

MASTERCARD INC
Form 10-Q
April 28, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2016
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 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 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 Accelerated filer
Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
As of April 21, 2016, there were 1,078,665,919 shares outstanding of the registrant's Class A common stock, par value \$0.0001 per share; and 20,382,480 shares outstanding of the registrant's Class B common stock, par value \$0.0001 per share.

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In this Report on Form 10-Q (“Report”), references to the “Company,” “MasterCard,” “we,” “us” or “our” refer to the MasterCard brand generally, and to the business conducted by MasterCard Incorporated and its consolidated subsidiaries, including our operating subsidiary, MasterCard International Incorporated.

Forward-Looking Statements

This Report 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. Examples of forward-looking statements include, but are not limited to, statements that relate to the Company’s future prospects, developments and business strategies.

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

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

Please see a complete discussion of these risk factors in Part I, Item 1A - Risk Factors of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. We caution you that the important factors referenced above may not contain all of the factors that are important to you. Our forward-looking statements speak only as of the date of this Report or as of the date they are made, and we undertake no obligation to update our forward-looking statements.

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PART I — FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MASTERCARD INCORPORATED
 CONSOLIDATED BALANCE SHEET
 (UNAUDITED)

	March 31, 2016	December 31, 2015
	(in millions, except per share data)	
ASSETS		
Cash and cash equivalents	\$ 4,894	\$ 5,747
Restricted cash for litigation settlement	542	541
Investments	1,314	991
Accounts receivable	1,186	1,079
Settlement due from customers	1,020	1,068
Restricted security deposits held for customers	937	895
Prepaid expenses and other current assets	713	663
Total Current Assets	10,606	10,984
Property, plant and equipment, net of accumulated depreciation of \$526 and \$491, respectively	669	675
Deferred income taxes	353	317
Goodwill	1,886	1,891
Other intangible assets, net of accumulated amortization of \$871 and \$816, respectively	788	803
Other assets	1,603	1,580
Total Assets	\$ 15,905	\$ 16,250
LIABILITIES AND EQUITY		
Accounts payable	\$ 409	\$ 472
Settlement due to customers	849	866
Restricted security deposits held for customers	937	895
Accrued litigation	710	709
Accrued expenses	2,876	2,763
Other current liabilities	659	564
Total Current Liabilities	6,440	6,269
Long-term debt	3,333	3,268
Deferred income taxes	76	79
Other liabilities	545	572
Total Liabilities	10,394	10,188
Commitments and Contingencies		
Stockholders' Equity		
Class A common stock, \$0.0001 par value; authorized 3,000 shares, 1,372 and 1,370 shares issued and 1,082 and 1,095 outstanding, respectively	—	—
Class B common stock, \$0.0001 par value; authorized 1,200 shares, 20 and 21 issued and outstanding, respectively	—	—
Additional paid-in-capital	4,009	4,004
Class A treasury stock, at cost, 291 and 275 shares, respectively	(14,882)	(13,522)

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Retained earnings	16,972	16,222
Accumulated other comprehensive income (loss)	(620)	(676)
Total Stockholders' Equity	5,479	6,028
Non-controlling interests	32	34
Total Equity	5,511	6,062
Total Liabilities and Equity	\$ 15,905	\$ 16,250

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

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MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,		
	2016	2015	
	(in millions, except per share data)		
Net Revenue	\$ 2,446	\$ 2,230	
Operating Expenses			
General and administrative	868	650	
Advertising and marketing	135	142	
Depreciation and amortization	95	87	
Total operating expenses	1,098	879	
Operating income	1,348	1,351	
Other Income (Expense)			
Investment income	10	9	
Interest expense	(20) (17)
Other income (expense), net	(1) (3)
Total other income (expense)	(11) (11)
Income before income taxes	1,337	1,340	
Income tax expense	378	320	
Net Income	\$ 959	\$ 1,020	
Basic Earnings per Share	\$ 0.86	\$ 0.89	
Basic Weighted-Average Shares Outstanding	1,109	1,148	
Diluted Earnings per Share	\$ 0.86	\$ 0.89	
Diluted Weighted-Average Shares Outstanding	1,112	1,152	

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

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MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended March 31,	
	2016	2015
	(in millions)	
Net Income	\$959	\$1,020
Other comprehensive income (loss):		
Foreign currency translation adjustments	94	(380)
Income tax effect	2	5
Foreign currency translation adjustments, net of income tax effect	96	(375)
Translation adjustments on net investment hedge	(64)	—
Income tax effect	22	—
Translation adjustments on net investment hedge, net of income tax effect	(42)	—
Defined benefit pension and other postretirement plans	—	1
Income tax effect	—	—
Defined benefit pension and other postretirement plans, net of income tax effect	—	1
Investment securities available-for-sale	3	(5)
Income tax effect	(1)	—
Investment securities available-for-sale, net of income tax effect	2	(5)
Other comprehensive income (loss), net of tax	56	(379)
Comprehensive Income	\$1,015	\$641

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

MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)

	Total	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Stock Class A	Stock Class B	Additional Paid-In Capital	Class A Treasury Stock	Non-Controlling Interests
	(in millions, except per share data)							
Balance at December 31, 2015	\$6,062	\$16,222	\$ (676)	\$ —	\$ —	\$ 4,004	\$(13,522)	\$ 34
Net income	959	959	—	—	—	—	—	—
Activity related to non-controlling interests	(2)	—	—	—	—	—	—	(2)
Other comprehensive income (loss), net of tax	56	—	56	—	—	—	—	—
Cash dividends declared on Class A and Class B common stock, \$0.19 per share	(209)	(209)	—	—	—	—	—	—

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Purchases of treasury stock	(1,364)	—	—	—	—	—	(1,364)	—
Share-based payments	9	—	—	—	—	5	4	—
Balance at March 31, 2016	\$5,511	\$16,972	\$ (620)	\$ —	\$ —	\$ 4,009	\$(14,882)	\$ 32

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

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MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31, 2016 2015 (in millions)	
Operating Activities		
Net income	\$959	\$1,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of customer and merchant incentives	204	184
Depreciation and amortization	95	87
Share-based payments	(40)	(53)
Deferred income taxes	(20)	37
Other	(15)	(37)
Changes in operating assets and liabilities:		
Accounts receivable	(87)	(30)
Income taxes receivable	(3)	(63)
Settlement due from customers	69	(108)
Prepaid expenses	(180)	(57)
Accrued litigation and legal settlements	6	(40)
Accounts payable	(75)	1
Settlement due to customers	(41)	158
Accrued expenses	27	(214)
Net change in other assets and liabilities	109	26
Net cash provided by operating activities	1,008	911
Investing Activities		
Purchases of investment securities available-for-sale	(446)	(691)
Purchases of other short-term investments held-to-maturity	(60)	—
Proceeds from sales of investment securities available-for-sale	69	84
Proceeds from maturities of investment securities available-for-sale	55	166
Proceeds from maturities of investment securities held-to-maturity	80	—
Acquisition of businesses, net of cash acquired	—	(12)
Purchases of property, plant and equipment	(37)	(31)
Capitalized software	(38)	(26)
Other investing activities	(8)	(9)
Net cash used in investing activities	(385)	(519)
Financing Activities		
Purchases of treasury stock	(1,357)	(947)
Dividends paid	(212)	(184)
Tax benefit for share-based payments	22	27
Cash proceeds from exercise of stock options	4	10
Other financing activities	(2)	(6)
Net cash used in financing activities	(1,545)	(1,100)
Effect of exchange rate changes on cash and cash equivalents	69	(222)
Net decrease in cash and cash equivalents	(853)	(930)
Cash and cash equivalents - beginning of period	5,747	5,137
Cash and cash equivalents - end of period	\$4,894	\$4,207

Non-Cash Investing and Financing Activities

Fair value of assets acquired, net of cash acquired	\$—	\$13
Fair value of liabilities assumed related to acquisitions	\$—	\$—

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

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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. The Company facilitates the processing of payment transactions including authorization, clearing and settlement, and delivers related products and services. The Company makes payments easier and more efficient by creating a wide range of payment solutions and services through a family of well-known brands, including MasterCard®, Maestro® and Cirrus®. The Company also provides value-added offerings such as loyalty and reward programs, information services and consulting. The Company’s network is designed to ensure safety and security for the global payments system. A typical transaction on the Company’s network involves four participants in addition to the Company: cardholder, merchant, issuer (the cardholder’s financial institution) and acquirer (the merchant’s financial institution). The Company’s customers encompass a vast array of entities, including financial institutions and other entities that act as “issuers” and “acquirers”, as well as merchants, governments, telecommunication companies and other businesses. The Company does not issue cards, extend credit, determine or receive revenue from interest rates or other fees charged to cardholders by issuers, or establish the rates charged by acquirers in connection with merchants’ acceptance of the Company’s branded cards.

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 (“VIEs”) for which the Company is the primary beneficiary. As of March 31, 2016 and December 31, 2015, there were no significant VIEs which required consolidation. Intercompany transactions and balances have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the 2016 presentation. In addition, the March 31, 2015 statement of cash flows was revised to correctly classify purchases of and proceeds from sales of investment securities available-for-sale with no net impact to investing activities (both line items were revised by \$432 million). The Company follows accounting principles generally accepted in the United States of America (“GAAP”).

The balance sheet as of December 31, 2015 was derived from the audited consolidated financial statements as of December 31, 2015. The consolidated financial statements for the three months ended March 31, 2016 and 2015 and as of March 31, 2016 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 months ended March 31, 2016 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, 2015 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). For the three months ended March 31, 2016 and 2015 activity from non-controlling interests was insignificant.

Recent accounting pronouncements

Share-Based Payments - In March 2016, the Financial Accounting Standards Board (“FASB”) issued accounting guidance related to share-based payments to employees. Under this guidance, companies will be required to recognize the income tax effects of awards in the income statement when the awards vest or are settled (i.e., additional paid-in-capital pools will be eliminated). In addition, the new guidance changes the limit that companies are allowed to withhold for employees without triggering liability classification and allows companies to make a policy election to either recognize forfeitures as they occur or estimate them. The new guidance is effective for periods beginning after

December 15, 2016 and early adoption is permitted. The required transition methods for each aspect of the new guidance varies between prospective, retrospective and modified retrospective. The Company is in the process of evaluating the potential effects this guidance will have on its consolidated financial statements and which method of adoption it will select.

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

Leases - In February 2016, the FASB issued accounting guidance that will change how companies account for and present lease arrangements. The guidance requires companies to recognize leased assets and liabilities for both capital and operating leases. The new guidance is effective for periods after December 15, 2018 and early adoption is permitted. Companies are required to adopt the guidance on a modified retrospective method. The Company is evaluating the potential effects this guidance will have on its consolidated financial statements.

Debt Issuance Costs - In April 2015, the FASB issued accounting guidance that changed the current presentation of debt issuance costs on the balance sheet. This new guidance moves debt issuance costs from the assets section of the balance sheet to the liabilities section as a direct deduction from the carrying amount of the debt issued. The Company adopted the accounting guidance effective January 1, 2016. The Company applied the new guidance retrospectively and, as such, the December 31, 2015 balance sheet was adjusted to reflect the effects of the new standard. This retrospective adjustment resulted in reductions of prepaid expenses and other current assets, other assets and long-term debt by \$1 million, \$18 million and \$19 million, respectively. As of March 31, 2016, \$19 million of debt issuance costs were presented off-setting long-term debt.

Revenue Recognition - In May 2014, the FASB issued accounting guidance that provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes most of the existing revenue recognition requirements. Under this guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued accounting guidance that delayed the effective date of this standard by one year, making the guidance effective for fiscal years beginning after December 15, 2017. The Company will adopt the new accounting guidance effective January 1, 2018. The accounting guidance permits either a full retrospective or modified retrospective transition method. The Company is in the process of evaluating the potential effects this guidance will have on its consolidated financial statements and which method of adoption it will select.

Note 2. Earnings Per Share

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

	Three Months Ended March 31,	
	2016	2015
	(in millions, except per share data)	
Numerator:		
Net income	\$ 959	\$ 1,020
Denominator:		
Basic weighted-average shares outstanding	1,109	1,148
Dilutive stock options and stock units	3	4
Diluted weighted-average shares outstanding ¹	1,112	1,152
Earnings per Share:		
Basic	\$ 0.86	\$ 0.89
Diluted	\$ 0.86	\$ 0.89

¹ 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**

The Company classifies its fair value measurements of financial instruments into a three-level hierarchy (the “Valuation Hierarchy”). There were no transfers made among the three levels in the Valuation Hierarchy during the three months ended March 31, 2016.

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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:

	March 31, 2016			
	Quoted Prices in Significant Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in millions)			
Municipal securities	\$—	\$ 59	\$	—\$59
Government and agency securities ¹	38	121	—	159
Corporate securities	—	913	—	913
Asset-backed securities	—	71	—	71
Other	2	(36)	—	(34)
Total	\$40	\$ 1,128	\$	—\$1,168

	December 31, 2015			
	Quoted Prices in Significant Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in millions)			
Municipal securities	\$—	\$ 62	\$	—\$62
Government and agency securities ¹	31	64	—	95
Corporate securities	—	645	—	645
Asset-backed securities	—	57	—	57
Other	2	14	—	16
Total	\$33	\$ 842	\$	—\$875

¹ Excludes amounts held in escrow related to the U.S. merchant class litigation settlement of \$542 million and \$541 million at March 31, 2016 and December 31, 2015, respectively, which would be included in Level 1 of the Valuation Hierarchy. See Note 5 (Accrued Expenses and Accrued Litigation) and Note 10 (Legal and Regulatory Proceedings) for further details.

The fair value of the Company's available-for-sale municipal securities, government and agency securities, corporate securities and asset-backed securities 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 12 (Foreign Exchange Risk Management) for further details. The Company's U.S. government securities and marketable equity securities are classified within Level 1 of the Valuation Hierarchy as the fair values are based on unadjusted quoted prices for identical assets in active markets.

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, time deposits, accounts receivable, settlement due from customers, restricted security deposits held for customers, 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. Investments on the Consolidated Balance Sheet include both available-for-sale and held-to-maturity securities. Available-for-sale securities are measured at fair value on a recurring basis and are included in the Valuation Hierarchy table above. Held-to-maturity securities are made up of time deposits with maturities of greater than three months and less than one year and are classified as Level 2 of the Valuation Hierarchy, but are not included in the table above due to their fair values not being measured on a recurring basis. At March 31, 2016 and December 31, 2015, the cost, which approximates fair value, of the Company's held-to-maturity securities was \$110 million and \$130 million, respectively.

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MASTERCARD INCORPORATED

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

Debt

The Company estimates the fair value of its long-term debt using the market pricing approach which applies market assumptions for relevant though not directly comparable undertakings. Long-term debt is classified as Level 2 of the Valuation Hierarchy. At March 31, 2016, the carrying value and fair value of long-term debt was \$3.3 billion and \$3.6 billion, respectively. At December 31, 2015, the carrying value and fair value of long-term debt was \$3.3 billion.

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 March 31, 2016 and December 31, 2015, 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 Valuation 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 11 (Settlement and Other Risk Management).

Non-Financial Instruments

Certain assets are measured at fair value on a nonrecurring basis for purposes of initial recognition and impairment testing. The Company's non-financial assets measured at fair value on a nonrecurring basis include property, plant and equipment, goodwill and other intangible assets. These assets are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

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 March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions)			
Municipal securities	\$59	\$ —	\$ —	\$59
Government and agency securities	159	—	—	159
Corporate securities	910	3	—	913
Asset-backed securities	71	—	—	71
Other	2	—	—	2
Total	\$1,201	\$ 3	\$ —	\$1,204

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions)			
Municipal securities	\$62	\$ —	\$ —	\$62
Government and agency securities	94	1	—	95
Corporate securities	646	—	(1)	645

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Asset-backed securities	57	—	—	57
Other	2	—	—	2
Total	\$861	\$ 1	\$ (1)	\$861

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MASTERCARD INCORPORATED

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

The municipal securities are primarily comprised of tax-exempt bonds and are diversified across states and sectors. Government and agency securities include U.S. government bonds, U.S. government sponsored agency bonds and foreign government bonds with similar credit quality to that of the U.S. government bonds. 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.

Investment Maturities

The maturity distribution based on the contractual terms of the Company's investment securities at March 31, 2016 was as follows:

	Available-For-Sale Amortized Cost	Fair Value
	(in millions)	
Due within 1 year	\$ 413	\$ 413
Due after 1 year through 5 years	780	782
Due after 5 years through 10 years	1	1
Due after 10 years	6	6
No contractual maturity ¹	1	2
Total	\$ 1,201	\$ 1,204

¹ Equity securities have been included in the No contractual maturity category, as these securities do not have stated maturity dates.

Investment Income

Investment income primarily consists of interest income generated from cash, cash equivalents and investments. Gross realized gains and losses are recorded within investment income on the Company's consolidated statement of operations. The gross realized gains and losses from the sales of available-for-sale securities for the three months ended March 31, 2016 and 2015 were not significant.

Note 4. Prepaid Expenses and Other Assets

Prepaid expenses and other current assets consisted of the following:

	March 31, 2016	December 31, 2015
	(in millions)	
Customer and merchant incentives	\$411	\$ 345
Prepaid income taxes	43	72
Other	259	246
Total prepaid expenses and other current assets	\$713	\$ 663

Other assets consisted of the following:

	March 31, 2016	December 31, 2015
	(in millions)	
Customer and merchant incentives	\$831	\$ 810
Nonmarketable equity investments	169	166
Prepaid income taxes	360	352
Income taxes receivable	150	160
Other	93	92
Total other assets	\$1,603	\$ 1,580

Customer and merchant incentives represent payments made or amounts to be paid to customers and merchants under business agreements. Costs directly related to entering into such an agreement are generally deferred and amortized over the life of the

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MASTERCARD INCORPORATED

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

agreement. Amounts to be paid for these incentives and the related liability were included in accrued expenses and other liabilities.

Non-current prepaid income taxes, included in the other asset table above, primarily consists of taxes paid in 2014 relating to the deferred charge on intercompany profits resulting from the reorganization of the Company's legal entity and tax structure to better align with the business footprint of its non-U.S. operations. This deferred charge is amortized over 25 years.

Note 5. Accrued Expenses and Accrued Litigation

Accrued expenses consisted of the following:

	March 31, 2016	December 31, 2015
	(in millions)	
Customer and merchant incentives	\$1,932	\$ 1,748
Personnel costs	239	473
Advertising	58	114
Income and other taxes	354	143
Other	293	285
Total accrued expenses	\$2,876	\$ 2,763

As of March 31, 2016 and December 31, 2015, the Company's provision related to U.S. merchant litigations was \$710 million and \$709 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. As of March 31, 2016, MasterCard executed settlement agreements with a number of opt-out merchants and no adjustment to the amount previously recorded was deemed necessary. See Note 10 (Legal and Regulatory Proceedings) for further discussion of the U.S. merchant class litigation.

Note 6. Stockholders' Equity

The Company's Board of Directors has approved share repurchase programs authorizing the Company to repurchase its Class A common stock. The Company typically completes a share repurchase program before a new program becomes effective. The following table summarizes the Company's share repurchase authorizations of its Class A common stock through March 31, 2016, as well as historical purchases:

	Authorization Dates			Total
	December 2015	December 2014	December 2013	
	(in millions, except average price data)			
Board authorization	\$4,000	\$ 3,750	\$ 3,500	\$11,250
Dollar value of shares repurchased during the three months ended March 31, 2015	\$—	\$ 672	\$ 275	\$947
Remaining authorization at December 31, 2015	\$4,000	\$ 507	\$ —	\$4,507
Dollar value of shares repurchased during the three months ended March 31, 2016	\$850	\$ 507	\$ —	\$1,357
Remaining authorization at March 31, 2016	\$3,150	\$ —	\$ —	\$3,150
Shares repurchased during the three months ended March 31, 2015	—	7.8	3.2	11.0
Average price paid per share during the three months ended March 31, 2015	\$—	\$ 87.17	\$ 84.31	\$86.32
Shares repurchased during the three months ended March 31, 2016	9.7	5.7	—	15.4
Average price paid per share during the three months ended March 31, 2016	\$87.38	\$ 89.76	\$ —	\$88.26
Cumulative shares repurchased through March 31, 2016	9.7	40.8	45.8	96.3

Cumulative average price paid per share	\$87.38	\$ 92.03	\$ 76.42	\$84.13
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Note 7. Accumulated Other Comprehensive Income (Loss)

The changes in the balances of each component of accumulated other comprehensive income (loss), net of tax, for the three months ended March 31, 2016 and 2015 were as follows:

	Foreign Currency Translation Adjustments	Translation Adjustments on Net Investment Hedge	Defined Benefit Pension and Other Postretirement Plans	Investment Securities Available-for-Sale	Accumulated Other Comprehensive Income (Loss)
	(in millions)				
Balance at December 31, 2014	\$ (230)	\$ —	\$ (26)	\$ (4)	\$ (260)
Current period other comprehensive income (loss) ^{1,2}	(375)	—	1	(5)	(379)
Balance at March 31, 2015	\$ (605)	\$ —	\$ (25)	\$ (9)	\$ (639)
Balance at December 31, 2015	\$ (663)	\$ (26)	\$ 13	\$ —	\$ (676)
Current period other comprehensive income (loss) ^{1,3}	96	(42)	—	2	56
Balance at March 31, 2016	\$ (567)	\$ (68)	\$ 13	\$ 2	\$ (620)

¹ For the three months ended March 31, 2016 and 2015, deferred costs related to the Company's defined benefit pension and other postretirement plans were not significant and reclassified from accumulated other comprehensive income (loss) to general and administrative expenses. Additionally, insignificant gains and losses on available-for-sale investment securities were reclassified from accumulated other comprehensive income (loss) to investment income.

² During the three months ended March 31, 2015, the increase in other comprehensive loss related to foreign currency translation adjustments was driven primarily by the devaluation of the euro.

³ During the three months ended March 31, 2016, the decrease in other comprehensive loss related to foreign currency translation adjustments was driven primarily by the appreciation of the euro.

Note 8. Share-Based Payments

During the three months ended March 31, 2016, 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 plan that permits the grant of various types of equity awards to employees.

	Granted in 2016	Weighted-Average Grant-Date Fair Value
	(in millions)	
Non-qualified stock options	1.7	\$19
Restricted stock units	1.3	\$88
Performance stock units	0.2	\$92

Stock options generally 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 and 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 2016 was five years, while the expected volatility was determined to be 23.3%.

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.

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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 9. Income Taxes

The effective income tax rates were 28.3% and 23.9% for the three months ended March 31, 2016 and 2015, respectively. For the three months ended March 31, 2016, the effective tax rate was higher than the comparable period in 2015, due to the recognition of a discrete benefit in 2015 relating to certain foreign taxes becoming eligible to be claimed as credits in the United States.

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 statutes of limitations. Within the next twelve months, the Company believes that the resolution of certain federal, foreign and state and local tax examinations are reasonably possible and that a change in estimate may occur. While such a change may be significant, it is not possible to provide a range of the potential change until the examinations progress further or the related statutes of limitation expire. The Company has effectively settled its U.S. federal income tax obligations through 2008, with the exception of transfer pricing issues which are settled through 2011. With limited exception, the Company is no longer subject to state and local or foreign examinations by tax authorities for years before 2006.

Note 10. 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, and therefore, MasterCard has not established reserves for any of these proceedings. When the Company determines that a loss is both probable and reasonably estimable, MasterCard records a liability and discloses the amount of the liability if it is material. When a material loss contingency is only reasonably possible, MasterCard does not record a liability, but instead discloses the nature and the amount of the claim, and an estimate of the loss or range of loss, if such an estimate can be made. Unless otherwise stated below with respect to these matters, MasterCard cannot provide an estimate of the possible loss or range of loss based on one or more of the following reasons: (1) actual or potential plaintiffs have not claimed an amount of monetary damages or the amounts are unsupported or exaggerated, (2) the matters are in early stages, (3) there is uncertainty as to the outcome of pending appeals or motions, (4) there are significant factual issues to be resolved, (5) the existence in many such proceedings of multiple defendants or potential defendants whose share of any potential financial responsibility has yet to be determined, and/or (6) there are novel legal issues presented. Furthermore, except as identified with respect to the matters below, MasterCard does not believe that the outcome of any individual existing legal or regulatory proceeding to which it is a party will have a material adverse effect on its results of operations, financial condition or overall business. However, an adverse judgment or other outcome or settlement with respect to any proceedings discussed below 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 proceeding could lead to the filing of civil damage claims and possibly result in significant damage awards. Any of these events could have a material adverse effect on MasterCard's results of operations, financial condition and overall business.

Interchange Litigation and Regulatory Proceedings

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. 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 were styled as class actions, although a few complaints were filed on behalf of individual merchant plaintiffs) against MasterCard International, Visa U.S.A., Inc., Visa International Service Association and a number of financial institutions. Taken together, the claims in the complaints were 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 financial institutions

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

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 were consolidated for pre-trial proceedings in the U.S. District Court for the Eastern District of New York in MDL No. 1720. The plaintiffs filed a consolidated class action complaint that seeks treble damages.

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 financial institutions in connection with the IPO: (1) violate U.S. antitrust laws and (2) constituted a fraudulent conveyance because the financial institutions allegedly attempted to release, without adequate consideration, MasterCard's right to assess them for MasterCard's litigation liabilities. The class plaintiffs sought treble damages and injunctive relief including, but not limited to, an order reversing and unwinding the IPO.

In February 2011, MasterCard and MasterCard International 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 financial institutions; and (2) a MasterCard settlement and judgment sharing agreement with a number of financial institutions. The agreements provide for the apportionment of certain costs and liabilities which MasterCard, the Visa parties and the 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 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 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 (including with respect to the claims related to the IPO) and the defendants separately entered into a settlement agreement with the individual merchant plaintiffs. 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. Objections to the settlement were filed by both merchants and certain competitors, 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 court granted final approval of the settlement in December 2013. Objectors to the settlement appealed the decision, and an oral argument was heard on the appeal in September 2015. Separately, the objectors filed a motion in July 2015 to set aside the approval order, contending that the merchant class was inadequately represented and the settlement was insufficient because a counsel for several individual merchant plaintiffs improperly exchanged communications with a defense counsel who at the time was representing MasterCard.

Merchants representing slightly more than 25% of the MasterCard and Visa purchase volume over the relevant period chose to opt out of the class settlement. MasterCard anticipates that most of the larger merchants who opted out of the settlement will initiate separate actions seeking to recover damages, and over 30 opt-out complaints have been filed on behalf of numerous merchants in various jurisdictions. The defendants have consolidated all of these matters (except for one state court action in New Mexico) in front of the same federal district court that is overseeing the approval of the settlement. In July 2014, the district court denied the defendants' motion to dismiss the opt-out merchant complaints for failure to state a claim.

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. As of March 31, 2016 and December 31, 2015, MasterCard had \$542 million and \$541 million, respectively, in the qualified cash settlement fund classified as restricted cash on its balance sheet. The class settlement agreement provided for a return to the defendants of a portion of the class cash settlement fund, based upon the percentage of purchase volume represented by the opt-out merchants. This resulted in \$164 million from the cash settlement fund being returned to MasterCard in January 2014 and reclassified at that time from restricted cash to cash and cash equivalents. In the fourth quarter of 2013, MasterCard recorded an incremental net pre-tax charge of \$95 million related to the opt-out merchants, representing a change in its estimate of probable losses relating to these matters. MasterCard has executed settlement agreements with a number of opt-out merchants and no adjustment to the amount previously recorded was deemed necessary. As of March 31, 2016, MasterCard had accrued a liability of \$710 million as a reserve for both the merchant class litigation and the filed and anticipated opt-out merchant cases.

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The portion of the accrued liability relating to the opt-out merchants does not represent an estimate of a loss, if any, if the opt-out merchant matters were litigated to a final outcome, in which case MasterCard cannot estimate the potential liability. MasterCard's estimate involves significant judgment and may change depending on progress in settlement negotiations or depending upon decisions in any opt-out merchant cases. In addition, in the event that the merchant class litigation settlement approval is overturned, 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, a proposed class action complaint was commenced against MasterCard in Quebec on behalf of Canadian merchants. That suit essentially repeated the allegations and arguments of a previously filed application by the Canadian Competition Bureau to the Canadian Competition Tribunal (dismissed in MasterCard's favor) related to certain MasterCard rules related to point-of-sale acceptance, including the "honor all cards" and "no surcharge" rules. The suit sought compensatory and punitive damages in unspecified amounts, as well as injunctive relief. In the first half of 2011, additional purported class action lawsuits containing similar allegations to the Quebec class action were commenced in British Columbia and Ontario against MasterCard, Visa and a number of large Canadian financial institutions. 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. The Quebec suit was later 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 appellate court issued an order in August 2015 allowing several of the merchants' claims to proceed on a class basis. Additional proposed class action complaints have been filed in Saskatchewan and Alberta with claims that largely mirror those in the British Columbia and Ontario suits. If the class action lawsuits 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 could result in substantial damage awards.

Europe. In July 2015, the European Commission issued a Statement of Objections related to MasterCard's interregional interchange fees and central acquiring rules within the European Economic Area. The Statement of Objections, which follows an investigation opened in 2013, includes preliminary conclusions concerning the anticompetitive effects of these practices. The European Commission has indicated it intends to seek fines if these conclusions are subsequently confirmed. Although the Statement of Objections does not quantify the level of fines, it is possible that they could be substantial. MasterCard would not expect fines to be imposed if it agrees with the Commission to business practice changes that address the Commission's concerns. In April 2016, MasterCard submitted a response to the Statement of Objections disputing the Commission's preliminary conclusions.

In the United Kingdom, beginning in May 2012, a number of retailers filed claims or threatened litigation against MasterCard seeking damages for alleged anti-competitive conduct with respect to MasterCard's cross-border interchange fees and its U.K. and Ireland domestic interchange fees (the "UK Merchant claimants"). These retailers seek purported damages in excess of \$1 billion. Additional merchants have filed or threatened litigation with respect to interchange rates in Europe (the "Pan-European claimants") for purported damages exceeding \$1 billion. In June 2015, MasterCard entered into a settlement with one of the UK Merchant claimants for \$61 million, recorded as a provision for litigation settlement. MasterCard has submitted statements of defense to the remaining retailers' claims disputing liability and damages. A trial for liability and damages for one of the U.K. merchant cases commenced in January 2016. The merchant in that action has claimed compensatory damages of approximately \$300 million, and is also seeking costs and punitive damages. MasterCard has argued that there is no liability or damage to the merchant. The trial concluded in March 2016, with a decision expected later in the year.

With respect to all UK Merchant claimants' litigations, MasterCard believes that it is reasonably possible that it could incur a loss and estimates the lower end of a negotiated settlement could result in a loss of \$270 million. MasterCard's

estimate involves significant judgment and may change from time to time due to the varying stages of the UK Merchant claimants' litigations, progress in settlement negotiations and the potential uncertainty of numerous unresolved legal issues. As such, subsequent progress in negotiations and/or decisions by courts could increase or decrease this estimate. The above estimate relates only to potential settlements, and MasterCard cannot estimate the potential liability, if any, if the UK Merchant claimant litigations are litigated to a final decision. At this time, MasterCard is unable to estimate a probable loss for the matters, if any, and accordingly has not accrued for any loss.

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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 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, 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. In February 2013, the district court granted MasterCard’s motion to dismiss the complaints for failure to state a claim. On appeal, the Court of Appeals reversed the district court’s order in August 2015 and sent the case back for further proceedings. In March 2016, certain of the plaintiffs in the ATM Operators Complaint filed a motion seeking a preliminary injunction enjoining the enforcement of the nondiscrimination rules pending the outcome of the litigation.

U.S. Liability Shift Litigation

In March 2016, a proposed U.S. merchant class action complaint was filed in federal court in California alleging that EMVCo, MasterCard, Visa, American Express, Discover, China Union Pay and a number of issuing banks engaged in a conspiracy to shift fraud liability for card present transactions from issuing banks to merchants not yet in compliance with the standards for EMV chip cards in the United States (the “EMV Liability Shift”), in violation of the Sherman Act and California law. Plaintiffs allege the damages would be the value of all chargebacks for which class members became liable as a result of the EMV Liability Shift on October 1, 2015. The plaintiffs seek against the parties treble damages, attorney’s fees and costs and an injunction against future violations of governing law.

Note 11. 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. Gross settlement exposure is 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. 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

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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, 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 an 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:

	March 31,	December 31,
	2016	2015
	(in millions)	
Gross settlement exposure	\$38,208	\$ 39,674
Collateral held for settlement exposure	(3,439)	(3,601)
Net uncollateralized settlement exposure	\$34,769	\$ 36,073

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 financial institution failures. MasterCard also provides guarantees to customers and certain other counterparties indemnifying them from losses stemming from failures of third parties to perform duties. This includes guarantees of MasterCard-branded travelers cheques issued, but not yet cashed of \$419 million and \$420 million at March 31, 2016 and December 31, 2015, respectively, of which \$331 million and \$332 million at March 31, 2016 and December 31, 2015, respectively, is mitigated by collateral arrangements. 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 12. Foreign Exchange Risk Management

The Company monitors and manages its exposures as part of its overall risk management program which focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on its operating results. A principal objective of the Company's risk management strategies is to reduce significant, unanticipated earnings fluctuations that may arise from volatility in foreign currency exchange rates principally through the use of derivative instruments.

Derivatives

The Company enters into foreign currency derivative contracts to manage risk associated with anticipated receipts and disbursements which are valued based on currencies other than its functional currency. The Company may also enter into foreign currency derivative contracts to offset possible changes in value due to foreign exchange fluctuations of earnings, assets and liabilities denominated in currencies other than the Company's U.S. dollar reporting currency. 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.

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As of March 31, 2016, the majority of derivative contracts to hedge foreign currency fluctuations had been entered into with customers of MasterCard. MasterCard's derivative contracts are summarized below:

	March 31, 2016		December 31, 2015	
	Notional	Estimated Fair	Notional	Estimated Fair
	Value	Value	Value	Value
	(in millions)			
Commitments to purchase foreign currency	\$240	\$ 10	\$ 232	\$ 1
Commitments to sell foreign currency	1,343	(46)	1,430	12
Options to sell foreign currency	34	—	44	1
Balance sheet location:				
Accounts receivable ¹		\$ 18		\$ 23
Other current liabilities ¹		(54)		(9)

¹ 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 is summarized below:

	Three Months Ended March 31, 2016 2015 (in millions)	
Foreign currency derivative contracts		
General and administrative	\$(44)	\$ 33

Foreign currency derivative contracts

General and administrative \$(44) \$ 33

The fair value of the foreign currency derivative contracts generally reflects the estimated amounts that the Company would receive (or pay), on a pre-tax basis, to terminate the contracts. The terms of the foreign currency derivative contracts are generally less than 18 months. The Company had no deferred gains or losses related to foreign exchange contracts in accumulated other comprehensive income as of March 31, 2016 and December 31, 2015, as these contracts were not 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 \$126 million on the Company's foreign currency derivative contracts outstanding at March 31, 2016 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.

Net investment hedge

The Company uses foreign currency denominated debt to hedge a portion of its net investment in foreign operations against adverse movements in exchange rates, with changes in the value of the debt recorded within currency translation adjustment in accumulated other comprehensive income (loss). During the fourth quarter of 2015, the Company designated its €1.65 billion euro-denominated debt as a net investment hedge for a portion of its net investment in European foreign operations. As of March 31, 2016, the Company had a net foreign currency

transaction pre-tax loss of \$104 million in accumulated other comprehensive income (loss) associated with hedging activity. There was no ineffectiveness in the current period.

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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, 2015 as contained in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission on February 12, 2016. 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 (together, "MasterCard" or the "Company"), included elsewhere in this Report. 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. Currency-neutral growth rates exclude the impacts from both translational and transactional foreign currency. Columns labeled "Foreign Currency" within the tables included within represent the impacts from both translational and transactional foreign currency.

Non-GAAP Financial Information

MasterCard presents growth rates on a currency-neutral basis, which is a non-GAAP financial measure. Currency-neutral growth rates are calculated by remeasuring the prior period's results using the current period's exchange rates for both the translational and transactional impacts on our operating results. The impact of foreign currency translation represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency. The impact of the transactional foreign currency represents the effect of converting revenue and expenses occurring in a currency other than the functional currency. MasterCard's management believes the presentation of certain currency-neutral growth rates provides relevant information. MasterCard's management uses non-GAAP financial measures to, among other things, evaluate its ongoing operations in relation to historical results, for internal planning and forecasting purposes and in the calculation of performance-based compensation. The presentation of non-GAAP financial measures should not be considered in isolation or as a substitute for the Company's related financial results prepared in accordance with GAAP.

Overview

MasterCard is a technology company in the global payments industry that connects consumers, financial institutions, merchants, governments and businesses worldwide, enabling them to use electronic forms of payment instead of cash and checks. As the operator of what we believe is the world's fastest payments network, we facilitate the processing of payment transactions, including authorization, clearing and settlement, and deliver related products and services. We make payments easier and more efficient by creating a wide range of payment solutions and services using our family of well-known brands, including MasterCard, Maestro and Cirrus. We also provide value-added offerings such as loyalty and reward programs, information services and consulting. Our network is designed to ensure safety and security for the global payments system.

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

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

Our Strategy

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

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

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

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

Build. We build our business by:

taking advantage of the opportunities presented by evolving ways consumers interact and transact as physical and digital payments converge; and

using our safety and security products and solutions, data analytics and loyalty solutions to add value.

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

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

Financial Results Overview

For the three months ended March 31, 2016, we recorded net income of \$959 million, a decrease of 6%, or 2% on a currency-neutral basis, versus the comparable period in the prior year, and earnings per diluted share of \$0.86, down 3%, or up 1% on a currency-neutral basis versus the comparable period in the prior year. Key highlights for the three months ended March 31, 2016 are as follows:

Our net revenue increased 10%, or 14% on a currency-neutral basis versus the comparable period in 2015, primarily driven by increases across our revenue categories, partially offset by higher rebates and incentives. Our processed transactions increased 14%, MasterCard-Branded GDV increased 13% and cross border volumes increased 12%, on a local currency basis, versus the comparable period in 2015.

- Operating expenses increased 25%, or 29% on a currency-neutral basis versus the comparable period in 2015, primarily due to the difference between foreign currency gains related to currency hedging and balance sheet remeasurement which occurred in 2015 versus foreign exchange losses on currency hedging in the current year. Additionally, there were higher personnel costs in the current year due to our continued investment in the areas of digital, services and data analytics along with wage increases. The impact from foreign exchange derivative contracts and balance sheet remeasurement had a negative impact of 16 percentage points to operating expense growth versus the comparable period in 2015.

The effective tax rate of 28.3% increased by 4.4 percentage points versus the comparable period in the prior year due to the lapping of a discrete tax benefit relating to foreign tax credits recorded in 2015.

Other financial highlights for three months ended March 31, 2016 were as follows:

We generated net cash flows from operations of \$1.0 billion compared to \$911 million for the comparable period in 2015.

We repurchased 15.4 million shares and paid dividends of \$212 million.

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The following table provides a summary of our operating results for the three months ended March 31, 2016 and 2015:

	Three Months		Percent Increase/(Decrease)
	Ended March 31, 2016	2015	
	(in millions, except per share data and percentages)		
Net revenue	\$2,446	\$2,230	10%
Operating expenses	\$1,098	\$879	25%
Operating income	\$1,348	\$1,351	—%
Operating margin	55.1 %	60.6 %	
Income tax expense	\$378	\$320	18%
Effective income tax rate	28.3 %	23.9 %	
Net Income	\$959	\$1,020	(6)%
Diluted earnings per share	\$0.86	\$0.89	(3)%
Diluted weighted-average shares outstanding	1,112	1,152	(3)%

* Tables may not sum due to rounding.

Business Environment

We process transactions from more than 210 countries and territories and in more than 150 currencies. Net revenue generated in the United States was 39% and 38% for the three months ended March 31, 2016 and 2015, respectively. No individual country, other than the United States, generated more than 10% of total revenue in each period, but differences in market growth, economic health and foreign exchange fluctuations in certain countries can have an impact on the proportion of revenue generated outside the United States over time. While the global nature of our business helps protect our operating results from adverse economic conditions in a single or a few countries, the significant concentration of our revenue generated in the United States makes our business particularly susceptible to adverse economic conditions in the United States.

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

MasterCard's financial results may be negatively impacted by actions taken by individual financial institutions or by governmental or regulatory bodies. In addition, 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. The extent and pace of economic recovery in various regions remains uncertain and the overall business environment may present challenges for MasterCard to grow its business. For a full discussion see, "Risk Factors - Business Risks" in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

In addition, our business and our customers' businesses are subject to regulation in many countries. Regulatory bodies may seek to impose rules and price controls on certain aspects of our business and the payments industry. For further discussion, see Note 10 (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 (Risk Factors) of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. 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

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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, 2015 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 foreign currency translation, which represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency. For the three months ended March 31, 2016, as compared to the same period in 2015, our operating results were impacted primarily by the weakening of the Brazilian real against the U.S. dollar, which devalued against the U.S. dollar by 27%, versus the comparable period in 2015.

Our operating results can also be impacted by transactional foreign currency. The impact of the transactional foreign currency represents the effect of converting revenue and expenses occurring in a currency other than the functional currency. 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 non-European local currencies and the strengthening or weakening of the euro versus other European local currencies. For example, our billing in Australia is in the U.S. dollar, however, consumer spend in Australia is in the Australian dollar. The foreign currency transactional impact of converting Australian dollars to our U.S. dollar billing currency will have an impact on the revenue generated. The strengthening or weakening of the U.S. dollar is evident when GDV growth on a U.S. dollar-converted basis is compared to GDV growth on a local currency basis. For the three months ended March 31, 2016, as compared to the same period in 2015, GDV on a U.S. dollar-converted basis increased 7%, while GDV on a local currency basis grew 13%. Further, the impact from transactional foreign currency occurs in transaction processing revenue, other revenue and operating expenses when the local currency of these items are different than the functional currency. The following table provides a summary of the foreign currency translational and transactional impact on growth for the following items in operating results for the three months ended March 31, 2016, versus the comparable period in 2015:

	Positive (Negative) Impact from Foreign Currency
Net Revenue	(4)%
Operating Expenses	4%
Net Income	(4)%

In addition, the Company incurs foreign currency gains and losses from remeasuring monetary assets and liabilities that are in a currency other than the functional currency and from remeasuring foreign exchange derivative contracts (“Foreign Exchange Activity”). Foreign Exchange Activity is recorded in general and administrative expenses. The Company attempts to manage the impact of transactional foreign currency exposures through its foreign exchange risk management activities, which are discussed further in Note 12 (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.

Financial Results**Revenue****Revenue Description**

MasterCard’s business model involves four participants in addition to us: cardholders, merchants, issuers (the cardholders’ financial institutions) and acquirers (the merchants’ financial institutions). Our gross revenue is generated

by assessing our customers based primarily on the dollar volume of activity on the cards and other devices that carry our brands and from the fees that we charge our customers for providing transaction processing and other payment-related products and services. Our revenue is based upon transactional information accumulated by our systems or reported by our customers. Our primary revenue billing currencies are the U.S. dollar, euro and Brazilian real.

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

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

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

Domestic assessments: Domestic assessments are fees charged to issuers and acquirers based primarily on the dollar volume of activity on cards and other devices that carry our brands where the merchant country and the issuer country are the same. Domestic assessments include items such as card assessments, which are fees charged on the number of cards issued or assessments for specific purposes, such as acceptance development or market development programs.

Cross-border volume fees: Cross-border volume fees are charged to issuers and acquirers based on the dollar volume of activity on cards and other devices that carry our brands where the merchant country and the issuer country are different. In general, a cross-border transaction generates higher revenue than a domestic transaction since cross-border fees are higher than domestic fees, and in most cases also include fees for currency conversion.

Transaction processing fees: Transaction processing fees are charged for both domestic and cross-border transactions and are primarily based on the number of transactions. Transaction processing fees include charges for the following:

• Switching fees for the following products and services:

• Authorization is the process by which a transaction is routed to the issuer for approval. In certain circumstances such as when the issuer's systems are unavailable or cannot be contacted, MasterCard or others, on behalf of the issuer approve in accordance with either the issuer's instructions or applicable rules (also known as "stand-in").

• Clearing is the exchange of financial transaction information between issuers and acquirers after a transaction has been successfully conducted at the point of interaction. MasterCard clears transactions among customers through our central and regional processing systems.

• Settlement is facilitating the exchange of funds between parties.

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

• Other Processing fees: We extend our processing capabilities in the payment value chain for issuer and acquirer solutions; payment gateways for e-commerce merchants; and mobile gateways for mobile initiated transactions.

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

• Consulting, data analytic and research fees are primarily generated by MasterCard Advisors, the Company's professional advisory services group.

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Safety and security services fees are for products and services we offer to prevent, detect and respond to fraud and to ensure the safety of transactions made on MasterCard products. We work with issuers, merchants and governments to help deploy standards for safe and secure transactions for the global payments system.

Loyalty and rewards solution fees are charged to issuers for benefits provided directly to consumers with MasterCard-branded cards, such as access to a global airline lounge network, global and local concierge services, individual insurance coverages, emergency card replacement, emergency cash advance services and a 24-hour cardholder service center. For merchants, we provide targeted offers and rewards campaigns and management services for publishing offers, as well as opportunities for holders of co-brand or loyalty cards and rewards program members to obtain rewards points faster.

Program management services provided to prepaid card issuers consist of foreign exchange margin, commissions, load fees and ATM withdrawal fees paid by cardholders on the sale and encashment of prepaid cards.

The Company also charges for a variety of other payment-related products and services, including account and transaction enhancement services, rules compliance and publications.

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

Revenue Analysis

In the three months ended March 31, 2016, gross revenue increased 12%, or 16% on a currency-neutral basis, versus the comparable period in 2015. Gross revenue growth in the three months ended March 31, 2016 was driven by an increase in dollar volume of activity on cards carrying our brands, transactions, other payment-related products and services and the impact of acquisitions. Rebates and incentives, in the three months ended March 31, 2016, increased 18%, or 22% on a currency-neutral basis, versus the comparable period in 2015, primarily due to the impact from new and renewed agreements and increased volumes. Our net revenue increased 10%, or 14% on a currency-neutral basis, for the three months ended March 31, 2016, versus the comparable period in 2015.

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

	Three Months Ended March			
	2016		2015	
	Growth (USD)	Growth (Local)	Growth (USD)	Growth (Local)
MasterCard-Branded GDV ¹	7 %	13 %	2 %	12 %
Asia Pacific/Middle East/Africa	6 %	13 %	9 %	15 %
Canada	(2) %	9 %	2 %	15 %
Europe	11 %	18 %	(9) %	15 %
Latin America	(9) %	14 %	(3) %	15 %
United States	10 %	10 %	7 %	7 %
Cross-border Volume ¹	6 %	12 %	3 %	19 %
Processed Transactions		14 %		12 %

¹ Excludes volume generated by Maestro and Cirrus cards.

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. See our risk factor in “Risk Factor - Business Risks” in Part I, Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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The significant components of our net revenue for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months		
	Ended March 31, Percent Increase (Decrease)		
	2016	2015	
	(in millions, except percentages)		
Domestic assessments	\$1,027	\$963	7%
Cross-border volume fees	796	724	10%
Transaction processing fees	1,165	1,006	16%
Other revenues	497	418	19%
Gross revenue	3,485	3,111	12%
Rebates and incentives (contra-revenue)	(1,039)	(881)	18%
Net revenue	\$2,446	\$2,230	10%

The following table provides a summary of the primary drivers of net revenue growth in the three months ended March 31, 2016, versus the comparable period in 2015:

	Volume	Foreign Currency	Acquisitions	Other ¹	Total
Domestic assessments	13 %	(6 %) %	— %	— % ²	7 %
Cross-border volume fees	10 %	(4 %) %	— %	4 %	10 %
Transaction processing fees	13 %	(2 %) %	— %	5 %	16 %
Other revenues	**	(3 %) %	5 %	17 % ³	19 %
Rebates and incentives	10 %	(4 %) %	— %	12 % ⁴	18 %
Net revenue	11 %	(4 %) %	1 %	2 %	10 %

** Not applicable

¹ Includes impact of pricing and other non-volume based fees.

² Includes impact of the allocation of revenue to service deliverables, which are recorded in other revenue when services are performed.

³ Includes impacts from Advisors, safety and security fees, loyalty and reward solution fees and other payment-related products and services.

⁴ Includes the impact from timing of new, renewed and expired agreements.

Operating Expenses

Our operating expenses are comprised of general and administrative, advertising and marketing and depreciation and amortization expenses. Operating expenses increased 25%, or 29% on a currency-neutral basis, for the three months ended March 31, 2016, versus the comparable period in 2015, primarily due to the difference between foreign currency gains related to currency hedging and balance sheet remeasurement which occurred in 2015 versus foreign exchange losses on currency hedging in the current year. Additionally, there were higher personnel costs in the current year due to our continued investment in the areas of digital, services and data analytics along with wage increases. For the three months ended March 31, 2016, foreign exchange activity had a negative impact of 16 percentage points to operating expense growth versus the comparable period in 2015. The components of operating expenses for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months		Percent Increase (Decrease)
	Ended March 31,		
	2016	2015	
	(in millions, except percentages)		
General and administrative	\$868	\$650	34%

Advertising and marketing	135	142	(5)%
Depreciation and amortization	95	87	9%
Total operating expenses	\$1,098	\$879	25%

** Not meaningful

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The following table provides a summary of the primary drivers of operating expense growth in the three months ended March 31, 2016, versus the comparable period in 2015:

	Acquisitions	Foreign Currency	Other	Total
General and administrative	4 %	(4)%	34 %	34 %
Advertising and marketing	— %	(3)%	(2)%	(5)%
Depreciation and amortization	10 %	(2)%	1 %	9 %
Total operating expenses	4 %	(4)%	25 %	25 %

General and Administrative

General and administrative expenses for the three months ended March 31, 2016 increased 34%, or 38% on a currency-neutral basis, versus the comparable period in 2015. The significant components of our general and administrative expenses for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31, 2016 2015		Percent Increase (Decrease)
	(in millions, except percentages)		
Personnel	\$520	\$468	11%
Professional fees	64	58	10%
Data processing and telecommunications	97	78	24%
Foreign exchange activity	40	(88)	**
Other	147	134	11%
General and administrative expenses	\$868	\$650	34%

** Not meaningful

The primary drivers of changes in general and administrative expenses for three months ended March 31, 2016 versus the comparable period in 2015 were:

Higher personnel expense was driven by an increase in the number of employees to support our continued investment in the areas of digital, services and data analytics along with wage increases.

Professional fees consist primarily of third-party services, legal costs to defend our outstanding litigation and the evaluation of regulatory developments that impact our industry and brand.

Data processing and telecommunication expense consists of expenses to support our global payments network infrastructure, expenses to operate and maintain our computer systems and other telecommunication systems. These expenses increased due to capacity growth of our business and higher third-party processing costs.

Foreign exchange activity includes gains and losses on foreign exchange derivative contracts and the impact of remeasurement of monetary assets and liabilities denominated in foreign currencies. Foreign exchange activity negatively impacted general and administrative expense growth by \$128 million, or 22 percentage points. During three months ended March 31, 2016, we incurred \$40 million of losses primarily relating to our derivative contracts versus \$33 million of gains on similar contracts in the comparable period in 2015. In addition, in the prior year, we recognized balance sheet remeasurement gains of \$55 million driven primarily by the devaluation of the Venezuelan bolivar.

Other expenses include costs to provide loyalty and rewards programs, travel and meeting expenses and rental expense for our facilities. Other expenses increased primarily due to increased cardholder benefit costs.

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Advertising and Marketing

Our brands, principally MasterCard, are valuable strategic assets that drive acceptance and usage of our products 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, promotions, 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 decreased 5%, or 2% on a currency-neutral basis, for the three months ended March 31, 2016, versus the comparable period in 2015, mainly due to the timing of sponsorship promotions.

Depreciation and Amortization

Depreciation and amortization expenses increased 9%, or 10% on a currency-neutral basis, for the three months ended March 31, 2016 versus the comparable period in 2015, primarily due to higher amortization of capitalized software costs associated with our acquisitions.

Other Income (Expense)

Other income (expense) is comprised primarily of investment income, interest expense, our share of income (losses) from equity method investments and other gains and losses. Total other expense for the three months ended March 31, 2016 remained flat versus the comparable period in 2015, primarily due to higher interest expense related to our debt issuance in December 2015, offset by various other items.

Income Taxes

The effective income tax rates were 28.3% and 23.9% for the three months ended March 31, 2016 and 2015, respectively. For the three months ended March 31, 2016, the effective tax rate was higher than the comparable period in 2015, due to the recognition of a discrete benefit in 2015 relating to certain foreign taxes becoming eligible to be claimed as credits in the United States.

See Note 9 (Income Taxes) to the consolidated financial statements included in Part I, Item 1 of this Report for further discussion of these items.

Liquidity and Capital Resources

We need liquidity and access to capital to fund our global operations, credit and settlement exposure, capital expenditures, investments in our business and current and potential obligations. The Company generates the cash required to meet these needs through operations. The following table summarizes the cash, cash equivalents, investments and credit available to the Company at March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
	(in billions)	
Cash, cash equivalents and investments ¹	\$6.2	\$ 6.7
Unused line of credit ²	3.8	3.8

¹ Investments include available-for-sale securities and held-to-maturity securities. At March 31, 2016 and December 31, 2015 this amount excludes restricted cash related to the U.S. merchant class litigation settlement of \$542 million and \$541 million, respectively.

² The Company did not use any funds from the line of credit available during the periods presented.

Cash, cash equivalents and investments held by our foreign subsidiaries (i.e., any entities where earnings would be subject to U.S. tax upon repatriation) was \$3.5 billion and \$3.3 billion at March 31, 2016 and December 31, 2015, respectively, or 56% and 48% of our total as of such dates. It is our present intention to indefinitely reinvest historic undistributed accumulated earnings associated with our foreign subsidiaries as of December 31, 2015 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, 2015), 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 indefinitely reinvested outside of the United States, the Company would be required to record a liability for such U.S. taxes for the historic undistributed accumulated earnings at that time. Such taxes would be due upon repatriation of such earnings to the United States.

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Our liquidity and access to capital could be negatively impacted by global credit market conditions. The Company guarantees the settlement of many MasterCard, Cirrus and Maestro-branded transactions between our issuers and acquirers. See Note 11 (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. For additional discussion of these and other risks facing our business, see Part I, Item 1A - Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 31, 2015; Note 10 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1 of this Report; and "-Business Environment".

Cash Flow

The table below shows a summary of the cash flows from operating, investing and financing activities for the three months ended March 31, 2016 and 2015:

Three Months
Ended March
31,
2016 2015
(in millions)

Cash Flow Data:

Net cash provided by operating activities	\$1,008	\$911
Net cash used in investing activities	(385)	(519)
Net cash used in financing activities	(1,545)	(1,100)

Net cash provided by operating activities increased \$97 million for the three months ended March 31, 2016, versus the comparable period in 2015, primarily due to higher customer incentive accruals and lower litigation payments in the current year, partially offset by lower net income and timing of payables.

Net cash used in investing activities decreased by \$134 million for the three months ended March 31, 2016, versus the comparable period in 2015, due to lower net purchases of investment securities as compared to prior year.

Net cash used in financing activities increased by \$445 million for the three months ended March 31, 2016, versus the comparable period in 2015, due to higher repurchases of the Company's Class A common stock in the current year and higher dividends.

The table below shows a summary of the balance sheet data at March 31, 2016 and December 31, 2015:

March 31 | December 31,
2016 2015
(in millions)

Balance Sheet Data:

Current assets	\$10,606	\$ 10,984
Current liabilities	6,440	6,269
Long-term liabilities	3,954	3,919
Equity	5,511	6,062

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

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Debt and Credit Availability

In December 2015, the Company issued €1.65 billion aggregate principal amount of notes. This offering consisted of €700 million aggregate principal amount of notes due 2022, €800 million aggregate principal amount of notes due 2027 and €150 million aggregate principal amount of notes due 2030 (collectively the “Euro Notes”). In March 2014, the Company issued \$500 million aggregate principal amount of notes due 2019 and \$1 billion aggregate principal amount of notes due 2024 (collectively the “USD Notes”). The Company is not subject to any financial covenants under the Euro Notes and the USD Notes (collectively the “Notes”). Interest on the Euro Notes is payable annually on December 1. Interest on the USD Notes is payable semi-annually on April 1 and October 1. The Notes may be redeemed in whole, or in part, at the Company’s option at any time for a specified make-whole amount. The Notes are senior unsecured obligations and would rank equally with any future unsecured and unsubordinated indebtedness. In November 2015, the Company established a commercial paper program (the “Commercial Paper Program”). Under the Commercial Paper Program, the Company is authorized to issue up to \$3.75 billion in outstanding notes, denominated in U.S. Dollars, with maturities up to 397 days from the date of issuance. In conjunction with the Commercial Paper Program, the Company entered into a committed unsecured \$3.75 billion revolving credit facility (the “Credit Facility”) in October 2015, which expires in 2020. The Credit Facility amended and restated the Company’s prior credit facility. Borrowings under the Credit Facility are available in U.S. dollars and/or euros. The facility fee and borrowing cost under the Credit Facility are dependent upon the Company’s credit rating. Currently, the applicable facility fee is 8 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 79.5 basis points, or an alternative base rate.

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 (EBITDA), which are substantially similar to the prior credit facility. MasterCard was in compliance in all material respects with the covenants of the Credit Facility as of March 31, 2016 and December 31, 2015. The majority of Credit Facility lenders are customers or affiliates of customers of MasterCard. Borrowings under the Credit Facility and the Commercial Paper Program are used for general corporate purposes. MasterCard had no borrowings outstanding under the Credit Facility or the Commercial Paper Program at March 31, 2016 and December 31, 2015.

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

On February 2, 2016, our Board of Directors declared a quarterly cash dividend of \$0.19 per share payable on May 9, 2016 to holders of record on April 8, 2016 of our Class A common stock and Class B common stock. The aggregate amount of this dividend will be \$209 million.

Aggregate payments for quarterly dividends totaled \$212 million and \$184 million for the three months ended March 31, 2016 and 2015, 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. In December 2015, our Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to \$4 billion of our Class A common stock. This program became effective in February 2016. We typically complete a share repurchase program before a new program becomes effective.

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The following table summarizes the Company's share repurchase authorizations of its Class A common stock through March 31, 2016, as well as historical purchases:

	Authorization Dates		
	December 2015	December 2014	Total
	(in millions, except average price data)		
Board authorization	\$4,000	\$ 3,750	\$7,750
Remaining authorization at December 31, 2015	\$4,000	\$ 507	\$4,507
Dollar value of shares repurchased during the three months ended March 31, 2016	\$850	\$ 507	\$1,357
Remaining authorization at March 31, 2016	\$3,150	\$ —	\$3,150
Shares repurchased during the three months ended March 31, 2016	9.7	5.7	15.4
Average price paid per share during the three months ended March 31, 2016	\$87.38	\$ 89.76	\$88.26

See Note 6 (Stockholders' Equity) to the consolidated financial statements included in Part I, Item 1 of this Report for further discussion.

Off-Balance Sheet Arrangements

MasterCard has no off-balance sheet debt other than lease arrangements and other commitments as presented in the future obligations table 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, 2015.

Recent Accounting Pronouncements

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

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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 \$126 million on our foreign currency derivative contracts outstanding at March 31, 2016 related to the hedging program. A 100 basis point adverse change in interest rates would not have a material impact on the Company's investments at March 31, 2016 or December 31, 2015. Our euro-denominated debt is vulnerable to changes in the euro to U.S. dollar exchange rates. We use the euro-denominated debt to hedge a portion of our net investment in foreign operations against adverse movements in exchange rates, with changes in the translated value of the debt recorded within currency translation adjustment in accumulated other comprehensive income (loss). In addition to euro-denominated debt, we have U.S. dollar-denominated debt, both of which carry a fixed interest rate and thus the fair value of our debt is subject to interest rate risk. There was no material equity price risk at March 31, 2016 or December 31, 2015.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are designed to ensure that information that is required to be disclosed in the reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to management, including our President and Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding disclosure. The President and Chief Executive Officer and the Chief Financial Officer, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

There was no change in MasterCard's internal control over financial reporting that occurred during the three months ended March 31, 2016 that has materially affected, or is reasonably likely to materially affect, MasterCard'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 March 31, 2016 and for the three months ended March 31, 2016 and 2015, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their report dated April 28, 2016 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.

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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 March 31, 2016, and the related consolidated statements of operations and comprehensive income for the three-month periods ended March 31, 2016 and 2015, and the consolidated statement of changes in equity for the three-month period ended March 31, 2016, and the consolidated statement of cash flows for the three-month periods ended March 31, 2016 and 2015 included within Part I, Item 1 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 statements 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, 2015, and the related consolidated statements 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 12, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2015, 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
April 28, 2016

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note 10 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1.

ITEM 1A. RISK FACTORS

For a discussion of the Company's risk factors, see Item 1A (Risk Factors) in Part I of our Annual Report on Form 10-K for the year ended December 31, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES

During the first quarter of 2016, MasterCard repurchased a total of approximately 15.4 million shares for \$1.4 billion at an average price of \$88.26 per share of Class A common stock. See Note 6 (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 first quarter of 2016 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
January 1 - 31	4,405,982	\$ 90.75	4,405,982	\$ 4,106,703,645
February 1 - 29	5,621,009	\$ 85.22	5,621,009	\$ 3,627,673,500
March 1 - 31	5,340,163	\$ 89.40	5,340,163	\$ 3,150,286,592
Total	15,367,154	\$ 88.26	15,367,154	

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

ITEM 5. OTHER INFORMATION

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, we hereby incorporate by reference herein the disclosure contained in Exhibit 99.1 of this Report.

ITEM 6. EXHIBITS

Refer to the Exhibit Index included herein.

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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: April 28, 2016 By: /S/ AJAY BANGA
Ajay Banga
President and Chief Executive Officer
(Principal Executive Officer)

Date: April 28, 2016 By: /S/ MARTINA HUND-MEJEAN
Martina Hund-Mejean
Chief Financial Officer
(Principal Financial Officer)

Date: April 28, 2016 By: /S/ ANDREA FORSTER
Andrea Forster
Corporate Controller
(Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.1+*	Form of Restricted Stock Unit Agreement for awards under MasterCard Incorporated 2006 Long Term Incentive Plan (effective for awards granted on and subsequent to March 1, 2016).
10.2+*	Form of Stock Option Agreement for awards under MasterCard Incorporated 2006 Long Term Incentive Plan (effective for awards granted on and subsequent to March 1, 2016).
10.3+*	Form of Performance Unit Agreement for awards under MasterCard Incorporated 2006 Long Term Incentive Plan (effective for awards granted on and subsequent to March 1, 2016).
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.
99.1*	Disclosure pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema 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.

*Filed or furnished herewith.

The agreements and 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.