

MASTERCARD INC
Form 10-Q
July 31, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended June 30, 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 13-4172551
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification Number)

2000 Purchase Street 10577
Purchase, NY (Zip Code)
(Address of principal executive offices)

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

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 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 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

Edgar Filing: MASTERCARD INC - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒
As of July 25, 2013, there were 115,994,184 shares outstanding of the registrant's Class A common stock, par value \$0.0001 per share; and 4,629,969 shares outstanding of the registrant's Class B common stock, par value \$0.0001 per share.

MASTERCARD INCORPORATED
FORM 10-Q
TABLE OF CONTENTS

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)</u>	<u>4</u>
<u>Consolidated Balance Sheet — June 30, 2013 and December 31, 2012</u>	<u>4</u>
<u>Consolidated Statement of Operations — Three and Six Months Ended June 30, 2013 and 2012</u>	<u>5</u>
<u>Consolidated Statement of Comprehensive Income — Three and Six Months Ended June 30, 2013 and 2012</u>	<u>6</u>
<u>Consolidated Statement of Changes in Equity — Six Months Ended June 30, 2013</u>	<u>6</u>
<u>Consolidated Statement of Cash Flows — Six Months Ended June 30, 2013 and 2012</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>25</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>36</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>36</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>37</u>
<u>PART II — OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>38</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>38</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>39</u>
<u>ITEM 6. EXHIBITS</u>	<u>39</u>
<u>SIGNATURES</u>	<u>40</u>

Table of Contents

In this Report, references to the “Company,” “MasterCard,” “we,” “us” or “our” refer to the business conducted by MasterCard Incorporated and its consolidated subsidiaries, including our operating subsidiary, MasterCard International Incorporated (d/b/a MasterCard Worldwide).

Forward-Looking Statements

This Report on Form 10-Q contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements. When used in this Report, the words “believe”, “expect”, “could”, “may”, “would”, “will”, “trend” and similar 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 its credit, debit, prepaid, commercial and payment transaction processing offerings;
- the Company’s focus on diversifying its business (including seeking new areas of growth, expanding acceptance points and maintaining unsurpassed acceptance and successfully working with new business partners);
- the Company’s focus on building new businesses through technology and strategic efforts and alliances focused on innovative payment methods;
- 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, regulatory proceedings, central bank regulation and litigation related to interchange fees and other practices; regulations established by the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States; requirement to permit U.S. merchants to surcharge credit cards (subject to final approval of the U.S. merchant class litigation); regulation or other legislative or 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 customers; our relationship with our customers; brand perceptions and reputation; 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 Item 1A (Risk Factors) in Part I of the Company’s Annual Report on Form 10-K for the year ended December 31, 2012 and Part II, Item 1A, (Risk Factors) of this report. 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.

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

MASTERCARD INCORPORATED
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	June 30, 2013	December 31, 2012
	(in millions, except share data)	
ASSETS		
Cash and cash equivalents	\$2,348	\$2,052
Restricted cash for litigation settlement	724	726
Investment securities available-for-sale, at fair value	2,742	2,951
Accounts receivable	949	925
Settlement due from customers	668	1,117
Restricted security deposits held for customers	840	777
Prepaid expenses and other current assets	565	681
Deferred income taxes	126	128
Total Current Assets	8,962	9,357
Property, plant and equipment, net	471	472
Deferred income taxes	85	60
Goodwill	1,050	1,092
Other intangible assets, net of accumulated amortization of \$663 and \$596, respectively	637	672
Other assets	816	809
Total Assets	\$12,021	\$12,462
LIABILITIES AND EQUITY		
Accounts payable	\$259	\$357
Settlement due to customers	607	1,064
Restricted security deposits held for customers	840	777
Accrued litigation	724	726
Accrued expenses	1,616	1,748
Other current liabilities	281	234
Total Current Liabilities	4,327	4,906
Deferred income taxes	98	104
Other liabilities	567	523
Total Liabilities	4,992	5,533
Commitments and Contingencies		
Stockholders' Equity		
Class A common stock, \$0.0001 par value; authorized 3,000,000,000 shares, 133,997,233 and 133,604,903 shares issued and 116,280,684 and 118,405,075 outstanding, respectively	—	—
Class B common stock, \$0.0001 par value; authorized 1,200,000,000 shares, 4,639,219 and 4,838,840 issued and outstanding, respectively	—	—
Additional paid-in-capital	3,692	3,641

Edgar Filing: MASTERCARD INC - Form 10-Q

Class A treasury stock, at cost, 17,716,549 and 15,199,828 shares, respectively	(5,482	) (4,139	)
Retained earnings	8,823	7,354	
Accumulated other comprehensive income (loss)	(15	) 61	
Total Stockholders' Equity	7,018	6,917	
Non-controlling interests	11	12	
Total Equity	7,029	6,929	
Total Liabilities and Equity	\$12,021	\$12,462	

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

Table of Contents

MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in millions, except per share data)			
Net Revenue	\$2,096	\$1,820	\$4,002	\$3,578
Operating Expenses				
General and administrative	621	591	1,229	1,170
Advertising and marketing	186	179	315	304
Depreciation and amortization	61	56	123	110
Provision for litigation settlement	—	20	—	20
Total operating expenses	868	846	1,667	1,604
Operating income	1,228	974	2,335	1,974
Other Income (Expense)				
Investment income	11	9	19	18
Interest expense	(5	) (3	) (10	) (9
Other income (expense)	(1	) (7	) (9	) (10
Total other income (expense)	5	(1	) —	(1
Income before income taxes	1,233	973	2,335	1,973
Income tax expense	385	273	721	591
Net Income	\$848	\$700	\$1,614	\$1,382
Basic Earnings per Share	\$6.98	\$5.56	\$13.23	\$10.95
Basic Weighted-Average Shares Outstanding	121	126	122	126
Diluted Earnings per Share	\$6.96	\$5.55	\$13.19	\$10.91
Diluted Weighted-Average Shares Outstanding	122	126	122	127

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

Table of Contents

MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in millions)			
Net Income	\$848	\$700	\$1,614	\$1,382
Other comprehensive income (loss):				
Foreign currency translation adjustments	41	(127)	(71)	(50)
Defined benefit pension and other postretirement plans	1	—	2	2
Income tax effect	—	—	(1)	(1)
Defined benefit pension and other postretirement plans, net of income tax effect	1	—	1	1
Investment securities available-for-sale	(9)	3	(8)	6
Income tax effect	3	(1)	2	(2)
Investment securities available-for-sale, net of income tax effect	(6)	2	(6)	4
Other comprehensive income (loss), net of tax	36	(125)	(76)	(45)
Comprehensive Income	\$884	\$575	\$1,538	\$1,337

MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)

	Total	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Common Stock Class A	Class B	Additional Paid-In Capital	Class A Treasury Stock	Non-Controlling Interests
	(in millions, except per share data)							
Balance at December 31, 2012	\$6,929	\$7,354	\$ 61	\$—	\$—	\$ 3,641	\$(4,139)	\$ 12
Net income	1,614	1,614	—	—	—	—	—	—
Activity related to non-controlling interests	(1)	—	—	—	—	—	—	(1)
Other comprehensive income (loss), net of tax	(76)	—	(76)	—	—	—	—	—
Cash dividends declared on Class A and Class B common stock, \$1.20 per share	(145)	(145)	—	—	—	—	—	—
Purchases of treasury stock	(1,347)	—	—	—	—	—	(1,347)	—

Edgar Filing: MASTERCARD INC - Form 10-Q

Share-based payments	55	—	—	—	—	51	4	—
Balance at June 30, 2013	\$7,029	\$8,823	\$ (15	)	\$—	\$—	\$ 3,692	\$(5,482) \$ 11

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

Table of Contents

MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2013	2012
	(in millions)	
Operating Activities		
Net income	\$1,614	\$1,382
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	123	110
Share-based payments	(1	) (30
Deferred income taxes	(32	) (55
Other	29	23
Changes in operating assets and liabilities:		
Accounts receivable	(36	) (51
Income taxes receivable	158	(31
Settlement due from customers	444	(213
Prepaid expenses	(112	) (140
Obligations under litigation settlements	—	20
Accounts payable	(97	) (27
Settlement due to customers	(451	) 112
Accrued expenses	(87	) (50
Net change in other assets and liabilities	62	18
Net cash provided by operating activities	1,614	1,068
Investing Activities		
Purchases of investment securities available-for-sale	(1,311	) (1,054
Purchases of property, plant and equipment	(48	) (40
Capitalized software	(55	) (67
Proceeds from sales of investment securities available-for-sale	855	104
Proceeds from maturities of investment securities available-for-sale	644	386
Proceeds from maturities of investment securities held-to-maturity	36	—
Investment in nonmarketable equity investments	(6	) (19
Other investing activities	3	—
Net cash provided by (used in) investing activities	118	(690
Financing Activities		
Purchases of treasury stock	(1,347	) (919
Dividends paid	(110	) (57
Tax benefit for share-based compensation	20	33
Cash proceeds from exercise of stock options	16	18
Other financing activities	—	3
Net cash used in financing activities	(1,421	) (922
Effect of exchange rate changes on cash and cash equivalents	(15	) (37
Net increase (decrease) in cash and cash equivalents	296	(581
Cash and cash equivalents - beginning of period	2,052	3,734
Cash and cash equivalents - end of period	\$2,348	\$3,153

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

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Summary of Significant Accounting Policies

Organization

MasterCard Incorporated and its consolidated subsidiaries, including MasterCard International Incorporated (“MasterCard International” and together with MasterCard Incorporated, “MasterCard” or the “Company”), 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. MasterCard offers a wide range of payment solutions, that enable the development and implementation of credit, debit, prepaid, commercial and related payment programs and solutions for consumers and merchants. The Company's customers encompass a vast array of entities, including financial institutions and others that act as "issuers" and "acquirers", as well as merchants, governments, telecommunications companies and other businesses. MasterCard manages a family of well-known, widely accepted payment brands, including MasterCard®, Maestro® and Cirrus®, which its customers use in their payment programs and solutions. The Company processes payment transactions over the MasterCard Worldwide Network and provides support services to its customers and others.

Consolidation and basis of presentation

The consolidated financial statements include the accounts of MasterCard and its majority-owned and controlled entities, including any variable interest entities for which the Company is the primary beneficiary. Intercompany transactions and balances have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the 2013 presentation. The Company follows accounting principles generally accepted in the United States of America (“GAAP”).

The balance sheet as of December 31, 2012 was derived from the audited consolidated financial statements as of December 31, 2012. The consolidated financial statements for the three and six months ended June 30, 2013 and 2012 and as of June 30, 2013 are unaudited, and in the opinion of management, include all normal recurring adjustments that are necessary to present fairly the results for interim periods. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited consolidated financial statements are presented in accordance with the U.S. Securities and Exchange Commission requirements for Quarterly Reports on Form 10-Q and, consequently, do not include all of the disclosures required by GAAP. Reference should be made to the MasterCard Incorporated Annual Report on Form 10-K for the year ended December 31, 2012 for additional disclosures, including a summary of the Company’s significant accounting policies.

Non-controlling interest amounts are included in the consolidated statement of operations within other income (expense). Income from non-controlling interests was \$2 million for the three months ended June 30, 2013 and \$1 million for each of the six month periods ended June 30, 2013 and 2012. There was no income from non-controlling interests for the three months ended June 30, 2012.

In December 2012, the Company made a \$726 million payment into a qualified cash settlement fund related to its U.S. merchant class litigation. The Company has presented these funds as restricted cash for litigation settlement since the use of the funds under the qualified cash settlement fund is restricted for payment under a preliminary settlement agreement that is subject to court approval. The funds would be returned to the Company in the event that the settlement is not finalized. If the settlement is finalized, MasterCard anticipates that it would receive back approximately \$165 million from the qualified cash settlement fund related to the opt out merchants. See Note 11 (Legal and Regulatory Proceedings) for further discussion of the U.S. merchant class litigation.

Recent accounting pronouncements

Comprehensive income - In February 2013, new accounting guidance was issued by the Financial Accounting Standards Board (“FASB”) that requires disclosure of amounts reclassified from accumulated other comprehensive income to net income. The Company adopted the revised accounting guidance effective January 1, 2013. See Note 8 (Accumulated Other Comprehensive Income) for additional disclosures related to the new guidance.

Balance sheet offsetting - In January 2013, the FASB issued accounting guidance clarifying the scope of its previously issued requirements to disclose gross and net amounts of eligible financial assets and financial liabilities recognized

on the balance sheet. The Company adopted the revised accounting guidance effective January 1, 2013. See Note 13 (Foreign Exchange Risk Management) for additional disclosures related to the new guidance.

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Income taxes - In July 2013, the FASB issued accounting guidance that requires entities to present an unrecognized tax benefit net with certain deferred tax assets when specific requirements are met. The Company will adopt the revised accounting guidance effective January 1, 2014. The Company is currently evaluating the effect this guidance will have on its consolidated balance sheet.

Note 2. Earnings Per Share

The components of basic and diluted earnings per share (“EPS”) for common shares were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in millions, except per share data)			
Numerator:				
Net income	\$848	\$700	\$1,614	\$1,382
Denominator:				
Basic EPS weighted-average shares outstanding	121	126	122	126
Dilutive stock options and stock units	—	—	—	—
Diluted EPS weighted-average shares outstanding *	122	126	122	127
Earnings per Share				
Basic	\$6.98	\$5.56	\$13.23	\$10.95
Diluted	\$6.96	\$5.55	\$13.19	\$10.91

Note that table may not sum due to rounding.

* For the periods presented, the calculation of diluted EPS excluded a minimal amount of anti-dilutive share-based payment awards.

Note 3. Fair Value and Investment Securities

Financial Instruments – Recurring Measurements

In accordance with accounting requirements for financial instruments, the Company is disclosing the estimated fair values as of June 30, 2013 and December 31, 2012 of the financial instruments that are within the scope of the accounting guidance, as well as the methods and significant assumptions used to estimate the fair value of those financial instruments. Furthermore, the Company classifies its fair value measurements in the Valuation Hierarchy. No transfers were made among the three levels in the Valuation Hierarchy during the three and six months ended June 30, 2013.

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

The distribution of the Company's financial instruments which are measured at fair value on a recurring basis within the Valuation Hierarchy was as follows:

	June 30, 2013			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in millions)			
Municipal securities ¹	\$—	\$511	\$—	\$511
U.S. Government and Agency securities ²	—	528	—	528
Taxable short-term bond funds	—	—	—	—
Corporate securities	—	1,287	—	1,287
Asset-backed securities	—	345	—	345
Auction rate securities	—	—	23	23
Other	—	77	—	77
Total	\$—	\$2,748	\$23	\$2,771

	December 31, 2012			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in millions)			
Municipal securities ¹	\$—	\$531	\$—	\$531
U.S. Government and Agency securities ²	—	582	—	582
Taxable short-term bond funds	210	—	—	210
Corporate securities	—	1,246	—	1,246
Asset-backed securities	—	316	—	316
Auction rate securities	—	—	32	32
Other	—	63	—	63
Total	\$210	\$2,738	\$32	\$2,980

¹ Available-for-sale municipal securities are carried at fair value and are included in the above tables. However, a held-to-maturity municipal bond was carried at amortized cost and excluded from the above table at December 31, 2012.

² Excludes amounts held in escrow for the preliminary U.S. merchant class litigation settlement of \$724 million and \$726 million at June 30, 2013 and December 31, 2012, respectively, which would be included in Levels 1 and 2 of the Valuation Hierarchy. See Note 6 (Accrued Expenses) and Note 11 (Legal and Regulatory Proceedings) for further details.

The fair value of the Company's taxable short-term bond funds are based on quoted prices for identical investments in active markets and are therefore included in Level 1 of the Valuation Hierarchy.

The fair value of the Company's available-for-sale municipal securities, U.S. Government and Agency securities, corporate securities, asset-backed securities and other fixed income securities included in the Other category are based on quoted prices for similar assets in active markets and are therefore included in Level 2 of the Valuation Hierarchy. The Company's foreign currency derivative contracts have also been classified within Level 2 in the Other category of

the Valuation Hierarchy, as the fair value is based on broker quotes for the same or similar derivative instruments. See Note 13 (Foreign Exchange Risk Management) for further details.

The Company's auction rate securities ("ARS") investments have been classified within Level 3 of the Valuation Hierarchy as their valuation requires substantial judgment and estimation of factors that are not currently observable in the market due to the lack of trading in the securities. When a determination is made to classify a financial instrument within Level 3, the determination is based upon the significance of the unobservable parameters to the overall fair value measurement. However, the fair value determination for Level 3 financial instruments may include observable components. This valuation may be revised in future periods as market conditions evolve. The Company has considered the lack of liquidity in the ARS market and the lack of comparable, orderly transactions when estimating the fair value of its ARS portfolio. Therefore, the Company used the income approach, which included a discounted cash flow analysis of the estimated future cash flows adjusted by a risk premium for the

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

ARS portfolio, to estimate the fair value of its ARS portfolio. The Company estimated the fair value of its ARS portfolio to be a 10% discount to the par value as of June 30, 2013 and December 31, 2012. The Company did not realize any material losses on its ARS portfolio during the three and six months ended June 30, 2013 and 2012.

Financial Instruments - Non-Recurring Measurements

Certain financial instruments are carried on the consolidated balance sheet at cost, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, restricted cash, accounts receivable, settlement due from customers, restricted security deposits held for customers, prepaid expenses, accounts payable, settlement due to customers and accrued expenses. In addition, nonmarketable equity investments are measured at fair value on a nonrecurring basis for purposes of initial recognition and impairment testing.

Settlement and Other Guarantee Liabilities

The Company estimates the fair value of its settlement and other guarantees using the market pricing approach which applies market assumptions for relevant though not directly comparable undertakings, as the latter are not observable in the market given the proprietary nature of such guarantees. At June 30, 2013 and December 31, 2012, the carrying value and fair value of settlement and other guarantee liabilities were not material. Settlement and other guarantee liabilities are classified as Level 3 of the fair value hierarchy as their valuation requires substantial judgment and estimation of factors that are not currently observable in the market. For additional information regarding the Company's settlement and other guarantee liabilities, see Note 12 (Settlement and Other Risk Management).

Refunding Revenue Bonds

The Company holds refunding revenue bonds with the same payment terms, and which contain the right of set-off with a capital lease obligation related to the Company's global technology and operations center located in O'Fallon, Missouri. The Company has netted the refunding revenue bonds and the corresponding capital lease obligation in the consolidated balance sheet and estimates that the carrying value approximates the fair value for these bonds.

Non-Financial Instruments

Certain assets and liabilities are measured at fair value on a nonrecurring basis for purposes of initial recognition and impairment testing. The Company's non-financial assets and liabilities measured at fair value on a nonrecurring basis include property, plant and equipment, goodwill and other intangible assets. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

The valuation methods for goodwill and other intangible assets involve assumptions concerning comparable company multiples, discount rates, growth projections and other assumptions of future business conditions. The Company uses a weighted income and market approach for estimating the fair value of its reporting unit, when necessary. As the assumptions employed to measure these assets on a nonrecurring basis are based on management's judgment using internal and external data, these fair value determinations are classified in Level 3 of the Valuation Hierarchy.

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Amortized Costs and Fair Values – Available-for-Sale Investment Securities

The major classes of the Company's available-for-sale investment securities, for which unrealized gains and losses are recorded as a separate component of other comprehensive income on the consolidated statement of comprehensive income, and their respective amortized cost basis and fair values as of June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions)			
Municipal securities	\$507	\$6	\$(2)	) \$511
U.S. Government and Agency securities	528	—	—	528
Taxable short-term bond funds	—	—	—	—
Corporate securities	1,288	1	(2)	) 1,287
Asset-backed securities	345	—	—	345
Auction rate securities ¹	26	—	(3)	) 23
Other	71	—	—	71
Total	\$2,765	\$7	\$(7)	) \$2,765

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions)			
Municipal securities	\$522	\$9	\$—	\$531
U.S. Government and Agency securities	582	—	—	582
Taxable short-term bond funds	209	1	—	210
Corporate securities	1,245	2	(1)	) 1,246
Asset-backed securities	316	—	—	316
Auction rate securities ¹	35	—	(3)	) 32
Other	66	—	—	66
Total	\$2,975	\$12	\$(4)	) \$2,983

¹ The unrealized losses related to ARS have been in an unrealized loss position longer than 12 months, but have not been deemed other-than-temporarily impaired. The ARS are included in other assets on the consolidated balance sheet. See Note 4 (Prepaid Expenses and Other Assets).

The municipal securities are primarily comprised of tax-exempt bonds and are diversified across states and sectors. The U.S. government and agency securities are primarily invested in U.S. government treasury bills and bonds and U.S. government sponsored agency bonds and discount notes. Taxable short-term bond funds were primarily invested in U.S. government and sponsored agency securities, corporate bonds and mortgage-backed securities. Corporate securities are comprised of commercial paper and corporate bonds. The asset-backed securities are investments in bonds which are collateralized primarily by automobile loan receivables. The ARS are exempt from U.S. federal income tax and are fully collateralized by student loans with guarantees (ranging from approximately 95% to 98% of principal and interest) by the U.S. government via the Department of Education.

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Investment Maturities

The maturity distribution based on the contractual terms of the Company's investment securities at June 30, 2013 was as follows:

	Available-For-Sale Amortized Cost (in millions)	Fair Value
Due within 1 year	\$1,483	\$1,483
Due after 1 year through 5 years	1,201	1,204
Due after 5 years through 10 years	55	55
Due after 10 years	26	23
Total	\$2,765	\$2,765

All the securities due after ten years are ARS.

Investment Income

Investment income was \$11 million and \$9 million for the three months ended June 30, 2013 and 2012, respectively.

Investment income was \$19 million and \$18 million for the six months ended June 30, 2013 and 2012, respectively.

Investment income primarily consisted of interest income generated from cash, cash equivalents, investment securities available-for-sale and investment securities held-to-maturity. Dividend income and gross realized gains and losses were not significant.

Note 4. Prepaid Expenses and Other Assets

Prepaid expenses and other current assets consisted of the following:

	June 30, 2013 (in millions)	December 31, 2012
Customer and merchant incentives	\$252	\$222
Investment securities held-to-maturity	—	36
Prepaid income taxes	119	77
Income taxes receivable	3	163
Other	191	183
Total prepaid expenses and other current assets	\$565	\$681

Other assets consisted of the following:

	June 30, 2013 (in millions)	December 31, 2012
Customer and merchant incentives	\$415	\$404
Nonmarketable equity investments	242	249
Auction rate securities available-for-sale, at fair value	23	32
Income taxes receivable	74	72
Other	62	52
Total other assets	\$816	\$809

Certain customer and merchant business agreements provide incentives upon entering into the agreement. Customer and merchant incentives represent payments made or amounts to be paid to customers and merchants under business agreements. Amounts to be paid for these incentives and the related liability were included in accrued expenses and other liabilities. Once the payment is made, the liability is relieved. Costs directly related to entering into such an agreement are deferred and amortized over the life of the agreement.

Investments for which the equity method or historical cost method of accounting are used are recorded in other assets on the consolidated balance sheet. MasterCard's share of net earnings or losses of entities accounted for under the equity method of accounting is included in other income (expense) on the consolidated statement of operations. The Company accounts for nonmarketable equity investments under the historical cost method of accounting when those investments do not qualify for the

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

equity method of accounting. The decrease in investment securities held-to-maturity from December 31, 2012 to June 30, 2013 was due to contractual maturities during the period.

Note 5. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	June 30, 2013 (in millions)	December 31, 2012
Property, plant and equipment	\$890	\$858
Less accumulated depreciation and amortization	(419)	(386)
Property, plant and equipment, net	\$471	\$472

Note 6. Accrued Expenses

Accrued expenses consisted of the following:

	June 30, 2013 (in millions)	December 31, 2012
Customer and merchant incentives	\$1,036	\$1,058
Personnel costs	240	354
Advertising	83	122
Income and other taxes	146	94
Other	111	120
Total accrued expenses	\$1,616	\$1,748

As of June 30, 2013 and December 31, 2012, the Company's provision related to the U.S. merchant class litigation was \$724 million and \$726 million, respectively. These amounts are not included in the accrued expenses table above and are separately reported as accrued litigation on the consolidated balance sheet. The decrease in restricted cash for litigation settlement and accrued litigation for the U.S. merchant class litigation is due to net expenses paid by the fund related to administrative settlement activities. See Note 11 (Legal and Regulatory Proceedings) for further discussion of the U.S. merchant class litigation.

Note 7. Stockholders' Equity

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 (the "June 2012 Share Repurchase Program"). This program became effective in June 2012 at the completion of the Company's previously announced \$2 billion Class A share repurchase program (this \$2 billion repurchase program consisted of \$1 billion authorized in September 2010 and \$1 billion authorized in April 2011).

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

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

The following table summarizes the Company's share repurchase authorizations of its Class A common stock through June 30, 2013, as well as historical purchases:

	Authorization Dates			Total
	February 2013	June 2012	April 2011 ¹	
	(in millions, except average price data)			
Board authorization	\$2,000	\$1,500	\$2,000	\$5,500
Dollar value of shares repurchased during the six months ended June 30, 2012	**	\$66	\$852	\$918
Remaining authorization at December 31, 2012	**	\$604	\$—	\$604
Dollar value of shares repurchased during the six months ended June 30, 2013	\$743	\$604	\$—	\$1,347
Remaining authorization at June 30, 2013	\$1,257	\$—	\$—	\$1,257
Shares repurchased during the six months ended June 30, 2012	**	0.16	2.11	2.27
Average price paid per share during the six months ended June 30, 2012	**	\$419.61	\$403.53	\$404.65
Shares repurchased during the six months ended June 30, 2013	1.36	1.17	—	2.53
Average price paid per share during the six months ended June 30, 2013	\$545.51	\$517.16	\$—	\$532.41
Cumulative shares repurchased through June 30, 2013	1.36	3.11	6.54	11.01
Cumulative average price paid per share	\$545.51	\$481.58	\$305.60	\$384.97

** Not applicable

¹ The initial authorization in September 2010 for \$1 billion was amended in April 2011 to increase the authorization to \$2 billion.

As of July 25, 2013, the cumulative repurchases by the Company under the February 2013 Share Repurchase Program totaled approximately 1.7 million shares of its Class A common stock for an aggregate cost of approximately \$916 million at an average price of \$553.08 per share of Class A common stock.

Note 8. Accumulated Other Comprehensive Income

The changes in the balances of each component of accumulated other comprehensive income, net of tax, for the six months ended June 30, 2013 were as follows:

	Foreign Currency Translation Adjustments	Defined Benefit Pension and Other Postretirement Plans	Investment Securities Available-for-Sale	Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance at December 31, 2012	\$93	\$(37)	\$ 5	\$ 61
Current period other comprehensive income (loss)*	(71)	1	(6)	(76)
Balance at June 30, 2013	\$22	\$(36)	\$ (1)	\$(15)

*During the six months ended June 30, 2013, \$2 million of deferred costs related to the Company's Defined Benefit Pension Plan were reclassified from accumulated other comprehensive income to general and administrative expenses. In addition, \$1 million of net gains on available-for-sale investment securities were recognized in investment income

during the six months ended June 30, 2013. Tax amounts related to these items are insignificant.

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Note 9. Share-Based Payments

During the six months ended June 30, 2013, the Company granted the following awards under the MasterCard Incorporated 2006 Long Term Incentive Plan, as amended and restated (“LTIP”). The LTIP is a shareholder-approved omnibus plan that permits the grant of various types of equity awards to employees.

	Granted	Weighted-Average Grant-Date Fair Value
	(in thousands)	
Non-qualified stock options	183	\$123
Restricted stock units	150	\$515
Performance stock units	18	\$560

Stock options vest in four equal annual installments beginning one year after the date of grant, and have a term of ten years. The Company used the Black-Scholes option pricing model to estimate the grant date fair value of stock options. Beginning in 2013, the Company calculated the expected term and the expected volatility based on historical MasterCard information. As a result, the expected term of stock options granted in the first quarter of 2013 was five years, while the expected volatility was determined to be 27.1%.

Vesting of the shares underlying the restricted stock units and performance stock units will generally occur three years after the date of grant. The fair value of restricted stock units is determined and fixed on the grant date based on the Company's Class A common stock price, adjusted for the exclusion of dividend equivalents. The Monte Carlo simulation valuation model was used to determine the grant date fair value of performance stock units granted in the first quarter of 2013.

Compensation expense is recorded net of estimated forfeitures over the shorter of the vesting period or the date the individual becomes eligible to retire under the LTIP. The Company uses the straight-line method of attribution over the requisite service period for expensing equity awards.

Note 10. Income Taxes

The effective income tax rates were 31.2% and 28.0% for the three months ended June 30, 2013 and 2012, respectively. The effective income tax rates were 30.9% and 30.0% for the six months ended June 30, 2013 and 2012, respectively. While the Company did experience a more favorable mix of earnings for each of the three and six month periods ended June 30, 2013, the effective tax rate for each of these periods was higher than the comparable prior year period due primarily to the recognition of discrete benefits relating to additional export incentives and the conclusion of tax examinations in certain jurisdictions during the three months ended June 30, 2012.

The Company conducts operations in multiple countries and, as a result, is subjected to tax examinations in various jurisdictions, including the United States. Uncertain tax positions are reviewed on an ongoing basis and are adjusted after considering facts and circumstances, including progress of tax audits, developments in case law and closing of statute of limitations. The Company has effectively settled its U.S. federal income tax obligations through 2008. With limited exception, the Company is no longer subject to state and local or non-U.S. audits by taxing authorities for years through 2002. It is possible that the amount of unrecognized benefit with respect to the Company's uncertain tax positions may change within the next twelve months. An estimate of the range of the possible change cannot be made until the issues are further developed, the examinations close, or the statutes expire.

Note 11. Legal and Regulatory Proceedings

MasterCard is a party to legal and regulatory proceedings with respect to a variety of matters in the ordinary course of business. Some of these proceedings are based on complex claims involving substantial uncertainties and unascertainable damages. Accordingly, except as discussed below, it is not possible to determine the probability of loss or estimate damages. Further, except as discussed below, MasterCard has not established reserves for any of these proceedings. Except as identified below, MasterCard does not believe that the outcome of any existing legal or regulatory proceedings to which it is a party will have a material adverse effect on its results of operations, financial

condition or overall business. However, with respect to the matters discussed below, an adverse judgment or other outcome or settlement with respect to any such proceedings could result in fines or payments by MasterCard and/or could require MasterCard to change its business practices. In addition, an adverse outcome in a regulatory

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

proceeding could lead to the filing of civil damage claims and possibly result in damage awards in amounts that could be significant. Any of these events could have a material adverse effect on MasterCard's results of operations, financial condition and overall business.

Department of Justice Antitrust Litigation and Related Private Litigations

In October 1998, the U.S. Department of Justice ("DOJ") filed suit against MasterCard International, Visa U.S.A., Inc. and Visa International Corp. in the U.S. District Court for the Southern District of New York alleging that both MasterCard's and Visa's governance structure and policies violated U.S. federal antitrust laws. The DOJ challenged (1) "dual governance", where a financial institution has a representative on the Board of Directors of MasterCard or Visa while a portion of its card portfolio is issued under the brand of the other association, and (2) both MasterCard's Competitive Programs Policy ("CPP") and a Visa bylaw provision that prohibited financial institutions participating in the respective associations from issuing competing proprietary payment cards (such as American Express or Discover). In October 2001, the judge issued an opinion upholding the legality and pro-competitive nature of dual governance. However, the judge also held that MasterCard's CPP and the Visa bylaw constituted unlawful restraints of trade under the federal antitrust laws. The judge subsequently issued a final judgment that ordered MasterCard to repeal the CPP and enjoined MasterCard from enacting or enforcing any bylaw, rule, policy or practice that prohibits its issuers from issuing general purpose credit or debit cards in the United States on any other general purpose card network.

In April 2005, a complaint was filed in California state court on behalf of a putative class of consumers under California unfair competition law (Section 17200) and the Cartwright Act (the "Attridge action"). The claims in this action seek to piggyback on the portion of the DOJ antitrust litigation discussed above with regard to the District Court's findings concerning MasterCard's CPP and Visa's related bylaw. The Court granted the defendants' motion to dismiss the plaintiffs' Cartwright Act claims but denied the defendants' motion to dismiss the plaintiffs' Section 17200 unfair competition claims. The parties have proceeded with discovery. In September 2009, MasterCard executed a settlement agreement that is subject to court approval in the separate California consumer litigations (see "U.S. Merchant and Consumer Litigations"). The agreement includes a release that the parties believe encompasses the claims asserted in the Attridge action. In August 2010, the Court in the California consumer actions granted final approval to the settlement. The plaintiff from the Attridge action and three other objectors filed appeals of the settlement approval. In January 2012, the Appellate Court reversed the trial court's settlement approval and remanded the matter to the trial court for further proceedings. In August 2012, the parties in the California consumer actions filed a motion seeking approval of a revised settlement agreement. The trial court granted final approval of the settlement in April 2013, to which the objectors have appealed.

U.S. Merchant and Consumer Litigations

Commencing in October 1996, several class action suits were brought by a number of U.S. merchants against MasterCard International and Visa U.S.A., Inc. challenging certain aspects of the payment card industry under U.S. federal antitrust law. The plaintiffs claimed that MasterCard's "Honor All Cards" rule (and a similar Visa rule), which required merchants who accept MasterCard cards to accept for payment every validly presented MasterCard card, constituted an illegal tying arrangement in violation of Section 1 of the Sherman Act. In June 2003, MasterCard International signed a settlement agreement to settle the claims brought by the plaintiffs in this matter, which the Court approved in December 2003. Pursuant to the settlement, MasterCard agreed, among other things, to create two separate "Honor All Cards" rules in the United States - one for debit cards and one for credit cards.

In addition, individual or multiple complaints have been brought in 19 states and the District of Columbia alleging state unfair competition, consumer protection and common law claims against MasterCard International (and Visa) on behalf of putative classes of consumers. The claims in these actions largely mirror the allegations made in the U.S. merchant lawsuit and assert that merchants, faced with excessive interchange fees, have passed these overhead charges to consumers in the form of higher prices on goods and services sold. MasterCard has successfully resolved the cases in all of the jurisdictions except California, where there continues to be outstanding cases. As discussed

above under “Department of Justice Antitrust Litigation and Related Private Litigations,” in September 2009, the parties to the California state court actions executed a settlement agreement which required a payment by MasterCard of \$6 million, subject to approval by the California state court. In August 2010, the court granted final approval of the settlement, subsequent to which MasterCard made the payment required by the settlement agreement. The plaintiff from the Attridge action described above under “Department of Justice Antitrust Litigation and Related Private Litigations” and three other objectors filed appeals of the settlement approval order. In January 2012, the Appellate Court reversed the trial court's settlement approval and remanded the matter to the trial court for further proceedings. As noted above, in August 2012, the parties in the California consumer actions filed a motion seeking approval of a revised settlement agreement. The trial court granted final approval of the settlement in April 2013, to which the objectors have appealed.

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

ATM Non-Discrimination Rule Surcharge Complaints

In October 2011, a trade association of independent Automated Teller Machine (“ATM”) operators and 13 independent ATM operators filed a complaint styled as a class action lawsuit in the U.S. District Court for the District of Columbia against both MasterCard and Visa (the “ATM Operators Complaint”). Plaintiffs seek to represent a class of non-bank operators of ATM terminals that operate ATM terminals in the United States with the discretion to determine the price of the ATM access fee for the terminals they operate. Plaintiffs allege that MasterCard and Visa have violated Section 1 of the Sherman Act by imposing rules that require ATM operators to charge non-discriminatory ATM surcharges for transactions processed over MasterCard's and Visa's respective networks that are not greater than the surcharge charged for transactions over other networks accepted at the same ATM. Plaintiffs seek both injunctive and monetary relief equal to treble the damages they claim to have sustained as a result of the alleged violations and their costs of suit, including attorneys' fees. Plaintiffs have not quantified their damages although they allege that they expect damages to be in the tens of millions of dollars.

Subsequently, multiple related complaints were filed in the U.S. District Court for the District of Columbia alleging both federal antitrust and multiple state unfair competition, consumer protection and common law claims against MasterCard and Visa on behalf of putative classes of users of ATM services (the “ATM Consumer Complaints”). The claims in these actions largely mirror the allegations made in the ATM Operators Complaint described above, although these complaints seek damages on behalf of consumers of ATM services who pay allegedly inflated ATM fees at both bank and non-bank ATM operators as a result of the defendants' ATM rules. Plaintiffs seek both injunctive and monetary relief equal to treble the damages they claim to have sustained as a result of the alleged violations and their costs of suit, including attorneys' fees. Plaintiffs have not quantified their damages although they allege that they expect damages to be in the tens of millions of dollars.

In January 2012, the plaintiffs in the ATM Operators Complaint and the ATM Consumer Complaints filed amended class action complaints that largely mirror their prior complaints. MasterCard moved to dismiss the complaints for failure to state a claim. In February 2013, the district court granted MasterCard's motion to dismiss the complaints and the plaintiffs have since filed a motion seeking approval to amend their complaints.

Interchange Litigation and Regulatory Proceedings

Interchange fees represent a sharing of payment system costs among the financial institutions participating in a four-party payment card system such as MasterCard's. Typically, interchange fees are paid by the acquirer to the issuer in connection with purchase transactions initiated with the payment system's cards. These fees reimburse the issuer for a portion of the costs incurred by it in providing services which are of benefit to all participants in the system, including acquirers and merchants. MasterCard or its customer financial institutions establish default interchange fees in certain circumstances that apply when there is no other interchange fee arrangement between the issuer and the acquirer. MasterCard establishes a variety of interchange rates depending on such considerations as the location and the type of transaction, and collects the interchange fee on behalf of the institutions entitled to receive it and remits the interchange fee to eligible institutions. MasterCard's interchange fees and other practices are subject to regulatory and/or legal review and/or challenges in a number of jurisdictions, including the proceedings described below. At this time, it is not possible to determine the ultimate resolution of, or estimate the liability related to, any of these interchange proceedings (except as otherwise indicated below), as the proceedings involve complex claims and/or substantial uncertainties and, in some cases, could include unascertainable damages or fines. Except as described below, no provision for losses has been provided in connection with them. Some of the proceedings described below could have a significant impact on our customers in the applicable country and on MasterCard's level of business in those countries. The proceedings reflect the significant and intense legal, regulatory and legislative scrutiny worldwide that interchange fees and acceptance practices have been receiving. When taken as a whole, the resulting decisions, regulations and legislation with respect to interchange fees and acceptance practices may have a material adverse effect on the Company's prospects for future growth and its overall results of operations, financial position and cash flows.

United States. In June 2005, the first of a series of complaints were filed on behalf of merchants (the majority of the complaints are styled as class actions, although a few complaints are filed on behalf of individual merchant plaintiffs) against MasterCard International Incorporated, Visa U.S.A., Inc., Visa International Service Association and a number of customer financial institutions. Taken together, the claims in the complaints are generally brought under both Sections 1 and 2 of the Sherman Act, which prohibit monopolization and attempts or conspiracies to monopolize a particular industry, and some of these complaints contain unfair competition law claims under state law. The complaints allege, among other things, that MasterCard, Visa, and certain of their customer financial institutions conspired to set the price of interchange fees, enacted point of sale acceptance rules (including the no surcharge rule) in violation of antitrust laws and engaged in unlawful tying and bundling of certain products and services. The cases have been consolidated for pre-trial proceedings in the U.S. District Court for the Eastern District of New York in MDL No.

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

1720. The plaintiffs have filed a consolidated class action complaint that seeks treble damages, as well as attorneys' fees and injunctive relief.

In July 2006, the group of purported merchant class plaintiffs filed a supplemental complaint alleging that MasterCard's initial public offering of its Class A Common Stock in May 2006 (the "IPO") and certain purported agreements entered into between MasterCard and its customer financial institutions in connection with the IPO: (1) violate U.S. antitrust laws and (2) constitute a fraudulent conveyance because the customer financial institutions are allegedly attempting to release, without adequate consideration, MasterCard's right to assess them for MasterCard's litigation liabilities. In November 2008, the district court granted MasterCard's motion to dismiss the plaintiffs' supplemental complaint in its entirety with leave to file an amended complaint. The class plaintiffs replied their complaint. The causes of action and claims for relief in the complaint generally mirror those in the plaintiffs' original IPO-related complaint although the plaintiffs have attempted to expand their factual allegations based upon discovery that has been garnered in the case. The class plaintiffs seek treble damages and injunctive relief including, but not limited to, an order reversing and unwinding the IPO. In July 2009, the class plaintiffs and individual plaintiffs served confidential expert reports detailing the plaintiffs' theories of liability and alleging damages in the tens of billions of dollars. The defendants served their expert reports in December 2009 rebutting the plaintiffs' assertions both with respect to liability and damages.

In February 2011, MasterCard and MasterCard International Incorporated entered into each of: (1) an omnibus judgment sharing and settlement sharing agreement with Visa Inc., Visa U.S.A. Inc. and Visa International Service Association and a number of customer financial institutions; and (2) a MasterCard settlement and judgment sharing agreement with a number of customer financial institutions. The agreements provide for the apportionment of certain costs and liabilities which MasterCard, the Visa parties and the customer financial institutions may incur, jointly and/or severally, in the event of an adverse judgment or settlement of one or all of the cases in the merchant litigations. Among a number of scenarios addressed by the agreements, in the event of a global settlement involving the Visa parties, the customer financial institutions and MasterCard, MasterCard would pay 12% of the monetary portion of the settlement. In the event of a settlement involving only MasterCard and the customer financial institutions with respect to their issuance of MasterCard cards, MasterCard would pay 36% of the monetary portion of such settlement.

In October 2012, the parties entered into a definitive settlement agreement with respect to the merchant class litigation and separately also entered into a settlement agreement with the individual merchant plaintiffs (the terms of which were consistent with a memorandum of understanding that was executed by the parties in July 2012). The settlements included cash payments that were apportioned among the defendants pursuant to the omnibus judgment sharing and settlement sharing agreement described above. MasterCard also agreed to provide class members with a short-term reduction in default credit interchange rates and to modify certain of its business practices, including its No Surcharge Rule. The merchant class litigation settlement agreement is subject to court approval. The court granted preliminary approval of the settlement in November 2012 and scheduled a final approval hearing for September 2013. Rule practice changes required by the settlement were implemented in late January 2013.

Pursuant to the terms of the class settlement agreement described above, the final day for merchants to have opted out of the settlement was May 28, 2013. Based upon a report filed by the class administrator with the court, approximately 8,000 merchants opted out from the settlement class, representing slightly more than 25% of the MasterCard and Visa purchase volume over the relevant period as calculated by MasterCard and Visa. The defendants had the right to terminate the settlement agreement because this volume threshold was reached, but elected not to do so. MasterCard anticipates that most of the larger merchants who opted out of the settlement will initiate separate actions seeking to recover damages, and a number of merchants have already initiated such actions. Those cases are in the early stages and the defendants are seeking to consolidate the matters in front of the same court that is overseeing the approval of the settlement. In addition, certain competitors have raised objections to the settlement, including Discover. Discover's objections include a challenge to the settlement on the grounds that certain of the rule changes agreed to in the

settlement constitute a restraint of trade in violation of Section 1 of the Sherman Act. The defendants will file responses to all objections to the settlement in August 2013.

MasterCard recorded a pre-tax charge of \$770 million in the fourth quarter of 2011 and an additional \$20 million pre-tax charge in the second quarter of 2012 relating to the settlement agreements described above. In 2012, MasterCard paid \$790 million with respect to the settlements, of which \$726 million was paid into a qualified cash settlement fund related to the merchant class litigation. The class settlement agreement provides for a return to the defendants of up to 25% of the total class cash settlement fund, based upon the percentage of class purchase volume represented by the opt out merchants (the "takedown payment"). As a result, if the settlement receives final court approval, MasterCard anticipates that it would receive back approximately \$165 million from the cash settlement fund (procedurally, the accuracy of the takedown payment calculation is subject to review by the class). The cash received would result in a reclassification from "restricted cash for litigation settlement" to "cash and cash equivalents". As of June 30, 2013, MasterCard recognized its estimated reserve for the merchant class litigation as "accrued litigation", including the portion of the reserve related to merchants who opted out of the settlement. MasterCard will continue to assess this reserve and adjust as appropriate.

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

In the event that the merchant class litigation settlement agreement is not approved by the court, or if the class settlement agreement is otherwise terminated by the defendants pursuant to the conditions in the settlement agreement and the litigations are not settled, a negative outcome in the litigation could have a material adverse effect on MasterCard's results of operations, financial position and cash flows.

Canada. In December 2010, the Canadian Competition Bureau (the “CCB”) filed an application with the Canadian Competition Tribunal to strike down certain MasterCard rules related to point-of-sale acceptance, including the “honor all cards” and “no surcharge” rules. On July 23, 2013, the Competition Tribunal issued a decision in MasterCard's favor and dismissed the CCB's application. The CCB has the right to appeal the decision. In December 2010, a complaint styled as a class action lawsuit was commenced against MasterCard in Quebec on behalf of Canadian merchants. That suit essentially repeated the allegations and arguments of the CCB application to the Canadian Competition Tribunal and sought compensatory and punitive damages in unspecified amounts, as well as injunctive relief. In March 2011, a second purported class action lawsuit was commenced in British Columbia against MasterCard, Visa and a number of large Canadian financial institutions, and in May 2011 a third purported class action lawsuit was commenced in Ontario against the same defendants. These suits allege that MasterCard, Visa and the financial institutions have engaged in a conspiracy to increase or maintain the fees paid by merchants on credit card transactions and establish rules which force merchants to accept all MasterCard and Visa credit cards and prevent merchants from charging more for payments with MasterCard and Visa premium cards. The British Columbia suit seeks compensatory damages in unspecified amounts, and the Ontario suit seeks compensatory damages of \$5 billion. The British Columbia and Ontario suits also seek punitive damages in unspecified amounts, as well as injunctive relief, interest and legal costs. In April 2012, the Quebec suit was amended to include the same defendants and similar claims as in the British Columbia and Ontario suits. With respect to the status of the proceedings: (1) the Quebec suit has been stayed, (2) the Ontario suit is being temporarily suspended while the British Columbia suit proceeds, and (3) the British Columbia court held a class certification hearing in April 2013. Additional complaints styled as class actions have been filed in Saskatchewan and Alberta. The claims in these complaints largely mirror the claims in the British Columbia and Ontario suits. If the CCB's challenge and/or the class action law suits are ultimately successful, negative decisions could have a significant adverse impact on the revenue of MasterCard's Canadian customers and on MasterCard's overall business in Canada and, in the case of the private lawsuits, could result in substantial damage awards.

European Union. In September 2003, the European Commission issued a Statement of Objections challenging MasterCard Europe's cross-border default interchange fees and, in June 2006, it issued a supplemental Statement of Objections covering credit, debit and commercial card fees. In December 2007, the European Commission announced a decision that applies to MasterCard's default cross-border interchange fees for MasterCard and Maestro branded consumer payment card transactions in the European Economic Area (“EEA”) (the European Commission refers to these as “MasterCard's MIF”), but not to commercial card transactions (the European Commission stated publicly that it has not yet finished its investigation of commercial card interchange fees). The decision required MasterCard to stop applying the MasterCard MIF, to refrain from repeating the conduct, and not apply its then recently adopted (but never implemented) Maestro SEPA and Intra-Eurozone default interchange fees to debit card payment transactions within the Eurozone. The decision did not impose a fine on MasterCard, but provides for a daily penalty of up to 3.5% of MasterCard's daily consolidated global turnover in the preceding business year (which MasterCard estimates to be approximately \$0.8 million per day) in the event that MasterCard fails to comply. To date, MasterCard has not been assessed any such penalty. In March 2008, MasterCard filed an application for annulment of the European Commission's decision with the General Court of the European Union.

Following discussions with the European Commission, MasterCard announced that, effective June 21, 2008, MasterCard would temporarily repeal its then current default intra-EEA cross-border consumer card interchange fees in conformity with the decision. In October 2008, MasterCard received an information request from the European Commission in connection with the decision concerning certain pricing changes that MasterCard implemented as of October 1, 2008. In March 2009, MasterCard gave certain undertakings to the European Commission and, in response,

in April 2009, the Commissioner for competition policy and DG Competition informed MasterCard that, subject to MasterCard's fulfilling its undertakings, they do not intend to pursue proceedings for non-compliance with or circumvention of the December 2007 decision or for infringing the antitrust laws in relation to the October 2008 pricing changes, the introduction of new cross-border consumer default interchange fees or any of the other MasterCard undertakings. MasterCard's undertakings include: (1) repealing the October 2008 pricing changes; (2) adopting a specific methodology for the setting of cross-border consumer default interchange fees; (3) establishing new default cross-border consumer card interchange fees as of July 1, 2009 such that the weighted average interchange fee for credit card transactions does not exceed 30 basis points and for debit card transactions does not exceed 20 basis points; (4) introducing a new rule prohibiting its acquirers from requiring merchants to process all of their MasterCard and Maestro transactions with the acquirer; and (5) introducing a new rule requiring its acquirers to provide merchants with certain pricing information in connection with MasterCard and Maestro transactions. The undertakings were effective until the European Union General Court issued a judgment in May 2012.

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

In May 2012, the General Court of the European Union issued a judgment dismissing the Company's appeal and upholding the European Commission's decision. The Company appealed the judgment to the European Union Court of Justice in August 2012, which heard oral argument on MasterCard's application for annulment in July 2013. The Advocate General to the General Court stated that he would issue his advisory opinion in November 2013, and MasterCard anticipates that the General Court would issue its opinion sometime in 2014. Subject to ongoing discussion with the European Commission, MasterCard intends to continue to comply with the terms of the interim agreement with the European Commission, even though that agreement, by its terms, formally ended on the day of the judgment.

Although MasterCard believes that any other business practices it would implement in response to the decision would be in compliance with the December 2007 decision, the European Commission may deem any such practice not in compliance with the decision, or in violation of European competition law, in which case MasterCard may be assessed fines for the period that it is not in compliance. Furthermore, because a balancing mechanism like default cross-border interchange fees constitutes an essential element of MasterCard Europe's operations, the December 2007 decision could also significantly impact MasterCard International's European customers' and MasterCard Europe's business. The European Commission decision could also lead to additional competition authorities in European Union member states commencing investigations or proceedings regarding domestic interchange fees or initiating regulation. The possibility of such actions has increased due to the judgment of the General Court. The judgment also increases the possibility of an adverse outcome for the Company in related and pending matters (such as the interchange proceedings in Hungary, Italy and Poland, as further described below). In addition, the European Commission's decision could lead, and in the case of the United Kingdom and Belgium has led, to the filing of private actions against MasterCard Europe by merchants and/or consumers which, if MasterCard is unsuccessful in its appeal of the General Court decision, could result in MasterCard owing substantial damages.

In April 2013, the European Commission announced that it has opened proceedings to investigate: (1) MasterCard's interregional interchange fees that apply when a card outside the EEA is used at a merchant location in the EEA, (2) central acquiring rules, which apply when a merchant uses the services of an acquirer established in another country and (3) other business rules and practices (including the "honor all cards" rule).

Additional Litigations in Europe. In the United Kingdom, since May 2012, a number of retailers have filed claims against MasterCard for unspecified damages with respect to MasterCard's cross-border and U.K. and Ireland domestic interchange fees. In June 2013, the court denied MasterCard's request to stay the proceedings pending the result of MasterCard's appeal of the European Union General Court's judgment discussed above, but the court indicated it would not issue a final decision until the Court of Justice issues its decision. In Belgium, a retailer filed claims in December 2012 for unspecified damages with respect to MasterCard's cross-border and domestic interchange fees paid in Belgium, Greece and Luxembourg.

Additional Interchange Proceedings. Regulatory authorities in a number of other jurisdictions around the world have commenced competition-related proceedings or inquiries into interchange fees and acceptance practices. These matters include:

France. In 2009, the French Competition Authority (the "FCA") sent an information request to MasterCard as part of an investigation concerning its domestic interchange rates. The investigation was initially suspended until the judgment of the General Court of the European Union with respect to MasterCard's appeal of the December 2007 cross-border interchange fee decision of the European Commission. In January 2013, the investigation was re-opened and the FCA informed MasterCard that it intends to commence a formal proceeding and issue a statement of objections unless MasterCard offers commitments to reduce its interchange fees. Subsequently, MasterCard made a commitments offer to the FCA and is currently in discussions with the FCA to finalize these commitments.

Hungary. In December 2009, the Hungarian Competition Authority (the "HCA") issued a formal decision that MasterCard's (and Visa's) historic domestic interchange fees violated Hungarian competition law and fined each of MasterCard Europe and Visa Europe approximately \$3 million, which was paid during the fourth quarter of 2009.

MasterCard appealed the decision to the Hungarian courts, which has stayed the proceeding until the completion of MasterCard's appeal to the European Union Court of Justice. If the HCA's decision is not reversed on appeal, it could have a significant adverse impact on the revenue of MasterCard's Hungarian customers and on MasterCard's overall business in Hungary. In June 2012, the HCA commenced a separate investigation of MasterCard's alleged abuse of dominant position in what it refers to as the domestic bankcard market during the period beginning in December 2010.

Italy. In November 2010, the Italian Competition Authority (the "ICA") adopted a decision in which it determined that MasterCard Europe's domestic interchange fees violate European Union competition law, fined MasterCard 2.7 million euro (approximately \$4 million) and ordered MasterCard to refrain in the future from maintaining interchange fees that are not based on economic justifications linked to efficiency criteria and to eliminate any anticompetitive clauses from

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

its licensing agreements. MasterCard appealed the ICA's infringement decision to the Administrative Court, and the decision was annulled by the Administrative Court in July 2011. The ICA has appealed the Administrative Court's judgment to the Council of State. If the ICA's infringement decision ultimately stands, it could have a significant adverse impact on the revenue of MasterCard's Italian customers and on MasterCard's overall business in Italy.

Poland. In January 2007, the Polish Office for Protection of Competition and Consumers (the "PCA") issued a decision that MasterCard's (and Visa Europe's) domestic credit and debit default interchange fees are unlawful under Polish competition law, and imposed fines on MasterCard's (and Visa Europe's) licensed financial institutions, the entities responsible for setting the fees. As part of this decision, the PCA decided that MasterCard (and Visa Europe) had not violated the law because they were not responsible for setting the fees. The decision is currently being appealed. If on appeal the PCA's decision is ultimately allowed to stand, it could have a significant adverse impact on the revenue of MasterCard's Polish customers and on MasterCard's overall business in Poland.

United Kingdom. In February 2007, the Office for Fair Trading of the United Kingdom (the "OFT") commenced an investigation of MasterCard's current U.K. default credit card interchange fees and so-called "immediate debit" cards to determine whether such fees contravene U.K. and European Union competition law. The OFT had informed MasterCard that it did not intend to issue a Statement of Objections or otherwise commence formal proceedings with respect to the investigation prior to the judgment of the General Court of the European Union with respect to MasterCard's appeal of the December 2007 cross-border interchange fee decision of the European Commission, and this period was extended until the completion of MasterCard's appeal to the Court of Justice. If the OFT ultimately determines that any of MasterCard's U.K. interchange fees contravene U.K. and European Union competition law, it may issue a new decision and possibly levy fines accruing from the date of its first decision. Such a decision could lead to the filing of private actions against MasterCard by merchants and/or consumers which could result in an award or awards of substantial damages and could have a significant adverse impact on the revenue of MasterCard International's U.K. customers and MasterCard's overall business in the U.K.

Regulatory authorities and/or central banks in certain other jurisdictions, including Brazil, Chile, Denmark, Germany, Latvia, Portugal, Russia, Singapore and South Africa, are reviewing MasterCard's and/or its customers' interchange fees and/or other practices and may seek to commence proceedings related to, or otherwise regulate, the establishment of such fees and/or such practices.

Other Regulatory Proceedings

In addition to challenges to interchange fees, MasterCard's other standards and operations are also subject to regulatory and/or legal review and/or challenges in a number of jurisdictions from time to time. These proceedings tend to reflect the increasing global regulatory focus to which the payments industry is subject and, when taken as a whole with other regulatory and legislative action, such actions could result in the imposition of costly new compliance burdens on MasterCard and its customers and may lead to increased costs and decreased transaction volumes and revenue.

Note 12. Settlement and Other Risk Management

MasterCard's rules guarantee the settlement of many of the MasterCard, Cirrus and Maestro branded transactions between its issuers and acquirers ("settlement risk"). Settlement exposure is the outstanding settlement risk to customers under MasterCard's rules due to the difference in timing between the payment transaction date and subsequent settlement. While the term and amount of the guarantee are unlimited, the duration of settlement exposure is short term and typically limited to a few days. Settlement exposure is primarily estimated using the average daily card volume during the quarter multiplied by the estimated number of days to settle. The Company has global risk management policies and procedures, which include risk standards, to provide a framework for managing the Company's settlement risk. Customer-reported transaction data and the transaction clearing data underlying the settlement exposure calculation may be revised in subsequent reporting periods.

In the event that MasterCard effects a payment on behalf of a failed customer, MasterCard may seek an assignment of the underlying receivables of the failed customer. Subject to approval by the Board of Directors, customers may be

charged for the amount of any settlement loss incurred during these ordinary course activities of the Company. The Company's global risk management policies and procedures are aimed at managing the settlement exposure. These risk management procedures include interaction with the bank regulators of countries in which it operates, requiring customers to make adjustments to settlement processes, and requiring collateral from customers. MasterCard requires certain customers that are not in compliance with the Company's risk standards in effect at the time of review to post collateral, typically in the form of cash,

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

letters of credit, or guarantees. This requirement is based on management's review of the individual risk circumstances for each customer that is out of compliance. In addition to these amounts, MasterCard holds collateral to cover variability and future growth in customer programs. The Company may also hold collateral to pay merchants in the event of merchant bank/acquirer failure. Although the Company is not contractually obligated under its rules to effect such payments to merchants, the Company may elect to do so to protect brand integrity. MasterCard monitors its credit risk portfolio on a regular basis and the adequacy of collateral on hand. Additionally, from time to time, the Company reviews its risk management methodology and standards. As such, the amounts of estimated settlement exposure are revised as necessary.

The Company's estimated settlement exposure from MasterCard, Cirrus and Maestro branded transactions was as follows:

	June 30, 2013 (in millions)	December 31, 2012
Gross settlement exposure	\$38,897	\$37,768
Collateral held for settlement exposure	(4,386)	(3,775)
Net uncollateralized settlement exposure	\$34,511	\$33,993

MasterCard-branded travelers cheques are no longer being issued. For previously issued travelers cheques, MasterCard guarantees the payment of MasterCard-branded travelers cheques in the event of issuer default. The term of the guarantee is unlimited, while the exposure is limited to the cheques issued but not yet cashed. The notional amount of cheques issued, but not yet cashed was \$515 million and \$539 million at June 30, 2013 and December 31, 2012, respectively, of which \$412 million and \$434 million at June 30, 2013 and December 31, 2012, respectively, is mitigated by collateral arrangements.

General economic and political conditions in countries in which MasterCard operates affect the Company's settlement risk. Many of the Company's financial institution customers have been directly and adversely impacted by political instability and uncertain economic conditions. These conditions present increased risk that the Company may have to perform under its settlement guarantee. This risk could increase if political, economic and financial market conditions deteriorate further. The Company's global risk management policies and procedures are revised and enhanced from time to time. Historically, the Company has experienced a low level of losses from customer financial institution failures.

MasterCard also provides guarantees to customers and certain other companies indemnifying them from losses stemming from failures of third parties to perform duties. In addition, the Company enters into business agreements in the ordinary course of business under which the Company agrees to indemnify third parties against damages, losses and expenses incurred in connection with legal and other proceedings arising from relationships or transactions with the Company. Certain indemnifications do not provide a stated maximum exposure. As the extent of the Company's obligations under these agreements depends entirely upon the occurrence of future events, the Company's potential future liability under these agreements is not determinable. Historically, payments made by the Company under these types of contractual arrangements have not been material.

Note 13. Foreign Exchange Risk Management

The Company enters into foreign currency forward contracts to manage risk associated with anticipated receipts and disbursements which are either transacted in a non-functional currency or valued based on a currency other than its functional currency. The Company also enters into foreign currency forward contracts to offset possible changes in value due to foreign exchange fluctuations of assets and liabilities denominated in currencies other than the functional currency of the entity holding the assets and liabilities. The objective of these activities is to reduce the Company's exposure to gains and losses resulting from fluctuations of foreign currencies against its functional currencies. The notional value of commitments to sell foreign currency was \$1.8 billion and \$1.6 billion at June 30, 2013 and December 31, 2012, respectively.

The Company does not designate foreign currency derivatives as hedging instruments pursuant to the accounting guidance for derivative instruments and hedging activities. The Company records the change in the estimated fair value of the outstanding derivatives at the end of the reporting period to its consolidated balance sheet and consolidated statement of operations.

Table of Contents

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

As of June 30, 2013, all forward contracts to purchase and sell foreign currency had been entered into with customers of MasterCard. MasterCard's derivative contracts are summarized below:

	June 30, 2013		December 31, 2012	
	Notional	Estimated Fair Value	Notional	Estimated Fair Value
	(in millions)			
Commitments to purchase foreign currency	\$74	\$ 1	\$76	\$ (1)
Commitments to sell foreign currency	1,781	5	1,571	(2)
Balance Sheet Location:				
Accounts Receivable*		\$ 22		\$ 12
Other Current Liabilities*		(16)		(15)

* The fair values of derivative contracts are presented on a gross basis on the balance sheet and are subject to enforceable master netting arrangements, which contain various netting and setoff provisions.

The amount of gain (loss) recognized in income for the contracts to purchase and sell foreign currency are summarized below:

	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
	(in millions)			
Foreign currency derivative contracts				
General and administrative	\$35	\$(4)	\$12	\$(10)
Net revenue	(1)	1	(1)	(3)
Total	\$34	\$(3)	\$11	\$(13)

The fair value of the foreign currency forward contracts generally reflects the estimated amounts that the Company would receive (or pay), on a pre-tax basis, to terminate the contracts at the reporting date based on broker quotes for the same or similar instruments. The terms of the foreign currency forward contracts are generally less than 18 months. The Company had no deferred gains or losses related to foreign exchange in accumulated other comprehensive income as of June 30, 2013 and December 31, 2012 as there were no derivative contracts accounted for under hedge accounting.

The Company's derivative financial instruments are subject to both market and counterparty credit risk. Market risk is the risk of loss due to the potential change in an instrument's value caused by fluctuations in interest rates and other variables related to currency exchange rates. The effect of a hypothetical 10% adverse change in foreign currency rates could result in a fair value loss of approximately \$189 million on the Company's foreign currency derivative contracts outstanding at June 30, 2013 related to the hedging program. Counterparty credit risk is the risk of loss due to failure of the counterparty to perform its obligations in accordance with contractual terms. To mitigate counterparty credit risk, the Company enters into derivative contracts with selected financial institutions based upon their credit ratings and other factors. Generally, the Company does not obtain collateral related to derivatives because of the high credit ratings of the counterparties.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis supplements management's discussion and analysis of MasterCard Incorporated for the year ended December 31, 2012 as contained in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission on February 14, 2013. It also should be read in conjunction with the consolidated financial statements and notes of MasterCard Incorporated and its consolidated subsidiaries, including MasterCard International Incorporated, included elsewhere in this Report. Certain prior period amounts have been reclassified to conform to the 2013 presentation. 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.

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. We make payments more convenient, secure and efficient by creating solutions that meet the needs of all of our stakeholders, and thereby drive preference for electronic payments. We offer a wide range of payment solutions that enable the development and implementation of credit, debit, prepaid, commercial and related payment programs and solutions for consumers and merchants. Our customers encompass a vast array of entities, including financial institutions and other entities that act as "issuers" and "acquirers", merchants, governments, telecommunications companies and other businesses. We manage a family of well-known, widely-accepted payment brands, including MasterCard, Maestro and Cirrus, which our customers use in their payment programs and solutions. We process payment transactions over the MasterCard Worldwide Network and provide support services to our customers and others. We establish and enforce a common set of standards for adherence by our customers for the efficient and secure use of our payments network.

We generate revenue from the fees that we charge our customers for providing transaction processing and other payment-related services and by assessing our customers based primarily on the dollar volume of activity on the cards and other devices that carry our brands. Changes in cardholder spending behavior, influenced by economic conditions, impact our ability to grow our revenue. Our revenue depends heavily upon the overall level of consumer, business and government spending. While cardholder and merchant relationships are generally managed by our customers, we work with merchants to help provide value to them and benefits to consumers. We do not issue cards, extend credit to cardholders, determine the interest rates (if applicable) or other fees charged to cardholders by issuers, or establish the "merchant discount" rate charged by acquirers in connection with the acceptance of cards that carry our brands.

Our ability to grow is based on three drivers:

- personal consumption expenditure growth;
- the trend within the global payments industry from paper-based forms of payment, such as cash and checks, toward electronic forms of payment (such as those made via payment cards and other devices); and
- our share in electronic payments through innovative solutions and new technology.

We support our focus on these drivers by continuing to:

- grow our core businesses globally, including credit, debit, prepaid and commercial programs and solutions, as well as the processing of payment transactions over the MasterCard Worldwide Network;
- diversify our business by seeking new areas of growth in markets around the world, expanding points of acceptance globally, seeking to maintain unsurpassed acceptance, and deepening existing relationships or entering into new relationships with payments industry participants, such as merchants, governments and telecommunications companies; and
- build new businesses through technology and continued strategic efforts and alliances focused on innovative payment methods like electronic commerce (e-Commerce) and mobile capabilities.

See "-Business Environment" for a discussion of considerations related to our long-term strategic objectives.

We recorded net income of \$848 million, or \$6.96 per diluted share, and \$1.6 billion, or \$13.19 per diluted share, for the three and six months ended June 30, 2013, respectively, versus net income of \$700 million, or \$5.55 per diluted share, and \$1.4 billion, or \$10.91 per diluted share, for the three and six months ended June 30, 2012, respectively.

Table of Contents

Our net revenue increased 15% and 12% for the three and six months ended June 30, 2013, respectively, versus the comparable periods in 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. For the three and six months ended June 30, 2013, both volume-based revenue (domestic assessments and cross-border volume fees) and transaction-based revenue (transaction processing fees) increased from the comparable period in 2012 by 11%. For the three and six months ended June 30, 2013, our processed transactions increased 11% and 12%, respectively, versus the comparable periods in 2012. Our volumes increased 13% for each of the three and six month periods ended June 30, 2013, on a local currency basis, versus the comparable periods in 2012. This compares to increased processed transactions of 29% for each of the three and six month periods ended June 30, 2012 versus the comparable periods in 2011. Volumes increased 15% and 17% on a local currency basis for the three and six months ended June 30, 2012, respectively, versus the comparable periods in 2011. Rebates and incentives as a percentage of gross revenue were 24% and 25% for the three and six months ended June 30, 2013, versus 26% and 25%, respectively, for the comparable periods in 2012.

Operating expenses increased 2% and 4% for the three and six months ended June 30, 2013 versus the comparable periods in 2012, primarily due to higher general and administrative expenses. We generated net cash flows from operations of \$1.6 billion for the six months ended June 30, 2013, compared to \$1.1 billion for the comparable period in 2012.

The following table provides a summary of our operating results for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Percent Increase (Decrease)	Six Months Ended June 30,		Percent Increase (Decrease)
	2013	2012		2013	2012	
	(in millions, except per share data and percentages)					
Net revenue	\$2,096	\$1,820	15%	\$4,002	\$3,578	12%
Operating expenses	868	846	2%	1,667	1,604	4%
Operating income	1,228	974	26%	2,335	1,974	18%
Operating margin	58.6	% 53.5	% **	58.4	% 55.2	% **
Income tax expense	385	273	41%	721	591	22%
Effective income tax rate	31.2	% 28.0	% **	30.9	% 30.0	% **
Net income	\$848	\$700	21%	\$1,614	\$1,382	17%
Diluted earnings per share	\$6.96	\$5.55	25%	\$13.19	\$10.91	21%
Diluted weighted-average shares outstanding	122	126	(4)%	122	127	(3)%

** 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 41% and 40% of total revenue for the three months ended June 30, 2013 and 2012, respectively, and 40% of total revenue for each of the six month periods ended June 30, 2013 and 2012. No individual country, other than the United States, generated more than 10% of total revenue in any such period, but differences in market growth, economic health and foreign exchange fluctuations in certain countries can have an impact on the proportion of revenue generated outside the United States over time. While the global nature of our business helps protect our operating results from adverse economic conditions in a single or a few countries, the significant concentration of our revenue generated in the United States makes our business particularly susceptible to adverse

economic conditions in the United States.

The competitive and evolving nature of the global payments industry provides both challenges to and opportunities for the continued growth of our business. Unprecedented economic events which began during 2008 impacted the financial markets around the world, including continued distress in the credit environment, continued equity market volatility and additional government intervention. 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

Table of Contents

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 further discussion see, "Risk Factors - Business Risks" in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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. See Note 11 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1 and our risk factors in "Risk Factors - Legal and Regulatory Risks" in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2012 for further discussion. 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2012 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 the three and six months ended June 30, 2013, as compared to the same period in 2012, the U.S. dollar strengthened against the Brazilian real but weakened against the euro. The net foreign currency impact of changes in the U.S. dollar average exchange rates against the euro and Brazilian real reduced net revenue by less than 1 percentage point for the three months ended June 30, 2013 and increased net revenue by less than 1 percentage point for the six months ended June 30, 2013. Operating expenses were impacted by less than 1 percentage point for each of the three and six months ended June 30, 2013.

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. For the three and six months ended June 30, 2013, as compared to the same periods in 2012, GDV on a U.S. dollar converted basis increased 13% and 12% versus GDV growth on a local currency basis of 13% for each of the three and six month periods ended June 30, 2012. The Company attempts to limit the impact from

these foreign currency exposures through its foreign exchange risk management activities, which are discussed further in Note 13 (Foreign Exchange Risk Management) to the consolidated financial statements included in Part I, Item 1 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.

Table of Contents

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 typically generated from the fees that we charge our customers for providing transaction processing and other payment-related services and by assessing our customers based primarily on the dollar volume of activity on the cards and other devices that carry our brands. 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. Our pricing is complex and is dependent on the nature of the volumes, types of transactions and other products and services we offer to our customers. The following are some of the factors that impact pricing:

• Domestic or cross-border

• Signature-based (credit and debit) or PIN-based (debit, including automated teller machine ("ATM") cash withdrawals and retail purchases)

• Tiered rates that fluctuate based on volume/transaction hurdles

• Geographic region or country

• Retail purchase or cash withdrawal

• Processed or not processed by MasterCard

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.

We review our pricing and implement pricing changes on an ongoing basis. In addition, standard pricing varies among our regions, and such standard pricing can be modified for our customers through customer-specific incentive and rebate agreements.

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

Domestic assessments: Domestic assessments are fees charged to issuers and acquirers based primarily on the volume of activity on cards and other devices that carry our brands where the merchant country and the issuer country are the same. A portion of these assessments is estimated based on aggregate transaction information collected from our systems and projected customer performance and is calculated by converting the aggregate volume of usage (purchases, cash disbursements, balance transfers and convenience checks) from local currency to the billing currency and then multiplying by the specific price. In addition, 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. Acceptance development fees are charged primarily to U.S. issuers based on components of volume, and support our focus on developing merchant relationships and promoting acceptance at the point of sale. Market development fees are charged primarily to issuers and acquirers based on components of volume, and support our focus on building brand awareness and card activation, increasing purchase volumes, cross-border card usage, and other general marketing purposes.

Cross-border volume fees: Cross-border volume fees are charged to issuers and acquirers based on the volume of activity on cards that carry our brands where the merchant country and the issuer country are different. Cross-border volume fees are calculated by converting the aggregate volume of usage (purchases and cash disbursements) from local currency to the billing currency and then multiplying by the specific price. Cross-border volume fees also include fees charged to issuers for performing currency conversion services.

Transaction processing fees: Transaction processing fees are charged for both domestic and cross-border transactions and are primarily based on the number of transactions. These fees are calculated by multiplying the number and type of transactions by the specific price for each service. Transaction processing fees include charges for the following:

• Transaction Switching – Authorization, Clearing and Settlement.

Authorization refers to the process by which a transaction is routed to the issuer for approval and then a decision whether or not to approve the transaction is made by the issuer or, in certain circumstances such as when the issuer's systems are unavailable or cannot be contacted, by MasterCard or others on behalf of the issuer in accordance with either the issuer's instructions or

Table of Contents

applicable rules (also known as "stand-in"). Our standards, which may vary across regions, establish the circumstances under which merchants and acquirers must seek authorization of transactions. Fees for authorization are primarily paid by issuers.

Clearing refers to 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. Fees for clearing are primarily paid by issuers.

Settlement. Once transactions have been authorized and cleared, MasterCard helps to settle the transactions by facilitating the exchange of funds between parties. Once clearing is completed, a daily reconciliation is provided to each customer involved in settlement, detailing the net amounts by clearing cycle and a final settlement position. Fees for settlement are primarily paid by issuers.

Connectivity fees are charged to issuers and acquirers for network access, equipment and the transmission of authorization and settlement messages. These fees are based on the size of the data being transmitted through and the number of connections to the Company's network.

Other revenues: Other revenues for other payment-related services are primarily dependent on the nature of the products or services provided to our customers but are also impacted by other factors, such as contractual agreements. Examples of other revenues are fees associated with the following:

Cardholder services fees are for benefits provided with MasterCard-branded cards, such as insurance, telecommunications assistance for lost cards and locating ATMs.

Consulting and research fees are primarily generated by MasterCard Advisors, the Company's professional advisory services group. The Company's business agreements with certain customers and merchants may include consulting services.

Fraud products and services used to prevent or detect fraudulent transactions. This includes warning bulletin fees which are charged to issuers and acquirers for listing invalid or fraudulent accounts either electronically or in paper form and for distributing this listing to merchants.

Program management services provided to prepaid card issuers. This primarily includes 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 services, including rules compliance, account and transaction enhancement services, holograms and publications.

Rebates and incentives (contra-revenue): Rebates and incentives are provided to certain MasterCard customers and are recorded as contra-revenue in the same period that revenue is earned or performance occurs. Performance periods vary depending on the type of rebate or incentive, including commitments to the agreement term, hurdles for volumes, transactions or issuance of new cards, launch of new programs, or the execution of marketing programs. Rebates and incentives are calculated based on estimated performance, the timing of new and renewed agreements and the terms of the related business agreements.

Revenue Analysis

In the three and six months ended June 30, 2013, gross revenue increased \$290 million and \$523 million, or 12% and 11%, respectively, versus the comparable periods in 2012. Gross revenue growth in the three and six months ended June 30, 2013 was primarily driven by increased growth in dollar volume of activity on cards carrying our brands, increased transactions and pricing initiatives. Rebates and incentives in the three and six months ended June 30, 2013 increased \$14 million and \$99 million, or 2% and 8%, respectively, versus the comparable periods in 2012 due to the impact from new, renewed and expired agreements. Our net revenue increased 15% and 12% for the three and six months ended June 30, 2013, respectively, versus the comparable periods in 2012.

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. During the three and six months ended June 30, 2013, our processed transactions increased 11% and 12%, respectively, and our GDV increased 13% on a local currency basis for each of the periods.

Table of Contents

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
	Growth (USD)	Growth (Local)	Growth (USD)	Growth (Local)	Growth (USD)	Growth (Local)	Growth (USD)	Growth (Local)
MasterCard-Branded GDV ¹	13	% 13	% 10	% 15	% 12	% 13	% 13	% 17
Asia Pacific/Middle East/Africa	19	% 21	% 20	% 23	% 19	% 21	% 22	% 24
Canada	6	% 7	% 3	% 8	% 4	% 6	% 6	% 9
Europe	14	% 14	% 5	% 16	% 14	% 13	% 9	% 18
Latin America	17	% 17	% 4	% 19	% 14	% 16	% 10	% 21
United States	6	% 6	% 9	% 9	% 5	% 5	% 11	% 11
Cross-border GDV Growth		17	%	17	%	17	%	18

¹ GDV generated by Maestro and Cirrus cards is not included.

A significant portion of our revenue is concentrated among our five largest customers. 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.

The significant components of our net revenue for the three and six months ended June 30, 2013 and 2012 were as follows:

	Three Months Ended June 30,			Percent Increase (Decrease)	Six Months Ended June 30,			Percent Increase (Decrease)
	2013	2012			2013	2012		
	(in millions, except percentages)							
Domestic assessments	\$940	\$872	8%		\$1,841	\$1,695	9%	
Cross-border volume fees	677	566	20%		1,284	1,097	17%	
Transaction processing fees	818	753	9%		1,593	1,467	9%	
Other revenues	315	269	17%		595	531	12%	
Gross revenue	2,750	2,460	12%		5,313	4,790	11%	
Rebates and incentives (contra-revenue)	(654)	(640)	2%		(1,311)	(1,212)	8%	
Net revenue	\$2,096	\$1,820	15%		\$4,002	\$3,578	12%	

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

Table of Contents

The following table summarizes the primary drivers of net revenue growth in the three and six months ended June 30, 2013 versus the three and six months ended June 30, 2012:

	For the Three Months Ended June 30,																			
	Volume				Pricing				Foreign Currency ¹				Other				Total			
	2013		2012		2013		2012		2013		2012		2013		2012		2013		2012 ₂	
Domestic assessments	13	%	13	%	—	%	1	%	—	%	(4)	)%	(5)	)%	—	%	8	%	10	%
Cross-border volume fees	14	%	13	%	8	%	2	%	1	%	(4)	)%	(3)	)%	—	%	20	%	11	%
Transaction processing fees	10	% ³	22	% ³	(1)	)%	3	%	—	%	(5)	)%	—	%	(1)	)%	9	%	19	%
Other revenues	**		**		7	%	2	%	—	%	(3)	)%	10	% ⁴	8	% ⁴	17	%	7	%
Rebates and incentives	4	%	11	%	(2)	)%	1	%	—	%	(6)	)%	—	% ⁵	18	% ⁵	2	%	24	%
Net revenue	13	%	13	%	4	%	2	%	—	%	(4)	)%	(2)	)%	(2)	)%	15	%	9	%
	For the Six Months Ended June 30,																			
	Volume				Pricing				Foreign Currency ¹				Other				Total			
	2013		2012		2013		2012		2013		2012		2013		2012		2013		2012 ₂	
Domestic assessments	12	%	16	%	—	%	2	%	1	%	(3)	)%	(4)	)%	(2)	)%	9	%	13	%
Cross-border volume fees	13	%	15	%	5	%	1	%	—	%	(2)	)%	(1)	)%	(1)	)%	17	%	13	%
Transaction processing fees	10	% ³	24	% ³	(1)	)%	4	%	—	%	(3)	)%	—	%	(5)	)%	9	%	20	%
Other revenues	**		**		6	%	3	%	—	%	(3)	)%	6	% ⁴	17	% ⁴	12	%	17	%
Rebates and incentives	8	%	10	%	(2)	)%	1	%	—	%	(4)	)%	2	% ⁵	17	% ⁵	8	%	24	%
Net revenue	11	%	25	%	3	%	3	%	—	%	(3)	)%	(2)	)%	(12)	)%	12	%	13	%

** 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 2012 was significantly impacted by debit regulation in the United States.

⁴ Other revenues, other were positively impacted by acquisitions, consulting fees, fraud service fees and other payment-related 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, and depreciation and amortization expenses. Operating expenses increased \$22 million and \$63 million, or 2% and 4%, for the three and six months ended June 30, 2013, respectively, versus the comparable periods in 2012, primarily due to higher general and administrative expenses. The components of operating expenses for the three and six months ended June 30, 2013 and 2012 were as follows:

	Three Months Ended		Percent	Six Months Ended		Percent
	June 30,		Increase	June 30,		Increase
	2013	2012	(Decrease)	2013	2012	(Decrease)
	(in millions, except percentages)					
General and administrative	\$621	\$591	5%	\$1,229	\$1,170	5%
Advertising and marketing	186	179	3%	315	304	3%
Depreciation and amortization	61	56	11%	123	110	12%
Provision for litigation settlement	—	20	(100)%	—	20	(100)%

Edgar Filing: MASTERCARD INC - Form 10-Q

Total operating expenses	\$ 868	\$ 846	2%	\$ 1,667	\$ 1,604	4%
Total operating expenses as a percentage of net revenue	41.4	% 46.5	%	41.6	% 44.8	%

General and Administrative

General and administrative expenses increased \$30 million and \$59 million, or 5%, for each of the three and six months ended June 30, 2013 versus the comparable periods in 2012, primarily due to an increase in personnel expenses.

Table of Contents

The major components of general and administrative expenses for the three and six months ended June 30, 2013 and 2012 were as follows:

	Three Months Ended June 30,		Percent Increase (Decrease)	Six Months Ended June 30,		Percent Increase (Decrease)
	2013	2012		2013	2012	
	(in millions, except percentages)					
Personnel	\$423	\$388	9%	\$835	\$765	9%
Professional fees	52	60	(14)%	98	108	(9)%
Data processing and telecommunications	53	49	8%	106	96	10%
Foreign exchange activity	(12)	(8)	46%	(13)	5	*
Other	105	102	1%	203	196	3%
General and administrative expenses	\$621	\$591	5%	\$1,229	\$1,170	5%

* Not Meaningful

Personnel expense increased 9% for each of the three and six month periods ended June 30, 2013 versus the comparable periods in 2012. The increase was primarily due to higher salary and benefits costs, including increased compensation related to an increase in the number of employees to support the Company's strategic initiatives. Professional fees consist primarily of third-party services, legal costs to defend our outstanding litigation and the evaluation of regulatory developments that impact our industry and company. Professional fees decreased 14% and 9% for the three and six months ended June 30, 2013, respectively, versus the comparable periods in 2012, primarily due to reduced third-party service expenses.

Data processing and telecommunications expense consists of expenses to support our global payments network infrastructure, expenses to operate and maintain our computer systems and other telecommunication needs. These expenses vary with business volume growth, system upgrades and usage.

Foreign exchange activity includes gains and losses on foreign exchange derivative contracts and the impact of remeasurement of assets and liabilities denominated in foreign currencies. See Note 13 (Foreign Exchange Risk Management) to the consolidated financial statements included in Part I, Item 1 of this Report. Since the Company does not designate foreign currency derivatives as hedging instruments pursuant to the accounting standards for derivative instruments and hedging activities, it records gains and losses on foreign exchange derivatives on a current basis, with the associated offset being recognized as the exposures materialize.

Other expenses include costs to provide loyalty and rewards programs, travel and entertainment, rental expense for our facilities, litigation settlements not related to the U.S. merchant class litigation and other miscellaneous operating expenses.

Advertising and Marketing

Our brands, principally MasterCard, are valuable strategic assets that drive card acceptance and usage and facilitate our ability to successfully introduce new service offerings and access new markets globally. Our advertising and marketing strategy is to increase global MasterCard brand awareness, preference and usage through integrated advertising, sponsorship, promotional, interactive media and public relations programs on a global scale. We will continue to invest in marketing programs at the regional and local levels and sponsor diverse events aimed at multiple target audiences. Advertising and marketing expenses increased \$7 million and \$11 million, or 3%, for each of the three and six months ended June 30, 2013 versus the comparable periods in 2012, mainly due to new and renewed sponsorships.

Depreciation and Amortization

Depreciation and amortization expenses increased \$5 million and \$13 million, or 11% and 12%, respectively, for the three and six months ended June 30, 2013 versus the comparable periods in 2012. The increase in depreciation and amortization expense was primarily due to increased amortization of capitalized software costs.

Table of Contents

Provision for Litigation Settlement

During the three and six months ended June 30, 2012, the Company accrued an additional \$20 million pre-tax charge related to the U.S. merchant class litigation. There were no comparable charges in the first half of 2013. See Note 11 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1 of this Report for further discussion.

Other Income (Expense)

Other income increased \$6 million and \$1 million for the three and six months ended June 30, 2013, respectively, versus the comparable periods in 2012. Other income (expense) was comprised primarily of investment income, interest expense, our share of income (losses) from equity method investments and other gains and losses.

Income Taxes

The effective income tax rates were 31.2% and 28.0% for the three months ended June 30, 2013 and 2012, respectively. The effective income tax rates were 30.9% and 30.0% for the six months ended June 30, 2013 and 2012, respectively. While the Company did experience a more favorable mix of earnings for each of the three and six month periods ended June 30, 2013, the effective tax rate for each of these periods was higher than the comparable prior year period due primarily to the recognition of discrete benefits relating to additional export incentives and the conclusion of tax examinations in certain jurisdictions during the three months ended June 30, 2012.

Liquidity and Capital Resources

We need liquidity and access to capital to fund our global operations, to provide for credit and settlement risk, to finance capital expenditures, to make continued investments in our business and to service our current and potential obligations. The Company generates the cash required to meet these needs through operations. The following table summarizes the cash, cash equivalents and investment securities balances and credit available to the Company at June 30, 2013 and December 31, 2012:

	June 30, 2013 (in billions)	December 31, 2012
Cash, cash equivalents and available-for-sale investment securities ¹	\$5.1	\$5.0
Unused line of credit	3.0	3.0

¹ The June 30, 2013 and December 31, 2012 balances exclude \$724 million and \$726 million, respectively, held in escrow to fund the Company's share of the U.S. merchant class litigation.

Cash, cash equivalents and available-for-sale investment securities held by our foreign subsidiaries (i.e., any entities where earnings would be subject to U.S. tax upon repatriation) was \$3.0 billion and \$2.5 billion at June 30, 2013 and December 31, 2012, respectively, or 59% and 50% of our total cash, cash equivalents and available-for-sale investment securities as of such dates. It is our present intention to permanently reinvest the undistributed earnings associated with our foreign subsidiaries as of December 31, 2012 outside of the United States (as disclosed in Note 17 (Income Tax) to the consolidated financial statements included in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2012), and our current plans do not require repatriation of these earnings. If these earnings are needed for U.S. operations or can no longer be permanently reinvested outside of the United States, the Company would be subject to U.S. tax upon repatriation.

Our liquidity and access to capital could be negatively impacted by global credit market conditions. The Company guarantees the settlement of many of the MasterCard, Cirrus and Maestro branded transactions between our issuers and acquirers. See Note 12 (Settlement and Other Risk Management) to the consolidated financial statements in Part I, Item 1 of this Report for a description of these guarantees. Historically, payments under these guarantees have not been significant; however, historical trends may not be an indication of the future. The risk of loss on these guarantees is specific to individual customers, but may also be driven significantly by regional or global economic conditions, including, but not limited to the health of the financial institutions in a country or region.

Our liquidity and access to capital could also be negatively impacted by the outcome of any of the legal or regulatory proceedings to which we are a party. See Item 1A (Risk Factors) in Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2012 and Note 11 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1 of this Report; and "-Business Environment" for additional discussion of

these and other risks facing our business.

33

Table of Contents

Cash Flow

The table below shows a summary of the cash flows from operating, investing and financing activities for the six months ended June 30, 2013 and 2012:

	Six Months Ended June 30,	
	2013	2012
	(in millions)	
Cash Flow Data:		
Net cash provided by operating activities	\$1,614	\$1,068
Net cash provided by (used in) investing activities	118	(690)
Net cash used in financing activities	(1,421)	(922)

Net cash provided by operating activities for the six months ended June 30, 2013 was \$1.6 billion versus \$1.1 billion for the comparable period in 2012. Net cash provided by operating activities for the six months ended June 30, 2013 was primarily due to net income. Net cash provided by operating activities for the six months ended June 30, 2012 was primarily due to net income, partially offset by the net change in customer settlements and an increase in prepaid expenses.

Net cash provided by investing activities for the six months ended June 30, 2013 primarily related to the net proceeds from sales and maturities of investment securities, partially offset by purchases of investment securities. Net cash used in investing activities for the six months ended June 30, 2012 primarily related to the purchases of investment securities, partially offset by net proceeds from sales and maturities of investment securities.

Net cash used in financing activities for the six months ended June 30, 2013 and 2012 primarily related to the repurchase of the Company's Class A common stock.

The table below shows a summary of the balance sheet data at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
	(in millions)	
Balance Sheet Data:		
Current assets	\$8,962	\$9,357
Current liabilities	4,327	4,906
Long-term liabilities	665	627
Equity	7,029	6,929

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

Credit Availability

On November 16, 2012, the Company entered into a committed five-year unsecured \$3 billion revolving credit facility (the "Credit Facility"), which expires on November 16, 2017. The Credit Facility replaced the Company's prior credit facility. Borrowings under the Credit Facility are available to provide liquidity for general corporate purposes, including providing liquidity in the event of one or more settlement failures by the Company's customers. In addition, for business continuity planning and related purposes, we may borrow and repay amounts under the Credit Facility from time to time. The facility fee and borrowing cost under the Credit Facility are contingent upon the Company's credit rating. At June 30, 2013, the applicable facility fee was 10 basis points on the average daily commitment (whether or not utilized). In addition to the facility fee, interest on borrowings under the Credit Facility would be charged at the London Interbank Offered Rate (LIBOR) plus an applicable margin of 90 basis points, or an alternate base rate. MasterCard had no borrowings under the Credit Facility at June 30, 2013 or December 31, 2012. Further, the Company did not use any funds from the line of credit except for business continuity planning and related purposes.

The Credit Facility contains customary representations, warranties, events of default and affirmative and negative covenants, including a financial covenant limiting the maximum level of consolidated debt to earnings before interest, taxes, depreciation and amortization. MasterCard was in compliance in all material respects with the covenants of the Credit Facility at June 30, 2013 and December 31, 2012. The majority of Credit Facility lenders are customers or affiliates of customers of MasterCard.

Table of Contents

On August 2, 2012, the Company filed a universal shelf registration statement to provide additional access to capital, if needed. Pursuant to the shelf registration statement, the Company may from time to time offer to sell debt securities, preferred stock, Class A common stock, depository shares, purchase contracts, units or warrants in one or more offerings.

Dividends and Share Repurchases

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

On December 4, 2012, our Board of Directors declared a quarterly cash dividend of \$0.30 per share paid on February 8, 2013 to holders of record on January 9, 2013 of our Class A common stock and Class B common stock. The aggregate amount of this dividend was \$37 million.

On February 5, 2013, our Board of Directors declared a quarterly cash dividend of \$0.60 per share payable on May 9, 2013 to holders of record on April 9, 2013 of our Class A common stock and Class B common stock. The aggregate amount of this dividend was \$73 million.

On June 18, 2013, our Board of Directors declared a quarterly cash dividend of \$0.60 per share payable on August 9, 2013 to holders of record on July 9, 2013 of our Class A common stock and Class B common stock. The aggregate amount of this dividend is \$72 million.

Aggregate payments for quarterly dividends totaled \$110 million and \$57 million for the six months ended June 30, 2013 and 2012, respectively.

Shares in the Company's common stock that are repurchased are considered treasury stock. The timing and actual number of additional shares repurchased will depend on a variety of factors, including the operating needs of the business, legal requirements, price and economic and market conditions.

The following table summarizes the Company's share repurchase authorizations of its Class A common stock through June 30, 2013, as well as historical purchases:

	Authorization Dates			Total
	February 2013	June 2012	April 2011 ¹	
	(in millions, except average price data)			
Board authorization	\$2,000	\$1,500	\$2,000	\$5,500
Remaining authorization at December 31, 2012	**	\$604	\$—	\$604
Dollar value of shares repurchased during the six months ended June 30, 2013	\$743	\$604	\$—	\$1,347
Remaining authorization at June 30, 2013	\$1,257	\$—	\$—	\$1,257
Shares repurchased during the six months ended June 30, 2013	1.36	1.17	—	2.53
Average price paid per share during the six months ended June 30, 2013	\$545.51	\$517.16	\$—	\$532.41
Cumulative shares repurchased through June 30, 2013	1.36	3.11	6.54	11.01
Cumulative average price paid per share	\$545.51	\$481.58	\$305.60	\$384.97

** Not applicable

¹ The initial authorization in September 2010 for \$1 billion was amended in April 2011 to increase the authorization to \$2 billion.

On February 5, 2013, our Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to \$2 billion of its Class A common stock. The new share repurchase program became effective at the completion of the Company's June 2012 Share Repurchase Program. As of July 25, 2013, the cumulative repurchases by the Company under the February 2013 Share Repurchase Program totaled approximately 1.7 million shares of its Class A common stock for an aggregate cost of approximately \$916 million at an average price of \$553.08 per share

of Class A common stock.

See Note 7 (Stockholders' Equity) to the consolidated financial statements included in Part I, Item 1 of this Report for further discussion.

35

Table of Contents

Off-Balance Sheet Arrangements

MasterCard has no off-balance sheet debt other than lease arrangements and other commitments as presented in the future obligations table in Item 7 (Liquidity and Capital Resources) in Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Recent Accounting Pronouncements

Refer to Note 1 (Summary of Significant Accounting Policies) to the consolidated financial statements included in Part I, Item 1.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential for economic losses to be incurred on market risk sensitive instruments arising from adverse changes in market factors such as interest rates, foreign currency exchange rates and equity price risk. Our exposure to market risk from changes in interest rates, foreign exchange rates and equity price risk is limited. Management establishes and oversees the implementation of policies governing our funding, investments and use of derivative financial instruments. We monitor risk exposures on an ongoing basis. The effect of a hypothetical 10% adverse change in foreign currency rates could result in a fair value loss of approximately \$189 million on our foreign currency derivative contracts outstanding at June 30, 2013 related to the hedging program. A 100 basis point adverse change in interest rates would not have had a material impact on the Company's financial assets or liabilities at June 30, 2013 or December 31, 2012. In addition, there was no material equity price risk at June 30, 2013 or December 31, 2012. The Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States includes provisions related to derivative financial instruments. The Company believes the adoption of such provisions will not have a material adverse effect on the Company's financial position or results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

MasterCard Incorporated's management, including the President and Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based on that evaluation, the Company's President and Chief Executive Officer and Chief Financial Officer concluded that MasterCard Incorporated's disclosure controls and procedures were effective as of the end of the period covered by this Report at the reasonable assurance level to accomplish their objectives of (i) recording, processing, summarizing and reporting information that is required to be disclosed in its reports under the Securities Exchange Act of 1934, as amended, within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) ensuring that information required to be disclosed in such reports is accumulated and communicated to MasterCard Incorporated's management, including its President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting

In connection with the evaluation by the Company's President and Chief Executive Officer and its Chief Financial Officer of changes in internal control over financial reporting that occurred during the Company's last fiscal quarter, no change in the Company's internal control over financial reporting was identified that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Other Financial Information

With respect to the unaudited consolidated financial information of MasterCard Incorporated and its subsidiaries as of June 30, 2013 and for the three and six months ended June 30, 2013 and 2012, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their report dated July 31, 2013 appearing below, states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 (the "Act") for their report on the unaudited consolidated financial information because that report is not a "report" or a "part" of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and

11 of the Act.

36

Table of Contents

Report of Independent Registered Public Accounting Firm
To the Board of Directors and Shareholders
of MasterCard Incorporated:

We have reviewed the consolidated balance sheet of MasterCard Incorporated and its subsidiaries (the “Company”) as of June 30, 2013, and the related consolidated statements of operations and comprehensive income for the three and six-month periods ended June 30, 2013 and 2012, and the consolidated statement of changes in equity for the six-month period ended June 30, 2013, and the consolidated statement of cash flows for the six-month periods ended June 30, 2013 and 2012 included within Part I, Item 4 of this Form 10-Q. These interim financial statements are the responsibility of the Company’s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2012, and the related consolidated statement of operations, of comprehensive income, of changes in equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 14, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2012, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
New York, New York
July 31, 2013

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Refer to Note 11 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1.

Item 1A. Risk Factors

The following supplements our risk factor set forth in our Annual Report on Form 10-K for the year ended December 31, 2012 (the “2012 Form 10-K”), entitled “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.” This supplemental risk factor specifically provides an update to our discussion based on proposed legislation released on July 24, 2013 by the European Commission, 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 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 will next be debated, and potentially amended, by the European Union Parliament and the Council of Ministers 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.

Consistent with the risk factor set forth in the 2012 Form 10-K, if interchange fees are required to be reduced as a result of any final legislation enacted by the European Union, issuers could be unable to use interchange fees to recoup as much of the costs that they incurred for their services previously. 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, or they could reduce the benefits to cardholders, thereby making our card programs less desirable to consumers and reducing our transaction volumes and profitability. Any of the above actions could also result in less innovation and fewer product offerings. In addition, issuers could attempt to seek a reduction in the fees that we charge to them. The potential outcome of this proposed legislation could have a more positive or negative impact on MasterCard relative to certain of its competitors. As a result of this type of legislative activity, as well as in regulatory proceedings and litigation where we are defending interchange fees, we are dedicating substantial management time and financial resources that are being, and could continue to be, diverted from our core business. Any final legislation may have a material adverse impact on our overall business and results of operations.

For a discussion of the Company's additional risk factors, see Item 1A (Risk Factors) in Part I of the 2012 Form 10-K.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES

During the second quarter of 2013, MasterCard repurchased a total of approximately 1.1 million shares for \$581 million at an average price of \$552.20 per share of Class A common stock. See Note 7 (Stockholders' Equity) to the consolidated financial statements included in Part I, Item 1 of this Report for further discussion with respect to the Company's share repurchase programs. The Company's repurchase activity during the second 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
April 1 – 30	395,292	\$531.96	395,292	\$ 1,627,576,093
May 1 – 31	312,715	\$558.18	312,715	\$ 1,453,023,977
June 1 – 30	342,700	\$570.07	342,700	\$ 1,257,661,632
Total	1,050,707	\$552.20	1,050,707	

¹ Dollar value of shares that may yet be purchased under the Repurchase Programs is as of the end of the period.

Item 6. Exhibits

Refer to the Exhibit Index included herein.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MASTERCARD INCORPORATED
(Registrant)

Date: July 31, 2013

By: /S/ AJAY BANGA
Ajay Banga
President and Chief Executive Officer
(Principal Executive Officer)

Date: July 31, 2013

By: /S/ MARTINA HUND-MEJEAN
Martina Hund-Mejean
Chief Financial Officer
(Principal Financial Officer)

Date: July 31, 2013

By: /S/ ANDREA FORSTER
Andrea Forster
Corporate Controller
(Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.1+	Schedule of Non-Employee Directors' Annual Compensation, effective as of June 18, 2013.
10.2+	Form of Restricted Stock Agreement for awards under 2006 Non-Employee Director Equity Compensation Plan, amended and restated effective June 5, 2012 (effective for awards granted on and subsequent to June 18, 2013).
10.3+	Form of Deferred Stock Unit Agreement for awards under 2006 Non-Employee Director Equity Compensation Plan, amended and restated effective June 5, 2012 (effective for awards granted on and subsequent to June 18, 2013).
12.1	Computation of Ratio of Earnings to Fixed Charges.
15	Awareness Letter from the Company's Independent Registered Public Accounting Firm.
31.1	Certification of Ajay Banga, President and Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Martina Hund-Mejean, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Ajay Banga, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Martina Hund-Mejean, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Scheme Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

+Management contracts or compensatory plans or arrangements.

Any agreements or other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and should not be relied upon for that purpose. In particular, any representations and warranties made by the Company in these agreements or other documents were made solely within the specific context of the relevant agreement or document

and may not describe the actual state of affairs as of the date they were made or at any other time.