MASTERCARD INC
Form 10-K
February 14, 2014
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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, 2013
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 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter) was approximately $66.7 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 6, 2014, there were 1,141,285,340 shares outstanding of the registrant’s Class A common stock, par value $0.0001 per share and 45,255,390 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 2014 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

MASTERCARD INCORPORATED
FISCAL YEAR 2013 FORM 10-K ANNUAL REPORT
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In this Report, references to the “Company,” “MasterCard,” “we,” “us” or “our” refer to the MasterCard 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 on Form 10-K 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” similar words are intended to identify forward-looking statements. These forward-looking statements relate to the Company’s future prospects, developments and business strategies and include, without limitation, statements relating to:

- the Company’s focus on growing, diversifying and building its business ;
- the Company's focus on providing value to merchants, governments, consumers and financial institutions;
- the Company's development of innovative platforms and solutions;
- the Company's focus on ensuring the safety and security of the payments system;
- the stability of economies around the globe;
- the Company’s advertising and marketing strategy and investment;
- the Company's belief 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; and
- the manner and amount of purchases by the Company pursuant to its share repurchase program, dependent upon price and market conditions.

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. We believe there are certain risk factors that are important to our business, and these could cause actual results to differ from our expectations. Such risk factors include: legislation, competition-related regulatory proceedings, regulation by central banks and similar types of regulatory authorities and litigation related to interchange fees and other practices; regulation established by the Dodd-Frank Act (as defined below) in the United States; requirement to permit U.S. merchants to surcharge credit cards; regulation or other regulatory activity with respect to the payments industry in one jurisdiction or of one product resulting in regulation (or impact on pending regulatory proceedings) in other jurisdictions or of other products; competitive issues caused by preferential or protective government actions; regulation of the payments industry, consumer privacy, data use and/or security; potential or incurred liability and limitations on business resulting from litigation; potential changes in tax laws; substantial and increasingly intense competition in the payments industry; potential future changes in the competitive landscape; competitive pressure on pricing; banking industry consolidation; loss of significant business from significant customers; merchant activity; the relationship of our competitors with our issuers and acquirers; our relationship with our issuers and acquirers; brand perceptions and reputation; our work with governments; global economic events and the overall business environment; decline in cross-border travel; the effect of general economic and global political conditions on consumer spending trends; exposure to loss or illiquidity due to guarantees of settlement and certain other third-party obligations; impact of a failure or breach of our security systems or infrastructure as a result of cyber attacks; disruptions to our transaction processing systems and other services; account data breaches; reputation damage from increases in fraudulent activity; the challenges resulting from rapid technological developments in the payments industry; the effect of adverse currency fluctuation; acquisition, entry into new businesses and other integration issues; and issues relating 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.

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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 the world's fastest payments network, we facilitate the processing of payment transactions, 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, 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 "merchant discount" rate charged in connection with the acceptance of cards and other payment devices that carry our brands. In most cases, cardholder relationships belong to, and are managed by, our financial institution customers.

Our ability to grow is influenced by personal consumption expenditure growth, driving paper-based forms of payment toward electronic forms of payment and increasing our share in electronic payments and providing other value-added products and services. We continue to drive growth by:

- Growing our core businesses globally, both as to our products - credit, debit, prepaid and commercial - and increasing the number of payment transactions we process;
- Diversifying our business by seeking new areas of growth in markets around the world by focusing on:
  - Existing and new markets;
  - Encouraging consumers and businesses to use MasterCard products for new payment areas, such as transit, parking, person-to-person transfers and paying bills;
  - Small merchants and merchants who have not historically accepted MasterCard products; and
  - Financial inclusion for the unbanked and underbanked; and
- Building our business by:
  - taking advantage of the opportunities presented by the ongoing convergence of the physical and digital worlds; and
  - using our data analytics, loyalty solutions and fraud protection and detection services to add value.

Our technology, expertise and data make payments safe, simple and fast. We work with merchants to help them enable new sales channels, create better purchase experiences, increase revenues and fight fraud. We help national, state 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. We provide financial institutions with solutions to help them increase revenue and increase preference for their MasterCard-branded products.

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.

MasterCard operates 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. See "Risk Factors-Legal and Regulatory Risks" in Part I, Item 1A of this Report.

Payment Services and Solutions

We provide transaction processing and a wide range of payment-related products and services to enable the design, packaging and implementation of our products and programs. Our payment solutions are built upon our expertise in payment programs, product development, payment processing technology, loyalty and rewards solutions, payment security, consulting and information services and marketing.

Our Operations and Transaction Processing Network

Introduction. 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, and a 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.

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 point-of-interaction transaction:

In a typical transaction, a cardholder (or an account holder who may not be using a physical card) 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. The merchant discount rate, among other things, takes into consideration the amount of the interchange fee.

Interchange Fees. Interchange fees represent a sharing of a portion of payments system costs among the issuers and acquirers participating in our four-party payments system. They 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. In some circumstances, such as cash withdrawal transactions, this situation is reversed and interchange fees are paid by issuers to acquirers. 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. Interchange fees can be a significant component of the merchant discount rate, and therefore of the costs that merchants pay to accept electronic payments. These fees are currently subject to regulatory, legislative and/or legal challenges in a number of jurisdictions. See “Risk Factors-Legal and Regulatory Risks” in Part I, Item 1A.

Merchant Discount Rate. The merchant discount rate is established by the acquirer to cover its costs of both participating in the four-party system and providing services rendered to merchants. The rate takes into consideration the amount of the interchange fee which the acquirer generally pays to the issuer.

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Additional Fees and Economic Considerations. Among the parties in a four-party system, various types of fees may be charged to different constituents for various services. Acquirers may charge merchants processing and related fees in addition to the merchant discount rate. Issuers may also charge cardholders fees for the transaction, including, for example, fees for extending revolving credit. As described below, we charge issuers and acquirers fees for the transaction processing and related services we provide.

In a four-party payments system, the economics of a payment transaction relative to MasterCard vary widely depending on such factors as whether the transaction is domestic (and, if it is domestic, the country in which it takes place) or cross-border, whether it is a point-of-sale purchase transaction or cash withdrawal, and whether the transaction is processed over our network or a third-party network or is handled solely by a financial institution that is both the acquirer for the merchant and the issuer to the cardholder (an “on-us” transaction).

MasterCard Network Architecture. The MasterCard Network features a globally integrated structure that provides scale for our issuer customers, 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-distributed (peer-to-peer) and centralized (hub-and-spoke):

- Transactions that require fast, reliable processing, such as those submitted using a contactless card or device at a toll booth, can use the network's distributed processing structure, ensuring they are processed close to where the transaction occurred.
- Transactions that require value-added processing, such as real-time access to transaction data for fraud scoring or rewards at the point-of-sale, or customization of transaction data for unique consumer-spending controls, use the network's centralized processing structure, ensuring advanced processing services are applied to the transaction.

Our network’s architecture enables us to connect all parties regardless of whether the transaction is occurring at a traditional physical location, at an ATM, on the internet or through a connected device. It has 24-hour a day availability and world-class response time. The network incorporates multiple layers of protection, both for continuity purposes and to address cyber-security challenges. We engage in multiple efforts to mitigate against 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 and acquirers 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 and acquirers 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 and acquirers 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 (“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 against these risks.

Processing Services

Transaction 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 the customer.

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Cross-Border and Domestic Processing. The MasterCard Network processes transactions throughout the world where 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 multiple country borders. We also provide domestic (or intra-country) transaction processing services to customers in every region of the world, which allow issuer customers to facilitate payment transactions between cardholders and merchants within a particular country. We process approximately half of all transactions using MasterCard-branded cards, including most cross-border transactions. We process the majority of MasterCard-branded domestic transactions in the United States, United Kingdom, Canada, Brazil and a select number of other countries. Outside of these countries, most domestic transaction activity on our products is processed without our involvement.

Extended Processing. We extend our processing capabilities in the payments value chain in various regions and across the globe with an expanded suite of issuer, prepaid, acquirer, third-party, gateway and mobile processing solutions. Our offerings include:

- MasterCard Integrated Processing Solutions® ("IPS"), a debit and prepaid issuer processing platform designed to provide medium to large global issuing customers with a complete processing solution to help create differentiated products and services and allow quick deployment of payments portfolios across banking channels, including authorizing transactions and assisting issuers in managing both their risk and the cards issued to their customers.
- Payment gateways, including: (1) DataCash® and MasterCard Internet Gateway Service (MiGs), which 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, and (2) the MasterCard Mobile Payments Gateway, a platform that facilitates transaction routing and prepaid processing for mobile-initiated transactions for our customers.

MasterCard Programs and Solutions

We provide a wide variety of payment 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 logos in 2013 for select programs and solutions:

	Year Ended December 31, 2013		As of December 31, 2013	
	GDV in billions	% of Total GDV	Cards in millions	Percent Increase from December 31, 2012
MasterCard Branded GDV[1]				
Consumer Credit	$1,990	48 %	703	4 %
Commercial Credit	322	8 %	38	13 %
Debit and Prepaid	1,792	44 %	540	28 %

[1] Excludes volume generated by Maestro and Cirrus cards. As of December 31, 2013, the Maestro logo appeared on 706 million cards, representing 2% growth from December 31, 2012.

Consumer Credit and Charge. We offer a number of programs that enable issuers to provide consumers with cards that enable them to defer payment, either by permitting them to carry a balance in a revolving credit account or requiring payment of the full balance within a specified period. These programs are designed to meet the needs of our customers around the world and address specific consumer segments, including:

- Standard - general purpose products for consumers with basic credit card needs, featuring revolving credit, security and everyday convenience.
- Premium - products designed for more affluent consumers and featuring higher credit lines and spending limits and a varying level of enhanced services, including insurance coverage and access benefits.
- Affluent - product offerings for the most affluent consumers worldwide that feature our highest purchasing capacity, as well as a comprehensive range of premium access benefits and top-tier services, and travel, concierge and cardholder protection insurance in some regions.

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Debit. We support a range of payment 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.

- MasterCard-branded Debit. MasterCard-branded debit programs provide functionality for both signature-based and PIN-based authenticated transactions, and are designed to meet the needs of consumers with standard, premium and affluent offerings.
- Maestro-branded Debit. Maestro is our global PIN-based debit program, and is the only PIN-based solution that operates globally. Maestro has a leading position among PIN-based debit brands in many markets throughout the world, particularly in Europe.
- ATM. Cirrus is our primary global cash access solution, providing domestic and cross-border access for transactions at ATMs that participate in the MasterCard Network, including cash access (withdrawal, advance and drawdown), balance inquiries, account transfers and deposits.

Prepaid. Prepaid programs involve a balance that is funded with monetary value prior to use. Cardholders access funds via a traditional magnetic stripe or chip-enabled payment card or other device (such as mobile) that may leverage our contactless functionality. MasterCard customers may implement prepaid payment programs using any of our brands, and we support these programs with processing services. We provide and customize programs to meet unique commercial and consumer needs in all prepaid segments, with a focus on:

- Government, which includes programs targeted to achieve financial inclusion, cost savings and efficiencies by moving traditional paper disbursement methods to electronic solutions in programs such as Social Security payments, unemployment benefits and others;
- Commercial, which includes programs targeted to achieve cost savings and efficiencies by moving traditional paper disbursement methods to electronic solutions in business applications such as payroll, health savings accounts, employee benefits and others; and
- Consumer reloadable, which includes programs to address the payment needs of individuals without formal banking relationships, individuals who are not traditional users of credit or debit cards or devices or individuals who want to segment funds for security or convenience purposes, such as travel.

We also provide prepaid card program management services through Access Prepaid Worldwide (“Access”). Through Access, we manage and deliver consumer and commercial prepaid travel cards to business partners around the world, including financial institutions, retailers, telecommunications companies, travel agents, foreign exchange bureaus, colleges and universities, airlines and governments. Combined with MasterCard's processing assets (such as IPS) and other strategic alliances, these services augment and support issuers of prepaid cards around the world, with a focus outside of the United States. Access enables us to offer end-to-end prepaid solutions encompassing branded switching, issuer processing and program management services, primarily focused on the travel sector.

Commercial. We offer commercial payment solutions that help large corporations, mid-sized companies, small businesses and government entities streamline their procurement and payment processes, manage information and expenses and reduce administrative costs. Our offerings and platforms include:

- Corporate cards (including premium, purchasing and fleet cards, as well as cards that combine these functionalities) that allow corporations to manage travel and entertainment expenses, streamline the procurement process and provide corporations with additional transactional detail.
- SmartData, a MasterCard-powered tool that provides information reporting and expense management capabilities.
- Procurement, travel, purchasing, fleet and other payment programs for government entities.
- Credit and debit programs targeted at the small-business segment that offer the ability to gain access to working capital, to extend payments and to separate business expenses from personal expenses.

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Payment Innovations. The continued adoption of mobile devices (such as smartphones and tablets) has resulted in the ongoing convergence of the physical and digital worlds, where consumers are increasingly choosing to pay remotely. Leveraging our global innovations capability, we are developing new and innovative 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 platforms and products to make shopping and selling experiences simpler, faster, and safer for both consumers and merchants. Through MasterPass™, a globally interactive platform, we provide a digital wallet service to make online shopping safe and easy for all types of transactions - in-store, online and via mobile devices - by storing payment and shipping information in one convenient and secure place. We launch innovations that make it easier for merchants to accept payments and expand their customer base. As an example, Simplify Commerce allows merchants to quickly accept mobile and e-commerce payments, regardless of brand. We are also developing products and practices to facilitate the growth of acceptance through mobile point-of-sale. In these cases, mobile devices are used as point-of-sale terminals.
- Engaging with New Partners. Through numerous active partnerships with mobile leaders around the world-including Samsung, Deutsche Telekom, and Isis (a joint venture formed in the United States by AT&T, Verizon, and T-Mobile)-we enable consumers to securely use their smartphones to make digital payments. Through our Open API Services, developers can innovate and create applications using financial and data services offered through the MasterCard Developer Zone.
- Facilitating the Sending and Receiving of Money. We provide money transfer and global remittance solutions to enable consumers, particularly in developing markets, to send and receive money quickly and securely around the world. We continue to enhance our personal payments capabilities through partnerships with companies such as Western Union, expanding our money transfer technology capabilities and providing financial institutions connected to our network with additional endpoints to send funds domestically and globally.

Safety and Security

Utilizing the MasterCard Network, we work to ensure the safety and security of the overall payments system. We offer products and services to detect, prevent and respond to fraud and ensure the safety of transactions made on our products. In many markets, many of our products provide consumers with the benefit of "zero liability", or no responsibility for losses, in the event of fraud, and we continue to focus on extending this benefit for other consumers around the world. Safety is a key factor in the design of our products, including our digital and mobile technologies. Our solutions to prevent and detect fraud and enhance the safety of transactions include:

- MasterCard SecureCode®, a global internet authentication solution that permits cardholders to authenticate themselves to their issuer using a unique, personal code;
- MasterCard Site Data Protection Service®, which assists customers, merchants and third-party service providers in protecting commercial sites from hacker intrusions and subsequent account data compromises;
- Fraud Rule Manager, our suite of fraud detection and management products and services; and
- DataCash Gatekeeper 2.0, fraud prevention tools that we provide for merchants.

We have been leading the development of industry standards to ensure that high payment security standards are put in place for the global payments system. We continue to work with our customers around the world to encourage the replacement of traditional magnetic-stripe based cards and terminals with chip-enabled products that offer increased security and fraud protection, among other things. We have been a leader in evolving a roadmap for the migration to EMV, the international standard for chip technology. In January 2012, we endorsed EMV as the payments platform technology for the U.S. market, and we are now engaged at all levels in the industry to bring the benefits of this technology, including fraud prevention, to our U.S. customers and consumers. While EMV provides protection in the physical space, we also have been leading the development of standards for safety and security for digital payments. These efforts include the development of a standard for tokenization, which helps protect sensitive cardholder information by generating a unique identifier used only for a specific transaction.

As part of our leadership on safety and security, we work with many payments industry associations:

- We are on the PCI Security Standards Council, which develops comprehensive standards and supporting materials to enhance payment card data security;

- We are a part owner of and key contributor to EMV Co, which develops standards for chip technology; and

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- We are on the board of the FIDO Alliance, a group focused on secure online authentication.

We also work with governments around the world to help develop safe and secure transactions for the global payments system.

Value-Added Services and Solutions

MasterCard Advisors. MasterCard Advisors is our global professional services group which provides proprietary analysis, data-driven consulting and marketing services solutions to help clients optimize, streamline and grow their businesses. With analyses based on billions of anonymous transactions processed globally, we leverage 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 provide a suite of data analytics and products (including reports, benchmarks, models and insights) that enable 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 via data-driven acquisition of accounts, activation of portfolios, conversion of cards, marketing promotions activities and other customer management services.

Loyalty and Rewards Solutions. We focus on providing value for consumers on MasterCard payment cards and devices through a combination of benefits and services, both paid for and arranged by MasterCard on behalf of our customers. Our services for issuers include a scalable rewards platform that enables issuers to provide their consumers with personalized offers and rewards, access to a global airline lounge network, global and local concierge services, a wide range of individual insurance coverages, emergency card replacement, emergency cash advance services and a 24-hour cardholder service center to provide information related to benefits and rewards programs. Our suite of services for merchants include a targeted offers and rewards campaign management service for publishing offers, as well as opportunities for holders of a co-brand or a merchant's loyalty card or a member of a third-party-managed rewards program to obtain reward points faster. We support these services with program management capabilities.

Marketing

We manage and promote our brands through advertising, promotions, sponsorships and 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 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. Our consumer marketing approach uses consumer-centric research and insights focused on consumers' spending preferences. Priceless Cities®, in more than 35 cities across all of our regions, seeks to increase preference for the MasterCard brand by connecting consumers to their interests and offering them access to special experiences and offers when they are in their home city or traveling.

MasterCard 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 the following five categories:

- Domestic assessments: 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.
- 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 issuer country are different.
- Transaction processing fees: Transaction processing fees are charged for both domestic and cross-border transactions and are primarily based on the number of transactions.
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Other revenues: Other revenues consist of other payment-related products and services and primarily include fees associated with consulting and research, fraud products and services, loyalty and rewards solutions, program management services and a variety of other payment-related products and services.

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

Pricing varies among our regions, and can be modified for our customers through customer-specific rebate and incentive agreements, which provide customers with financial incentives and other support benefits to issue, accept, route, prioritize and promote our branded products and other payment programs. These financial incentives may be based on GDV or other performance-based criteria, such as issuance of new payment products, increased acceptance of our products, launch of new programs or execution of marketing initiatives.

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:

- Paper-based payments (principally cash and checks);
- Card-based payments, including credit, charge, debit, ATM and prepaid products, and limited use products such as private-label;
- Contactless, mobile and e-commerce payments; and
- Other electronic payments, including wire transfers, electronic benefits transfers, bill payments and automated clearing house payments.

We face a number of competitors in 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. However, electronic forms of payment are increasingly displacing paper forms of payment around the world, benefiting electronic payment brands.
- 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.
- 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 brands while our brands are used mostly to enable cross-border transactions, which typically represent a small portion of overall transaction volume.
- End-to-End Payments Networks. Our competitors include operators of proprietary end-to-end payments networks, such as American Express and Discover, that 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

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in a manner similar to interchange fees. As a result, to date, operators of end-to-end payments networks have generally avoided the same regulatory and legislative scrutiny 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, including networks and others that have developed less traditional payment models. Many of these networks 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®, Google and Amazon, mobile operators such as Isis, handset manufacturers, and social networks such as Facebook®. We compete with these providers in some circumstances, but in some cases they may also be our customers or partner with us.

We compete successfully as a technology-driven company that operates a global payments network within the four-party model, providing a critical link between consumers, financial institutions, businesses and merchants worldwide. We offer secure, unsurpassed acceptance via a highly-adaptable network that is the world's fastest. We maintain and grow our leadership position in payments with the adoption of innovative products and platforms like MasterPass and MasterCard inControl® (our platform featuring an array of advanced authorization, transaction routing and alert controls). We are at the forefront of the effort to reduce the incidence of fraud in global payments, leading industry efforts such as EMV migration and tokenization. Our MasterCard Advisors group is a professional services organization dedicated solely to the payments industry. Our expanded on-soil presence in individual markets and a heightened focus on working with governments has improved our ability to serve a broad array of participants in global payments.

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-Legal and Regulatory Risks” in Part I, Item 1A of this Report.

Interchange Fees. Interchange fees associated with four-party payments systems like ours are being reviewed or challenged in various jurisdictions around the world. Examples include:

- legislation to regulate interchange fees (such the Dodd-Frank Act in the United States and the legislation proposed by the European Commission in July 2013);
- competition-related regulatory proceedings (such as the European Commission's December 2007 decision restricting our cross-border interchange fees, which is pending appeal, as well as proceedings in several jurisdictions, including several European Union member states);
- central bank regulation (such as in Australia); and
- litigation (such as the merchant litigations in the United States and private lawsuits in Canada and the United Kingdom).

For more detail, see our risk factors in “Risk Factors - Legal and Regulatory Risks” in Part I, Item 1A of this Report related to interchange fees and related practices receiving significant and increasingly intense legal, regulatory and legislative scrutiny worldwide, and the Dodd-Frank Act. Also see Note 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8.

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

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to end or limit the application of these no-surcharge rules (or indicated interest in doing so), including the Reserve Bank of Australia (the "RBA") and the Canadian Competition Bureau (the "CCB"). Additionally, pursuant to the terms of settlement of the U.S. merchant class litigation, in January 2013 we 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 regulation 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. 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. See our risk factor in "Risk Factors - Legal and Regulatory Risks" in Part I, Item 1A of this Report related to regulation in the areas of consumer privacy, data use and/or security.

Anti-Money Laundering. MasterCard is subject to anti-money laundering ("AML") laws and regulations, including the regulatory requirements of Section 352 of 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 Cuba, Iran, Syria and Sudan and with persons and entities included in OFAC's list of Specially Designated Nationals and Blocked Persons (the "SDN List"). Cuba, 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 and do not license financial institutions domiciled in these countries. 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, individuals or entities. This includes obligating issuers and acquirers to screen cardholders and merchants, respectively, against the SDN list.

Banking Agency Supervision. We are or may be subject to regulations related to our role in the financial industry and our relationship with our financial institution customers. 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.

Consumer Financial Protection Bureau and Financial Stability Oversight Council. The Consumer Financial Protection Bureau (the "CFPB") has significant authority to regulate consumer financial products in the United States, including consumer credit, deposit, payment, and similar products. In addition, the Financial Stability Oversight Council ("FSOC") is tasked with, among other things, identifying payment, clearing and settlement systems in the United States that are "systemically important" under the applicable statutory standard. Such systems will be subject to new regulation, supervision and examination requirements. It is not entirely clear whether and/or to what extent the CFPB will regulate broader aspects of payment card network operations, and to date, MasterCard has not been designated "systemically important." See our risk factor in "Risk Factors - Legal and Regulatory Risks" in Part I, Item 1A related to the Dodd-Frank Act.

Retail 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. Payment system oversight also could be used to provide resources or preferential treatment or other protection to selected domestic payments and processing providers, such as in Russia and Ukraine. See our risk factor in "Risk Factors - Legal and Regulatory Risks" in Part I, Item 1A related to government actions that may prevent us from competing effectively against providers of domestic payments or processing services in certain countries.

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 related to bank overdraft practices and issuance and other practices related to prepaid cards.

Regulation of Internet Transactions. Under the Unlawful Internet Gambling Enforcement Act, 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. In addition, the U.S. Congress (and some states) continues its consideration of regulatory initiatives in digital-related areas, such as cyber-security, copyright and trademark infringement and privacy.

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Additional Regulatory Developments. Various regulatory agencies also continue to examine a wide variety of issues, including campus 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 of this Report.

Financial Information About Geographic Areas

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

Employees

As of December 31, 2013, we employed approximately 8,200 persons, of which approximately 3,800 were employed outside of the United States. We consider our relationship with employees to be good.

Additional Information

MasterCard Incorporated was incorporated as a Delaware stock 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. In May 2006, we completed a plan for a new ownership and governance structure for MasterCard Incorporated (including an initial public offering of a new class of common stock (the “IPO”)). 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.

Item 1A. Risk Factors

Legal and Regulatory Risks

Interchange fees and acceptance practices receive significant and intense legal, regulatory and legislative scrutiny worldwide, and the resulting decisions, regulations and legislation 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. They are also a factor on which we compete with other payment providers and therefore an important determinant of the volume of transactions we process over our network. We do not earn revenues from interchange fees. We have historically set default interchange fees in the United States and certain other countries. In some jurisdictions, interchange fees and related practices are subject to legislation, regulation and litigation as electronic forms of payment have become more important to local economies. 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.

Examples of legislative activity related to interchange fees include:

- In July 2013, the European Commission proposed legislation relating to payment system regulation of cards issued and acquired within the European Economic Area (the “EEA”). The proposed legislation includes, among other things, the

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following elements: (1) a cap on credit and debit interchange fees of 30 and 20 basis points per transaction, respectively, initially for intra-EEA cross-border consumer transactions (these cross-border rates are comparable to the consumer rates MasterCard has applied for Europe on a weighted average basis since July 2009), and subsequently for all domestic consumer transactions in the EEA; (2) restrictions on our “honor all cards” rule with respect to products with different levels of interchange; (3) a prohibition of surcharging by merchants for products that are subject to regulated interchange rates; (4) the prohibition of rules that prevent an issuer from “co-badging” (that is, putting a competing brand on its credit or debit cards); and (5) the separation of brand and processing in terms of legal form, organization and decision making. Procedurally, the proposed legislation is currently being debated, and may be potentially amended, by the European Union Parliament. The proposed legislation will also need to be reviewed by the Council of Ministers and the European Commission before it can be adopted. Any final legislation, if approved by the European Union Parliament and the Council of Ministers, could be different than what is in the initial proposal.

- In Poland and Hungary, legislation became effective in January 2014 capping domestic interchange fees, and similar legislation is being considered in other jurisdictions such as Portugal and Israel.

Examples of competition-related regulatory proceedings or inquiries around the world with respect to interchange fees and acceptance practices include:

- In December 2007, the European Commission issued a negative decision (upheld by a judgment of the General Court of the European Union, which we are appealing) with respect to our cross-border interchange fees for consumer credit and debit cards under European Union competition rules.
- In February 2007, the Office of Fair Trading in the United Kingdom commenced a new investigation of MasterCard Europe’s U.K. interchange fees (which is suspended pending the outcome of our appeal of the European Commission decision).

Examples of regulation, or potential regulation, by central banks and similar types of regulatory authorities around the world with respect to interchange fees and acceptance practices include:

- The Reserve Bank of Australia enacted regulations in 2002 (which have been subsequently reviewed and not withdrawn) controlling the costs that can be considered in setting interchange fees for four-party payment card systems such as ours and capping the average of such interchange fees.
- In September 2010, the South African Reserve Bank commenced a process to determine the manner in which interchange fees for all payments systems in South Africa should be set.
- The Minister of Finance in Canada is considering revising the voluntary “Code of Conduct”, which addresses issues for payment card industry participants in Canada, to address issues related to interchange rates, transparency of acceptance costs, premium payment product and merchant discount rates.
- In 2013, the United Kingdom passed legislation to create a new regulatory body that would have the authority to regulate payment systems, and the government is in the process of determining the scope of this authority.

See Note 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for a detailed description of regulatory proceedings and inquiries into interchange fees. We believe that regulators are increasingly cooperating on interchange matters and, as a result, developments in any one jurisdiction may influence regulators’ approach to interchange fees in other jurisdictions. See our risk factor in “Risk Factors - Legal and Regulatory Risks” in this Part I, Item 1A related to the impact of new regulations or other legislative or regulatory activity in one jurisdiction or of one product to other jurisdictions or other products.

Additionally, merchants are seeking to reduce interchange fees and impact acceptance rules through litigation. Such litigation includes:

- In the United States, merchants have filed approximately 50 class action or individual suits alleging that our interchange fees and acceptance rules violate federal antitrust laws. These suits (the settlement of which has received final court approval) alleged, among other things, that our purported setting of interchange fees constitutes horizontal price-fixing between and among MasterCard and its customer banks, and MasterCard, Visa and their customer banks in violation of Section 1 of the Sherman Act, which prohibits contracts, combinations or conspiracies that unreasonably restrain trade. The suits sought treble damages, attorneys' fees and injunctive relief.

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- In Canada, a number of class action suits have been filed against MasterCard, Visa and a number of large Canadian banks relating to MasterCard and Visa interchange fees and rules related to interchange fees, including "honor all cards" and "no surcharge" rules.
- In the United Kingdom, a number of retailers have filed claims against us for unspecified damages with respect to MasterCard's cross-border interchange fees and its U.K. and Ireland domestic interchange fees.

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.

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 end-to-end 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.

The Dodd-Frank Act may have a material adverse impact on our overall business and results of operations.

The Dodd-Frank Act enacted in the United States includes provisions that provide for the regulation by the Federal Reserve of debit and prepaid interchange fees and certain other network industry practices. Among other things, it requires debit and prepaid "interchange transaction fees" (referred to in the Dodd-Frank Act as fees established, charged or received by a payment card network for the purpose of compensating an issuer for its involvement in an electronic debit transaction) to be "reasonable and proportional to the cost incurred by the issuer with respect to the transaction." Additionally, it provides that neither an issuer nor a payment card network may establish exclusive network arrangements for debit or prepaid cards or inhibit the ability of a merchant to choose among different networks for routing debit or prepaid transactions.

The Federal Reserve regulations implementing these provisions limit per-transaction U.S. debit and prepaid interchange fees to 21 cents plus five basis points. The issuer may receive a fraud prevention adjustment of an additional one cent if it meets certain requirements. The regulations contain exemptions from the interchange limitations for issuers that, together with their affiliates, have less than $10 billion in assets, as well as for debit cards issued pursuant to a government-administered payment program and certain reloadable prepaid cards. Also, while the regulations do not directly regulate network fees, they make clear that network fees cannot be used to circumvent the interchange fee restrictions. See our risk factor in "Risk Factors - Legal and Regulatory Risks" in this Part I, Item 1A with respect to interchange fees and related practices receiving significant and increasingly intense legal, regulatory and legislative scrutiny worldwide. Issuers and networks are required to file various types of information regarding debit and prepaid transactions with the Federal Reserve periodically, and such information could be used by the Federal Reserve to reexamine and potentially re-set the interchange cap. With respect to network arrangements and transaction routing, the regulations require debit and prepaid cards to be enabled with two unaffiliated payments networks. The regulations also provide that an issuer or payments network may not inhibit the ability of any person that accepts or honors a debit or prepaid card to direct the routing of the card transaction for processing over any network enabled on the card.

In July 2013, the U.S. District Court for the District of Columbia (the "District Court") granted summary judgment in favor of a group of retailers and retailer trade associations, overturning these Federal Reserve regulations with regard to interchange fees and network non-exclusivity. The District Court's decision requires the Federal Reserve to revise its regulations to consider only incremental authorization, clearing and settlement costs in determining the level of interchange fees, as well as require two unaffiliated networks for routing transactions for each authentication method (PIN and signature). The Federal Reserve has appealed the decision to the U.S. Court of Appeals for the District of Columbia Circuit (the "Appellate Court") and the District Court has issued an order staying its decision pending this appeal. As a result, the Federal Reserve's debit interchange regulations remain in effect until the appellate process is completed. The Appellate Court has granted a motion to expedite the Federal Reserve's appeal and a decision is expected in 2014. If the District Court's ruling is upheld, the Federal Reserve would be required to revise its regulations in accordance with the ruling. It is not clear at what level the Federal Reserve would set the interchange fees, although, based on the decision, the level of interchange fees likely would be significantly reduced.

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The CFPB and FSOC were both created under the Dodd-Frank Act. The CFPB has significant authority to regulate consumer financial products, although it is not clear whether and/or to what extent it will regulate broader aspects of payment card networks. The FSOC is tasked with identifying payment, clearing and settlement systems that are “systemically important”. If MasterCard were designated “systemically important”, it would be subject to new risk management regulations relating to its payment, clearing and settlement activities. New regulations 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, a “systemically important” payments system could be required to obtain prior approval from the Federal Reserve or another federal agency for changes to its system rules, procedures or operations that could materially affect the level of risk presented by that payments system. These developments or actions could increase the cost of operating our business and may make electronic payment transactions less attractive to card issuers, as well as consumers. This could result in a reduction in our payments volume and revenues.

If issuers, acquirers and/or merchants modify their business operations or otherwise take actions in response to this legislation, the Federal Reserve’s regulations and/or any revised rules that have the result of reducing the number of debit or prepaid transactions we process or the network fees we collect, the Dodd-Frank Act could have a material adverse impact on our overall business and results of operations. In order to successfully compete in such an environment, we and our customers would each need to adjust our strategies accordingly.

We entered into an agreement to settle the current U.S. merchant class litigation that, among other things, requires us to not restrict U.S. merchants, subject to certain conditions, from surcharging credit card transactions, which could impact the use of electronic payments and result in a decrease in our overall transaction volumes and could in turn 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. As part of the terms of the settlement of the U.S. merchant class litigation entered into by the Company in October 2012 (which has received final court approval), the Company and Visa have modified their no-surcharge or comparable rules to permit U.S. merchants to surcharge credit cards, subject to certain limitations (including ensuring that MasterCard or Visa cardholders are not unfairly subject to surcharging relative to cardholders of competing credit card networks such as American Express, Discover and PayPal, should those networks enforce rules that restrict surcharging). It is possible that over time U.S. merchants in some or all merchant categories may choose to surcharge as permitted by the rule change, which could make credit card programs less desirable to consumers in the United States. In the event that such merchants surcharge credit cards, this could result in consumers having a less favorable view of our products 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.

New regulations or other regulatory activity with respect to the payments industry in one jurisdiction or of one product may lead to new regulations (or impact pending regulatory proceedings) in other jurisdictions or of other products. Regulators around the world increasingly look at each other's approaches to the regulation of the payments and other industries. Consequently, a development in any one country, state or region may influence regulatory approaches in other countries, states or regions. For example, the December 2007 European Commission decision with respect to cross-border interchange fees could also lead to additional competition authorities in European member states commencing investigations or proceedings regarding domestic interchange fees or initiating regulation. The General Court’s judgment in May 2012 upholding the European Commission’s decision has increased the possibility of such actions, as well as the possibility of an adverse outcome for us in related and pending matters. 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 (such as the Federal Reserve's rules implementing the Dodd-Frank Act) could lead to regulation of other consumer products (including credit). See our risk factor in “Risk Factors - Legal and Regulatory Risks” in this Part I, Item 1A with respect to government actions that may prevent us from competing effectively against providers of domestic payment services in certain countries.

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.

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Government actions preferring or protecting providers of domestic payment services in certain countries may prevent us from competing effectively against those providers, which could adversely affect our ability to maintain or increase our revenues.

Governments in some countries, such as China, Russia, Ukraine and India could act (or have acted) to provide resources or preferential treatment or other protection to selected national payment and processing providers, or may otherwise create (or have created) and support its own national provider. This action may displace us from, prevent us from entering into, or substantially restrict us from participating in, particular geographies. As an 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. Such a development would prevent us from utilizing our global processing capabilities for 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.

The payments industry is the subject of increasing global regulatory focus, which 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 countries 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 in the United States and abroad, 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 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 the SDN List. 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.
- Retail Payment System Regulation - Authority of regulators in several countries to regulate certain aspects of payments systems under which MasterCard operates could result in obligations or restrictions with respect to the types of products that we may offer to consumers, the countries in which our cards and other payment devices may be used and the types of cardholders and merchants who can obtain or accept our cards. Such obligations and restrictions could be further increased as more jurisdictions provide oversight of payment systems. Moreover, if this oversight is used to provide resources or preferential treatment or protection to selected domestic payments and processing providers, it could displace us from, or prevent us from entering into, or substantially restrict us from participating in, particular geographies. See our risk factor in “Risk Factors - Legal and Regulatory Risks” in this Part I, Item 1A, with respect to government actions which may prevent us from competing effectively against providers of domestic payments services in certain countries.
- Issuer Practice Legislation and Regulation - Our financial institution customers are subject to numerous regulations applicable to issuers and more generally to banks and other financial institutions, 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 and thereby directly impact our business and transaction volumes.
- Regulation of Digital Transactions - The U.S. Congress and some states continue to consider regulatory initiatives relating to digital areas, including cyber-security, copyright, trademark infringement and privacy. Congress may also consider additional legislation to legalize and regulate Internet gambling. If implemented, any such regulation 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, thereby increasing our costs or decreasing our transaction volumes.

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, which could materially and adversely impact our financial performance. Similarly, increased regulatory focus on our customers may cause such customers to reduce the volume of transactions processed through our systems, which could reduce our revenues and materially and adversely impact our financial performance. Finally, failure to

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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.

Regulation in the areas of consumer privacy, data use and/or security could decrease the number of payment cards and devices issued and could increase our costs.

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. 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. 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. Failure to comply with the these laws and regulations 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. Any additional, or changes to, regulations in these areas (as well as the manner in which such laws could be interpreted or applied) may also increase our costs to comply with such regulations and could impact aspects of our business such as fraud monitoring and the development of information based products and solutions. In addition, these regulations may increase the costs of our customers to issue payment products, which may, in turn, decrease the number of our cards and other payment devices that they issue. Any of these changes could materially and adversely affect our overall business and results of operations.

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. 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 of these 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 materially and adversely affect our financial condition 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.

Potential changes in the tax laws applicable to us could materially increase our tax payments.

Potential changes in existing tax laws, such as recent proposals for fundamental tax reform in the United States, including the treatment of earnings of controlled foreign corporations, may impact our effective tax rate and tax payments. This could adversely impact our results of operations. See also Note 17 (Income Tax) to the consolidated financial statements included in Part II, Item 8.

Business Risks

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 paper-based transactions (principally cash and checks); card-based or other electronic payment programs or systems, including credit, charge, debit, prepaid, private-label and other types of general purpose and limited use programs; contactless, mobile and web-based payment platforms; and other electronic transactions such as wire transfers and Automated Clearing House payments. 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. Moreover, 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.

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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 end-to-end payments systems with direct connections to both merchants and consumers. These competitors seek to derive competitive advantages from their business models. For example, operators of end-to-end 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. In addition, even when they 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. Our customers can also develop their own competitive services. 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.
Potential future changes in the competitive landscape, including disintermediation from other participants in the payments value chain, also could harm our business.
We expect that there may be future changes in the competitive landscape, 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 transactions directly with issuers, or 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.
- Rapid and significant technological changes could occur, resulting in new and innovative payment programs that could place us at a competitive disadvantage and that could reduce the use of MasterCard products.
- Competitors, customers, governments and other industry participants may develop products that compete with or replace value-added services we currently provide to support our transaction processing which could, if significant numbers of cardholders choose to use them, replace our own processing services or could force us to change our pricing or practices for these services.
- 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.
We face continued intense competitive pressure on the prices we charge our customers, which may materially and adversely affect our business and results of operations.
We generate revenue from the fees that we charge issuers and acquirers for providing transaction processing and other payment-related services and from assessments on the dollar volume of activity on cards and other devices carrying our brands. In order to increase transaction volumes, enter new markets and expand our card base, we seek to enter into business agreements with customers through which we offer incentives, pricing discounts and other support to customers that issue and 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 enhances 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.

Continuing consolidation or other changes in or affecting the banking industry could result in a loss of business for us and create pressure on the fees we charge our customers, resulting in lower prices and/or more favorable terms for our customers, which may 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 were to continue in the banking industry, it may 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 in the banking industry, whether as a result of an acquisition of a substantial MasterCard portfolio by an institution with a strong relationship with a competitor or the combination of two institutions with which we have a strong relationship, would also produce a smaller number of large customers, which could increase the bargaining power of our customers. This consolidation could lead to lower prices and/or more favorable terms for our customers. Any such lower prices and/or more favorable terms could materially and adversely affect our results of operations.

If we lose a significant portion of business from one or more of our largest customers, our revenue could fluctuate and decrease significantly in the longer term, which could have a material adverse long-term impact on our business.

Most of our customer relationships are not exclusive and in certain circumstances 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.

Merchants continue to be focused on the costs of accepting electronic forms of payment, which may lead to additional litigation and regulatory proceedings and may increase the costs of our incentive programs, 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 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. 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 as to which the Company recently entered into a settlement agreement (which has received final court approval). See our risk factor in this Part I, Item 1A with respect to interchange fees and related practices receiving significant and increasingly intense legal, regulatory and legislative scrutiny worldwide. Also see our risk factor in “Risk Factors - Legal and Regulatory Risks” in this Part I, Item 1A with respect to the Dodd-Frank Act. The continued focus of merchants on the costs of accepting various forms of payment 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

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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.

Certain customers have exclusive, or nearly exclusive, relationships with our competitors to issue payment products, and these relationships may adversely affect our ability to maintain or increase our revenues and 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.

We depend significantly on our relationships with our issuers and acquirers to manage our payments system. If we are unable to maintain those relationships, or if our issuers and acquirers are unable to maintain their relationships with cardholders or merchants that accept our products for payment, our business may be materially and adversely affected.

While we work directly with many stakeholders in the payments system, including merchants and governments, 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 - Business Risks” 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.

In addition, our competitors may process a greater percentage of domestic transactions in jurisdictions outside the United States than we do. As a result, our inability to control the end-to-end processing on cards and other payment devices carrying our brands in many markets may put us at a competitive disadvantage by limiting our ability to maintain transaction integrity or introduce value-added programs and services that are dependent upon us processing the underlying transactions.

We rely on the continuing expansion of merchant acceptance of our products and programs. Although our business strategy is to invest in strengthening our brands and expanding our acceptance network, there can be no guarantee that our efforts in these areas will continue to be successful. If the rate of merchant acceptance growth slows or reverses itself, our business could suffer.

The marketplace's perception of our brands and reputation may materially and adversely affect our overall business.
Our brands and their attributes are key assets of our business. The ability to attract and retain cardholders to our branded products depends highly 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”. 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,

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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.

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.
- 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.

Global economic events in financial markets have directly affected, and may continue to affect, many of our customers, merchants that accept our brands and cardholders who use our brands, which could result in a material and adverse impact on our overall business and results of operations.

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 events (including continued distress in the credit environment, continued equity market volatility and additional government intervention) have impacted the financial markets around the world. The economies of the United States and numerous countries around the world have been significantly impacted by this economic turmoil. Countries have experienced credit ratings actions by rating agencies, including several in Europe as well as the United States. In addition, some existing customers have been placed in receivership or administration or have a significant amount of their stock owned by their governments. Many financial institutions are facing increased regulatory and governmental influence, including potential further changes in laws and regulations. Many of our financial institution customers, merchants that accept our brands and cardholders who use our brands have been directly and adversely impacted.

MasterCard's financial results may be negatively impacted by actions taken by individual financial institutions or by governmental or regulatory bodies. 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:

- Declining economies, foreign currency fluctuations and the pace of economic recovery can change consumer spending behaviors, such as cross-border travel patterns, on which a significant portion of our revenues is dependent.
- Low levels of consumer and business confidence typically associated with recessionary environments and those markets experiencing relatively high unemployment, may cause decreased spending by cardholders.
- Debt limit and budgetary discussions in the United States could affect the United States’ credit rating and could affect consumer confidence and spending.
- Our customers may restrict credit lines to cardholders or limit the issuance of new cards to mitigate increasing cardholder defaults.
- Uncertainty and volatility in the performance of our customers' businesses may make estimates of our revenues, rebates, incentives and realization of prepaid assets less predictable.
- Our customers may implement cost reduction initiatives that reduce or eliminate payment card marketing or increase requests for greater incentives or greater cost stability.
- Our customers may decrease spending for value-added services.

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- 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.
- Our customers may default on their settlement obligations, including as a result of sovereign defaults, causing a liquidity crisis for our other customers. See Note 19 (Settlement and Other Risk Management) to the consolidated financial statements included in Part II, Item 8 of this Report for further discussion of our settlement exposure.
- Our overall business and results of operations could be materially and adversely affected by consolidation of our customers. See our risk factor in “Risk Factors - Business Risks” in this Part I, Item 1A with respect to additional consolidation for further discussion.

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

A decline in cross-border travel could adversely affect our results of operations, as a significant portion of our revenue is generated from cross-border transactions.

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 processing 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 travel 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 travel could adversely affect our results of operations.

General economic and global political conditions may adversely affect trends in consumer spending, which may materially and adversely 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, as well as the impact of events in the United States such as deadlines on the debt limit) 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 principally based in the United States, a negative perception of the United States could impact the perception of our company, which could adversely affect our business.

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. In addition, 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 MasterCard, Maestro and Cirrus-branded gross legal settlement exposure, which is primarily estimated using the average daily card volume during the quarter multiplied by the estimated number of days to settle, was approximately $41 billion as of December 31, 2013. We have a revolving credit facility in the amount of $3 billion which could be used for general corporate purposes, including to provide liquidity in the event of one or more settlement failures by our customers. In the event that MasterCard effects a payment on behalf of a failed customer, MasterCard may seek an assignment of the underlying receivables from the failed customer. Subject to approval by our Board of Directors, customers may be charged for the amount of any settlement loss incurred during these ordinary course activities of MasterCard. While we believe that we have sufficient liquidity to cover a settlement failure by our largest customer on its peak day, 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. In addition, 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. Moreover, during 2013, many of our financial institution customers continued to be directly and adversely impacted by adverse economic events in the global financial markets. These conditions present increased risk that we may have to perform

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under our settlement guarantees. For more information on our settlement exposure and risk assessment and mitigation practices as of December 31, 2013, see Note 19 (Settlement and Other Risk Management) to the consolidated financial statements included in Part II, Item 8 of this Report.

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.

A failure or breach of our security systems or infrastructure as a result of cyber-attacks could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, 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.

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, and our processing systems incorporate multiple levels of protection, in order to address or otherwise mitigate these risks. We also 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 party vendors and future joint venture and merger and acquisition opportunities. As a result, cyber-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.

If our transaction processing systems and other services are disrupted or we are unable to process transactions or service our customers efficiently or at all, our results of operations would be materially reduced.

Our transaction processing systems and other key service 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.

Account data breaches involving card data stored, processed or transmitted by us or third parties 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. While most of these lawsuits 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. 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.

An increase in fraudulent activity using our cards could lead to reputational damage to our brands and/or 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. As outsourcing and specialization become commonplace in the payments industry, there are more third parties involved in processing transactions using our cards. In addition, fraud is more likely to occur in transactions where the card is not present, such as e-commerce and mobile commerce transactions, which are becoming increasingly prominent. 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.

Rapid technological developments in our industry present both operational and legal challenges (including potential intellectual property exposure) which could impact our results of operations or limit our future growth.

The payments industry is subject to rapid and significant technological changes, including continuing developments of technologies in the areas of smart cards and devices, radio frequency and proximity payment devices (such as contactless payment devices), electronic commerce and mobile commerce, among others. We cannot predict the effect of technological changes on our business. We rely in part on third parties, including some of our competitors and potential competitors, for the development of and access to new technologies. We expect that new services and technologies applicable to the payments industry will continue to emerge, and these new services and technologies may be superior to, or render obsolete, the technologies we currently use in our programs and services. In addition, our ability to adopt new services and technologies that we develop may be inhibited by a need for industry-wide standards and by resistance from customers or merchants to such changes by the complexity of our systems. 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. Our future success will depend, in part, on our ability to develop or adapt to technological changes and evolving industry standards.

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Failure to keep pace with these technological developments could lead to a decline in the use of our products, which could have a material adverse impact on our results of operations.

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

During 2013, 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.

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 any such acquired businesses, products or technologies. In addition, the integration of any acquisition or investment (including efforts related to an acquisition of an interest in a joint venture or other entity) may divert management's time and resources from our core business and disrupt our operations. 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.

Risks Related to our Class A Common Stock and Governance Structure

The market price of our common stock could be volatile.

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as the factors listed below, among others, could affect the market price of our common stock:

- the continuation of adverse economic events around the world in financial markets as well as political conditions and other factors unrelated to our operating performance or the operating performance of our competitors;
- quarterly variations in our results of operations or the results of operations of our competitors;
- changes in earnings estimates, investors' perceptions, recommendations by securities analysts or our failure to achieve analysts' earnings estimates;
- the announcement of new products or service enhancements by us or our competitors;
- announcements related to litigation, regulation or legislative activity;
- potential acquisitions by us of other companies; and
- developments in our industry.

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Our organizational documents and Delaware law contain terms and provisions that could be considered anti-takeover provisions or could have an impact on a change in control.

Provisions contained in our amended and restated certificate of incorporation and bylaws and Delaware law 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. Further, except in limited circumstances, no customer or former customer of MasterCard, or any operator, customer or licensee of any competing general purpose payment card system, or any affiliate of any such person, may beneficially own any share of Class A common stock or any other class or series of our stock entitled to vote generally in the election of directors.

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.

A substantial portion of our voting power is held by the Foundation, which is restricted from selling shares for an extended period of time and therefore may not have the same incentive to approve a corporate action that may be favorable to the other public stockholders. In addition, the ownership of Class A common stock by the Foundation and the restrictions on transfer could discourage or make more difficult acquisition proposals favored by the other holders of the Class A common stock.

As of February 6, 2014, the Foundation owned 119,214,210 shares of Class A common stock, representing approximately 10.4% of our general voting power. The Foundation may not sell or otherwise transfer its shares of Class A common stock prior to April 26, 2026 (twenty years and eleven months following the IPO), 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, 2013, MasterCard and its subsidiaries owned or leased 126 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 10 states and in the District of Columbia. We also lease and own properties in 58 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 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8.

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Item 4. Mine Safety Disclosures
Not applicable.
PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
The number of shares and per share amounts below have been retroactively restated to reflect the ten-for-one stock split of the Company's Class A and Class B common shares, which was effected in the form of a common stock dividend distributed on January 21, 2014.
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 2013 and 2012. At February 6, 2014, the Company had 54 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.

	2013		2012	
	High	Low	High	Low
First Quarter	$54.20	$50.10	$43.76	$33.63
Second Quarter	59.19	51.86	46.70	38.99
Third Quarter	69.50	56.70	46.18	40.47
Fourth Quarter	83.94	64.74	49.86	44.74

There is currently no established public trading market for our Class B common stock. There were approximately 414 holders of record of our Class B common stock as of February 6, 2014.
Dividend Declaration and Policy
During the years ended December 31, 2013 and 2012, we paid the following quarterly cash dividends per share on our Class A common stock and Class B Common stock:

	Dividend per Share	
	2013	2012
First Quarter	$0.030	$0.015
Second Quarter	0.060	0.030
Third Quarter	0.060	0.030
Fourth Quarter	0.060	0.030

On December 10, 2013, our Board of Directors declared a quarterly cash dividend of $0.11 per share paid on February 10, 2014 to holders of record on January 9, 2014 of our Class A common stock and Class B common stock. On February 4, 2014, our Board of Directors declared a quarterly cash dividend of $0.11 per share payable on May 9, 2014 to holders of record on April 9, 2014 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
In June 2012, the Company’s Board of Directors approved a share repurchase program authorizing the Company to repurchase up to $1.5 billion of its Class A common stock. This program (the "June 2012 Share Repurchase Program") became effective in June 2012 at the completion of the Company’s previously announced $2 billion Class A share repurchase program.

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On February 5, 2013, the Company's Board of Directors approved a share repurchase program authorizing the Company to repurchase up to $2 billion of its Class A common stock (the "February 2013 Share Repurchase Program"). This share repurchase program became effective at the completion of the Company's June 2012 Share Repurchase Program, which occurred in March 2013.

On December 10, 2013, the Company's Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to $3.5 billion of its Class A common stock (the "December 2013 Share Repurchase Program"). During January 2014, the Company exhausted its purchases under the February 2013 Share Repurchase Program and began purchasing shares under the December 2013 Share Repurchase Program. As of January 24, 2014, the cumulative repurchases by the Company under both the February 2013 Share Repurchase Program and December 2013 Share Repurchase Program in 2014 totaled approximately 4.2 million shares of Class A common stock for an aggregate cost of approximately $351 million, at an average price of $83.00 per share of Class A common stock. As of January 24, 2014, the Company had approximately $3.3 billion remaining under the December 2013 Share Repurchase Program.

During the fourth quarter of 2013, MasterCard repurchased a total of approximately 9.8 million shares for $751 million at an average price of $76.43 per share of Class A common stock. The Company’s repurchase activity during the fourth quarter of 2013 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	—	$—	—	$ 912,309,796
November 1 – 30	4,239,590	$74.26	4,239,590	$ 597,475,160
December 1 – 31	5,585,670	$78.08	5,585,670	$ 3,661,319,309
Total	9,825,260	$76.43	9,825,260	

[1] Dollar value of shares that may yet be purchased under the February 2013 Share Repurchase Program and December 2013 Share Repurchase Program is as of the end of the period.

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Item 6. Selected Financial Data

The statement of operations data presented below for the years ended December 31, 2013, 2012 and 2011, and the balance sheet data as of December 31, 2013 and 2012, were derived from the audited consolidated financial statements of MasterCard Incorporated included in Part II, Item 8 of this Report. The statement of operations data presented below for the years ended December 31, 2010 and 2009, and the balance sheet data as of December 31, 2011, 2010 and 2009, 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 of this Report and our consolidated financial statements and notes thereto included in Part II, Item 8 of this Report.

	Years Ended December 31,				
	2013	2012	2011	2010	2009
	(in millions, except per share data)				
Statement of Operations Data:					
Net revenue	$8,346	$7,391	$6,714	$5,539	$5,099
Total operating expenses	3,843	3,454	4,001	2,787	2,839
Operating income	4,503	3,937	2,713	2,752	2,260
Net income	3,116	2,759	1,906	1,846	1,463
Basic earnings per share[1]	2.57	2.20	1.49	1.41	1.12
Diluted earnings per share[1]	2.56	2.19	1.48	1.41	1.12
Balance Sheet Data:					
Total assets	$14,242	$12,462	$10,693	$8,837	$7,470
Long-term obligations under litigation settlements and debt	—	—	—	4	285
Equity	7,495	6,929	5,877	5,216	3,512
Cash dividends declared per share[1]	0.29	0.12	0.06	0.06	0.06

[1] The per share amounts have been retroactively restated to reflect the ten-for-one stock split of the Company's Class A and Class B common shares, which was effected in the form of a common stock dividend distributed on January 21, 2014.

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 2013 presentation. The number of shares and per share amounts have been retroactively restated to reflect the ten-for-one stock split. 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.

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”). Pursuant to the requirements of Regulation S-K, portions of this “Management's Discussion and Analysis of Financial Condition and Results of Operations” include a reconciliation of certain non-GAAP financial measures to the most directly comparable GAAP financial measures. 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.

MasterCard presents non-GAAP financial measures to enhance an investor's evaluation 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. More specifically, the following non-GAAP financial measures are presented in Management's Discussion and Analysis of Financial Condition and Results of Operations:

- Total operating expenses excluding the provisions recorded in 2013 ($95 million), 2012 ($20 million) and 2011 ($770 million) for settlements relating to U.S. merchant litigations (collectively referred to as the "MDL Provision").

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excluded these items because MasterCard's management monitors provisions for material litigation settlements separately from ongoing operations and evaluates ongoing performance without these amounts. See "Operating Expenses" for the table that provides a reconciliation of operating expenses excluding the MDL Provision to the most directly comparable GAAP measure.

- Effective income tax rate excluding the 2013 and 2011 portions of the MDL Provision. MasterCard excluded these items because MasterCard's management monitors provisions for material litigation settlements separately from ongoing operations and evaluates ongoing performance without these amounts. See "Income Taxes" for the table that provides a reconciliation of the effective income tax rate excluding the 2013 and 2011 portions of the MDL Provision to the most directly comparable GAAP measure.

Overview

We recorded net income of $3.1 billion, or $2.56 per diluted share in 2013 versus net income of $2.8 billion, or $2.19 per diluted share in 2012, and net income of $1.9 billion, or $1.48 per diluted share in 2011. Our 2011 net income was significantly impacted by the $770 million portion of the MDL Provision ($495 million after tax) recorded in 2011. In 2013 and 2012, the Company increased the provision by $95 million ($61 million after tax) and $20 million ($13 million after tax), respectively.

Our net revenue increased 13% and 10% in 2013 and 2012, primarily driven by increased growth in dollar volume of activity on cards carrying our brands and the number of transactions processed by the Company. In 2013 and 2012, both volume-based revenue (domestic assessments and cross-border volume fees) and transaction-based revenue (transaction processing fees) increased compared to 2012 by 12% and 13%, respectively. In 2013 and 2012, our processed transactions increased 13% and 25% versus the comparable periods in 2012 and 2011, respectively. In 2013 and 2012, our volumes increased 14% and 15%, on a local currency basis, versus the comparable periods in 2012 and 2011, respectively. Rebates and incentives as a percentage of gross revenue were 26% in both 2013 and 2012, and 24% in 2011.

Operating expenses in 2013 increased $389 million, or 11%, from 2012 and decreased $547 million, or 14%, in 2012 from 2011 primarily due to the 2011 portion of the MDL Provision. We generated net cash flows from operations of $4.1 billion for the year ended December 31, 2013, compared to $2.9 billion and $2.7 billion for the years ended December 31, 2012 and 2011, respectively.

The following table provides a summary of our operating results for the years ended December 31, 2013, 2012 and 2011:

	For the Years Ended December 31,			Percent Increase (Decrease)	
	2013	2012	2011	2013	2012
	(in millions, except per share data and percentages)				
Net revenue	$8,346	$7,391	$6,714	13%	10%
Operating expenses	3,843	3,454	4,001	11%	(14)%
Operating income	4,503	3,937	2,713	14%	45%
Operating margin	54.0 %	53.3 %	40.4 %	**	**
Income tax expense	1,384	1,174	842	18%	40%
Effective income tax rate	30.8 %	29.9 %	30.6 %	**	**
Net income	$3,116	$2,759	$1,906	13%	45%
Diluted earnings per share	$2.56	$2.19	$1.48	17%	48%
Diluted weighted-average shares outstanding	1,215	1,258	1,284	(3)%	(2)%

** Not meaningful.

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 both 2013 and 2012, and 40% in 2011. 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.

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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 events (including continued distress in the credit environment, continued equity market volatility and additional government intervention) have impacted the financial markets around the world. The economies of the United States and numerous countries around the world have been significantly impacted by this economic turmoil. Countries have experienced credit ratings actions by ratings agencies, including several in Europe as well as the United States. In addition, some existing customers have been placed in receivership or administration or have a significant amount of their stock owned by their governments. Many financial institutions are facing increased regulatory and governmental influence, including potential further changes in laws and regulations. Many of our financial institution customers, merchants that accept our brands and cardholders who use our brands have been directly and adversely impacted.

MasterCard's financial results may be negatively impacted by actions taken by individual financial institutions or by governmental or regulatory bodies. In addition, further 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 may be negatively impacted, or the Company may be impacted in several ways. 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 of this Report.

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 of this Report . 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 of this Report 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. For 2013 as compared to 2012, the U.S. dollar strengthened against the Brazilian real but weakened against the euro. For 2012 compared to 2011, the U.S. dollar strengthened against both the euro and the Brazilian real. The net foreign currency impact of changes in the U.S. dollar average exchange rates against the euro and Brazilian real increased net income in 2013 compared to 2012 by 1 percentage point. Conversely, net income in 2012 was negatively impacted by currency by approximately 7 percentage points when compared to 2011.

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, cross-border volume fees and volume related rebates and incentives. In 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. 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 2013, GDV on a U.S. dollar converted basis increased 12%, versus GDV growth on a local currency basis of 14%. In 2012, GDV on a U.S. dollar converted basis increased 12%, versus GDV growth on a local currency basis of 15%. 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 of this Report.

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.

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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 revenue can be significantly impacted by the following:

- Domestic or cross-border transactions;
- Signature-based or PIN-based transactions;
- Geographic region or country the transaction occurs in;
- Volumes/transactions subject to tiered rates;
- Processed or not processed by MasterCard and;
- Amount of usage of our other products or services.

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

1. Domestic assessments: 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 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.
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 to issuers for the following:

- Transaction Switching fees for the following services:

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").

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.

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.

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4. Other revenues: Other revenues consist of other payment-related products and services and are primarily associated with the following:

- Consulting and research fees are primarily generated by MasterCard Advisors, the Company's professional advisory services group.
- Fraud products and services used to prevent or detect fraudulent transactions. This includes fees for warning bulletins provided to issuers and acquirers either electronically or in paper form.
- Loyalty and rewards solutions fees are charged to issuers for benefits provided directly to consumers with MasterCard-branded cards, such as insurance, assistance for lost cards, locating ATMs and rewards programs.
- 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 2013 and 2012 increased $1.3 billion and $1.1 billion, or 13% versus 2012 and 2011, respectively, primarily driven by increased growth in dollar volume of activity on cards carrying our brands and increased transactions. Rebates and incentives in 2013 and 2012 increased $326 million and $472 million, or 12% and 22%, versus 2012 and 2011, respectively, due to the impact from new, renewed and expired agreements. Our net revenue in 2013 and 2012 increased 13% and 10% versus 2012 and 2011, respectively.

Our revenue is primarily based on volumes and transactions, which are driven by the dollar volume of activity on cards and other devices carrying our brands and the number of transactions. In 2013 and 2012, our GDV increased 14% and 15% on a local currency basis and our processed transactions increased 13% and 25%, respectively.

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

	Years Ended December 31,			
	2013		2012	
	Growth (USD)	Growth (Local)	Growth (USD)	Growth (Local)
MasterCard Branded GDV[1]	12 %	14 %	12 %	15 %
Asia Pacific/Middle East/Africa	17 %	21 %	22 %	23 %
Canada	3 %	7 %	7 %	8 %
Europe	16 %	15 %	9 %	16 %
Latin America	12 %	16 %	10 %	19 %
United States	7 %	7 %	9 %	9 %
Cross-border Volume[1]		18 %		16 %
Processed Transactions Growth		13 %		25 %

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

A significant portion of our revenue is concentrated among our five largest customers. In 2013, the net revenue from these customers was approximately $2.1 billion, or 25%, 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 of this Report for further discussion.

The significant components of our net revenue for the years ended December 31, 2013, 2012 and 2011 were as follows:

	For the Years Ended December 31,			Percent Increase (Decrease)	
	2013	2012[1]	2011[1]	2013	2012
	(in millions, except percentages)				
Domestic assessments	$3,805	$3,494	$3,170	9%	10%
Cross-border volume fees	2,793	2,343	2,094	19%	12%
Transaction processing fees	3,359	3,017	2,595	11%	16%
Other revenues	1,331	1,154	1,000	15%	15%
Gross revenue	11,288	10,008	8,859	13%	13%
Rebates and incentives (contra-revenue)	(2,942)	(2,617)	(2,145)	12%	22%
Net revenue	$8,346	$7,391	$6,714	13%	10%

[1] Certain prior period amounts have been reclassified to conform to the 2013 presentation. Net revenue is not impacted.

The following table summarizes the primary drivers of net revenue growth in 2013 and 2012:

	For the Years Ended December 31,									
	Volume		Pricing		Foreign Currency[1]		Other		Total Growth	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012 [2]
Domestic assessments	13 %	14 %	— %	2 %	— %	(3)%	(4)% [3]	(3)% [3]	9 %	10 %
Cross-border volume fees	14 %	15 %	7 %	2 %	1 %	(3)%	(3)%	(2)%	19 %	12 %
Transaction processing fees	11 %	21 %	— %	3 %	— %	(3)%	— %	(5)%	11 %	16 %
Other revenues	**	**	4 %	4 %	1 %	(3)%	10 % [4]	14 % [4]	15 %	15 %
Rebates and incentives	8 %	10 %	(2)%	1 %	— %	(3)%	6 % [5]	14 % [5]	12 %	22 %
Net revenue	12 %	14 %	4 %	3 %	— %	(3)%	(3)%	(4)%	13 %	10 %

** Not applicable

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

[2] Certain prior period amounts have been reclassified to conform to the 2013 presentation. Net revenue is not impacted.

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

[4] Positively impacted by acquisitions, consulting fees, fraud service fees and other payment-related products and services.

[5] Rebates and incentives, other includes the impact from new, renewed and expired agreements.

Operating Expenses

Our operating expenses are comprised of general and administrative, advertising and marketing, depreciation and amortization expenses, and the respective amounts recorded for the MDL Provision. Operating expenses increased in 2013 by $389 million, or 11%, primarily due to higher general and administrative expenses and the $95 million portion of the MDL Provision recorded in 2013. Operating expenses decreased in 2012 by $547 million, or 14% compared to 2011, primarily due to the $770 million portion of the MDL Provision recorded in 2011 (versus the $20 million portion of the MDL Provision recorded in 2012). Excluding the impact of the MDL Provision, operating expenses increased $314 million, or 9%, in 2013 compared to 2012 and increased $203 million, or 6%, in 2012 compared to 2011.

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The following table compares and reconciles operating expenses, excluding the MDL Provision, which is a non-GAAP financial measure, to the operating expenses including the MDL Provision, which is the most directly comparable GAAP measurement. Management believes this analysis facilitates understanding of our ongoing operating expenses and allows for a more meaningful comparison between periods.

	For the Years Ended December 31,								
	2013			2012			2011		
	Actual	MDL Provision	Non-GAAP	Actual	MDL Provision	Non-GAAP	Actual	MDL Provision	Non-GAAP
	(in millions, except percentages)								
General and administrative	$2,649	$—	$ 2,649	$2,429	$—	$ 2,429	$2,196	$—	$ 2,196
Advertising and marketing	841	—	841	775	—	775	841	—	