero liability”, or no responsibility for counterfeit or lost card losses, in the event of fraud.
- In 2015, we launched MasterCard Identity Check™, a suite of technology solutions that leverage biometrics to help authenticate a consumer’s identity.

Financial Inclusion. We are focused on addressing financial inclusion, reaching people without access to an electronic account that allows them to store and use money. In 2015, we worked with governments across several geographies to develop and roll out electronic payments solutions and social payment distribution mechanisms.

Acquisitions and Investments. In 2015, we acquired two new businesses focused on expanding our footprint and enhancing critical capabilities, including in the area of data analytics with the acquisition of Applied Predictive Technologies.

Legal and Regulatory. We operate in a dynamic and rapidly evolving legal and regulatory environment, with heightened regulatory and legislative scrutiny and other legal challenges, particularly with respect to interchange fees (as discussed below under “Our Operations and Network”). Recent developments include:

- European Union - In 2015, the European Commission issued a statement of objections related to our interchange fees and central acquiring rules within the European Economic Area. The statement of objections preliminarily concludes that these practices have anticompetitive effects, and the European Commission has indicated it intends to seek fines if it confirms these conclusions. We would not expect the EC to impose fines if we agree to business practice changes that address the EC’s concerns. Also in 2015, the European Union adopted legislation regulating electronic payments issued and acquired within the European Economic Area, including:
  - Ø a cap on consumer credit and debit interchange fees of 30 basis points and 20 basis points, respectively (a significant reduction in fees to financial institutions), with the ability of EU member states to impose more restrictive domestic debit interchange levels;
  - Ø restrictions on our “honor all cards” rule with respect to products with different levels of interchange;
  - Ø a prohibition of surcharging by merchants for products that are subject to regulated interchange rates;
  - Ø the prohibition of rules that prevent a consumer from requesting a “co-badged” card (that is, a credit or debit card on which an issuer has put a competing brand); and
  - Ø the separation of brand and processing in terms of accounting, organization and decision making.

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- Russia - Effective in 2015, the Russian government amended its National Payments Systems laws to require all payment systems to process domestic transactions through a government-owned payment switch. As a result, all MasterCard domestic transactions in Russia are now processed by that system instead of MasterCard.
- China - In 2015, People's Bank of China shared preliminary regulations related to international networks' ability to process domestic payments in China. The regulations, which could require a capital commitment and on-soil provisions for switching, data processing and acceptance, are expected to be finalized in 2016. While we await the final regulations, we continue to execute against our plans to have the infrastructure and technology ready in China to switch domestic Chinese transactions by the end of 2016. In the meantime, we are working to expand issuance and acceptance in the market.
- Data Privacy - In 2015, the European Court of Justice invalidated the EU-U.S. Safe Harbor treaty that had permitted the transfer of personal data between the European Union and the United States. We have adopted an alternative method of data transfer compliance as a result of this ruling. The situation has not yet been fully resolved and we continue to monitor any other potential requirements that may result, up to and including the need to establish a data processing center in Europe.

Capital Structure. In 2015, we completed several key capital structure efforts as part of our capital planning, including entering into a $3.75 billion credit facility (replacing our previous facility), launching a commercial paper program and completing a euro-denominated bond issuance of 1.65 billion euros.

See Part I, Item 1A for a more detailed discussion of our legal and regulatory developments and risks.

Our Business

Our Operations and Network

We operate the MasterCard Network, our unique and proprietary global payments network that links issuers and acquirers around the globe to facilitate the processing of transactions, permitting MasterCard cardholders to use their cards and other payment devices at millions of merchants worldwide. Our network facilitates an efficient and secure means for merchants to receive payments, as well as convenient, quick and secure payment method for consumers and businesses that is accepted worldwide. We process transactions through our network for our issuer customers in more than 150 currencies in more than 210 countries and territories.

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Typical Transaction. With a typical transaction involving four participants in addition to us, our network supports what is often referred to as a “four-party” payments network. The following diagram depicts a typical transaction on our network, and our role in that transaction:

In a typical transaction, a cardholder purchases goods or services from a merchant using a card or other payment device. After the transaction is authorized by the issuer, the issuer pays the acquirer an amount equal to the value of the transaction, minus the interchange fee (described below), and then posts the transaction to the cardholder’s account. The acquirer pays the amount of the purchase, net of a discount (referred to as the “merchant discount” rate, as further described below), to the merchant.

Interchange Fees. Interchange fees reflect the value merchants receive from accepting our products and play a key role in balancing the costs consumers and merchants pay. We do not earn revenues from interchange fees. Generally, interchange fees are collected from acquirers and paid to issuers to reimburse the issuers for a portion of the costs incurred by them in providing services that benefit all participants in the system, including acquirers and merchants. We or financial institutions establish “default interchange fees” that apply when there are no other established settlement terms in place between an issuer and an acquirer. We administer the collection and remittance of interchange fees through the settlement process.

Additional Four-Party System Fees. The “merchant discount rate” is established by the acquirer to cover its costs of both participating in the four-party system and providing services to merchants. The rate takes into consideration the amount of the interchange fee which the acquirer generally pays to the issuer. Additionally, acquirers may charge merchants processing and related fees in addition to the merchant discount rate, and issuers may also charge cardholders fees for the transaction, including, for example, fees for extending revolving credit.

Our Network Architecture and Information Security. The MasterCard Network features a globally integrated structure that provides scale for our issuers, enabling them to expand into regional and global markets. It features an intelligent architecture that enables the network to adapt to the needs of each transaction by blending two distinct processing structures:

- a distributed (peer-to-peer) processing structure for transactions that require fast, reliable processing to ensure they are processed close to where the transaction occurred; and
- a centralized (hub-and-spoke) processing structure for transactions that require value-added processing, such as real-time access to transaction data for fraud scoring or rewards at the point-of-sale, to ensure advanced processing products and services are applied to the transaction.

Our network’s architecture enables us to connect all parties regardless of where or how the transaction is occurring. It has 24-hour a day availability and world-class response time. The network incorporates multiple layers of protection, both for continuity

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purposes and to address information security challenges. We engage in multiple efforts to mitigate such challenges, including regularly testing our systems to address potential vulnerabilities.

Participation Standards. We establish, apply and enforce standards surrounding participation in the MasterCard payments system. We grant licenses that provide issuers, acquirers and other customers that meet specified criteria with certain rights, including access to the network and usage of cards and payment devices carrying our brands. As a condition of our licenses, issuers, acquirers and other customers agree to comply with our standards surrounding participation and brand usage and acceptance. We monitor areas of risk exposure and enforce our standards to combat fraudulent, illegal and brand-damaging activity. Issuers, acquirers and other customers are also required to report instances of fraud to us in a timely manner so that we can monitor trends and initiate action when appropriate.

Customer Risk Management. We guarantee the settlement of many of the transactions between our issuers and acquirers to ensure the integrity of our network. We refer to this as our settlement exposure. We do not, however, guarantee payments to merchants by their acquirer, or the availability of unspent prepaid cardholder account balances. As a guarantor of certain obligations of principal customers, we are exposed to customer credit risk arising from the potential financial failure of any principal customers of MasterCard, Maestro and Cirrus, and affiliate debit licensees. Principal customers participate directly in MasterCard programs and are responsible for the settlement and other activities of their sponsored affiliate customers. To minimize the contingent risk to MasterCard of a failure of a customer to meet its settlement obligations, we monitor the financial health of, economic and political operating environments of, and compliance with our standards by our customers. We employ various strategies to mitigate these risks.

Transaction Processing

Switching

- Authorization, Clearing and Settlement. Through the MasterCard Network, we enable the routing of a transaction to the issuer for its approval, facilitate the exchange of financial transaction information between issuers and acquirers after a successfully conducted transaction, and help to settle the transaction by facilitating the exchange of funds between parties via settlement banks chosen by us and our customers.
- Cross-Border and Domestic. The MasterCard Network switches transactions throughout the world when the merchant country and issuer country are different (cross-border transactions), providing cardholders with the ability to use, and merchants to accept, MasterCard cards and other payment devices across country borders. We also provide domestic (or intra-country) transaction switching services to customers in every region of the world, which allow issuers to facilitate payment transactions between cardholders and merchants within a particular country. We switch approximately half of all transactions using MasterCard and Maestro-branded cards, including most cross-border transactions. We switch the majority of MasterCard and Maestro-branded domestic transactions in the United States, United Kingdom, Canada, Brazil and a select number of other countries. Outside of these countries, most domestic transactions on our products are switched without our involvement.

Other Processing. We extend our processing capabilities in the payments value chain in various regions and across the globe with an expanded suite of offerings, including:

- Issuer and acquirer solutions designed to provide medium to large customers with a complete processing solution to help them create differentiated products and services and allow quick deployment of payments portfolios across banking channels.
- Payment gateways that offer a single interface to provide e-commerce merchants with the ability to process secure payments and offer value-added solutions, including outsourced electronic payments, fraud prevention and alternative payment options.
- Mobile gateways that facilitate transaction routing and prepaid processing for mobile-initiated transactions for our customers.

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Programs and Solutions

We provide a wide variety of products and solutions that support payment products that customers can offer to their cardholders. These services facilitate transactions on the MasterCard Network among cardholders, merchants, financial institutions and governments in markets globally. The following chart provides GDV and number of cards featuring our brands in 2015 for select programs and solutions:

	Year Ended December 31, 2015		As of December 31, 2015	
	GDV in billions	% of Total GDV	Cards in millions	Percentage Increase from December 31, 2014
MasterCard Branded Programs [1]				
Consumer Credit	$2,077	46 %	739	4 %
Commercial Credit	374	8 %	41	8 %
Debit and Prepaid	2,112	46 %	783	19 %

[1] Excludes Maestro and Cirrus cards and volume generated by those cards.

Consumer Credit and Charge. We offer a number of programs that enable issuers to provide consumers with cards that allow them to defer payment. These programs are designed to meet the needs of our customers around the world and address standard, premium and affluent consumer segments.

Debit. We support a range of payment products and solutions that allow our customers to provide consumers with convenient access to funds in deposit and other accounts. Our debit and deposit access programs can be used to make purchases and to obtain cash in bank branches, at ATMs and, in some cases, at the point of sale. Our branded debit programs consist of MasterCard (including standard, premium and affluent offerings), Maestro (the only PIN-based solution that operates globally) and Cirrus (our primary global cash access solution).

Prepaid. Prepaid programs involve a balance that is funded prior to use and can be accessed via a card or other payment device. We offer prepaid payment programs using any of our brands, which we support with processing products and services. Segments on which we focus include government programs such as Social Security payments, unemployment benefits and others; commercial programs such as payroll, health savings accounts, employee benefits and others; and consumer reloadable programs for individuals without formal banking relationships and non-traditional users of electronic payments.

We also provide prepaid program management services, primarily outside of the United States, that manage and enable switching and issuer processing for consumer and commercial prepaid travel cards for business partners such as financial institutions, retailers, telecommunications companies, travel agents, foreign exchange bureaus, colleges and universities, airlines and governments.

Commercial. We offer commercial payment products and solutions that help large corporations, mid-sized companies, small businesses and government entities streamline their procurement and payment processes, manage information and expenses (such as travel and entertainment) and reduce administrative costs. Our offerings and platforms include premium, travel, purchasing and fleet cards and programs; our SmartData tool that provides information reporting and expense management capabilities; and credit and debit programs targeted for small businesses.

Payment Innovations. The continued adoption of mobile devices has resulted in the ongoing convergence of the physical and digital worlds, where consumers are increasingly seeking to use their payment accounts to pay when, where and how they want. Leveraging our global innovations capability, we are developing platforms, products and solutions that take advantage of this convergence and give us the opportunity to lead the transition to digital payments. We do this in a number of ways, including:

- Creating Better Shopping and Selling Experiences. We are focused on offering digital solutions, such as our MasterPass digital payments ecosystem and MasterCard Digital Enablement Service (MDES) suite, and other products to make shopping and selling experiences simpler, faster and safer for both consumers and merchants. We also offer products that make it easier for merchants to accept payments and expand their customer base and are developing products and practices to facilitate acceptance via mobile devices.

- Engaging with New Partners. We enable consumers to securely use their smartphones to make digital payments through numerous active partnerships with mobile leaders and large digital companies around the world. Through our Open API Services, developers can innovate and create applications using financial and data services offered through the MasterCard Developer Zone.

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- Facilitating Money Transfers and Personal Payments. We provide money transfer and global remittance solutions to enable our customers to facilitate consumers sending and receiving money quickly and securely domestically and around the world. We continue to enhance our personal payments platforms, providing financial institutions connected to our network with additional opportunities for their customers to send funds domestically and globally.

We also focus on developing the future of payments and delivering additional consumer shopping safety and convenience through MasterCard Labs, our global innovation and development arm. Our efforts include incubating various ideas and hosting thought-leadership events to spur the next generation of innovative payment products.

Safety and Security

We offer products and services to prevent, detect and respond to fraud and to ensure the safety of transactions made on MasterCard products. We work with issuers, merchants and governments to help develop standards for safe and secure transactions for the global payments system. We have worked with our financial institution customers to provide products to consumers globally with increased confidence through the benefit of "zero liability", or no responsibility for counterfeit or lost card losses in the event of fraud.

Our products and solutions include:

- internet authentication/verification solutions that leverage biometrics;
- services assisting customers, merchants and third-party service providers in protecting against attacks and subsequent account data compromises; and
- fraud detection and management products and services.

We have been leading the development of industry standards, working with many payments industry associations to ensure that payment security standards are put in place as part of our multi-layered approach to protect the global payments system. These efforts include evolving a roadmap for the migration to EMV and developing an industry-open standard for tokenization, which helps protect sensitive cardholder information for digital transactions by generating unique credentials to an identified and verified individual that may be used for a specific transaction. As of December 31, 2015, nearly 50% of all U.S.-issued MasterCard consumer credit and debit cards featured EMV technology and many merchants are turning on the chip capabilities in their terminals.

Value-Added Solutions

MasterCard Advisors. MasterCard Advisors is our global professional services group that provides proprietary analysis, data-driven consulting and marketing services solutions to help clients optimize, streamline and grow their businesses, as well as deliver value to consumers. With analyses based on billions of transactions processed globally, we leverage anonymized and aggregated information and a consultative approach to help financial institutions, merchants, media companies, governments and other organizations grow their businesses or otherwise achieve efficiencies.

Our information services group provides a suite of data analytics and products (including reports, benchmarks, models and insights) that enable our customers to make better business decisions. Our consulting services group combines professional problem-solving skills with payments expertise to provide solutions that address the challenges and opportunities of clients with respect to payments. The managed services group provides solutions to enable data-driven acquisition of accounts, activation of portfolios, conversion of cards, marketing promotions activities and other customer management services.

Loyalty and Rewards Solutions. We provide a scalable rewards platform that enables issuers to provide consumers with a variety of benefits and services, such as personalized offers and rewards, access to a global airline lounge network, global and local concierge services, individual insurance coverages, emergency card replacement, emergency cash advance services and a 24-hour cardholder service center. For merchants, we provide targeted offers and rewards campaigns and management services for publishing offers, as well as opportunities for holders of co-brand or loyalty cards and rewards program members to obtain reward points faster. We support these services with program management capabilities.

Marketing

We manage and promote our brands through advertising, promotions and sponsorships, as well as digital, mobile and social media initiatives, in order to increase consumer preference for our brands and usage of our products. We sponsor a variety of sporting, entertainment and charity-related marketing properties to align with consumer segments important to us and our

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customers. Our advertising plays an important role in building brand visibility, usage and overall preference among cardholders globally. Our "Priceless®" advertising campaign, which has run in 53 languages in 112 countries worldwide, promotes MasterCard usage benefits and acceptance, markets MasterCard payment products and solutions and provides MasterCard with a consistent, recognizable message that supports our brand around the globe. We have extended Priceless to create experiences through three platforms to drive brand preference - Priceless Cities® provides cardholders across all of our regions with access to special experiences and offers in various cities, Priceless Causes® provides cardholders with opportunities to support philanthropic causes, and Priceless Surprises® provides cardholders with unexpected and unique surprises.

Our Revenue Sources

We generate revenues by assessing our customers primarily based on GDV on the cards and other devices that carry our brands and from the fees we charge to our customers for providing transaction processing and other payment-related products and services. Our net revenues are classified into five categories: domestic assessment fees, cross-border volume fees, transaction processing fees, other revenues and rebates and incentives (contra-revenue). See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Revenues" in Part II, Item 7 for more detail about our revenue, GDV and processed transactions.

Intellectual Property

We own a number of valuable trademarks that are essential to our business, including MasterCard, Maestro and Cirrus, through one or more affiliates. We also own numerous other trademarks covering various brands, programs and services offered by MasterCard to support our payment programs. Trademark and service mark registrations are generally valid indefinitely as long as they are used and/or properly maintained. Through license agreements with our customers, we authorize the use of our trademarks in connection with our customers' issuing and merchant acquiring businesses. In addition, we own a number of patents and patent applications relating to payments solutions, transaction processing, smart cards, contactless, mobile, electronic commerce, security systems and other matters, many of which are important to our business operations. Patents are of varying duration depending on the jurisdiction and filing date.

Competition

We compete in the global payments industry against all forms of payment including:

- cash and checks;
- card-based payments, including credit, charge, debit, ATM and prepaid products, as well as limited-use products such as private label;
- contactless, mobile and e-commerce payments, as well as cryptocurrency; and
- other electronic payments, including wire transfers, electronic benefits transfers, bill payments and automated clearing house payments (ACH).

We face a number of competitors both within and outside the global payments industry:

- Cash and Check. Cash and check continue to represent the most widely used forms of payment, constituting approximately 85% of the world's retail payment transactions.
- General Purpose Payment Networks. We compete worldwide with payment networks such as Visa, American Express and Discover, among others. Among global networks, Visa has significantly greater volume than we do. Outside of the United States, networks such as JCB in Japan and UnionPay in China have leading positions in their domestic markets. In the case of UnionPay, it operates the sole domestic payment switch in China. In addition, several governments are promoting, or considering promoting, local networks for domestic processing. See our risk factors related to payments system regulation and government actions that may prevent us from competing effectively for a more detailed discussion.

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- Debit. We compete with ATM and point-of-sale debit networks in various countries, such as Interlink®, Plus® and Visa Electron® (owned by Visa Inc.), Star® (owned by First Data Corporation), NYCE® (owned by FIS) and Pulse® (owned by Discover) in the United States; Interac in Canada; EFTPOS in Australia; and Bankserv in South Africa. In addition, in many countries outside of the United States, local debit brands serve as the main domestic brands, while our brands are used mostly to enable cross-border transactions, which typically represent a small portion of overall transaction volume. Jurisdictions have also created domestic card schemes that are focused mostly on debit and driven by nationalism (including RuPay in India and MIR in Russia).
- Three-Party Payments Networks. Our competitors include operators of proprietary three-party payments networks, such as American Express and Discover, which have direct acquiring relationships with merchants and direct issuing relationships with account holders. These competitors have certain competitive advantages over four-party payments systems such as ours. Among other things, these networks do not require formal interchange fees to balance payment system costs between the issuing and acquiring sides of their business, even though they have the ability to internally transfer costs in a manner similar to interchange fees. As a result, to date, operators of three-party payments networks have avoided some of the regulatory and litigation challenges we face.
- Competition for Customer Business. We compete intensely with other payments networks for customer business. Globally, financial institutions typically issue both MasterCard and Visa-branded payment products, and we compete with Visa for business on the basis of individual portfolios or programs. In addition, a number of our customers issue American Express and/or Discover-branded payment cards in a manner consistent with a four-party system. We continue to face intense competitive pressure on the prices we charge our issuers and acquirers, and we seek to enter into business agreements with them through which we offer incentives and other support to issue and promote our payment products. We also compete for non-financial institution partners, such as merchants, governments and telecommunication companies.
- Third-Party Processors. We face competition and potential displacement from transaction processors throughout the world, such as First Data Corporation and Total System Services, Inc., which are seeking to enhance their networks that link issuers directly with point-of-sale devices for payment transaction authorization and processing services.
- Alternative Payments Systems and New Entrants. As the global payments industry becomes more complex, we may face increasing competition from emerging payment providers. Many of these providers have developed payments systems focused on online activity in e-commerce and mobile channels; however, they either have or may expand to other channels. These competitors include digital wallet providers (such as PayPal, Alipay and Amazon), mobile operator services, mobile phone-based money transfer and microfinancing services (such as mPesa), handset manufacturers and cryptocurrencies. We compete with these providers in some circumstances, but in some cases they may also be our customers or partner with us.
- Value-Added Solutions. We face competition from companies that provide alternatives to our value-added solutions, including information services and consulting firms that provide consulting services and insights to financial institutions, as well as companies that compete against us as providers of loyalty and program management solutions.

Our competitive advantages include:

- our globally recognized brands;
- our highly adaptable network that we believe is the world's fastest;
- our adoption of innovative products and digital solutions;
- our MasterPass global digital payments ecosystem;
- the safety and security solutions embedded in our network;
- our MasterCard Advisors group dedicated solely to the payments industry; and
- our ability to serve a broad array of participants in global payments due to our expanded on-soil presence in individual markets and a heightened focus on working with governments.

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Government Regulation

General. Government regulation impacts key aspects of our business. We are subject to regulations that affect the payments industry in the many countries in which our cards and payment devices are used. See "Risk Factors" in Part I, Item 1A for more detail and examples.

Interchange Fees. Interchange fees associated with four-party payments systems like ours are being reviewed or challenged in various jurisdictions around the world via legislation to regulate interchange fees, competition-related regulatory proceedings, central bank regulation and litigation. For more detail, see our risk factors in "Risk Factors-Payments System Legal and Regulatory Challenges" in Part I, Item 1A. Also see Note 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8.

Payments System Regulation. Regulators in several countries around the world either have, or are seeking to establish, authority to regulate certain aspects of the payments systems in their countries. Such authority could result in regulation of various aspects of our business. Additionally, we are or may be subject to regulations related to our role in the financial industry and our relationship with our financial institution customers. For example, certain of our operations are periodically reviewed by the U.S. Federal Financial Institutions Examination Council under its authority to examine financial institutions' technology service providers.

Preferential or Protective Government Actions. Some governments have taken actions to provide resources, preferential treatment or other protection to selected domestic payments and processing providers, as well as create their own national providers.

No-Surcharge Rules. We have historically implemented policies in certain regions that prohibit merchants from charging higher prices to consumers who pay using MasterCard products instead of other means. Authorities in several jurisdictions have acted to end or limit the application of these no-surcharge rules (or indicated interest in doing so), including in Australia and Canada. Additionally, pursuant to the terms of settlement of the U.S. merchant class litigation, we have modified our no-surcharge rules to permit U.S. merchants to surcharge credit cards, subject to certain limitations.

Data Protection and Information Security. Aspects of our operations or business are subject to privacy and data protection laws in the United States, the European Union and elsewhere. For example, in the United States, we and our customers are respectively subject to Federal Trade Commission and federal banking agency information safeguarding requirements under the Gramm-Leach-Bliley Act that require the maintenance of a written, comprehensive information security program. Due to constant changes to the nature of data, regulatory authorities around the world are considering numerous legislative and regulatory proposals concerning privacy and data protection. In addition, the interpretation and application of these privacy and data protection laws in the United States, Europe and elsewhere are often uncertain and in a state of flux. This includes the recent ruling by the European Court of Justice that invalidated the EU-U.S. Safe Harbor treaty and the newly announced EU-U.S. Privacy Shield.

Anti-Money Laundering. MasterCard is subject to anti-money laundering ("AML") laws and regulations, including the USA PATRIOT Act. We have implemented a comprehensive AML program designed to prevent our payment network from being used to facilitate money laundering and other illicit activity. Our AML compliance program is comprised of policies, procedures and internal controls, including the designation of a compliance officer, and is designed to address these legal and regulatory requirements and assist in managing money laundering and terrorist financing risks.

Economic Sanctions. We are subject to regulations imposed by the U.S. Office of Foreign Assets Control ("OFAC") restricting financial transactions and other dealings with Crimea, Cuba, Iran, North Korea, Syria and Sudan and with persons and entities included in OFAC's list of Specially Designated Nationals and Blocked Persons (the "SDN List"). Iran, Syria and Sudan have been identified by the U.S. State Department as terrorist-sponsoring states. We have no offices, subsidiaries or affiliated entities located in these countries or in the Crimea region and do not license financial institutions domiciled there. We have established a risk-based compliance program that includes policies, procedures and controls that are designed to prevent us from having business dealings with prohibited countries, regions, individuals or entities. This includes obligating issuers and acquirers to screen cardholders and merchants, respectively, against the SDN list.

Consumer Financial Protection Bureau. The Consumer Financial Protection Bureau has significant authority to regulate consumer financial products in the United States, including consumer credit, deposit, payment and similar products.

Central Bank Oversight. Several central banks or similar regulatory bodies around the world that have increased, or are seeking to increase, their formal oversight of the electronic payments industry are in some cases considering designating them as "systemically important payment systems" or "critical infrastructure." This includes the Financial Stability Oversight Council ("FSOC") in the United States. Such systems will be subject to new regulation, supervision and examination requirements. To date, MasterCard has not been designated "systemically important."

Issuer Practice Regulation. Our customers are subject to numerous regulations and investigations applicable to banks and other financial institutions in their capacity as issuers and otherwise, impacting MasterCard as a consequence. Such regulations and investigations have been related to campus cards, bank overdraft practices, fees issuers charge to cardholders and transparency of terms and conditions.

Regulation of Internet and Digital Transactions. Various jurisdictions have enacted or have proposed regulation related to internet transactions. For example, under the Unlawful Internet Gambling Enforcement Act in the United States, payment transactions must be coded and blocked for certain types of Internet gambling transactions. The legislation applies to payments system participants, including MasterCard and our U.S. customers, and is implemented through a federal regulation. We may also be impacted by evolving laws surrounding gambling, including fantasy sports. Jurisdictions are also considering regulatory initiatives in digital-related areas that could impact us, such as cyber-security, copyright and trademark infringement and privacy.

Additional Regulatory Developments. Various regulatory agencies also continue to examine a wide variety of issues that could impact us, including evolving laws surrounding marijuana, prepaid payroll cards, virtual currencies, payment card add-on products, identity theft, account management guidelines, privacy, disclosure rules, security and marketing that would impact our customers directly.

Seasonality

See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Seasonality" in Part II, Item 7.

Financial Information About Geographic Areas

See Note 21 (Segment Reporting) to the consolidated financial statements included in Part II, Item 8 for certain geographic financial information.

Employees

As of December 31, 2015, we employed approximately 11,300 persons, of which approximately 6,200 were employed outside of the United States.

Additional Information

MasterCard Incorporated was incorporated as a Delaware corporation in May 2001. We conduct our business principally through MasterCard Incorporated's principal operating subsidiary, MasterCard International Incorporated ("MasterCard International"), a Delaware non-stock (or membership) corporation that was formed in November 1966. For more information about our capital structure, including our Class A common stock (our voting stock) and Class B common stock (our non-voting stock), see Note 13 (Stockholders' Equity) to the consolidated financial statements included in Part II, Item 8.

Website and SEC Reports

The Company's internet address is www.mastercard.com. From time to time, we may use our website as a channel of distribution of material company information. Financial and other material information is routinely posted and accessible on the investor relations section of our corporate website. In addition, you may automatically receive e-mail alerts and other information about MasterCard by enrolling your e-mail address by visiting "E-Mail Alerts" in the investor relations section of our corporate website.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available, without charge, for review on the investor relations section of our corporate website as soon as reasonably practicable after they are filed with, or furnished to, the U.S. Securities and Exchange Commission. The information contained on our website is not incorporated by reference into this Report.

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ITEM 1A. RISK FACTORS

Payments Systems Legal and Regulatory Challenges

Global legal, regulatory and legislative focus on the payments industry may have a material adverse impact on our overall business and results of operations

Interchange fees are generally the largest component of the costs that acquirers charge merchants in connection with the acceptance of payment cards. Although we do not earn revenues from interchange fees, they are a factor on which we compete with other payment providers and therefore an important determinant of the volume of transactions we see on our cards. We have historically set default interchange fees in the United States and certain other countries. In some jurisdictions, however, interchange fees and related practices are subject to regulatory activity and litigation that have limited our ability to establish default rates. Regulators and legislative bodies in a number of countries, as well as merchants, are seeking to reduce these fees through legislation, competition-related regulatory proceedings, central bank regulation and/or litigation.

More broadly, regulators in several jurisdictions increasingly have been leveraging, or seeking to establish, the authority to regulate certain aspects of payments systems such as ours. These regulations have, and could further result in, obligations or restrictions with respect to not only interchange fees but also the types of products that we may offer to consumers, the countries in which our cards and other payment devices may be used, the way we structure and operate our business and the types of cardholders and merchants who can obtain or accept our cards. These obligations and restrictions could be further increased as more jurisdictions impose oversight of payment systems.

Examples of activity related to interchange fees and payments systems include:

- The European Union adopted legislation in 2015 regulating electronic payments issued and acquired within the European Economic Area, including caps on consumer credit and debit interchange fees and the separation of brand and processing. See "Business-Recent Business and Legal/Regulatory Developments" in Part I, Item 1 for more details.

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- The European Commission issued a Statement of Objections in July 2015 related to our interregional interchange fees and central acquiring rules within the European Economic Area.
- Legislation regulating the level of domestic interchange fees has been enacted, or is being considered, in many jurisdictions. These jurisdictions include Australia, where the Reserve Bank of Australia has proposed further reductions to debit interchange, as well as interchange fee caps on commercial and cross-border transactions.
- Several jurisdictions have created or granted authority to create new regulatory bodies that either have or would have the authority to regulate payment systems, including the United Kingdom and India (which have designated us as a payments system subject to regulation), as well as Brazil, Mexico and Russia.

Additionally, merchants are seeking to reduce interchange fees and impact acceptance rules through litigation. Such litigation includes individual and/or class action suits filed by merchants against MasterCard, Visa and our customers in the United States and Canada, as well as claims filed by retailers against MasterCard in the United Kingdom and other European jusrisdictions. See Note 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for more details regarding litigation, proceedings and inquiries related to interchange fees.

If issuers cannot collect, or we are forced to reduce, interchange fees, issuers will be unable to use interchange fees to recoup a portion of the costs incurred for their services. This could reduce the number of financial institutions willing to participate in our four-party payments system, lower overall transaction volumes, and/or make proprietary three-party networks or other forms of payment more attractive. Issuers could also choose to charge higher fees to consumers to attempt to recoup a portion of the costs incurred for their services, thereby making our card programs less desirable to consumers and reducing our transaction volumes and profitability. In addition, issuers could attempt to decrease the expense of their card and other payment programs by seeking a reduction in the fees that we charge to them. This could also result in less innovation and fewer product offerings. We are devoting substantial management and financial resources to the defense of interchange fees in regulatory proceedings, litigation and legislative activity. The potential outcome of any legislative, regulatory or litigation action could have a more positive or negative impact on MasterCard relative to its competitors. If we are ultimately unsuccessful in our defense of interchange fees, any such legislation, regulation and/or litigation may have a material adverse impact on our overall business and results of operations. In addition, regulatory proceedings and litigation could result in MasterCard being fined and/or having to pay civil damages.

Additionally, increased focus by jurisdictions on regulating payment systems may result in costly compliance burdens and/or may otherwise increase our costs, which could materially and adversely impact our financial performance. Moreover, failure to comply with the laws and regulations discussed above to which we are subject could result in fines, sanctions or other penalties, which could materially and adversely affect our overall business and results of operations, as well as have an impact on our reputation. In order to successfully compete in such an environment, we and our customers would each need to adjust our strategies accordingly.

Limitations on our ability to restrict merchant surcharging could materially and adversely impact our results of operations.

We have historically implemented policies, referred to as no-surcharge rules, in certain regions, including the United States, that prohibit merchants from charging higher prices to consumers who pay using MasterCard products instead of other means. Authorities in several jurisdictions have acted to end or limit the application of these no-surcharge rules (or indicated interest in doing so). Additionally, pursuant to the terms of settlement of the U.S. merchant class litigation, we have modified our no-surcharge rules to permit U.S. merchants to surcharge credit cards, subject to certain limitations. It is possible that over time merchants in some or all merchant categories in these jurisdictions may choose to surcharge as permitted by the rule change. This could result in consumers viewing our products less favorably and/or using alternative means of payment instead of electronic products, which could result in a decrease in our overall transaction volumes, and which in turn could materially and adversely impact our results of operations.

Current regulatory activity could be extended to additional jurisdictions or products, which could materially and adversely affect our overall business and results of operations.

Regulators around the world increasingly look at each other's approaches to the regulation of the payments and other industries. In some areas, such as interchange fees, we believe that regulators are increasingly cooperating on their approaches. Consequently, a development in any one country, state or region may influence regulatory approaches in other countries, states or regions. For example, a decision in Europe related to interchange fees could increase the possibility of additional competition authorities in European member states opening interchange fee proceedings. Similarly, new laws and regulations in a country, state or region involving one product may cause lawmakers there to extend the regulations to another product. For example, regulations affecting debit transactions could lead to regulation of other products (such as credit).

As a result, the risks created by any one new law or regulation are magnified by the potential they have to be replicated in other jurisdictions or involving other products, affecting our business. These include matters like interchange rates, network standards and network exclusivity and routing agreements. Conversely, if widely varying regulations come into existence worldwide, we may have difficulty adjusting our products, services, fees and other important aspects of our business, with the same effect. Either of these outcomes could materially and adversely affect our overall business and results of operations.

Preferential or Protective Government Actions

Preferential and protective government actions related to domestic payment services could adversely affect our ability to maintain or increase our revenues.

Governments in some countries, such as China, Russia and India, have acted, or in the future may act, to provide resources, preferential treatment or other protection to selected national payment and processing providers, or have created, or may in the future create, their own national provider. This action may displace us from, prevent us from entering into, or substantially restrict us from participating in, particular geographies, and may prevent us from competing effectively against those providers. For example:

- Governments in some countries are considering, or may consider, regulatory requirements that mandate processing of domestic payments either entirely in that country or by only domestic companies. In particular, Russia has amended its National Payments Systems laws to require all payment systems to process domestic transactions through a government-owned payment switch. As a result, all MasterCard domestic transactions in Russia are now processed by that system instead of by MasterCard.
- Regional groups of countries, such as the Gulf Cooperation Countries in the Middle East and a number of countries in South East Asia, are considering, or may consider, efforts to restrict our participation in the processing of regional transactions.

Such developments would prevent, and in Russia have prevented, us from utilizing our global processing capabilities for domestic or regional customers. Our efforts to effect change in, or work with, these countries may not succeed. This could adversely affect our ability to maintain or increase our revenues and extend our global brand.

Privacy, Data Protection and Security

Regulation of privacy, data protection and security could increase our costs, as well as negatively impact our growth.

We are subject to regulations related to privacy, data protection and information security in the jurisdictions in which we do business. These regulations could result in negative impacts to our business. As we continue to develop products and services to meet the needs of a changing marketplace, we may expand our information profile through the collection of additional data across multiple channels. This expansion could amplify the impact of these regulations on our business. Regulation of privacy and data protection and information security may require changes to our data practices in regard to the collection, use, disclosure or security of personal and sensitive information. In addition, due to the European Court of Justice’s recent invalidation of the Safe Harbor treaty, we may be subject to enhanced compliance and operational requirements in the European Union. Failure to comply with these laws, regulations and requirements could result in fines, sanctions or other penalties, which could materially and adversely affect our results of operations and overall business, as well as have an impact on our reputation.

New requirements in these areas, either from new regulations or laws or any additions or changes (as well as the manner in which they could be interpreted or applied) may also increase our costs and could impact aspects of our business such as fraud monitoring, the development of information-based products and solutions and technology operations. In addition, these requirements may increase the costs to our customers of issuing payment products, which may, in turn, decrease the number of our cards and other payment devices that they issue. Moreover, due to recent account data compromise events at large, U.S.-based retailers, as well as the disclosure of the monitoring activities by certain governmental agencies, there has been heightened legislative and regulatory scrutiny around the world that could lead to further regulation and requirements. Any of these developments could materially and adversely affect our overall business and results of operations.

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Regulation Related to Our Participation in the Payments Industry

Regulations affecting the global payments industry may materially and adversely affect our overall business and results of operations.

We are subject to regulations that affect the payments industry in the many jurisdictions in which our cards and other devices are used. In particular, many of our customers are subject to regulations applicable to banks and other financial institutions, and, consequently, we are at times affected by such regulations. Regulation of the payments industry, including regulations applicable to us and our customers, has increased significantly in the last several years. See "Business-Government Regulation" in Part I, Item 1 for a detailed description of such regulation and related legislation. Examples include:

- Anti-Money Laundering and Economic Sanctions - We are subject to AML laws and regulations, including the USA Patriot Act in the United States, as well as the various economic sanctions programs administered by OFAC, including restrictions on financial transactions with certain countries and with persons and entities included on OFAC sanctions lists (including the SDN List). We have policies, procedures and controls designed to comply with applicable AML and OFAC sanctions requirements. We take measures to prevent transactions that do not comply with OFAC sanctions, including obligating our customers to screen cardholders and merchants against OFAC sanctions lists. However, despite these measures, it is possible that such transactions may be processed through our payments system. Activity such as money laundering or terrorist financing involving our cards could result in an enforcement action, and our reputation may suffer due to our customer's association with those countries, persons or entities or the existence of any such transaction. Any enforcement action or reputational damage could reduce the use and acceptance of our products and/or increase our costs, and thereby have a material adverse impact on our business. In addition, geopolitical events and resulting OFAC sanctions could lead jurisdictions affected by those sanctions to take actions in response that could adversely affect our business. For example, in response to the global sanctions imposed as a result of the Ukraine conflict, the Russian government amended its National Payments Systems laws requiring all payment systems to process domestic transactions through a government-owned payment switch. There is a risk that in the future other jurisdictions (or their sympathizers) may take similar or other actions in response to sanctions that could negatively impact us.
- Consumer Financial Protection Bureau ("CFPB") - In the United States, the CFPB could regulate consumer financial products, including amending existing requirements or imposing new ones. The CFPB also has supervisory and independent examination authority as well as enforcement authority over certain financial institutions, their service providers, and other entities, which could include us due to our processing of credit, debit and prepaid transactions. It is not clear whether and/or to what extent the CFPB will regulate broader aspects of payment card networks.
- Increased Central Bank Oversight - Several central banks or similar regulatory bodies around the world that have increased, or are seeking to increase, their formal oversight of the electronic payments industry are in some cases considering designating them as "systemically important payment systems" or "critical infrastructure." If MasterCard were designated "systemically important" in a particular jurisdiction, it would be subject to new regulations relating to its payment, clearing and settlement activities, which could address areas such as risk management policies and procedures; collateral requirements; participant default policies and procedures; the ability to complete timely clearing and settlement of financial transactions; and capital and financial resource requirements. Also, MasterCard could be required to obtain prior approval for changes to its system rules, procedures or operations that could materially affect the level of risk presented by that payments system.
- Issuer Practice Legislation and Regulation - Our financial institution customers are subject to numerous regulations, which impact us as a consequence. Existing or new regulations in these or other areas may diminish the attractiveness of our products to our customers.
- Regulation of Internet and Digital Transactions - Proposed legislation in various jurisdictions relating to Internet gambling and other digital areas such as cyber-security, copyright, trademark infringement and privacy could impose additional compliance burdens on us and/or our customers, including requiring us or our customers to monitor, filter, restrict, or otherwise oversee various categories of payment card transactions.

Increased regulatory focus on us, such as in connection with the matters discussed above, may result in costly compliance burdens and/or may otherwise increase our costs. Similarly, increased regulatory focus on our customers may cause such customers to reduce the volume of transactions processed through our systems. Finally, failure to comply with the laws and regulations discussed above to which we are subject could result in fines, sanctions or other penalties. Each may individually or collectively materially and adversely affect our financial performance and/or our overall business and results of operations, as well as have an impact on our reputation.

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Competition

Substantial and increasingly intense competition worldwide in the global payments industry may materially and adversely affect our overall business and results of operations.

The global payments industry is highly competitive. Our payment programs compete against all forms of payment, including cash and checks; electronic, mobile and e-commerce payment platforms; cryptocurrencies; ACH payment services; and other payments networks, which can have several competitive impacts on our business:

- Within the global general purpose payments industry, we face substantial and increasingly intense competition worldwide from systems such as Visa, American Express, Discover, UnionPay, JCB and PayPal among others.
- In certain jurisdictions, including the United States, Visa has greater volume, scale and market share than we do, which may provide significant competitive advantages. Visa has also announced its purchase of Visa Europe, which will create a global company that may provide Visa with additional competitive advantages.
- Some of our traditional competitors, as well as alternative payment service providers, may have substantially greater financial and other resources than we have, may offer a wider range of programs and services than we offer or may use more effective advertising and marketing strategies to achieve broader brand recognition or merchant acceptance than we have.
- Our ability to compete may also be affected by the outcomes of litigation, competition-related regulatory proceedings, central bank activity and legislative activity.

Certain of our competitors, including American Express, Discover, private-label card networks and certain alternative payments systems, operate three-party payments systems with direct connections to both merchants and consumers. These competitors may derive competitive advantages from their business models:

- Operators of three-party payments systems tend to have greater control over consumer and merchant customer service than operators of four-party payments systems such as ours, in which we must typically rely on our issuing and acquiring financial institution customers. Our inability to control end-to-end processing may put us at a competitive disadvantage by limiting our ability to introduce value-added programs and services that are dependent upon us processing the underlying transactions.
- Even when competitors operate programs that utilize a four-party system, these competitors have generally not attracted the same level of regulatory or legislative scrutiny of their pricing and business practices as have operators of four-party payments systems such as ours.

If we continue to attract more regulatory scrutiny than these competitors because we operate a four-party system, or we are regulated because of the system we operate in a way in which our competitors are not, we could lose business to these competitors. See “Business-Competition” in Part I, Item 1.

If we are not able to differentiate ourselves from our competitors, drive value for our customers and/or effectively align our resources with our goals and objectives, we may not be able to compete effectively against these threats. Our competitors may also more effectively introduce their own innovative programs and services that adversely impact our growth. We also compete against new entrants that have developed alternative payments systems, e-commerce payments systems and payments systems for mobile devices, as well as physical store locations. A number of these new entrants rely principally on the Internet to support their services and may enjoy lower costs than we do, which could put us at a competitive disadvantage. Our failure to compete effectively against any of the foregoing competitive threats could materially and adversely affect our overall business and results of operations.

Disintermediation from stakeholders both within and outside of the payments value chain could harm our business.

As the payments industry continues to develop and change, we face disintermediation and related risks, including:

- Parties that process our transactions in certain countries may try to eliminate our position as an intermediary in the payment process. For example, merchants could process (and in some cases are processing) transactions directly with issuers. Additionally, processors could process transactions directly between issuers and acquirers. Large scale consolidation within processors could result in these processors developing bilateral agreements or in some cases processing the entire transaction on their own network, thereby disintermediating us.

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- Large digital companies and other technology companies that leverage our technology, platforms and network to deliver their products could develop platforms or networks that disintermediate us from digital payments and impact our ability to compete as physical and digital payments converge.
- Competitors, customers, large digital and other technology companies, governments and other industry participants may develop products that compete with or replace value-added products and services we currently provide to support our transaction switching and payment offerings. These products could replace our own processing and payments offerings or could force us to change our pricing or practices for these offerings.
- Participants in the payments industry may merge, create joint ventures or form other business combinations that may strengthen their existing business services or create new payment services that compete with our services.

Our failure to compete effectively against any of the foregoing competitive threats could materially and adversely affect our overall business and results of operations.

Continued intense pricing pressure may materially and adversely affect our business and results of operations.

In order to increase transaction volumes, enter new markets and expand our MasterCard-branded cards and enabled payment devices, we seek to enter into business agreements with customers through which we offer incentives, pricing discounts and other support that promote our products. In order to stay competitive, we may have to increase the amount of these incentives and pricing discounts. Over the past several years, we have experienced continued pricing pressure. The demand from our customers for better pricing arrangements and greater rebates and incentives moderates our growth. We may not be able to continue our expansion strategy to process additional transaction volumes or to provide additional services to our customers at levels sufficient to compensate for such lower fees or increased costs in the future, which could materially and adversely affect our overall business and results of operations. In addition, increased pressure on prices increases the importance of cost containment and productivity initiatives in areas other than those relating to customer incentives. We may not succeed in these efforts.

In the future, we may not be able to enter into agreements with our customers on terms that we consider favorable, and we may be required to modify existing agreements in order to maintain relationships and to compete with others in the industry. Some of our competitors are larger and have greater financial resources than we do and accordingly may be able to charge lower prices to our customers. In addition, to the extent that we offer discounts or incentives under such agreements, we will need to further increase transaction volumes or the amount of services provided thereunder in order to benefit incrementally from such agreements and to increase revenue and profit, and we may not be successful in doing so, particularly in the current regulatory environment. Our customers also may implement cost reduction initiatives that reduce or eliminate payment product marketing or increase requests for greater incentives or greater cost stability. These factors could have a material adverse impact on our overall business and results of operations.

Technology

Rapid and significant technological developments and changes could negatively impact our results of operations or limit our future growth.

The payments industry is subject to rapid and significant technological changes, which can impact our business in several ways:

- Technological changes, including continuing developments of technologies in the areas of smart cards and devices, contactless and mobile payments, e-commerce and cryptocurrency and block chain technology, could result in new technologies that may be superior to, or render obsolete, the technologies we currently use in our programs and services. Moreover, these changes could result in new and innovative payment methods and programs that could place us at a competitive disadvantage and that could reduce the use of MasterCard products.
- We rely in part on third parties, including some of our competitors and potential competitors, for the development of and access to new technologies. The inability of these companies to keep pace with technological developments, or the acquisition of these companies by competitors, could negatively impact MasterCard offerings.
- Our ability to develop and adopt new services and technologies may be inhibited by industry-wide solutions and standards (such as those related to EMV, tokenization or other safety and security technologies), and by resistance from customers or merchants to such changes.

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- Our ability to develop evolving systems and products may be inhibited by any difficulty we may experience in attracting and retaining technology experts.
- Our ability to adopt these technologies can also be inhibited by intellectual property rights of third parties. We have received, and we may in the future receive, notices or inquiries from patent holders (for example, other operating companies or non-practicing entities) suggesting that we may be infringing certain patents or that we need to license the use of their patents to avoid infringement. Such notices may, among other things, threaten litigation against us or our customers or demand significant license fees.
- We work with large digital companies and other technology companies that use our technology to enhance payment safety and security and to deliver their payment-related products and services quickly and efficiently to consumers. Our inability to keep pace technologically could negatively impact the willingness of these customers to work with us, and could encourage them to use their own technology and compete against us.

We cannot predict the effect of technological changes on our business, and our future success will depend, in part, on our ability to anticipate, develop or adapt to technological changes and evolving industry standards. Failure to keep pace with these technological developments or otherwise bring to market products that reflect these technologies could lead to a decline in the use of our products, which could have a material adverse impact on our results of operations.

Information Security and Service Disruptions

Information security failures or breaches could disrupt our business, damage our reputation, increase our costs and cause losses.

Information security risks for payments and technology companies such as MasterCard have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. These threats may derive from fraud or malice on the part of our employees or third parties, or may result from human error or accidental technological failure. These threats include cyber-attacks such as computer viruses, malicious code, phishing attacks or information security breaches.

Our operations rely on the secure processing, transmission and storage of confidential, proprietary and other information in our computer systems and networks. Our customers and other parties in the payments value chain, as well as our cardholders, rely on our digital technologies, computer and email systems, software and networks to conduct their operations. In addition, to access our products and services, our customers and cardholders increasingly use personal smartphones, tablet PCs and other mobile devices that may be beyond our control. We routinely are subject to cyber-threats and our technologies, systems and networks have been subject to cyber-attacks. Because of our position in the payments value chain, we believe that we are likely to continue to be a target of such threats and attacks. Additionally, geopolitical events and resulting government activity could also lead to information security threats and attacks by affected jurisdictions and their sympathizers.

To date, we have not experienced any material impact relating to cyber-attacks or other information security breaches. However, if one or more of these events occurs, it could lead to security breaches of the networks, systems or devices that our customers use to access our products and services which could result in the unauthorized disclosure, release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information (including account data information) or data security compromises. Such events could also cause service interruptions, malfunctions or other failures in the physical infrastructure or operations systems that support our businesses and customers (such as the lack of availability of our value-added systems), as well as the operations of our customers or other third parties. Any actual attacks could lead to damage to our reputation with our customers and other parties and the market, additional costs to MasterCard (such as repairing systems, adding new personnel or protection technologies or compliance costs), regulatory penalties, financial losses to both us and our customers and partners and the loss of customers and business opportunities. If such attacks are not detected immediately, their effect could be compounded.

We maintain an information security program, a business continuity program and insurance coverage (each reviewed by our Board of Directors and its Audit Committee), and our processing systems incorporate multiple levels of protection, in order to address or otherwise mitigate these risks. We also periodically test our systems to discover and address any potential vulnerabilities. Despite these mitigation efforts, there can be no assurance that we will be immune to these risks and not suffer losses in the future. Our risk and exposure to these matters remain heightened because of, among other things, the evolving nature of these threats, the prominent size and scale of MasterCard and our role in the global payments and technology industries, our plans to continue to implement our digital and mobile channel strategies and develop additional remote connectivity solutions to serve our customers and cardholders when and how they want to be served, our global presence, our extensive use of third-

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party vendors and future joint venture and merger and acquisition opportunities. As a result, information security and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us. As cyber-threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Any of the risks described above could materially adversely affect our overall business and results of operations.

Service disruptions that cause us to be unable to process transactions or service our customers could materially affect our results of operations.

Our transaction processing systems and other offerings may experience interruptions as a result of a disaster, including, but not limited to, technology malfunctions, fire, weather events, power outages, telecommunications disruptions, terrorism, workplace violence, accidents or other catastrophic events. Our visibility in the global payments industry may also put us at greater risk of attack by terrorists, activists, or hackers who intend to disrupt our facilities and/or systems. A disaster that occurs at, or in the vicinity of, our primary and/or back-up facilities in any global location could interrupt our services. Although we maintain a business continuity program to analyze risk, assess potential impacts, and develop effective response strategies, we cannot ensure that our business would be immune to these risks.

Additionally, we rely on third-party service providers for the timely transmission of information across our global data network. Inadequate infrastructure in lesser-developed markets could also result in service disruptions, which could impact our ability to do business in those markets. If one of our service providers fails to provide the communications capacity or services we require, as a result of natural disaster, operational disruptions, terrorism, hacking or any other reason, the failure could interrupt our services. Because of the intrinsic importance of our processing systems to our business, any interruption or degradation could adversely affect the perception of the reliability of products carrying our brands and materially reduce our results of operations.

Customers

Losing a significant portion of business from one or more of our largest customers could lead to significant revenue decreases in the longer term, which could have a material adverse impact on our business and our results of operations.

Most of our customer relationships are not exclusive and may be terminated by our customers. Our customers can reassess their commitments to us at any time in the future and/or develop their own competitive services. Accordingly, our business agreements with these customers may not reduce the risk inherent in our business that customers may terminate their relationships with us in favor of relationships with our competitors, or for other reasons, or might not meet their contractual obligations to us.

In addition, a significant portion of our revenue is concentrated among our five largest customers. Loss of business from any of our large customers could have a material adverse impact on our overall business and results of operations.

Exclusive/near exclusive relationships certain customers have with our competitors may have a material adverse impact on our business.

Certain customers have exclusive, or nearly-exclusive, relationships with our competitors to issue payment products, and these relationships may make it difficult or cost-prohibitive for us to do significant amounts of business with them to increase our revenues. In addition, these customers may be more successful and may grow faster than the customers that primarily issue our cards, which could put us at a competitive disadvantage. Furthermore, we earn substantial revenue from customers with nearly-exclusive relationships with our competitors. Such relationships could provide advantages to the customers to shift business from us to the competitors with which they are principally aligned. A significant loss of our existing revenue or transaction volumes from these customers could have a material adverse impact on our business.

Consolidation in the banking industry could materially and adversely affect our overall business and results of operations.

The banking industry has undergone substantial, accelerated consolidation in the past. Consolidations have included customers with a substantial MasterCard portfolio being acquired by institutions with a strong relationship with a competitor. If significant consolidation among customers were to continue, it could result in the substantial loss of business for us, which could have a material adverse impact on our business and prospects. In addition, one or more of our customers could seek to merge with, or acquire, one of our competitors, and any such transaction could also have a material adverse impact on our overall business. Consolidation could also produce a smaller number of large customers, which could increase their bargaining power and lead to lower prices and/or more favorable terms for our customers. These developments could materially and adversely affect our results of operations.

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Stakeholders

Our failure to maintain our relationships with issuers and acquirers may materially and adversely affect our business.

While we work directly with many stakeholders in the payments system, including merchants, governments and large digital companies and other technology companies, we are, and will continue to be, significantly dependent on our relationships with our issuers and acquirers and their further relationships with cardholders and merchants to support our programs and services. We do not issue cards or other payment devices, extend credit to cardholders or determine the interest rates or other fees charged to cardholders using our products. Each issuer determines these and most other competitive payment program features. In addition, we do not establish the discount rate that merchants are charged for acceptance, which is the responsibility of our acquiring customers. As a result, our business significantly depends on the continued success and competitiveness of our issuing and acquiring customers and the strength of our relationships with them. In turn, our customers' success depends on a variety of factors over which we have little or no influence. If our customers become financially unstable, we may lose revenue or we may be exposed to settlement risk. See our risk factor in "Risk Factors - Settlement Risk" in this Part I, Item 1A with respect to how we guarantee certain third-party obligations for further discussion.

With the exception of the United States and a select number of other jurisdictions, most in-country (as opposed to cross-border) transactions conducted using MasterCard, Maestro and Cirrus cards are authorized, cleared and settled by our customers or other processors. Because we do not provide domestic processing services in these countries and do not, as described above, have direct relationships with cardholders, we depend on our close working relationships with our customers to effectively manage our brands, and the perception of our payments system, among consumers in these countries. We also rely on these customers to help manage our brands and perception among regulators and merchants in these countries, alongside our own relationships with them. From time to time, our customers may take actions that we do not believe to be in the best interests of our payments system overall, which may materially and adversely impact our business. If our customers' actions cause significant negative perception of the global payments industry or our brands, cardholders may reduce the usage of our programs, which could reduce our revenues and negatively impact our results of operations.

Merchants' continued focus on acceptance costs may lead to additional litigation and regulatory proceedings and increase our incentive program costs, which could materially and adversely affect our profitability.

Merchants are an important constituency in our payments system. We rely on both our relationships with them, as well as their relationships with our issuer and acquirer customers, to continue to expand the acceptance of our cards and payment devices. We also work with merchants to help them enable new sales channels, create better purchase experiences, improve efficiencies, increase revenues and fight fraud. In the retail industry, there is a set of larger merchants with increasingly global scope and influence. We believe that these merchants are having a significant impact on all participants in the global payments industry, including MasterCard. Some large merchants have supported the legal, regulatory and legislative challenges to interchange fees that MasterCard has been defending, including the U.S. merchant litigations. See our risk factor in this Part I, Item 1A with respect to payments industry regulation, including interchange fees. The continued focus of merchants on the costs of accepting various forms of payment, including in connection with the growth of digital payments, may lead to additional litigation and regulatory proceedings.

Merchants are also able to negotiate incentives from us and pricing concessions from our issuer and acquirer customers as a condition to accepting our payment cards and devices. As merchants consolidate and become even larger, we may have to increase the amount of incentives that we provide to certain merchants, which could materially and adversely affect our results of operations. Competitive and regulatory pressures on pricing could make it difficult to offset the costs of these incentives. Additionally, if the rate of merchant acceptance growth slows our business could suffer.

Our work with governments exposes us to unique risks that could have a material impact on our business and results of operations.

As we increase our work with national, state and local governments, both indirectly through financial institutions and with them directly as our customers, we may face various risks inherent in associating or contracting directly with governments. These risks include, but are not limited to, the following:

- Governmental entities typically fund projects through appropriated monies. Changes in governmental priorities or other political developments, including disruptions in governmental operations, could impact approved funding and result in changes in the scope, or lead to the termination of, the arrangements or contracts we or financial institutions enter into with respect to our payment products and services.

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- Our work with governments subjects us to U.S. and international anti-corruption laws, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. A violation and subsequent judgment or settlement under these laws could subject us to substantial monetary penalties and damages and have a significant reputational impact.
- Working or contracting with governments, either directly or via our financial institution customers, can subject us to heightened reputational risks, including extensive scrutiny and publicity, as well as a potential association with the policies of a government as a result of a business arrangement with that government. Any negative publicity or negative association with a government entity, regardless of its accuracy, may adversely affect our reputation.

Settlement and Third-Party Obligation Risk

Our role as guarantor exposes us to risk of loss or illiquidity.

As a guarantor of certain third-party obligations, including those of principal customers and affiliate debit licensees, we are exposed to risk of loss or illiquidity:

- We may incur obligations in connection with transaction settlements if an issuer or acquirer fails to fund its daily settlement obligations due to technical problems, liquidity shortfalls, insolvency or other reasons.
- If a principal customer or affiliate debit licensee of MasterCard is unable to fulfill its settlement obligations to other customers, we may bear the loss.
- Although we are not obligated to do so, we may elect to keep merchants whole if an acquirer defaults on its merchant payment obligations, or to keep prepaid cardholders whole if an issuer defaults on its obligation to safeguard unspent prepaid funds.

Our gross settlement exposure for our brands was approximately $40 billion as of December 31, 2015.

While we believe that we have sufficient liquidity to cover a settlement failure by our largest customer on its peak day (including the availability of our revolving credit facility), are able to seek assignment of underlying receivables from a failed customer and may charge customers for settlement incurred during MasterCard’s ordinary course activities, the term and amount of our guarantee of obligations to principal customers is unlimited. As a result:

- Concurrent settlement failures of more than one of our larger customers or of several of our smaller customers either on a given day or over a condensed period of time may exceed our available resources and could materially and adversely affect our overall business and liquidity.
- Even if we have sufficient liquidity to cover a settlement failure, we may not be able to recover the cost of such a payment and may therefore be exposed to significant losses, which could materially and adversely affect our results of operations.

These conditions subject us to increased risk that we may have to perform under our settlement guarantees. For more information on our settlement exposure and risk assessment and mitigation practices, see Note 19 (Settlement and Other Risk Management) to the consolidated financial statements included in Part II, Item 8.

Separately, MasterCard also provides guarantees to certain customers and other companies indemnifying them from losses stemming from our failure to perform with respect to our products and services or the failure of third parties to perform. Any significant indemnification obligation which we owe to any such customers or other companies could materially and adversely affect our overall business and results of operations.

Global Economic and Political Environment

Global financial market activity could result in a material and adverse impact on our overall business and results of operations.

Adverse economic trends (including distress in financial markets, turmoil in specific economies around the world and additional government intervention) have impacted the environment in which we operate. The condition of the economic environment may accelerate the timing of or increase the impact of risks to our financial performance. Such impact may include, but is not limited to, the following:

- Our customers may
  - Ø restrict credit lines to cardholders or limit the issuance of new cards to mitigate increasing cardholder defaults,

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- Ø implement cost reduction initiatives that reduce or eliminate payment card marketing or increase requests for greater incentives or greater cost stability, and
- Ø default on their settlement obligations, including as a result of sovereign defaults, causing a liquidity crisis for our other customers.
- Consumer spending can be negatively impacted by
  - Ø declining economies, foreign currency fluctuations and the pace of economic recovery, which can change cross-border travel patterns, on which a significant portion of our revenues is dependent, and
  - Ø low levels of consumer and business confidence typically associated with recessionary environments and those markets experiencing relatively high unemployment.
- Government intervention, including the effect of laws, regulations and/or government investments in our customers, may have potential negative effects on our business and our relationships with customers or otherwise alter their strategic direction away from our products.
- Tightening of credit availability could impact the ability of participating financial institutions to lend to us under the terms of our credit facility.

Any of these developments could have a material adverse impact on our overall business and results of operations.

A decline in cross-border activity could adversely affect our results of operations.

We process substantially all cross-border transactions using MasterCard, Maestro and Cirrus-branded cards and generate a significant amount of revenue from cross-border volume fees and transaction switching fees. Revenue from processing cross-border and currency conversion transactions for our customers fluctuates with cross-border travel and our customers' need for transactions to be converted into their base currency. Cross-border activity may be adversely affected by world geopolitical, economic, weather and other conditions. These include the threat of terrorism and outbreaks of flu, viruses and other diseases. Any such decline in cross-border activity could adversely affect our results of operations.

Negative trends in consumer spending could negatively impact our results of operations.

The global payments industry depends heavily upon the overall level of consumer, business and government spending. General economic conditions (such as unemployment, housing and changes in interest rates) and other political conditions (such as devaluation of currencies and government restrictions on consumer spending) in key countries in which we operate may adversely affect our financial performance by reducing the number or average purchase amount of transactions involving our payment cards and devices. Also, as we are headquartered in the United States, a negative perception of the United States could impact the perception of our company, which could adversely affect our business.

Adverse currency fluctuations and foreign exchange controls could negatively impact our results of operations.

During 2015, approximately 61% of our revenue was generated from activities outside the United States. This revenue (and the related expense) could be transacted in a non-functional currency or valued based on a currency other than the functional currency of the entity generating the revenues. Resulting exchange gains and losses are included in our net income. Our risk management activities provide protection with respect to adverse changes in the value of only a limited number of currencies and are based on estimates of exposures to these currencies.

In addition, some of the revenue we generate outside the United States is subject to unpredictable currency fluctuations (including devaluations of currencies) where the values of other currencies change relative to the U.S. dollar. If the U.S. dollar strengthens compared to currencies in which we generate revenue, this revenue may be translated at a materially lower amount than expected. Furthermore, we may become subject to exchange control regulations that might restrict or prohibit the conversion of our other revenue currencies into U.S. dollars.

The occurrence of currency fluctuations or exchange controls could have a material adverse impact on our results of operations.

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Reputational Impact

Brand perception may materially and adversely affect our overall business.

Our brands and their attributes are key assets of our business. The ability to attract consumers to our branded products and retain them depends upon the external perception of us and our industry. Our business may be affected by actions taken by our customers that impact the perception of our brands. From time to time, our customers may take actions that we do not believe to be in the best interests of our brands, such as creditor practices that may be viewed as "predatory". Additionally, large digital companies and other technology companies who are our customers use our network to build their own acceptance brands, which could cause consumer confusion and decrease the value of our brand. Moreover, adverse developments with respect to our industry or the industries of our customers may also, by association, impair our reputation, or result in greater regulatory or legislative scrutiny. We have also been pursuing the use of social media channels at an increasingly rapid pace. Under some circumstances, our use of social media, or the use of social media by others as a channel for criticism or other purposes, could also cause rapid, widespread reputational harm to our brands. Such perception and damage to our reputation could have a material and adverse effect to our overall business.

Account data breaches could adversely affect our reputation and results of operations.

We, our issuers and acquirers, merchants and other third parties process, transmit or store cardholder account and other information in connection with payment cards and devices. In addition, our customers may sponsor (or we may certify as PCI-compliant) third-party processors to process transactions generated by cards carrying our brands and merchants may use third parties to provide services related to card use. A breach of the systems on which sensitive cardholder data and account information are processed, transmitted or stored could lead to fraudulent activity involving cards carrying our brands, damage our reputation and lead to claims against us, as well as subject us to regulatory actions. We routinely encounter account data compromise events, some of which have been high profile, involving merchants and third-party payment processors that process, store or transmit payment card data, which affect millions of MasterCard, Visa, Discover, American Express and other types of cardholders. These events typically involve external agents hacking the merchants' or third-party processors' systems and installing malware to compromise the confidentiality and integrity of those systems. Further data security breaches may subject us to reputational damage and/or lawsuits involving payment cards carrying our brands. Damage to our reputation or that of our brands resulting from an account data breach of either our systems or the systems of our customers, merchants and other third parties could decrease the use and acceptance of our cards and other payment devices, as well as the trend toward electronic payments, which in turn could have a material adverse impact on our transaction volumes, results of operations and prospects for future growth, or increase our costs by leading to additional regulatory burdens being imposed upon us.

In addition to reputational concerns, while most of the lawsuits resulting from account data breaches do not involve direct claims against us, we could face damage claims in various circumstances, which, if upheld, could materially and adversely affect our results of operations.

Fraudulent activity could damage our reputation and encourage regulatory intervention, which could reduce the use and acceptance of our cards and other payment devices.

Criminals are using increasingly sophisticated methods to capture cardholder account information to engage in illegal activities such as counterfeiting or other fraud. Cards that use magnetic-stripe technology, the most widely-used payment technology in the United States, continue to raise heightened vulnerabilities to fraud relative to other technologies due to the static nature of the information on the magnetic stripe. Fraud is also more likely to occur in transactions where the card is not present, such as online commerce, which constitutes an increasing percentage of transactions. In addition, as outsourcing and specialization become commonplace in the payments industry, there are more third parties involved in processing transactions using our cards. Increased fraud levels involving our cards, or misconduct or negligence by third parties processing or otherwise servicing our cards, could lead to regulatory intervention, such as enhanced security requirements, as well as damage to our reputation, which could reduce the use and acceptance of our cards or increase our compliance costs, and thereby have a material adverse impact on our business.

Acquisitions

Acquisitions, strategic investments or entry into new businesses could disrupt our business and harm our results of operations or reputation.

Although we may continue to make strategic acquisitions of, or acquire interests in joint ventures or other entities related to, complementary businesses, products or technologies, we may not be able to successfully partner with or integrate them. In addition, such an integration may divert management's time and resources from our core business and disrupt our operations.

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Moreover, we may spend time and money on acquisitions or projects that do not meet our expectations or increase our revenue. To the extent we pay the purchase price of any acquisition in cash, it would reduce our cash reserves available to us for other uses, and to the extent the purchase price is paid with our stock, it could be dilutive to our stockholders. Furthermore, we may not be able to successfully finance the business following the acquisition as a result of costs of operations, including any litigation risk which may be inherited from the acquisition.

Any acquisition or entry into a new business could subject us to new regulations with which we would need to comply, and we could be subject to liability or reputational harm to the extent we cannot meet any such compliance requirements. Our expansion into new businesses could also result in unanticipated issues which may be difficult to manage. Although we periodically evaluate potential acquisitions of businesses, products and technologies and anticipate continuing to make these evaluations, we cannot guarantee that we will be able to execute and integrate any such acquisitions.

Litigation

Liabilities we may incur for any litigation that has been or may be brought against us could materially and adversely affect our results of operations.

We are a defendant on a number of civil litigations and regulatory proceedings and investigations, including among others, those alleging violations of competition and antitrust law and those involving intellectual property clams. See Note 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for more details regarding the allegations contained in these complaints and the status of these proceedings. In the event we are found liable in any material litigations or proceedings, particularly in the event we may be found liable in a large class-action lawsuit or on the basis of an antitrust claim entitling the plaintiff to treble damages or under which we were jointly and severally liable, we could be subject to significant damages, which could have a material adverse impact on our overall business and results of operations.

Limitations on our business resulting from litigation or litigation settlements may materially and adversely affect our overall business and results of operations.

Certain limitations have been placed on our business in recent years because of litigation and litigation settlements, such as changes to our no-surcharge rule in the United States. Any future limitations on our business resulting from litigation or litigation settlements could reduce the volume of business that we do with our customers, which may materially and adversely affect our overall business and results of operations.

Class A Common Stock and Governance Structure

Provisions in our organizational documents and Delaware law could be considered anti-takeover provisions and have an impact on change-in-control.

Provisions contained in our amended and restated certificate of incorporation and bylaws and Delaware law could be considered anti-takeover provisions, including provisions that could delay or prevent entirely a merger or acquisition that our stockholders consider favorable. These provisions may also discourage acquisition proposals or have the effect of delaying or preventing entirely a change in control, which could harm our stock price. For example, subject to limited exceptions, our amended and restated certificate of incorporation prohibits any person from beneficially owning more than 15% of any of the Class A common stock or any other class or series of our stock with general voting power, or more than 15% of our total voting power. In addition:

- our stockholders are not entitled to the right to cumulate votes in the election of directors;
- our stockholders are not entitled to act by written consent;
- a vote of 80% or more of all of the outstanding shares of our stock then entitled to vote is required for stockholders to amend any provision of our bylaws; and
- any representative of a competitor of MasterCard or of the Foundation is disqualified from service on our board of directors.

The Foundation’s substantial stock ownership, and restrictions on its sales, may impact corporate actions or acquisition proposals favorable to, or favored by, the other public stockholders.

As of February 4, 2016, the Foundation owned 115,446,594 shares of Class A common stock, representing approximately 10.6% of our general voting power. The Foundation may not sell or otherwise transfer its shares of Class A common stock prior to April

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26, 2026, except to the extent necessary to satisfy its charitable disbursement requirements, for which purpose earlier sales are permitted. The directors of the Foundation are required to be independent of us and our customers. The ownership of Class A common stock by the Foundation, together with the restrictions on transfer, could discourage or make more difficult acquisition proposals favored by the other holders of the Class A common stock. In addition, because the Foundation is restricted from selling its shares for an extended period of time, it may not have the same interest in short or medium-term movements in our stock price as, or incentive to approve a corporate action that may be favorable to, our other stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

As of December 31, 2015, MasterCard and its subsidiaries owned or leased 154 commercial properties. We own our corporate headquarters, a 472,600 square foot building located in Purchase, New York. There is no outstanding debt on this building. Our principal technology and operations center is a 528,000 square foot leased facility located in O'Fallon, Missouri. The term of the lease on this facility is 10 years, which commenced on March 1, 2009. Our leased properties in the United States are located in 9 states and in the District of Columbia. We also lease and own properties in 60 other countries. These facilities primarily consist of corporate and regional offices, as well as our operations centers.

We believe that our facilities are suitable and adequate for the business that we currently conduct. However, we periodically review our space requirements and may acquire or lease new space to meet the needs of our business, or consolidate and dispose of facilities that are no longer required.

ITEM 3. LEGAL PROCEEDINGS

Refer to Notes 10 (Accrued Expenses and Accrued Litigation) and 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock

Our Class A common stock trades on the New York Stock Exchange under the symbol "MA". The following table sets forth the intra-day high and low sale prices for our Class A common stock for the four quarterly periods in each of 2015 and 2014. At February 4, 2016, the Company had 77 stockholders of record for its Class A common stock. We believe that the number of beneficial owners is substantially greater than the number of record holders because a large portion of our Class A common stock is held in "street name" by brokers.

	2015		2014	
	High	Low	High	Low
First Quarter	$93.00	$79.82	$84.75	$71.75
Second Quarter	96.31	85.37	77.89	68.68
Third Quarter	99.18	74.61	79.22	73.64
Fourth Quarter	101.76	88.92	89.87	69.64

There is currently no established public trading market for our Class B common stock. There were approximately 344 holders of record of our Class B common stock as of February 4, 2016.

Dividend Declaration and Policy

During the years ended December 31, 2015 and 2014, we paid the following quarterly cash dividends per share on our Class A common stock and Class B Common stock:

	Dividend per Share	
	2015	2014
First Quarter	$0.16	$0.11
Second Quarter	0.16	0.11
Third Quarter	0.16	0.11
Fourth Quarter	0.16	0.11

On December 8, 2015, our Board of Directors declared a quarterly cash dividend of $0.19 per share paid on February 9, 2016 to holders of record on January 8, 2016 of our Class A common stock and Class B common stock. On February 2, 2016, our Board of Directors declared a quarterly cash dividend of $0.19 per share payable on May 9, 2016 to holders of record on April 8, 2016 of our Class A common stock and Class B common stock.

Subject to legally available funds, we intend to continue to pay a quarterly cash dividend on our outstanding Class A common stock and Class B common stock. However, the declaration and payment of future dividends is at the sole discretion of our Board of Directors after taking into account various factors, including our financial condition, operating results, available cash and current and anticipated cash needs.

Issuer Purchases of Equity Securities

On December 2, 2014, the Company's Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to $3.75 billion of its Class A common stock (the "December 2014 Share Repurchase Program"). This program became effective in January 2015. On December 8, 2015, the Company's Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to $4 billion of its Class A common stock (the "December 2015 Share Repurchase Program"). This program became effective in February 2016. We typically complete a share repurchase program before a new program becomes effective.

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During the fourth quarter of 2015, MasterCard repurchased a total of approximately 8.1 million shares for $793 million at an average price of $97.43 per share of Class A common stock. The Company's repurchase activity during the fourth quarter of 2015 consisted of open market share repurchases and is summarized in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share (including commission cost)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that may yet be Purchased under the Plans or Programs [1]
October 1 – 31	1,912,149	$94.07	1,912,149	$ 1,119,663,418
November 1 – 30	2,837,992	$99.42	2,837,992	$ 837,513,192
December 1 – 31	3,388,704	$97.67	3,388,704	$ 4,506,532,273
Total	8,138,845	$97.43	8,138,845	

[1] Dollar value of shares that may yet be purchased under the December 2014 Share Repurchase Program and the December 2015 Share Repurchase Program is as of the end of the period.

ITEM 6. SELECTED FINANCIAL DATA

The statement of operations data presented below for the years ended December 31, 2015, 2014 and 2013, and the balance sheet data as of December 31, 2015 and 2014, were derived from the audited consolidated financial statements of MasterCard Incorporated included in Part II, Item 8. The statement of operations data presented below for the years ended December 31, 2012 and 2011, and the balance sheet data as of December 31, 2013, 2012 and 2011, were derived from audited consolidated financial statements not included in this Report. The data set forth below should be read in conjunction with, and are qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and our consolidated financial statements and notes thereto included in Part II, Item 8.

	Years Ended December 31,				
	2015	2014	2013	2012	2011
	(in millions, except per share data)				
Statement of Operations Data:					
Net revenue	$9,667	$9,441	$8,312	$7,391	$6,714
Total operating expenses	4,589	4,335	3,809	3,454	4,001
Operating income	5,078	5,106	4,503	3,937	2,713
Net income	3,808	3,617	3,116	2,759	1,906
Basic earnings per share	3.36	3.11	2.57	2.20	1.49
Diluted earnings per share	3.35	3.10	2.56	2.19	1.48
Balance Sheet Data:					
Total assets	$16,269	$15,329	$14,242	$12,462	$10,693
Long-term debt	3,287	1,494	—	—	—
Equity	6,062	6,824	7,495	6,929	5,877
Cash dividends declared per share	0.67	0.49	0.29	0.12	0.06

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and notes of MasterCard Incorporated and its consolidated subsidiaries, including MasterCard International Incorporated ("MasterCard International") (together, "MasterCard" or the "Company"), included elsewhere in this Report. Certain prior period amounts have been reclassified to conform to the 2015 presentation. For 2014 and 2013, net revenue and general and administrative expenses were revised to correctly classify $32 million and $34 million, respectively, of customer incentive expenses as contra revenue instead of general and administrative expenses. This revision had no impact on net income. Percentage changes provided throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" were calculated on amounts rounded to the nearest thousand.

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Non-GAAP Financial Information

Non-GAAP financial information is defined as a numerical measure of a company's performance that excludes or includes amounts so as to be different than the most comparable measure calculated and presented in accordance with accounting principles generally accepted in the United States ("GAAP"). This report on Form 10-K contains non-GAAP financial measures that exclude the impact of the following special items ("Special Items"):

- U.S. Employee Pension Plan Settlement Charge - in 2015, the Company recorded a settlement charge of $79 million ($50 million after tax or $0.04 per diluted share) relating to the termination of its qualified U.S. defined benefit pension plan in general and administrative expenses. See Note 11 (Pension, Postretirement and Savings Plans) to the consolidated financial statements included in Part II, Item 8 for further discussion.
- U.K. Merchant Litigation Settlement Provision - in 2015, the Company recorded a provision for a litigation settlement of $61 million ($44 million after tax or $0.04 per diluted share) relating to a merchant litigation in the U.K. See Note 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for further discussion.
- Provision for settlements relating to U.S. Merchant Litigations - in 2013, the Company recorded an incremental net charge of $95 million ($61 million after tax or $0.05 per diluted share) related to the opt-out merchants, representing a change in its estimate of probable losses relating to these matters. See Note 18 (Legal and Regulatory Proceedings) for further discussion to the consolidated financial statements included in Part II, Item 8.

MasterCard excludes these Special Items because its management monitors significant one-time items separately from ongoing operations and evaluates ongoing performance without these amounts. MasterCard presents non-GAAP financial measures to enhance an investor's understanding of MasterCard's ongoing operating results and to facilitate meaningful comparison of its results between periods. MasterCard's management uses these non-GAAP financial measures to, among other things, evaluate its ongoing operations in relation to historical results, for internal planning and forecasting purposes and in the calculation of performance-based compensation. See "Overview" and "Financial Results" sections for the tables that provide a reconciliation of the operating results and growth to the most directly comparable GAAP measure. The presentation of non-GAAP financial measures should not be considered in isolation or as a substitute for the Company's related financial results prepared in accordance with GAAP.

Overview

We recorded net income of $3.8 billion, or $3.35 per diluted share in 2015 versus net income of $3.6 billion, or $3.10 per diluted share in 2014. Reported net income grew 5% in 2015 versus the comparable period in 2014.

Excluding the impact of the Special Items, we had adjusted net income of $3.9 billion, or $3.43 per adjusted diluted share in 2015. Adjusted net income increased 8% in 2015 versus the comparable period in 2014. The increase in adjusted net income was driven by:

- Net revenue growth of 2%, primarily driven by increases across our revenue categories and the impact from acquisitions, which contributed 2 percentage points of growth, partially offset by higher rebates and incentives and the impact from foreign currency translation, which decreased growth by 6 percentage points. In 2015, our processed transactions increased 12% versus the comparable period in the prior year. In 2015, our gross dollar volumes increased 13% and our cross-border volume increased 16%, both on a local currency basis, versus the comparable period in the prior year, respectively.
- Excluding the impact of Special Items, adjusted operating expenses in 2015 increased 3%, primarily due to higher general and administrative expenses as a result of acquisitions and higher data processing costs, partially offset by improved cost control initiatives and the favorable impact of foreign currency translation and transaction gains. Including the impact of Special Items, operating expenses increased 6% in 2015 versus the comparable period in 2014.
- Total other expense increased to $120 million in 2015 versus $27 million for the comparable period in 2014, resulting from impairment charges taken on certain investments in 2015 and higher interest expense resulting from incremental debt issued in 2014 and 2015.
- An improved effective tax rate of 23.2% in 2015 versus an effective tax rate of 28.8% in the comparable period in 2014, due to the recognition of discrete tax benefits in 2015 resulting from the favorable impact of settlements with tax authorities and the recognition of U.S. foreign tax credit benefits.

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- The net impact of foreign currency translation, from the devaluation of the euro and the Brazilian real, decreased 2015 net income growth by $230 million or 7 percentage points.

Other financial highlights for 2015 were as follows:

- We generated net cash flows from operations of $4.0 billion in 2015, compared to $3.4 billion in 2014.
- We acquired two businesses for $609 million, which focus on expanding our footprint and enhancing critical capabilities, including in the area of data analytics with the acquisition of Applied Predictive Technologies.
- We completed a debt offering of €1.65 billion ($1.7 billion) and established a commercial paper program with authorization to issue up to $3.75 billion in outstanding notes.
- We repurchased 38 million shares of our Class A common stock for $3.5 billion in 2015.

The following tables provide a summary of our operating results:

	For the Years Ended December 31,						
	2015			2014	Percent Increase (Decrease)		
	Actual	Special Items [1]	Non-GAAP	Actual[1]	Actual	Special Items [1]	Non-GAAP
	(in millions, except per share data and percentages)						
Net revenue	$9,667	$—	$ 9,667	$9,441	2%	—%	2%
Operating expenses	$4,589	$(140)	$ 4,449	$4,335	6%	3%	3%
Operating income	$5,078	$140	$ 5,218	$5,106	(1)%	(3)%	2%
Operating margin	52.5 %		54.0 %	54.1 %			
Income tax expense	$1,150	$45	$ 1,195	$1,462	(21)%	(3)%	(18)%
Effective income tax rate	23.2 %		23.4 %	28.8 %			
Net income	$3,808	$95	$ 3,903	$3,617	5%	(3)%	8%
Diluted earnings per share	$3.35	$0.08	$ 3.43	$3.10	8%	(3)%	11%
Diluted weighted-average shares outstanding	1,137		1,137	1,169	(3)%		(3)%

	For the Years Ended December 31,						
	2014	2013			Percent Increase (Decrease)		
	Actual[1]	Actual	Special Items [1]	Non-GAAP	Actual	Special Items [1]	Non-GAAP
	(in millions, except per share data and percentages)						
Net revenue	$9,441	$8,312	$—	$ 8,312	14%	—%	14%
Operating expenses	$4,335	$3,809	$(95)	$ 3,714	14%	(3)%	17%
Operating income	$5,106	$4,503	$95	$ 4,598	13%	2%	11%
Operating margin	54.1 %	54.2 %		55.3 %			
Income tax expense	$1,462	$1,384	$34	$ 1,418	6%	3%	3%
Effective income tax rate	28.8 %	30.8 %		30.9 %			
Net income	$3,617	$3,116	$61	$ 3,177	16%	2%	14%
Diluted earnings per share	$3.10	$2.56	$0.05	$ 2.61	21%	2%	19%
Diluted weighted-average shares outstanding	1,169	1,215		1,215	(4)%		(4)%

[1] See Non-GAAP Financial Information for the respective impacts relating to the Special Items. There were no Special Items recorded in 2014.
* Tables may not sum due to rounding.

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Business Environment

We process transactions from more than 210 countries and territories and in more than 150 currencies. Net revenue generated in the United States was 39% of total revenue in each of 2015, 2014 and 2013. No individual country, other than the United States, generated more than 10% of total revenue in any such period, but differences in market growth, economic health and foreign exchange fluctuations in certain countries can have an impact on the proportion of revenue generated outside the United States over time. While the global nature of our business helps protect our operating results from adverse economic conditions in a single or a few countries, the significant concentration of our revenue generated in the United States makes our business particularly susceptible to adverse economic conditions in the United States.

The competitive and evolving nature of the global payments industry provides both challenges to and opportunities for the continued growth of our business. Adverse economic trends (including distress in financial markets, turmoil in specific economies around the world and additional government intervention) have impacted the environment in which we operate. Certain of our customers, merchants that accept our brands and cardholders who use our brands, have been directly impacted by these adverse economic conditions.

MasterCard's financial results may be negatively impacted by actions taken by individual financial institutions or by governmental or regulatory bodies. In addition, political instability or a decline in economic conditions in the countries in which the Company operates may accelerate the timing of or increase the impact of risks to our financial performance. As a result, our revenue or results of operations may be negatively impacted. MasterCard continues to monitor political and economic conditions around the world to identify opportunities for the continued growth of our business and to evaluate the evolution of the global payments industry. Notwithstanding recent encouraging trends, the extent and pace of economic recovery in various regions remains uncertain and the overall business environment may present challenges for MasterCard to grow its business. For a full discussion see "Risk Factors - Business Risk" in Part I, Item 1A.

In addition, our business and our customers' businesses are subject to regulation in many countries. Regulatory bodies may seek to impose rules and price controls on certain aspects of our business and the payments industry. For further discussion, see Note 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 and our risk factor in "Risk Factors - Legal and Regulatory Risks" in Part I, Item 1A. Further, information security risks for global payments and technology companies such as MasterCard have significantly increased in recent years. Although to date we have not experienced any material impacts relating to cyber-attacks or other information security breaches, there can be no assurance that we will be immune to these risks and not suffer such losses in the future. See our risk factor in "Risk Factors - Business Risks" in Part I, Item 1A related to a failure or breach of our security systems or infrastructure as a result of cyber-attacks.

Impact of Foreign Currency Rates

Our overall operating results can be impacted by changes in foreign currency exchange rates, especially the strengthening or weakening of the U.S. dollar versus the euro and Brazilian real. The functional currency of MasterCard Europe, our principal European operating subsidiary, is the euro, and the functional currency of our Brazilian subsidiary is the Brazilian real. Accordingly, the strengthening or weakening of the U.S. dollar versus the euro and Brazilian real impacts the translation of our European and Brazilian subsidiaries' operating results into the U.S. dollar. During 2015, the euro and the Brazilian real devalued against the U.S. dollar by 16% and 28%, respectively, versus the comparable period in 2014.

The following table provides a summary of the foreign currency translational impact of changes in the U.S. dollar average exchange rates against the euro and Brazilian real to our operating results for the years ended December 31, 2015, and 2014:

	Positive (Negative) Impact from Foreign Currency Translation Percent	
	2015	2014
Net Revenue	(6)%	(1)%

Operating Expenses	4%	1%
Net Income	(7)%	Less than (1)%

In addition, changes in foreign currency exchange rates directly impact the calculation of gross dollar volume ("GDV") and gross euro volume ("GEV"), which are used in the calculation of our domestic assessments fees, cross-border volume fees and volume related rebates and incentives. These foreign currency impacts are incremental to the translation impacts discussed above. In

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most non-European regions, GDV is calculated based on local currency spending volume converted to U.S. dollars using average exchange rates for the period. In Europe, GEV is calculated based on local currency spending volume converted to euros using average exchange rates for the period. As a result, our domestic assessments, cross-border volume fees and volume related rebates and incentives are impacted by the strengthening or weakening of the U.S. dollar versus primarily non-European local currencies and the strengthening or weakening of the euro versus primarily European local currencies. For example, our billing in Australia is in U.S. dollar, however, consumer spend in Australia is in Australian dollar. The foreign currency transactional impact of converting Australian dollars to our billing currency in U.S. dollars will have an impact on the revenue generated. The strengthening or weakening of the U.S. dollar is evident when GDV growth on a U.S. dollar converted basis is compared to GDV growth on a local currency basis. In 2015, GDV on a U.S. dollar converted basis increased 1% versus GDV growth on a local currency basis of 13%. In 2014, GDV on a U.S. dollar converted basis increased 10% versus GDV growth on a local currency basis of 13%. The Company attempts to manage these foreign currency exposures through its foreign exchange risk management activities, which are discussed further in Note 20 (Foreign Exchange Risk Management) to the consolidated financial statements included in Part II, Item 8.

The Company generates revenue and has financial assets in countries at risk for currency devaluation. While these revenues and financial assets are not material to MasterCard on a consolidated basis, they could be negatively impacted if a devaluation of local currencies occurs relative to the U.S. dollar.

Financial Results

Revenue

Revenue Description

MasterCard's business model involves four participants in addition to us: cardholders, merchants, issuers (the cardholders' financial institutions) and acquirers (the merchants' financial institutions). Our gross revenue is generated by assessing our customers based primarily on the dollar volume of activity on the cards and other devices that carry our brands and from the fees that we charge our customers for providing transaction processing and other payment-related products and services. Our revenue is based upon transactional information accumulated by our systems or reported by our customers. Our primary revenue billing currencies are the U.S. dollar, euro and Brazilian real.

The price structure for our products and services is complex and is dependent on the nature of volumes, types of transactions and type of products and services we offer to our customers. Our net revenue can be significantly impacted by the following:

- domestic or cross-border transactions;
- signature-based or PIN-based transactions;
- geographic region or country in which the transaction occurs;
- volumes/transactions subject to tiered rates;
- processed or not processed by MasterCard;
- amount of usage of our other products or services; and
- amount of rebates and incentives provided to customers.

The Company classifies its net revenue into the following five categories:

1. Domestic assessments fees: Domestic assessments are fees charged to issuers and acquirers based primarily on the dollar volume of activity on cards and other devices that carry our brands where the merchant country and the issuer country are the same. Domestic assessments include items such as card assessments, which are fees charged on the number of cards issued or assessments for specific purposes, such as acceptance development or market development programs.
2. Cross-border volume fees: Cross-border volume fees are charged to issuers and acquirers based on the dollar volume of activity on cards and other devices that carry our brands where the merchant country and the issuer country are different. In general, a cross-border transaction generates higher revenue than a domestic transaction since cross-border fees are higher than domestic fees, and in most cases also include fees for currency conversion.

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3. Transaction processing fees: Transaction processing fees are charged for both domestic and cross-border transactions and are primarily based on the number of transactions. Transaction processing fees include charges for the following:
- Switching fees for the following products and services:
  - Ø Authorization is the process by which a transaction is routed to the issuer for approval. In certain circumstances such as when the issuer's systems are unavailable or cannot be contacted, MasterCard or others, on behalf of the issuer approve in accordance with either the issuer's instructions or applicable rules (also known as "stand-in").
  - Ø Clearing is the exchange of financial transaction information between issuers and acquirers after a transaction has been successfully conducted at the point of interaction. MasterCard clears transactions among customers through our central and regional processing systems.
  - Ø Settlement is facilitating the exchange of funds between parties.
- Connectivity fees are charged to issuers and acquirers for network access, equipment and the transmission of authorization and settlement messages. These fees are based on the size of the data being transmitted through and the number of connections to the Company's network.
- Other Processing fees: We extend our processing capabilities in the payment value chain for issuer and acquirer solutions; payment gateways for e-commerce merchants; and mobile gateways for mobile initiated transactions.

4. Other revenues: Other revenues consist of other payment-related products and services and are primarily associated with the following:
- Consulting, data analytic and research fees are primarily generated by MasterCard Advisors, the Company's professional advisory services group.
- Safety and security services fees are for products and services we offer to prevent, detect and respond to fraud and to ensure the safety of transactions made on MasterCard products. We work with issuers, merchants and governments to help deploy standards for safe and secure transactions for the global payments system.
- Loyalty and rewards solutions fees are charged to issuers for benefits provided directly to consumers with MasterCard-branded cards, such as access to a global airline lounge network, global and local concierge services, individual insurance coverages, emergency card replacement, emergency cash advance services and a 24-hour cardholder service center. For merchants, we provide targeted offers and rewards campaigns and management services for publishing offers, as well as opportunities for holders of co-brand or loyalty cards and rewards program members to obtain rewards points faster.
- Program management services provided to prepaid card issuers consist of foreign exchange margin, commissions, load fees, and ATM withdrawal fees paid by cardholders on the sale and encashment of prepaid cards.
- The Company also charges for a variety of other payment-related products and services, including account and transaction enhancement services, rules compliance and publications.

5. Rebates and incentives (contra-revenue): Rebates and incentives are provided to certain MasterCard customers and are recorded as contra-revenue.

Revenue Analysis

Gross revenue in 2015 and 2014 increased $903 million and $1.5 billion, or 7% and 13%, versus 2014 and 2013, respectively, primarily driven by an increase in dollar volume of activity and number of transactions on cards carrying our brands, as well as growth in our Advisors business, which includes the impact of our newly acquired data analytics business. This was partially offset by the negative impact from foreign currency translation and the local foreign currency from billing. Rebates and incentives in 2015 and 2014 increased $677 million and $327 million, or 20% and 11%, versus 2014 and 2013, respectively, due to the impact from new and renewed agreements and increased volumes, partially offset by the positive impact of foreign currency translation. Our net revenue in 2015 and 2014 increased 2% and 14% versus 2014 and 2013, respectively. Acquisitions contributed 2 percentage points to net revenue growth in both 2015 and 2014, while foreign currency translation decreased net revenue growth by 6 percentage points and 1 percentage point in 2015 and 2014, respectively.

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The following table provides a summary of the trend in volume and transaction growth:

	Years Ended December 31,			
	2015		2014	
	Growth (USD)	Growth (Local)	Growth (USD)	Growth (Local)
MasterCard-branded GDV [1]	1%	13%	10%	13%
Asia Pacific/Middle East/Africa	6%	14%	14%	17%
Canada	—%	16%	—%	7%
Europe	(6)%	16%	9%	14%
Latin America	(11)%	15%	5%	15%
United States	7%	7%	8%	8%
Cross-border Volume [1]		16%		16%
Processed Transactions Growth		12%		12%

[1] Excludes volume generated by Maestro and Cirrus cards.

A significant portion of our revenue is concentrated among our five largest customers. In 2015, the net revenue from these customers was approximately $2.3 billion, or 24%, of total net revenue. The loss of any of these customers or their significant card programs could adversely impact our revenue. In addition, as part of our business strategy, MasterCard, among other efforts, enters into business agreements with customers. These agreements can be terminated in a variety of circumstances. See our risk factor in "Risk Factor - Business Risks" in Part I, Item 1A for further discussion.

The significant components of our net revenue were as follows:

	For the Years Ended December 31,			Percent Increase (Decrease)	
	2015	2014	2013	2015	2014
	(in millions, except percentages)				
Domestic assessments	$4,086	$3,967	$3,688	3%	8%
Cross-border volume fees	3,225	3,054	2,715	6%	12%
Transaction processing fees	4,345	4,035	3,554	8%	14%
Other revenues	1,991	1,688	1,331	18%	27%
Gross revenue	13,647	12,744	11,288	7%	13%
Rebates and incentives (contra-revenue)	(3,980)	(3,303)	(2,976)	20%	11%
Net revenue	$9,667	$9,441	$8,312	2%	14%

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The following table summarizes the primary drivers of net revenue growth:

	For the Years Ended December 31,									
	Volume		Foreign Currency [1]		Acquisitions		Other [2]		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Domestic assessments	12 %	13 %	(6)%	(1)%	— %	— %	(3)% [3]	(4)% [3]	3 %	8 %
Cross-border volume fees	14 %	15 %	(5)%	— %	— %	— %	(3)%	(3)%	6 %	12 %
Transaction processing fees	11 %	9 %	(6)%	— %	— %	1 %	3 %	4 %	8 %	14 %
Other revenues	**	**	(6)%	(1)%	8 %	7 %	16 % [4]	21 % [4]	18 %	27 %
Rebates and incentives	6 %	9 %	(6)%	(1)%	— %	— %	20 % [5]	3 % [5]	20 %	11 %
Net revenue	12 %	12 %	(6)%	(1)%	2 %	2 %	(6)%	1 %	2 %	14 %

** Not applicable

[1] Reflects translation from the euro and Brazilian real to the U.S. dollar.

[2] Includes impact from pricing, local foreign currency impact from billing and other fees.

[3] Includes impact of the allocation of revenue to service deliverables, which are recorded in other revenue when services are performed.

[4] Includes impacts from Advisor fees, safety and security fees, loyalty and reward solution fees and other payment-related products and services.

[5] Includes the impact from timing of new, renewed and expired agreements.

Operating Expenses

Our operating expenses are comprised of general and administrative, advertising and marketing, depreciation and amortization expenses and provisions for litigation settlements. Operating expenses increased 6% in 2015 compared to 2014, and increased 14% in 2014 compared to 2013. Excluding the impact of the Special Items, adjusted operating expenses increased 3% and 17% in 2015 and 2014, respectively, primarily due to higher general and administrative expenses.

	For the Years Ended December 31,						
	2015			2014	Percent Increase (Decrease)		
	Actual	Special Items [1]	Non-GAAP	Actual	Actual	Special Items [1]	Non-GAAP
	(in millions, except percentages)						
General and administrative	$3,341	$(79)	$ 3,262	$3,152	6 %	3%	3 %
Advertising and marketing	821	—	821	862	(5)%	—%	(5)%
Depreciation and amortization	366	—	366	321	14 %	—%	14 %
Provision for litigation settlement	61	(61)	—	—	**		**
Total operating expenses	$4,589	$(140)	$ 4,449	$4,335	6 %	3%	3 %

	For the Years Ended December 31,						
	2014	2013			Percent Increase (Decrease)		
	Actual	Actual	Special Items [1]	Non-GAAP	Actual	Special Items [1]	Non-GAAP
	(in millions, except percentages)						
General and administrative	$3,152	$2,615	$—	$ 2,615	21 %	—%	21 %
Advertising and marketing	862	841	—	841	3 %	—%	3 %
Depreciation and amortization	321	258	—	258	24 %	—%	24 %

Provision for litigation settlement	—	95	(95	)	—	**			**
Total operating expenses	$4,335	$3,809	$(95	)	$ 3,714	14	%	(3)%	17 %

[1] See Non-GAAP Financial Information for the respective impacts relating to the Special Items.
* Tables may not sum due to rounding.
** Not meaningful.

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The following table summarizes the primary drivers of changes in adjusted operating expenses, excluding Special Items, in 2015 and 2014:

	For the Years Ended December 31,							
	Acquisitions		Foreign Currency [1]		Other		Total - Non-GAAP	
	2015	2014	2015	2014	2015	2014	2015	2014
General and administrative	7 %	7 %	(3)%	— %	(1)%	14 %	3 %	21 %
Advertising and marketing	— %	— %	(7)%	(1)%	2 %	4 %	(5)%	3 %
Depreciation and amortization	11 %	13 %	(1)%	— %	4 %	11 %	14 %	24 %
Provision for litigation settlement	**	**	**	**	**	**	**	**
Total operating expenses	6 %	6 %	(4)%	(1)%	1 %	12 %	3 %	17 %

[1] Reflects translation from the euro and Brazilian real to the U.S. dollar.

General and Administrative

General and administrative expenses increased 6% in 2015 compared to 2014, and increased 21% in 2014 compared to 2013.

Excluding the impact of the Special Items, adjusted general and administrative expenses increased 3% in 2015 compared to 2014, primarily due to acquisitions and higher data processing costs, partially offset by improved cost controls, the favorable impact of foreign currency translation, lapping of the impact of the restructuring charge taken in 2014 and foreign exchange activity gains. General and administrative expenses increased 21% in 2014 compared to 2013, due to the impact of investments in our strategic initiatives, acquisitions and the restructuring charge of $87 million taken in 2014.

The significant components of our general and administrative expenses were as follows:

	For the Years Ended December 31,			Percent Increase (Decrease)	
	2015	2014	2013	2015	2014
	(in millions, except percentages)				
Personnel	$2,105	$2,064	$1,739	2%	19%
Professional fees	310	307	251	1%	22%
Data processing and telecommunications	362	273	226	33%	21%
Foreign exchange activity	(82)	(30)	2	**	**
Other	646	538	397	20%	36%
General and administrative expenses	3,341	3,152	2,615	6%	21%
Special Items [1]	(79)	—	—		
Non-GAAP general and administrative expenses (excluding Special Items)	$3,262	$3,152	$2,615	3%	21%

[1] Includes the impact of the U.S. Employee Pension Plan Settlement Charge, which was recognized in personnel expenses. See Non-GAAP Financial Information.

* Tables may not sum due to rounding.

** Not meaningful.

The primary drivers of changes in general and administrative expenses in 2015 and 2014 were:

- The increase in personnel expense in 2015 is due to an increase in the number of employees resulting from our acquisitions as well as the U.S. Employee Pension Plan Settlement Charge of $79 million recognized in 2015, partially offset by the lapping of the restructuring charge of $87 million recorded in 2014 and improved cost controls. The increase in personnel expenses in 2014 compared to 2013 was due to an increase in the number of employees from acquisitions and employees required to support our strategic initiatives and a restructuring charge of $87 million recorded in 2014.

- Professional fees consist primarily of third-party services, legal costs to defend our outstanding litigation and the evaluation of regulatory developments that impact our industry and brand. Professional fees remained consistent in 2015 and increased in 2014, primarily due to higher third-party service expenses.
- Data processing and telecommunication expense consists of expenses to support our global payments network infrastructure, expenses to operate and maintain our computer systems and other

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telecommunication system. These expenses increased in both 2015 and 2014 due to capacity growth of our business and higher third party processing costs.

- Foreign exchange activity includes gains and losses on foreign exchange derivative contracts and the impact of remeasurement of assets and liabilities denominated in foreign currencies. See Note 20 (Foreign Exchange Risk Management) to the consolidated financial statements included in Part II, Item 8 for further discussion. Since the Company does not designate foreign currency derivatives as hedging instruments pursuant to the accounting standards for derivative instruments and hedging activities, it records gains and losses on foreign exchange derivatives on a current basis, with the associated offset being recognized as the exposures materialize. During 2015, we recorded higher gains on derivative contracts, as well as balance sheet remeasurement gains related primarily to the devaluation of the Venezuelan bolivar versus 2014. During 2014, we recorded higher derivative gains versus the similar period in 2013.
- Other expenses include loyalty and rewards solutions, travel and meeting expenses and rental expense for our facilities. The increase in other expenses in both 2015 and 2014 was primarily due to the impact of acquisitions and expenses incurred to support strategic development efforts including costs associated with loyalty and rewards programs.

Advertising and Marketing

In 2015, advertising and marketing expenses decreased 5%, mainly due to the favorable impact from foreign currency translation and lower media spend, partially offset by higher sponsorship promotions to support our strategic initiatives. Advertising and marketing expenses increased 3% in 2014, mainly due to new and renewed sponsorships and increased media spend to support our strategic initiatives. See Value-Added Solutions and Marketing sections included in Part I, Item 1 for further discussion of our marketing strategy.

Depreciation and Amortization

Depreciation and amortization expenses increased 14% in 2015 and 24% in 2014. The increase in depreciation and amortization expense in both 2015 and 2014 was primarily due to higher amortization of capitalized software costs and other intangibles associated with our acquisitions.

Provision for Litigation Settlement

During 2015, the Company recorded a pre-tax charge of $61 million for a litigation settlement relating to a merchant litigation in the U.K. In the fourth quarter of 2013, MasterCard recorded an incremental net pre-tax charge of $95 million related to the opt-out merchants in the U.S. Merchant Litigation. See Note 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for further discussion.

Other Income (Expense)

Other income (expense) is comprised primarily of investment income, interest expense, our share of income (losses) from equity method investments and other gains and losses. Total other expense increased to $120 million in 2015 versus $27 million for the comparable period in 2014 resulting from impairment charges taken on certain investments in 2015 and higher interest expense resulting from incremental debt issued in 2014 and 2015. Total other expense increased in 2014 compared to 2013 primarily due to higher interest expense related to our debt issuance in March 2014.

Income Taxes

The effective tax rate for 2015 was lower than the effective tax rate for 2014 primarily due to settlements with tax authorities in multiple jurisdictions. Further, the information gained related to the these matters was considered in measuring uncertain tax benefits recognized for the periods subsequent to the periods settled. In addition, the recognition of other U.S. foreign tax credits and a more favorable geographic mix of taxable earnings also contributed to the lower effective tax rate in 2015.

The effective tax rate for 2014 was lower than the effective tax rate for 2013 primarily due to the recognition of a larger repatriation benefit and an increase in the Company’s domestic production activity deduction in the U.S. related to the Company’s authorization revenue, partially offset by an unfavorable mix of earnings in 2014.

During the fourth quarter of 2014, we implemented an initiative to better align our legal entity and tax structure with our operational footprint outside of the U.S. This initiative resulted in a one-time taxable gain in Belgium relating to the transfer of intellectual property to a related foreign entity in the United Kingdom. We believe this improved alignment will result in greater

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flexibility and efficiency with regard to the global deployment of cash, as well as ongoing benefits in our effective income tax rate. See Note 17 (Income Taxes) to the consolidated financial statements included in Part II, Item 8 for further discussion.

The provision for income taxes differs from the amount of income tax determined by applying the U.S. federal statutory income tax rate of 35% to pretax income for the years ended December 31, as a result of the following:

	For the Years Ended December 31,					
	2015		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent
	(in millions, except percentages)					
Income before income taxes	$4,958		$5,079		$4,500	
Federal statutory tax	1,735	35.0 %	1,778	35.0 %	1,575	35.0 %
State tax effect, net of federal benefit	27	0.5 %	29	0.6 %	19	0.4 %
Foreign tax effect	(144)	(2.9)%	(108)	(2.1)%	(208)	(4.6)%
Foreign repatriation	(172)	(3.5)%	(177)	(3.5)%	(14)	(0.3)%
Impact of settlements with tax authorities	(147)	(2.9)%	—	— %	—	— %
Other foreign tax credits	(109)	(2.2)%	(6)	(0.1)%	(3)	— %
Other, net	(40)	(0.8)%	(54)	(1.1)%	15	0.3 %
Income tax expense	$1,150	23.2 %	$1,462	28.8 %	$1,384	30.8 %

The Company's GAAP effective tax rates for 2015 and 2013 were affected by the tax benefits related to the Special Items as previously discussed.

During 2015, the Company's unrecognized tax benefits related to tax positions taken during the current and prior periods decreased by $183 million. The decrease in the Company's unrecognized tax benefits for 2015 was primarily due to settlements with tax authorities in multiple jurisdictions. Further, the information gained related to these matters was considered in measuring uncertain tax benefits recognized for the periods subsequent to the periods settled. As of December 31, 2015, the Company's unrecognized tax benefits related to positions taken during the current and prior period were $181 million, all of which would reduce the Company's effective tax rate if recognized. Within the next twelve months, we believe that the resolution of certain federal, foreign and state and local tax examinations is reasonably possible and that a change in estimate, reducing unrecognized tax benefits, may occur. It is not possible to provide a range of the potential change until the examinations progress further or the related statute of limitations expire.

In 2010, in connection with the expansion of the Company's operations in the Asia Pacific, Middle East and Africa region, the Company's subsidiary in Singapore, MasterCard Asia Pacific Pte. Ltd. ("MAPPL"), received an incentive grant from the Singapore Ministry of Finance. See Note 17 (Income Taxes) to the consolidated financial statements included in Part II, Item 8 for further discussion.

Liquidity and Capital Resources

We need liquidity and access to capital to fund our global operations, credit and settlement exposure, capital expenditures, investments in our business and current and potential obligations. The Company generates the cash required to meet these needs through operations. The following table summarizes the cash, cash equivalents, investments and credit available to the Company at December 31:

	2015	2014	2013
	(in billions)		
Cash, cash equivalents and investments [1]	$6.7	$6.4	$6.3
Unused line of credit [2]	3.8	3.0	3.0

[1] Investments include available-for-sale securities and held-to-maturity securities. At December 31, 2015, 2014 and 2013, this amount excludes restricted cash related to the U.S. merchant class litigation settlement of $541 million, $540 million and $723 million, respectively.

[2] Other than for business continuity planning, we did not use any funds from the line of credit during the periods presented.

Cash, cash equivalents and investments held by our foreign subsidiaries (i.e., any entities where earnings would be subject to U.S. tax upon repatriation) was $3.3 billion and $2.6 billion at December 31, 2015 and 2014, respectively, or 48% and 42% as of such dates. The decrease in cash, cash equivalents and investments held by our domestic subsidiaries during 2015 was primarily driven by our use of cash in the U.S. to fund our share repurchases and dividend activity. It is our present intention to permanently

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reinvest the undistributed earnings associated with our foreign subsidiaries as of December 31, 2015 outside of the United States (as disclosed in Note 17 (Income Taxes) to the consolidated financial statements included in Part II, Item 8), and our current plans do not require repatriation of these earnings. If these earnings are needed for U.S operations or can no longer be permanently reinvested outside of the United States, the Company would be subject to U.S. tax upon repatriation.

Our liquidity and access to capital could be negatively impacted by global credit market conditions. The Company guarantees the settlement of many MasterCard, Cirrus and Maestro-branded transactions between our issuers and acquirers. See Note 19 (Settlement and Other Risk Management) to the consolidated financial statements in Part II, Item 8 for a description of these guarantees. Historically, payments under these guarantees have not been significant; however, historical trends may not be an indication of the future. The risk of loss on these guarantees is specific to individual customers, but may also be driven significantly by regional or global economic conditions, including, but not limited to the health of the financial institutions in a country or region.

Our liquidity and access to capital could also be negatively impacted by the outcome of any of the legal or regulatory proceedings to which we are a party. See our risk factor in “Risk Factors - Legal and Regulatory Risks” in Part I, Item 1A and Note 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8; and Part II, Item 7 (Business Environment) for additional discussion of these and other risks facing our business.

Cash Flow

The table below shows a summary of the cash flows from operating, investing and financing activities for the years ended December 31:

	2015	2014	2013
	(in millions)		
Cash Flow Data:			
Net cash provided by operating activities	$4,043	$3,407	$4,135
Net cash (used in) provided by investing activities	(715)	690	(4)
Net cash used in financing activities	(2,458)	(2,339)	(2,629)

Net cash provided by operating activities for 2015 increased $636 million as compared to 2014, primarily due to lower prepaid taxes and higher net income, partially offset by timing of customer settlements. Net cash provided by operating activities for 2014 as compared to 2013, decreased by $728 million, primarily due to higher prepaid income taxes associated with our legal entity and tax reorganization.

The $1.4 billion decrease in investing activities in 2015 as compared to 2014 was primarily due to the higher proceeds from the sales and maturities of investment securities in the prior year. The $694 million increase in investing activity in 2014 as compared to 2013 was primarily due to increased sales of investment securities in 2014.

Net cash used in financing activities for 2015 as compared to 2014 increased by $119 million, primarily due to higher dividends paid and an increase in purchases of treasury stock in 2015, partially offset by increased proceeds from debt in 2015. Net cash used in financing activities in 2014 as compared to 2013 decreased by $290 million, primarily due to proceeds from debt issued in 2014, partially offset by higher purchases of treasury stock and dividends in 2014.

The table below shows a summary of the balance sheet data at December 31:

	2015	2014	2013
	(in millions)		
Balance Sheet Data:			
Current assets	$10,985	$10,997	$10,950
Current liabilities	6,269	6,222	6,032
Long-term liabilities	3,938	2,283	715
Equity	6,062	6,824	7,495

The Company believes that its existing cash, cash equivalents and investment securities balances, its cash flow generating capabilities, its borrowing capacity and its access to capital resources are sufficient to satisfy its future operating cash needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations and potential obligations.

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Debt and Credit Availability

In December 2015, the Company issued €1.65 billion aggregate principal amount of notes. This offering consisted of €700 million aggregate principal amount of notes due 2022, €800 million aggregate principal amount of notes due 2027 and €150 million aggregate principal amount of notes due 2030 (collectively the "Euro Notes"). In March 2014, the Company issued $500 million aggregate principal amount of notes due 2019 and $1 billion aggregate principal amount of notes due 2024 (collectively the "USD Notes"). The Company is not subject to any financial covenants under the Euro Notes and the USD Notes (collectively the "Notes"). The Notes are senior unsecured obligations and would rank equally with any future unsecured and unsubordinated indebtedness. The proceeds of the Notes are to be used for general corporate purposes.

In November 2015, the Company established a commercial paper program (the "Commercial Paper Program"). Under the Commercial Paper Program, the Company is authorized to issue up to $3.75 billion in outstanding notes, with maturities up to 397 days from the date of issuance. In conjunction with the Commercial Paper Program, the Company entered into a committed unsecured $3.75 billion revolving credit facility (the "Credit Facility") in October 2015, which expires in 2020. The Credit Facility amended and restated the Company's prior credit facility.

Borrowings under the Commercial Paper Program and the Credit Facility are to provide liquidity for general corporate purposes, including providing liquidity in the event of one or more settlement failures by the Company's customers. The Company may borrow and repay amounts under the Commercial Paper Program and Credit Facility from time to time for business continuity and planning purposes. MasterCard had no borrowings under the Credit Facility at December 31, 2015 and 2014, as well as had no borrowings under the Commercial Paper Program at December 31, 2015.

See Note 12 (Debt) to the consolidated financial statements included in Part II, Item 8 for further discussion on the Notes, the Commercial Paper Program and the Credit Facility.

In June 2015, the Company filed a universal shelf registration statement to provide additional access to capital, if needed. Pursuant to the shelf registration statement, the Company may from time to time offer to sell debt securities, preferred stock, Class A common stock, depository shares, purchase contracts, units or warrants in one or more offerings.

Dividends and Share Repurchases

MasterCard has historically paid quarterly dividends on its outstanding Class A common stock and Class B common stock. Subject to legally available funds, we intend to continue to pay a quarterly cash dividend. However, the declaration and payment of future dividends is at the sole discretion of our Board of Directors after taking into account various factors, including our financial condition, operating results, available cash and current and anticipated cash needs. The following table summarizes the annual, per share dividends paid in the years reflected:

	Years Ended December 31,		
	2015	2014	2013
	(in millions, except per share data)		
Cash dividend, per share	$0.64	$0.44	$0.21
Cash dividends paid	$727	$515	$255

On December 8, 2015, our Board of Directors declared a quarterly cash dividend of $0.19 per share paid on February 9, 2016 to holders of record on January 8, 2016 of our Class A common stock and Class B common stock. The aggregate amount of this dividend was $212 million.

On February 2, 2016, our Board of Directors declared a quarterly cash dividend of $0.19 per share payable on May 9, 2016 to holders of record on April 8, 2016 of our Class A common stock and Class B common stock. The aggregate amount of this dividend is estimated to be $211 million.

Shares in the Company's common stock that are repurchased are considered treasury stock. The timing and actual number of additional shares repurchased will depend on a variety of factors, including the operating needs of the business, legal requirements, price and economic and market conditions. In December 2015, the Company's Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to $4 billion of its Class A common stock. This program became effective in February 2016. We typically complete a share repurchase program before a new program becomes effective.

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The following table summarizes the Company's share repurchase authorizations of its Class A common stock through December 31, 2015, as well as historical purchases:

	Authorization Dates			
	December 2015	December 2014	December 2013	Total
	(in millions, except average price data)			
Board authorization	$4,000	$3,750	$3,500	$11,250
Remaining authorization at December 31, 2014	$—	$3,750	$275	$4,025
Dollar-value of shares repurchased in 2015	$—	$3,243	$275	$3,518
Remaining authorization at December 31, 2015	$4,000	$507	$—	$4,507
Shares repurchased in 2015	—	35.1	3.2	38.3
Average price paid per share in 2015	$—	$92.39	$84.31	$91.70

See Note 13 (Stockholders' Equity) to the consolidated financial statements included in Part II, Item 8 for further discussion.

Off-Balance Sheet Arrangements

MasterCard has no off-balance sheet debt, other than lease arrangements and other commitments as presented in the Future Obligations table that follows.

Future Obligations

The following table summarizes our obligations as of December 31, 2015 that are expected to impact liquidity and cash flow in future periods. We believe we will be able to fund these obligations through cash generated from operations and our cash balances.

	Payments Due by Period				
	Total	2016	2017 - 2018	2019 - 2020	2021 and thereafter
			(in millions)		
Debt	$3,309	$10	$—	$500	$2,799
Interest on debt	664	77	149	134	304
Capital leases	11	6	5	—	—
Operating leases	224	38	74	54	58
Other long-term obligations [1]					
Sponsorship, licensing and other [2]	461	242	164	44	11
Employee benefits [3]	214	82	27	27	78
Total [4]	$4,883	$455	$419	$759	$3,250

[1] The table does not include the $709 million provision as of December 31, 2015 related to the merchant opt outs and the U.S. merchant class litigation since the opt outs are not fixed and determinable and the Company has made a payment into escrow to fund the U.S. merchant class litigation. See Note 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for further discussion.

[2] Amounts primarily relate to sponsorships to promote the MasterCard brand. Future cash payments that will become due to our customers under agreements which provide pricing rebates on our standard fees and other incentives in exchange for transaction volumes are not included in the table because the amounts due are contingent on future performance. We have accrued $2.1 billion as of December 31, 2015 related to customer and merchant agreements.

[3] Amounts relate to severance and expected funding requirements for defined benefit pension and postretirement plans.

[4] The Company has recorded a liability for unrecognized tax benefits of $181 million at December 31, 2015. Within the next twelve months, the Company believes that the resolution of certain federal, foreign and state and local examinations are reasonably possible and that a change in estimate, reducing unrecognized tax benefits, may occur. It is not possible to provide a range of the potential change until the examinations progress further or the related statute of limitations expire. These amounts have been excluded from the table since the settlement period of this liability cannot be reasonably estimated. The timing of these payments will ultimately depend on the progress of tax

examinations with the various authorities.

Seasonality

The Company does not experience meaningful seasonality. No individual quarter in 2015, 2014 or 2013 accounted for more than 30% of net revenue.

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Critical Accounting Estimates

The application of U.S. GAAP requires the Company to make estimates and assumptions about certain items and future events that directly affect the Company's reported financial condition. We have established detailed policies and control procedures to provide reasonable assurance that the methods used to make estimates and assumptions are well controlled and are applied consistently from period to period. The accounting estimates and assumptions discussed in this section are those that the Company considers to be the most critical to its financial statements. An accounting estimate is considered critical if both (a) the nature of the estimate or assumption is material due to the levels of subjectivity and judgment involved, and (b) the impact within a reasonable range of outcomes of the estimate and assumption is material to the Company's financial condition. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of the Company's Board of Directors. The Company's significant accounting policies, including recent accounting pronouncements, are described in Note 1 (Summary of Significant Accounting Policies) to the consolidated financial statements included in Part II, Item 8.

Revenue Recognition

Application of the various accounting principles in U.S. GAAP related to the measurement and recognition of revenue requires the Company to make judgments and estimates. Specifically, complex arrangements with nonstandard terms and conditions may require significant contract interpretation to determine the appropriate accounting. Domestic assessment revenue requires an estimate of our customers' performance in order to recognize this revenue. Rebates and incentives are recorded as a reduction to gross revenue based on these estimates. We consider various factors in estimating customer performance, including a review of specific transactions, historical experience with that customer and market and economic conditions. Differences between actual results and the Company's estimates are adjusted in the period the customer reports actual performance. If our customers' actual performance is not consistent with our estimates of their performance, net revenue may be materially different.

Loss Contingencies

The Company is currently involved in various claims and legal proceedings. The Company regularly reviews the status of each significant matter and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss. Significant judgment is required in both the determination of probability and whether an exposure is reasonably estimable. Our judgments are subjective based on the status of the legal or regulatory proceedings, the merits of our defenses and consultation with in-house and outside legal counsel. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, the Company reassesses the potential liability related to its pending claims and litigation and may revise its estimates. Due to the inherent uncertainties of the legal and regulatory process in the multiple jurisdictions in which we operate, our judgments may be materially different than the actual outcomes. See Note 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for further discussion.

Income Taxes

In calculating our effective tax rate, we need to make estimates regarding the timing and amount of taxable and deductible items which will adjust the pretax income earned in various tax jurisdictions. Through our interpretation of local tax regulations, adjustments to pretax income for income earned in various tax jurisdictions are reflected within various tax filings. Although we believe that our estimates and judgments discussed herein are reasonable, actual results may be materially different than the estimated amounts.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Significant judgment is required in determining the valuation allowance. We consider projected future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance. If it is determined that we are able to realize deferred tax assets in excess of the net carrying value or to the extent we are unable to realize a deferred tax asset, we would adjust the valuation allowance in the period in which such a determination is made, with a corresponding increase or decrease to earnings.

We record tax liabilities for uncertain tax positions taken, or expected to be taken, which may not be sustained or may only be partially sustained, upon examination by the relevant taxing authorities. We consider all relevant facts and current authorities in the tax law in assessing whether any benefit resulting from an uncertain tax position is more likely than not to be sustained and, if so, how current law impacts the amount reflected within these financial statements. If upon examination, we realize a tax benefit which is not fully sustained or is more favorably sustained, this would decrease or increase earnings in the period. In certain situations, the Company will have offsetting tax credits or taxes in other jurisdictions.

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We do not record U.S. income tax expense for foreign earnings which we intend to reinvest indefinitely to expand our international operations. We consider business plans, planning opportunities, and expected future outcomes in assessing the needs for future expansion and support of our international operations. If our business plans change or our future outcomes differ from our expectations, U.S. income tax expense and our effective tax rate could increase or decrease in that period.

Valuation of Assets

The valuation of assets acquired in a business combination and asset impairment reviews require the use of significant estimates and assumptions. The acquisition method of accounting for business combinations requires the Company to estimate the fair value of assets acquired, liabilities assumed, and any non-controlling interest in the acquiree to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. Impairment testing for assets, other than goodwill and indefinite-lived intangible assets, requires the allocation of cash flows to those assets or group of assets and if required, an estimate of fair value for the assets or group of assets. The Company's estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which would not reflect unanticipated events and circumstances that may occur.

We evaluate goodwill and indefinite-lived intangible assets for impairment on an annual basis or sooner if indicators of impairment exist. Goodwill is tested for impairment at the reporting unit level. The impairment evaluation utilizes a quantitative assessment using a two-step impairment test. The first step is to compare the reporting unit's carrying value, including goodwill, to the fair value. The Company uses a market approach for estimating the fair value of its reporting unit. If the fair value exceeds the carrying value, then no potential impairment is considered to exist. If the carrying value exceeds the fair value, the second step is performed to determine if the implied fair value of the reporting unit's goodwill exceeds the carrying value of the reporting unit. An impairment charge would be recorded if the carrying value exceeds the implied fair value. The impairment test for indefinite-lived intangible assets consists of a qualitative assessment to evaluate all relevant events and circumstances that could affect the significant inputs used to determine the fair value of indefinite-lived intangible assets. In performing the qualitative assessment, we consider relevant events and conditions, including but not limited to, macroeconomic trends, industry and market conditions, overall financial performance, cost factors, company-specific events, and legal and regulatory factors. If the qualitative assessment indicates that it is more likely than not that the fair value of the indefinite-lived intangible asset is less than their carrying amounts, the Company must perform a quantitative impairment test.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential for economic losses to be incurred on market risk sensitive instruments arising from adverse changes in market factors such as interest rates, foreign currency exchange rates and equity price risk. Our exposure to market risk from changes in interest rates, foreign exchange rates and equity price risk is limited. Management establishes and oversees the implementation of policies governing our funding, investments and use of derivative financial instruments. We monitor risk exposures on an ongoing basis. The effect of a hypothetical 10% adverse change in foreign currency rates could result in a fair value loss of approximately $128 million on our foreign currency derivative contracts outstanding at December 31, 2015 related to the hedging program. A 100 basis point adverse change in interest rates would not have a material impact on the Company's investments at December 31, 2015 and 2014. In addition, there was no material equity price risk at December 31, 2015 or 2014.

Foreign Exchange Risk

We enter into derivative contracts to manage risk associated with anticipated receipts and disbursements which are either transacted in a non-functional currency or valued based on a currency other than our functional currency. We may also enter into foreign currency derivative contracts to offset possible changes in value due to foreign exchange fluctuations of earnings, assets and liabilities denominated in currencies other than the functional currency of the entity. The objective of these activities is to reduce our exposure to transaction gains and losses resulting from fluctuations of foreign currencies against our functional and reporting currencies, principally the U.S. dollar and euro. Foreign currency exposures are managed together through our foreign exchange risk management activities, which are discussed further in Note 20 (Foreign Exchange Risk Management) to the consolidated financial statements included in Part II, Item 8. The terms of the forward contracts are generally less than 18 months.

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As of December 31, 2015, the majority of derivative contracts to hedge foreign currency fluctuations had been entered into with customers of MasterCard. MasterCard's derivative contracts are summarized below:

	December 31, 2015		December 31, 2014	
	Notional	Estimated Fair Value	Notional	Estimated Fair Value
	(in millions)			
Commitments to purchase foreign currency	$232	$1	$47	$4
Commitments to sell foreign currency	1,430	12	614	27
Options to sell foreign currency	44	1	—	—

We use foreign currency denominated debt to hedge a portion of our net investment in foreign operations against adverse movements in exchange rates, with changes in the value of the debt recorded within currency translation adjustment in accumulated other comprehensive income (loss). During the fourth quarter of 2015, we designated our euro-denominated debt as a net investment hedge for a portion of our net investment in European foreign operations. Our euro-denominated debt is vulnerable to changes in the euro to U.S. dollar exchange rates. The principal amounts of our euro-denominated debt as well as the effective interest rates and scheduled annual maturities of the principal is included in Note 12 (Debt) to the consolidated financial statements included in Part II, Item 8.

Our settlement activities are subject to foreign exchange risk resulting from foreign exchange rate fluctuations. This risk is typically limited to the one business day between setting the foreign exchange rates and clearing the financial transactions.

Interest Rate Risk

Our interest rate sensitive assets are our investments in debt securities, which we generally hold as available-for-sale investments. Our general policy is to invest in high quality securities, while providing adequate liquidity and maintaining diversification to avoid significant exposure. The fair value and maturity distribution of the Company's available for sale investments for debt securities as of December 31 was as follows:

			Maturity					
Financial Instrument	Summary Terms	Fair Market Value at December 31, 2015	2016	2017	2018	2019	2020	2021 and there-after
		(in millions)						
Municipal securities	Fixed / Variable Interest	$62	$48	$14	$—	$—	$—	$ —
U.S. government and agency securities	Fixed / Variable Interest	72	47	17	2	—	—	6
Corporate securities	Fixed / Variable Interest	630	204	299	123	3	—	1
Asset-backed securities	Fixed / Variable Interest	57	1	20	22	13	1	—
Other	Fixed / Variable Interest	38	9	29	—	—	—	—
Total		$859	$309	$379	$147	$16	$1	$ 7

			Maturity					
Financial Instrument	Summary Terms	Fair Market Value at December 31, 2014	2015	2016	2017	2018	2019	2020 and there-after
		(in millions)						
Municipal securities		$135	$82	$48	$2	$—	$—	$ 3

	Fixed / Variable Interest							
U.S. government and agency securities	Fixed / Variable Interest	199	132	52	2	—	—	13
Corporate securities	Fixed / Variable Interest	618	325	211	82	—	—	—
Asset-backed securities	Fixed / Variable Interest	178	4	59	75	28	7	5
Other	Fixed / Variable Interest	25	15	5	1	—	—	4
Total		$1,155	$558	$375	$162	$28	$7	$ 25

At December 31, 2015, we have U.S. dollar-denominated and euro-denominated debt, which is subject to interest rate risk. The principal amounts of this debt as well as the effective interest rates and scheduled annual maturities of the principal is included

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in Note 12 (Debt) to the consolidated financial statements included in Part II, Item 8. See “Future Obligations” for estimated interest payments due by period relating to the U.S. dollar-denominated and euro-denominated debt.

At December 31, 2015, we have a credit facility which provides liquidity for general corporate purposes, including providing liquidity in the event of one or more settlement failures by the Company’s customers. This credit facility has variable rates, which are applied to the borrowing based on terms and conditions set forth in the agreement. In conjunction with the credit facility, we have established a Commercial Paper Program. See Note 12 (Debt) to the consolidated financial statements in Part II, Item 8 for additional information on the Company’s current and prior credit facilities and Commercial Paper Program. With the exception for business continuity planning, we did not borrow under the prior or current credit facilities as of December 31, 2015 and 2014 and there were no outstanding borrowings under the Commercial Paper Program as of December 31, 2015.

Equity Price Risk

The Company did not have significant equity price risk as of December 31, 2015 and 2014.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
MASTERCARD INCORPORATED
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of MasterCard Incorporated (“MasterCard”) is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. As required by Section 404 of the Sarbanes-Oxley Act of 2002, management has assessed the effectiveness of MasterCard’s internal control over financial reporting as of December 31, 2015. In making its assessment, management has utilized the criteria set forth in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has concluded that, based on its assessment, MasterCard’s internal control over financial reporting was effective as of December 31, 2015. The effectiveness of MasterCard’s internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on the next page.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
of MasterCard Incorporated:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of MasterCard Incorporated and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.
As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for deferred income taxes as of December 31, 2015.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York
February 12, 2016

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MASTERCARD INCORPORATED
CONSOLIDATED BALANCE SHEET

	December 31, 2015	2014
	(in millions, except per share data)	
ASSETS		
Cash and cash equivalents	$5,747	$5,137
Restricted cash for litigation settlement	541	540
Investments	991	1,238
Accounts receivable	1,079	1,109
Settlement due from customers	1,068	1,052
Restricted security deposits held for customers	895	950
Prepaid expenses and other current assets	664	671
Deferred income taxes	—	300
Total Current Assets	10,985	10,997
Property, plant and equipment, net	675	615
Deferred income taxes	317	96
Goodwill	1,891	1,522
Other intangible assets, net	803	714
Other assets	1,598	1,385
Total Assets	$16,269	$15,329
LIABILITIES AND EQUITY		
Accounts payable	$472	$419
Settlement due to customers	866	1,142
Restricted security deposits held for customers	895	950
Accrued litigation	709	771
Accrued expenses	2,763	2,439
Other current liabilities	564	501
Total Current Liabilities	6,269	6,222
Long-term debt	3,287	1,494
Deferred income taxes	79	115
Other liabilities	572	674
Total Liabilities	10,207	8,505
Commitments and Contingencies		
Stockholders’ Equity		
Class A common stock, $0.0001 par value; authorized 3,000 shares, 1,370 and 1,352 shares issued and 1,095 and 1,115 outstanding, respectively	—	—
Class B common stock, $0.0001 par value; authorized 1,200 shares, 21 and 37 issued and outstanding, respectively	—	—
Additional paid-in-capital	4,004	3,876
Class A treasury stock, at cost, 275 and 237 shares, respectively	(13,522)	(9,995)
Retained earnings	16,222	13,169
Accumulated other comprehensive income (loss)	(676)	(260)
Total Stockholders’ Equity	6,028	6,790
Non-controlling interests	34	34
Total Equity	6,062	6,824

Total Liabilities and Equity	$16,269	$15,329

The accompanying notes are an integral part of these consolidated financial statements.

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MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF OPERATIONS

	For the Years Ended December 31,		
	2015	2014	2013
	(in millions, except per share data)		
Net Revenue	$9,667	$9,441	$8,312
Operating Expenses			
General and administrative	3,341	3,152	2,615
Advertising and marketing	821	862	841
Depreciation and amortization	366	321	258
Provision for litigation settlement	61	—	95
Total operating expenses	4,589	4,335	3,809
Operating income	5,078	5,106	4,503
Other Income (Expense)			
Investment income	25	28	38
Interest expense	(61)	(48)	(14)
Other income (expense), net	(84)	(7)	(27)
Total other income (expense)	(120)	(27)	(3)
Income before income taxes	4,958	5,079	4,500
Income tax expense	1,150	1,462	1,384
Net Income	$3,808	$3,617	$3,116