MASTERCARD INC
Form 10-K
February 13, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
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 incorporation or organization)	(IRS Employer Identification Number)
2000 Purchase Street Purchase, NY	10577 (Zip Code)
(Address of principal executive offices)	

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

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

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

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

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

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

The aggregate market value of the registrant’s Class A common stock, par value $0.0001 per share, held by non-affiliates (using the New York Stock Exchange closing price as of June 30, 2014, the last business day of the registrant’s most recently completed second fiscal quarter) was approximately $81.9 billion. There is currently no established public trading market for the registrant’s Class B common stock, par value $0.0001 per share. As of February 5, 2015, there were 1,111,261,185 shares outstanding of the registrant’s Class A common stock, par value $0.0001 per share and 37,191,765 shares outstanding of the registrant’s Class B common stock, par value $0.0001 per share.

Portions of the registrant’s definitive proxy statement for the 2015 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

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

Forward-Looking Statements

This Report contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements. When used in this Report, the words "believe", "expect", "could", "may", "would", "will", "trend" and similar wor
intended to identify forward-looking statements. These forward-looking statements relate to the Company's future prospects, developments and business strategies and include, without limitation, statements relating to:

- our focus on growing, diversifying and building our business and providing value to our strategic partners;
- our management of the impact on our business of legal and regulatory challenges;
- the stability of economies around the globe;
- our advertising and marketing strategy;
- our belief that our existing cash, cash equivalents and investment securities balances, its cash flow generating capabilities, its borrowing capacity and our access to capital resources are sufficient to satisfy our future operating cash needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations and potential obligations; and
- the manner and amount of purchases pursuant to our share repurchase program, dependent upon price and market conditions.

Many factors and uncertainties relating to our operations and business environment, all of which are difficult to predict and many of which are outside of our control, influence whether any forward-looking statements can or will be achieved. Any one of those factors could cause our actual results to differ materially from those expressed or implied in writing in any forward-looking statements made by MasterCard or on its behalf. We believe there are certain risk factors that are important to our business, and these could cause actual results to differ from our expectations. Such risk factors include:

- payments system-related regulation, legislation and litigation (including interchange fees and surcharging);
- regulation related to our participation in the payments industry;
- existing regulation leading to new regulation in other jurisdictions or of other products;
- preferential or protective government actions;
- potential or incurred liability and limitations on business resulting from litigation;
- potential changes in tax laws;
- competition in the global payments industry;
- banking industry consolidation;
- loss of significant business from significant customers;
- impact of our relationships with merchants, issuers, acquirers and governments;
- competitor relationships with our customers;
- brand perception and reputation;
- the overall business environment, including global economic and political events and conditions;
- declines in cross-border activity;
- exposure to loss or illiquidity due to guarantees of settlement and certain other third-party obligations;
- impact of information security failures, disruptions to our transaction processing systems, account data breaches and increases in fraudulent activity;
- the challenges resulting from rapid technological developments in the payments industry;
- the effect of adverse currency fluctuation;

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- issues related to acquisition integration and entry into new businesses; and
- issues related to our Class A common stock and corporate governance structure.

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

PART I

Item 1. Business

Overview

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

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

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

Our Strategy

Our ability to grow our business is influenced by personal consumption expenditure growth, driving cash and checks 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.

Diversify. We look to diversify our business by seeking new areas of growth in new and existing markets around the world. We focus on:

- diversifying our customer base by working with partners such as governments and digital and mobile providers;
- 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 the ongoing convergence of the physical and digital worlds; and
- using our safety and security products and solutions, data analytics and loyalty solutions to add value.

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

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Strategic Partners. We work with merchants to help them enable new sales channels, create better purchase experiences, increase revenues and fight fraud. We partner with large digital and 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. We provide financial institutions with solutions to help them increase revenue and increase preference for their MasterCard-branded products.

Recent Business and Legal/Regulatory Developments

Product Innovation. We have launched and extended products and platforms that take advantage of physical/digital convergence, where consumers are increasingly seeking to use their cards to pay when, where and how they want. Among our recent developments:

- In 2014, we expanded the availability of MasterPass™, our global digital platform. It provides an easy and secure way to shop for all types of transactions (in-store, online and via mobile devices) by storing payment information in one convenient and secure place and enabling payment with a click or touch.
- We are using our digital technologies and security protocols to develop mobile solutions to make shopping and selling experiences simpler, faster, and safer for both consumers and merchants. One of the most prominent examples of this in 2014 was the launch of Apple Pay™, which uses MasterCard Digital Enablement Service (MDES), the platform that powers MasterPass and allows a connected device to be used as a safe and secure way to pay for everyday shopping.

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

- We continue to lead the migration to EMV, the global standard for chip technology, to bring its fraud prevention benefits to our U.S. customers, consumers and merchants.
- In the digital space, we are advancing the development of an industry-open standard for tokenization, which helps protect sensitive cardholder information for digital transactions, significantly reducing fraud and delivering benefits to both issuers and merchants.
- Among the products we launched in this area in 2014 is MasterCard SafetyNet™, which provides protection for issuers from attacks that can disable their systems.

Financial Inclusion. We are focused on addressing financial inclusion, reaching people without access to an electronic account that allows them to store and use money. In 2014, we worked with governments across several geographies to develop and roll out electronic payments solutions and social payment distribution mechanisms.

Acquisitions and Investments. In 2014, we acquired eight new businesses focused on expanding our footprint and enhancing critical capabilities, particularly around core processing activities, digital and mobile solutions and loyalty and rewards.

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

- European Union - In 2014, the European Commission's proposed legislation relating to payment system regulation of cards issued and acquired within the European Economic Area was amended by both the European Union Parliament and the European Council of Ministers. Following discussions among all three governing institutions, the resulting revised proposal includes, among other things, caps on consumer credit and debit interchange fees, "honor all cards" rule restrictions, certain surcharging prohibitions, "co-badge" rule prohibitions and separation of brand and processing in terms of accounting, organization and decision making. Final legislation is expected to be adopted during the first half of 2015. We are managing the potential impact of this legislation on our business. See the risk factor in "Legal and Regulatory Risks" in Part I, Item 1A of this Report related to payments system risks for a more detailed description of the legislation and its potential impact.
- Russia - In response to the global sanctions imposed as a result of the Ukraine conflict, the Russian government has amended its National Payments Systems laws to require all payment systems to process domestic transactions through a government-owned payment switch, which will modestly increase our costs of doing business in Russia. This requirement is expected to become effective in 2015. We are actively working to comply with the regulation and

manage the impact as we continue our business in Russia.

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

Our Business

Our Operations and Network

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

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

In a typical transaction, a cardholder (or an account holder who may not be using a physical card) purchases goods or services from a merchant using a card or other payment device. After the transaction is authorized by the issuer, the issuer pays the acquirer an amount equal to the value of the transaction, minus the interchange fee (described below), and then posts the transaction to the cardholder's account. The acquirer pays the amount of the purchase, net of a discount (referred to as the "merchant discount" rate, as further described below), to the merchant.

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

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

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

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

Our network's architecture enables us to connect all parties regardless of where or how the transaction is occurring. It has 24-hour a day availability and world-class response time. The network incorporates multiple layers of protection, both for continuity purposes and to address information security challenges. We engage in multiple efforts to mitigate such challenges, including regularly testing our systems to address potential vulnerabilities.

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

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

Processing

Transaction Switching - Authorization, Clearing and Settlement. Through the MasterCard Network, we enable the routing of a transaction to the issuer for its approval, facilitate the exchange of financial transaction information between issuers and acquirers after a successfully-conducted transaction, and help to settle the transaction by facilitating the exchange of funds between parties via settlement banks chosen by us and the customer.

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

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

- Issuer and acquirer solutions designed to provide medium to large customers with a complete processing solution to help them create differentiated products and services and allow quick deployment of payments portfolios across banking channels.

- Payment gateways that offer a single interface to provide e-commerce merchants with the ability to process secure payments and offer value-added solutions, including outsourced electronic payments, fraud prevention and alternative payment options.

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- Mobile gateways that facilitate transaction routing and prepaid processing for mobile-initiated transactions for our customers.

Programs and Solutions

We provide a wide variety of products and solutions that support payment products that customers can offer to their cardholders. These services facilitate transactions on the MasterCard Network among cardholders, merchants, financial institutions and governments in markets globally. The following chart provides GDV and number of cards featuring our brands in 2014 for select programs and solutions:

	Year Ended December 31, 2014			As of December 31, 2014		
	GDV in billions	% of Total GDV		Cards in millions	Percentage Increase from December 31, 2013	
MasterCard Branded Programs [1]						
Consumer Credit	$2,115	47	%	727	5	%
Commercial Credit	360	8	%	40	18	%
Debit and Prepaid	2,024	45	%	670	24	%

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

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

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

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

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

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

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

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

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

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- Facilitating Money Transfers and Personal Payments. We provide money transfer and global remittance products and solutions to enable consumers, particularly in developing markets, to send and receive money quickly and securely domestically and around the world. We continue to enhance our personal payments capabilities through our HomeSend joint venture and partnerships with companies such as Western Union, expanding our money transfer technology capabilities and providing financial institutions connected to our network with additional endpoints to send funds domestically and globally.

Safety and Security

Utilizing the capability of the MasterCard Network, we ensure the safety and security of the overall payments system. We offer products and services to detect, prevent and respond to fraud and ensure the safety of transactions made on our products and work with governments to help develop safe and secure transactions for the global payments system. In many markets, our products provide consumers with increased confidence through the benefit of "zero liability", or no responsibility for losses, in the event of fraud, and we continue to focus on extending this benefit for other consumers around the world.

Our products and solutions to prevent and detect fraud and enhance the safety of transactions include:

- internet authentication solutions that permit cardholders to authenticate themselves to their issuer using a unique, personal code;
- services assisting customers, merchants and third-party service providers in protecting commercial sites from hacker intrusions and subsequent account data compromises;
- a suite of fraud detection and management products and services; and
- services protecting issuers from attacks that can disable their systems.

We have been leading the development of industry standards and working with many payments industry associations to ensure that payment security standards are put in place as part of our multi-layered approach to protect the global payments system. These efforts include:

- evolving a roadmap for the migration to EMV, the global standard for chip technology that helps protect sensitive cardholder information and reduce fraud;
- developing an industry-open standard for tokenization, which helps protect sensitive cardholder information for digital transactions by generating a unique identifier used only for a specific transaction; and
- incorporating innovative cardholder verification technologies such as the use of biometrics (including fingerprints, face and voice recognition).

Value-Added Solutions

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

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

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

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Marketing

We manage and promote our brands through advertising, promotions and sponsorships, as well as digital, mobile and social media initiatives, in order to increase consumer preference for our brands and usage of our products. We sponsor a variety of sporting, entertainment and charity-related marketing properties to align with consumer segments important to us and our customers. Our advertising plays an important role in building brand visibility, usage and overall preference among cardholders globally. Our “Priceless®” advertising campaign, which has run in 53 languages in 112 countries worldwide, promotes MasterCard usage benefits and acceptance, markets MasterCard payment products and solutions and provides MasterCard with a consistent, recognizable message that supports our brand around the globe. We have extended the Priceless brand to focus on consumers’ spending preferences - Priceless Cities® provides cardholders in 35 cities across all of our regions with access to special experiences and offers, Priceless Causes™ provides cardholders with opportunities to support philanthropic causes, and Priceless Surprises® provides cardholders with unexpected unique experiences when they use their cards.

Our Revenue Sources

We generate revenues by assessing our customers primarily based on GDV on the cards and other devices that carry our brands and from the fees we charge to our customers for providing transaction processing and other payment-related products and services. Our net revenues are classified into the following five categories:

- Domestic assessments. Domestic assessments are fees charged to issuers and acquirers based primarily on the dollar volume of activity on cards and other devices that carry our brands where the merchant country and the issuer country are the same.
- Cross-border volume fees. Cross-border volume fees are charged to issuers and acquirers based on the dollar volume of activity on cards and other devices that carry our brands where the merchant country and issuer country are different.
- Transaction processing fees. Transaction processing fees are charged for both domestic and cross-border transactions and are primarily based on the number of transactions.
- Other revenues. Other revenues consist of other payment-related products and services and primarily include fees associated with consulting and research, fraud products and services, loyalty and rewards solutions, program management services and a variety of other payment-related products and services.
- Rebates and incentives (contra-revenue). Rebates and incentives are provided to certain MasterCard customers and are recorded as contra-revenue.

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

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Revenues” in Part II, Item 7 for more detail about our revenue, GDV and processed transactions.

Intellectual Property

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

Competition

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

- cash and checks;

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

We face a number of competitors in the global payments industry:

- Cash and Check. Cash and check continue to represent the most widely-used forms of payment, constituting approximately 85% of the world's retail payment transactions. However, electronic forms of payment are increasingly displacing paper forms of payment around the world, benefiting electronic payment brands.
- General Purpose Payment Networks. We compete worldwide with payment networks such as Visa, American Express and Discover, among others. Among global networks, Visa has significantly greater volume than we do. Outside of the United States, networks such as JCB in Japan and UnionPay in China have leading positions in their domestic markets. In the case of UnionPay, it operates the sole domestic payment switch in China. In addition, several governments are promoting, or considering promoting, local networks for domestic processing. See our risk factors related to payments system regulation and government actions that may prevent us from competing effectively for a more detailed discussion.
- Debit. We compete with ATM and point-of-sale debit networks in various countries, such as Interlink®, Plus® and Visa Electron® (owned by Visa Inc.), Star® (owned by First Data Corporation), NYCE® (owned by FIS), and Pulse® (owned by Discover), in the United States; Interac in Canada; EFTPOS in Australia; and Bankserv in South Africa. In addition, in many countries outside of the United States, local debit brands serve as the main domestic brands, while our brands are used mostly to enable cross-border transactions, which typically represent a small portion of overall transaction volume.
- Three-Party Payments Networks. Our competitors include operators of proprietary three-party payments networks, such as American Express and Discover, that have direct acquiring relationships with merchants and direct issuing relationships with account holders. These competitors have certain competitive advantages over four-party payments systems such as ours. Among other things, these networks do not require formal interchange fees to balance payment system costs between the issuing and acquiring sides of their business, even though they have the ability to internally transfer costs in a manner similar to interchange fees. As a result, to date, operators of three-party payments networks have generally avoided the same regulatory and legislative scrutiny and litigation challenges we face.
- Competition for Customer Business. We compete intensely with other payments networks for customer business. Globally, financial institutions typically issue both MasterCard and Visa-branded payment products, and we compete with Visa for business on the basis of individual portfolios or programs. In addition, a number of our customers issue American Express and/or Discover-branded payment cards in a manner consistent with a four-party system. We continue to face intense competitive pressure on the prices we charge our issuers and acquirers, and we seek to enter into business agreements with them through which we offer incentives and other support to issue and promote our payment products. We also compete for non-financial institution partners, such as merchants, governments and telecommunication companies.
- Third-Party Processors. We face competition, and potential displacement, from transaction processors throughout the world, such as First Data Corporation and Total System Services, Inc., which are seeking to enhance their networks that link issuers directly with point-of-sale devices for payment transaction authorization and processing services.
- Alternative Payments Systems and New Entrants. As the global payments industry becomes more complex, we may face increasing competition from emerging payment providers. Many of these providers have developed payments systems focused on online activity in e-commerce and mobile channels, however they either have or may expand to other channels. These competitors include digital wallet providers such as PayPal, AliPay and Amazon, merchants (via CurrenC, a merchant-owned mobile commerce network), mobile operator services, services such as mPesa, handset manufacturers, and cryptocurrencies. We compete with these providers in some circumstances, but in some cases they may also be our customers or partner with us.

Our competitive advantages include our highly-adaptable network that we believe is the world's fastest, our adoption of innovative products and platforms like MasterPass, our leadership of industry efforts on fraud reduction such as

EMV migration and tokenization, and our MasterCard Advisors group dedicated solely to the payments industry. Our expanded on-soil presence in

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individual markets and a heightened focus on working with governments has improved our ability to serve a broad array of participants in global payments.

Government Regulation

General. Government regulation impacts key aspects of our business. We are subject to regulations that affect the payments industry in the many countries in which our cards and payment devices are used. See "Risk Factors-Legal and Regulatory Risks" in Part I, Item 1A of this Report.

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

- legislation to regulate interchange fees (such as the legislation expected to be adopted by the European Union in 2015);
- competition-related regulatory proceedings (such as the European Commission's December 2007 decision restricting our cross-border interchange fees, which was ultimately upheld in September 2014);
- central bank regulation (such as in Australia); and
- litigation (such as the merchant litigations in the United States, Canada and the United Kingdom).

For more detail, see our risk factors in "Risk Factors - Legal and Regulatory Risks" in Part I, Item 1A of this Report related to regulation of payment systems, including interchange fees and related practices. Also see Note 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8.

Payments System Regulation. Regulators in several countries around the world either have, or are seeking to establish, authority to regulate certain aspects of the payments systems in their countries. Such authority could result in regulation of various aspects of our business. Payment system oversight also could be used to provide resources or preferential treatment or other protection to selected domestic payments and processing providers, such as in Russia and Ukraine. See our risk factors in "Risk Factors - Legal and Regulatory Risks" in Part I, Item 1A related to payments system regulation and government actions that may prevent us from competing effectively. Additionally, we are or may be subject to regulations related to our role in the financial industry and our relationship with our financial institution customers. For example, certain of our operations are periodically reviewed by the U.S. Federal Financial Institutions Examination Council under its authority to examine financial institutions' technology service providers.

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

Data Protection and Information Security. Aspects of our operations or business are subject to privacy and data protection laws in the United States, the European Union and elsewhere. For example, in the United States, we and our customers are respectively subject to Federal Trade Commission and federal banking agency information safeguarding requirements under the Gramm-Leach-Bliley Act that require the maintenance of a written, comprehensive information security program. Due to constant changes to the nature of data, regulatory authorities around the world are considering numerous legislative and regulatory proposals concerning privacy and data protection. In addition, the interpretation and application of these privacy and data protection laws in the United States, Europe and elsewhere are often uncertain and in a state of flux. See our risk factor in "Risk Factors - Legal and Regulatory Risks" in Part I, Item 1A of this Report related to regulation in the areas of consumer privacy, data use and/or security.

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

Economic Sanctions. We are subject to regulations imposed by the U.S. Office of Foreign Assets Control ("OFAC") restricting financial transactions and other dealings with Crimea, Cuba, Iran, Syria and Sudan and with persons and entities included in OFAC's list of Specially Designated Nationals and Blocked Persons (the "SDN List"). Cuba, Iran, Syria and Sudan have been identified by the U.S. State Department as terrorist-sponsoring states. We have no offices, subsidiaries or affiliated entities located in these countries and do not license financial institutions domiciled in these countries. We have established a risk-based compliance

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program that includes policies, procedures and controls that are designed to prevent us from having business dealings with prohibited countries, regions, individuals or entities. This includes obligating issuers and acquirers to screen cardholders and merchants, respectively, against the SDN list.

Consumer Financial Protection Bureau. The Consumer Financial Protection Bureau (the “CFPB”) has significant authority to regulate consumer financial products in the United States, including consumer credit, deposit, payment, and similar products. It is not entirely clear whether and/or to what extent the CFPB will regulate broader aspects of payment card network operations. See our risk factor in “Risk Factors - Legal and Regulatory Risks” in Part I, Item 1A related to payments industry-related regulation.

Central Bank Oversight. Several central banks or similar regulatory bodies around the world that have increased, or are seeking to increase, their formal oversight of the electronic payments industry, are in some cases considering designating them as “systemically important payment systems” or “critical infrastructure.” This includes the Financial Stability Oversight Council (“FSOC”) in the United States. Such systems will be subject to new regulation, supervision and examination requirements. To date, MasterCard has not been designated “systemically important.” See our risk factor in “Risk Factors - Legal and Regulatory Risks” in Part I, Item 1A related to payments industry-related regulation.

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

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

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

Seasonality

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Seasonality” in Part II, Item 7 of this Report.

Financial Information About Geographic Areas

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

Employees

As of December 31, 2014, we employed approximately 10,300 persons, of which approximately 5,700 were employed outside of the United States. Our relationship with employees is good.

Additional Information

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

Website and SEC Reports

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

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

Item 1A. Risk Factors

Legal and Regulatory Risks

The payments industry, and in particular interchange fees, is the subject of significant and intense global legal, regulatory and legislative focus, and the resulting decisions, regulations and legislation may have a material adverse impact on our overall business and results of operations.

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

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

Examples of activity related to interchange fees and the payments system include:

- In July 2013, the European Commission proposed legislation relating to payment system regulation of cards issued and acquired within the European Economic Area, which was amended in 2014 by both the European Parliament and the European Council of Ministers. Following discussions among all three governing institutions, the resulting revised proposal includes: (1) a cap on consumer credit and debit interchange fees of 30 basis points and 20 basis points, respectively (a significant reduction in fees), with the ability of EU member states to impose more restrictive domestic debit interchange levels; (2) restrictions on our "honor all cards" rule with respect to products with different levels of interchange; (3) a prohibition of surcharging by merchants for products that are subject to regulated interchange rates; (4) the prohibition of rules that prevent a consumer from requesting a "co-badged" card (that is, a credit or debit card on which an issuer has put a competing brand); and (5) the separation of brand and processing in terms of accounting, organization and decision making. While the proposed legislation does not directly regulate network fees, it makes clear that network fees cannot be used to circumvent the interchange fee restrictions. Final legislation, which could differ, is expected to be adopted in 2015.
- In the United States, Federal Reserve regulations limit per-transaction U.S. debit and prepaid interchange fees for certain large issuers to 22 cents plus five basis points (with certain adjustments and exemptions), subject to reexamination and potential re-setting. While not directly regulating network fees, the rules make clear that network fees cannot be used to circumvent the interchange fee restrictions. The regulations require debit and prepaid cards to be enabled with two unaffiliated payments networks. Moreover, an issuer or payments network may not inhibit the ability of any person that accepts or honors a debit or prepaid card to direct the routing of the card transaction for processing over any network enabled on the card.
- Legislation regulating the level of domestic interchange fees has been enacted, or is being considered, in many jurisdictions, including Australia, Hungary, Israel, Poland, South Africa and Spain.
- A negative decision with respect to our cross-border interchange fees within Europe for consumer credit and debit cards was upheld in 2014 by the European Court of Justice.
- Several jurisdictions have recently created or granted authority to create new regulatory bodies that either have or would have the authority to regulate payment systems, including Brazil, India, Mexico, Russia and the United

Kingdom (which is considering designating MasterCard as a payments system).

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- The Minister of Finance in Canada has decided not to regulate interchange fees in light of commitments by MasterCard and other payment networks to voluntarily reduce weighted average domestic credit interchange fees. It is still considering revising the voluntary "Code of Conduct" for payment card industry participants to address transparency of acceptance costs, premium payment products and merchant discount rates.

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

- In the United States, merchants filed class action or individual suits against MasterCard, Visa and their customers alleging that our interchange fees and acceptance rules violate federal antitrust laws. The settlement of these claims has received final court approval, which is being appealed.
- In Canada, a number of class action suits have been filed against MasterCard, Visa and a number of large Canadian banks relating to MasterCard and Visa interchange fees and rules related to interchange fees, including "honor all cards" and "no surcharge" rules.
- In the United Kingdom, a number of retailers have filed claims against us with respect to MasterCard's cross-border interchange fees and its U.K. and Ireland domestic interchange fees. See Note 18 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for more details regarding litigation, proceedings and inquiries related to interchange fees.

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

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

New regulatory activity with respect to the payments industry in one jurisdiction or of one product may lead to new regulations (or impact pending regulatory proceedings) in other jurisdictions or of other products.

Regulators around the world increasingly look at each other's approaches to the regulation of the payments and other industries. In some areas, such as interchange fees, we believe that regulators are increasingly cooperating on their approaches. Consequently, a development in any one country, state or region may influence regulatory approaches in other countries, states or regions. For example, the European Court of Justice's decision in September 2014 upholding the European Commission's decision with respect to cross-border interchange fees within Europe has increased the possibility of additional competition authorities in European member states opening proceedings concerning domestic interchange fees, as well as the possibility of an adverse outcome for us in related and pending matters. Similarly, new laws and regulations in a country, state or region involving one product may cause lawmakers there to extend the regulations to another product. For example, regulations affecting debit transactions (such as the Federal Reserve's rules in the United States) could lead to regulation of other consumer products (such as credit).

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

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

Governments in some countries, such as China, Russia, Ukraine and India, could act (or have acted) to provide resources, preferential treatment or other protection to selected national payment and processing providers, or may otherwise create (or have created) and support its own national provider. This action may displace us from, prevent us from entering into, or substantially restrict us from participating in, particular geographies. As an example, governments in some countries are considering, or may consider, regulatory requirements that mandate processing of domestic payments either entirely in that country or by only domestic companies. In particular, Russia has amended its National Payments Systems laws to require all payment systems to process domestic transactions through a government-owned payment switch. In addition, regional groups of countries, such as the Gulf Cooperation Countries in the Middle East, are considering, or may consider, efforts to restrict our participation in the processing of regional transactions. Such developments would, and in Russia will, prevent us from utilizing our global processing capabilities for domestic or regional customers. Our efforts to effect change in, or work with, these countries may not succeed. This could adversely affect our ability to maintain or increase our revenues and extend our global brand.

Limitations on our ability to restrict merchants from surcharging credit card transactions could impact the use of electronic payments, resulting in a decrease in our overall transaction volumes that could in turn materially and adversely impact our results of operations.

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

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

We are subject to regulations related to privacy, data protection and information security in the jurisdictions in which we do business. These regulations could result in negative impacts to our business. As we continue to develop products and services to meet the needs of a changing marketplace, we may expand our information profile through the collection of additional data across multiple channels. This expansion could amplify the impact of these regulations on our business. Moreover, due to recent account data compromise events at large, U.S.-based retailers, as well as the disclosure of the monitoring activities by certain governmental agencies, there has been heightened legislative and regulatory scrutiny around the world that could lead to further regulation. Regulation of privacy and data protection and information security may require changes to our data practices in regard to the collection, use, disclosure or security of personal and sensitive information. Failure to comply with the these laws and regulations could result in fines, sanctions or other penalties, which could materially and adversely affect our results of operations and overall business, as well as have an impact on our reputation. Any additions or changes to regulations in these areas (as well as the manner in which such laws could be interpreted or applied) may also increase our costs to comply with such regulations and could impact aspects of our business such as fraud monitoring and the development of information-based products and solutions. In addition, these regulations may increase the costs to our customers of issuing payment products, which may, in turn, decrease the number of our cards and other payment devices that they issue. Any of these changes could materially and adversely affect our overall business and results of operations.

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Our participation in the payments industry subjects us to various other regulations globally that affect the industry, which may materially and adversely affect our overall business and results of operations.
We are subject to regulations that affect the payments industry in the many countries in which our cards and other devices are used. In particular, many of our customers are subject to regulations applicable to banks and other financial institutions in the United States and abroad, and, consequently, we are at times affected by such regulations. Regulation of the payments industry, including regulations applicable to us and our customers, has increased significantly in the last several years. See “Business-Government Regulation” in Part I, Item 1 for a detailed description of such regulation and related legislation. Examples include:

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

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

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

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

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

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

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

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

Business Risks

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

The global payments industry is highly competitive. Our payment programs compete against all forms of payment, including cash and checks; electronic, mobile and e-commerce payment platforms; and payments networks. Within the global general purpose payments industry, we face substantial and increasingly intense competition worldwide from systems such as Visa, American Express, Discover, UnionPay, JCB and PayPal among others. In certain jurisdictions, including the United States, Visa has greater volume, scale and market share than we do, which may provide significant competitive advantages. Moreover, some of our traditional competitors, as well as alternative payment service providers, may have substantially greater financial and other resources than we have, may offer a wider range of programs and services than we offer or may use more effective advertising and marketing strategies to achieve broader brand recognition or merchant acceptance than we have. Our ability to compete may also be affected by the outcomes of litigation, competition-related regulatory proceedings, central bank activity and legislative activity.

Certain of our competitors, including American Express, Discover, private-label card networks and certain alternative payments systems, operate end-to-end payments systems with direct connections to both merchants and consumers. These competitors seek to derive competitive advantages from their business models. For example, operators of end-to-end payments systems tend to have greater control over consumer and merchant customer service than operators of four-party payments systems such as ours, in which we must typically rely on our issuing and acquiring financial institution customers. In addition, even when they operate programs that utilize a four-party system, these competitors have generally not attracted the same level of regulatory or legislative scrutiny of their pricing and business practices as have operators of four-party payments systems such as ours. If we continue to attract more regulatory scrutiny than these competitors because we operate a four-party system, or we are regulated because of the system we operate in a way in which our competitors are not, we could lose business to these competitors. See "Business-Competition" in Part I, Item 1.

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

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

Potential future changes in the competitive landscape, including disintermediation from other participants in the payments value chain, also could harm our business.

We expect that there may be future changes in the competitive landscape, including:

- Parties that process our transactions in certain countries may try to eliminate our position as an intermediary in the payment process. For example, merchants could process transactions directly with issuers, or processors could process transactions directly between issuers and acquirers. Large scale consolidation within processors could result in these processors developing bilateral agreements or in some cases processing the entire transaction on their own network, thereby disintermediating us.
- Rapid and significant technological changes could occur, resulting in new and innovative payment methods (including cryptocurrencies) and programs that could place us at a competitive disadvantage and that could reduce the use of MasterCard products.
- Competitors, customers, governments and other industry participants may develop products that compete with or replace value-added products and services we currently provide to support our transaction processing. These products could replace our own processing offerings or could force us to change our pricing or practices for these offerings.
- Participants in the payments industry may merge, create joint ventures or form other business combinations that may strengthen their existing business services or create new payment services that compete with our services.
- New services and technologies that we develop may be impacted by industry-wide solutions and standards related to EMV, tokenization or other safety and security technologies.

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

Continued intense competitive pressure on the prices we charge our customers may materially and adversely affect our business and results of operations.

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

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

Continuing consolidation or other changes in or affecting the banking industry could materially and adversely affect our overall business and results of operations.

The banking industry has undergone substantial, accelerated consolidation in the past. Consolidations have included customers with a substantial MasterCard portfolio being acquired by institutions with a strong relationship with a competitor. If significant consolidation were to continue in the banking industry, it may result in the substantial loss of business for us, which could have

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a material adverse impact on our business and prospects. In addition, one or more of our customers could seek to merge with, or acquire, one of our competitors, and any such transaction could also have a material adverse impact on our overall business.

Consolidation in the banking industry, whether as a result of an acquisition of a substantial MasterCard portfolio by an institution with a strong relationship with a competitor or the combination of two institutions with which we have a strong relationship, would also produce a smaller number of large customers, which could increase the bargaining power of our customers. This consolidation could lead to lower prices and/or more favorable terms for our customers. Any such lower prices and/or more favorable terms could materially and adversely affect our results of operations.

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

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

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

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

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

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

The exclusive, or nearly exclusive, relationships certain customers have with our competitors may adversely affect our ability to maintain or increase our revenues and may have a material adverse impact on our business.

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

We depend significantly on our relationships with our issuers and acquirers to manage our payments system and our failure to maintain those relationships may materially and adversely affect our business.

While we work directly with many stakeholders in the payments system, including merchants and governments, we are, and will continue to be, significantly dependent on our relationships with our issuers and acquirers and their further relationships with cardholders and merchants to support our programs and services. We do not issue cards or other payment devices, extend credit to cardholders or determine the interest rates or other fees charged to cardholders using our products. Each issuer determines these and most other competitive payment program features. In addition, we do not establish the discount rate that merchants are charged for acceptance, which is the responsibility of our acquiring customers. As a result, our business significantly depends on the continued success and competitiveness of our issuing and acquiring customers and the strength of our relationships with them. In

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turn, our customers' success depends on a variety of factors over which we have little or no influence. If our customers become financially unstable, we may lose revenue or we may be exposed to settlement risk. See our risk factor in "Risk Factors - Business Risks" in this Part I, Item 1A with respect to how we guarantee certain third-party obligations for further discussion.

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

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

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

The perception of our brands and reputation may materially and adversely affect our overall business.

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

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

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

- Governmental entities typically fund projects through appropriated monies. Changes in governmental priorities or other political developments, including disruptions in governmental operations, could impact approved funding and result in changes in the scope, or lead to the termination of, the arrangements or contracts we or financial institutions enter into with respect to our payment products and services.
- Our work with governments subjects us to U.S. and international anti-corruption laws, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. A violation and subsequent judgment or settlement under these laws could subject us to substantial monetary penalties and damages and have a significant reputational impact.
- Working or contracting with governments, either directly or via our financial institution customers, can subject us to heightened reputational risks, including extensive scrutiny and publicity, as well as a potential association with the

policies of a government as a result of a business arrangement with that government. Any negative publicity or negative association with a government entity, regardless of its accuracy, may adversely affect our reputation.

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The impact of global economic events in financial markets and on our customers, merchants and cardholders could result in a material and adverse impact on our overall business and results of operations.

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

- Declining economies, foreign currency fluctuations and the pace of economic recovery can change consumer spending behaviors, such as cross-border travel patterns, on which a significant portion of our revenues is dependent.
- Low levels of consumer and business confidence typically associated with recessionary environments and those markets experiencing relatively high unemployment, may cause decreased spending by cardholders.
- Budgetary concerns in the United States and other countries around the world could affect the United States and other specific sovereign credit ratings, impact consumer confidence and spending and increase the risks of operating in those countries.
- Our customers may restrict credit lines to cardholders or limit the issuance of new cards to mitigate increasing cardholder defaults.
- Uncertainty and volatility in the performance of our customers' businesses may make estimates of our revenues, rebates, incentives and realization of prepaid assets less predictable.
- Our customers may implement cost reduction initiatives that reduce or eliminate payment card marketing or increase requests for greater incentives or greater cost stability.
- Our customers may decrease spending for value-added services.
- Government intervention, including the effect of laws, regulations and/or government investments in our customers, may have potential negative effects on our business and our relationships with customers or otherwise alter their strategic direction away from our products.
- Tightening of credit availability could impact the ability of participating financial institutions to lend to us under the terms of our credit facility.
- Our customers may default on their settlement obligations, including as a result of sovereign defaults, causing a liquidity crisis for our other customers. See Note 19 (Settlement and Other Risk Management) to the consolidated financial statements included in Part II, Item 8 of this Report for further discussion of our settlement exposure.

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

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

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

General economic and global political conditions may adversely affect trends in consumer spending, which may materially and adversely impact our results of operations.

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

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

We may incur obligations in connection with transaction settlements if an issuer or acquirer fails to fund its daily settlement obligations due to technical problems, liquidity shortfalls, insolvency or other reasons. If a principal customer or affiliate debit licensee of MasterCard is unable to fulfill its settlement obligations to other customers, we may bear the loss. In addition, although we are not obligated to do so, we may elect to keep merchants whole if an acquirer defaults on its merchant payment obligations, or to keep prepaid cardholders whole if an issuer defaults on its obligation to safeguard unspent prepaid funds. Our MasterCard, Maestro and Cirrus-branded gross legal settlement exposure, which is primarily estimated using the average daily card volume during the quarter multiplied by the estimated number of days to settle, was approximately $42 billion as of December 31, 2014. We have a revolving credit facility in the amount of $3 billion which could be used for general corporate purposes, including to provide liquidity in the event of one or more settlement failures by our customers. In the event that MasterCard effects a payment on behalf of a failed customer, MasterCard may seek an assignment of the underlying receivables from the failed customer. Customers may be charged for the amount of any settlement loss incurred during these ordinary course activities of MasterCard. While we believe that we have sufficient liquidity to cover a settlement failure by our largest customer on its peak day, the term and amount of our guarantee of obligations to principal customers is unlimited. As a result, concurrent settlement failures of more than one of our larger customers or of several of our smaller customers either on a given day or over a condensed period of time may exceed our available resources and could materially and adversely affect our overall business. In addition, even if we have sufficient liquidity to cover a settlement failure, we may not be able to recover the cost of such a payment and may therefore be exposed to significant losses, which could materially and adversely affect our results of operations. Moreover, during 2014, many of our financial institution customers continued to be directly and adversely impacted by economic events in the global financial markets. These conditions present increased risk that we may have to perform under our settlement guarantees. For more information on our settlement exposure and risk assessment and mitigation practices as of December 31, 2014, see Note 19 (Settlement and Other Risk Management) to the consolidated financial statements included in Part II, Item 8 of this Report.

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

A failure or breach of our information security systems or infrastructure could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

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

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

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

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We maintain an information security program that is reviewed by our Board of Directors, a business continuity program and insurance coverage, and our processing systems incorporate multiple levels of protection, in order to address or otherwise mitigate these risks. We also test our systems to discover and address any potential vulnerabilities. Despite these mitigation efforts, there can be no assurance that we will be immune to these risks and not suffer losses in the future. Our risk and exposure to these matters remain heightened because of, among other things, the evolving nature of these threats, the prominent size and scale of MasterCard and our role in the global payments and technology industries, our plans to continue to implement our digital and mobile channel strategies and develop additional remote connectivity solutions to serve our customers and cardholders when and how they want to be served, our global presence, our extensive use of third-party vendors and future joint venture and merger and acquisition opportunities. As a result, information security and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us. As cyber-threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Any of the risks described above could materially adversely affect our overall business and results of operations.

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

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

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

Account data breaches involving card data stored, processed or transmitted by us or third parties could adversely affect our reputation and results of operations.

We, our issuers and acquirers, merchants and other third parties process, transmit or store cardholder account and other information in connection with payment cards and devices. In addition, our customers may sponsor (or we may certify as PCI-compliant) third-party processors to process transactions generated by cards carrying our brands and merchants may use third parties to provide services related to card use. A breach of the systems on which sensitive cardholder data and account information are processed, transmitted or stored could lead to fraudulent activity involving cards carrying our brands, damage our reputation and lead to claims against us, as well as subject us to regulatory actions. We routinely encounter account data compromise events, some of which have been high profile, involving merchants and third-party payment processors that process, store or transmit payment card data, which affect millions of MasterCard, Visa, Discover, American Express and other types of cardholders. These events typically involve external agents hacking the merchants’ or third-party processors’ systems and installing malware to compromise the confidentiality and integrity of those systems. Further data security breaches may subject us to reputational damage and/or lawsuits involving payment cards carrying our brands. While most of these lawsuits do not involve direct claims against us, we could face damage claims in various circumstances, which, if upheld, could materially and adversely affect our results of operations. Damage to our reputation or that of our brands resulting from an account data breach of either our systems or the systems of our customers, merchants and other third parties could

decrease the use and acceptance of our cards and other payment devices, as well as the trend toward electronic payments, which in turn could have a material adverse impact on our transaction volumes, results of operations and prospects for future growth, or increase our costs by leading to additional regulatory burdens being imposed upon us.
An increase in fraudulent activity using our cards could lead to reputational damage to our brands and/or regulatory intervention, which could reduce the use and acceptance of our cards and other payment devices.
Criminals are using increasingly sophisticated methods to capture cardholder account information to engage in illegal activities such as counterfeiting or other fraud. Cards that use magnetic-stripe technology, the predominant payment technology in the United States, continue to raise heightened vulnerabilities to fraud relative to other technologies due to the static nature of the

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information on the magnetic stripe. Fraud is also more likely to occur in transactions where the card is not present, which constitutes an increasing number of transactions. In addition, as outsourcing and specialization become commonplace in the payments industry, there are more third parties involved in processing transactions using our cards. Increased fraud levels involving our cards, or misconduct or negligence by third parties processing or otherwise servicing our cards, could lead to regulatory intervention, such as enhanced security requirements, as well as damage to our reputation, which could reduce the use and acceptance of our cards or increase our compliance costs, and thereby have a material adverse impact on our business.

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

The payments industry is subject to rapid and significant technological changes, including continuing developments of technologies in the areas of smart cards and devices, radio frequency and proximity payment devices (such as contactless payment devices), electronic commerce and mobile commerce, among others. We cannot predict the effect of technological changes on our business. We rely in part on third parties, including some of our competitors and potential competitors, for the development of and access to new technologies. We expect that new services and technologies applicable to the payments industry will continue to emerge, and these new services and technologies may be superior to, or render obsolete, the technologies we currently use in our programs and services. In addition, our ability to adopt new services and technologies that we develop may be inhibited by a need for industry-wide standards and by resistance from customers or merchants to such changes by the complexity of our systems. Our ability to adopt these technologies can also be inhibited by intellectual property rights of third parties. We have received, and we may in the future receive, notices or inquiries from patent holders (for example, other operating companies or non-practicing entities) suggesting that we may be infringing certain patents or that we need to license the use of their patents to avoid infringement. Such notices may, among other things, threaten litigation against us or our customers or demand significant license fees. Our future success will depend, in part, on our ability to develop or adapt to technological changes and evolving industry standards. Failure to keep pace with these technological developments could lead to a decline in the use of our products, which could have a material adverse impact on our results of operations.

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

During 2014, approximately 61% of our revenue was generated from activities outside the United States. This revenue (and the related expense) could be transacted in a non-functional currency or valued based on a currency other than the functional currency of the entity generating the revenues. Resulting exchange gains and losses are included in our net income. Our risk management activities provide protection with respect to adverse changes in the value of only a limited number of currencies and are based on estimates of exposures to these currencies.

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

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

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

Although we may continue to make strategic acquisitions of, or acquire interests in joint ventures or other entities related to, complementary businesses, products or technologies, we may not be able to successfully partner with or integrate any such acquired businesses, products or technologies. In addition, the integration of any acquisition or investment (including efforts related to an acquisition of an interest in a joint venture or other entity) may divert management's time and resources from our core business and disrupt our operations. Moreover, we may spend time and money on acquisitions or projects that do not meet our expectations or increase our revenue. To the extent we pay the purchase price of any acquisition in cash, it would reduce our cash reserves available to us for other uses, and to the extent the purchase price is paid with our stock, it could be dilutive to our stockholders. Furthermore, we may not be able to successfully finance the business following the acquisition as a result of costs of operations, including any litigation risk which may be inherited from the acquisition. Any acquisition or entry into a new business could subject us to new regulations with which we would need to comply, and we could be subject to liability or reputational harm to the extent we cannot meet any such compliance requirements. Our expansion into new businesses could also result in unanticipated issues which may be difficult to manage. Although we periodically evaluate potential acquisitions of businesses, products and technologies and anticipate continuing to make these evaluations, we cannot guarantee that we will be able to execute and integrate any such acquisitions.

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Risks Related to our Class A Common Stock and Governance Structure

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

Provisions contained in our amended and restated certificate of incorporation and bylaws and Delaware law could delay or prevent entirely a merger or acquisition that our stockholders consider favorable. These provisions may also discourage acquisition proposals or have the effect of delaying or preventing entirely a change in control, which could harm our stock price. For example, subject to limited exceptions, our amended and restated certificate of incorporation prohibits any person from beneficially owning more than 15% of any of the Class A common stock or any other class or series of our stock with general voting power, or more than 15% of our total voting power. Further, except in limited circumstances, no customer or former customer of MasterCard, or any operator, customer or licensee of any competing general purpose payment card system, or any affiliate of any such person, may beneficially own any share of Class A common stock or any other class or series of our stock entitled to vote generally in the election of directors. In addition:

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

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

As of February 5, 2015, the Foundation owned 116,918,728 shares of Class A common stock, representing approximately 10.5% of our general voting power. The Foundation may not sell or otherwise transfer its shares of Class A common stock prior to April 26, 2026, except to the extent necessary to satisfy its charitable disbursement requirements, for which purpose earlier sales are permitted. The directors of the Foundation are required to be independent of us and our customers. The ownership of Class A common stock by the Foundation, together with the restrictions on transfer, could discourage or make more difficult acquisition proposals favored by the other holders of the Class A common stock. In addition, because the Foundation is restricted from selling its shares for an extended period of time, it may not have the same interest in short or medium-term movements in our stock price as, or incentive to approve a corporate action that may be favorable to, our other stockholders.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

As of December 31, 2014, MasterCard and its subsidiaries owned or leased 160 commercial properties. We own our corporate headquarters, a 472,600 square foot building located in Purchase, New York. There is no outstanding debt on this building. Our principal technology and operations center is a 528,000 square foot leased facility located in O’Fallon, Missouri. The term of the lease on this facility is 10 years, which commenced on March 1, 2009. Our leased properties in the United States are located in 10 states and in the District of Columbia. We also lease and own properties in 60 other countries. These facilities primarily consist of corporate and regional offices, as well as our operations centers.

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

Item 3. Legal Proceedings

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

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Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

Price Range of Common Stock

Our Class A common stock trades on the New York Stock Exchange under the symbol "MA". The following table sets forth the intra-day high and low sale prices for our Class A common stock for the four quarterly periods in each of 2014 and 2013. At February 5, 2015, the Company had 69 stockholders of record for its Class A common stock. We believe that the number of beneficial owners is substantially greater than the number of record holders because a large portion of our Class A common stock is held in "street name" by brokers.

	2014		2013	
	High	Low	High	Low
First Quarter	$84.75	$71.75	$54.20	$50.10
Second Quarter	77.89	68.68	59.19	51.86
Third Quarter	79.22	73.64	69.50	56.70
Fourth Quarter	89.87	69.64	83.94	64.74

There is currently no established public trading market for our Class B common stock. There were approximately 380 holders of record of our Class B common stock as of February 5, 2015.

Dividend Declaration and Policy

During the years ended December 31, 2014 and 2013, we paid the following quarterly cash dividends per share on our Class A common stock and Class B Common stock:

	Dividend per Share	
	2014	2013
First Quarter	$0.11	$0.03
Second Quarter	0.11	0.06
Third Quarter	0.11	0.06
Fourth Quarter	0.11	0.06

On December 2, 2014, our Board of Directors declared a quarterly cash dividend of $0.16 per share paid on February 9, 2015 to holders of record on January 9, 2015 of our Class A common stock and Class B common stock. On February 3, 2015, our Board of Directors declared a quarterly cash dividend of $0.16 per share payable on May 8, 2015 to holders of record on April 9, 2015 of our Class A common stock and Class B common stock.

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

Issuer Purchases of Equity Securities

On December 10, 2013, the Company's Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to $3.5 billion of its Class A common stock (the "December 2013 Share Repurchase Program"). This program became effective at the completion of the Company's previously announced $2 billion share repurchase program, which occurred in January 2014. On December 2, 2014, the Company's Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to $3.75 billion of its Class A common stock (the "December 2014 Share Repurchase Program").

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During the fourth quarter of 2014, MasterCard repurchased a total of approximately 2.1 million shares for $155 million at an average price of $72.95 per share of Class A common stock. The Company's repurchase activity during the fourth quarter of 2014 consisted of open market share repurchases and is summarized in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share (including commission cost)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that may yet be Purchased under the Plans or Programs [1]
October 1 – 31	2,045,900	$72.69	2,045,900	$ 281,633,768
November 1 – 30	78,500	$79.86	78,500	$ 275,364,960
December 1 – 31	—	$—	—	$ 4,025,364,960
Total	2,124,400	$72.95	2,124,400	

[1] Dollar value of shares that may yet be purchased under the December 2013 Share Repurchase Program and the December 2014 Share Repurchase Program is as of the end of the period.

Item 6. Selected Financial Data

The statement of operations data presented below for the years ended December 31, 2014, 2013 and 2012, and the balance sheet data as of December 31, 2014 and 2013, were derived from the audited consolidated financial statements of MasterCard Incorporated included in Part II, Item 8 of this Report. The statement of operations data presented below for the years ended December 31, 2011 and 2010, and the balance sheet data as of December 31, 2012, 2011 and 2010, were derived from audited consolidated financial statements not included in this Report. The data set forth below should be read in conjunction with, and are qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this Report and our consolidated financial statements and notes thereto included in Part II, Item 8 of this Report.

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(in millions, except per share data)				
Statement of Operations Data:					
Net revenue	$9,473	$8,346	$7,391	$6,714	$5,539
Total operating expenses	4,367	3,843	3,454	4,001	2,787
Operating income	5,106	4,503	3,937	2,713	2,752
Net income	3,617	3,116	2,759	1,906	1,846
Basic earnings per share	3.11	2.57	2.20	1.49	1.41
Diluted earnings per share	3.10	2.56	2.19	1.48	1.41
Balance Sheet Data:					
Total assets	$15,329	$14,242	$12,462	$10,693	$8,837
Long-term debt	1,494	—	—	—	—
Equity	6,824	7,495	6,929	5,877	5,216
Cash dividends declared per share	0.49	0.29	0.12	0.06	0.06

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and notes of MasterCard Incorporated and its consolidated subsidiaries, including MasterCard International Incorporated ("MasterCard International") (together, "MasterCard" or the "Company"), included elsewhere in this Report. Certain prior period amounts have been reclassified to conform to the 2014 presentation. Percentage changes provided throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" were calculated on amounts rounded to the nearest thousand.

Non-GAAP Financial Information

Non-GAAP financial information is defined as a numerical measure of a company's performance that excludes or includes amounts so as to be different than the most comparable measure calculated and presented in accordance with accounting principles generally accepted in the United States (“GAAP”). Pursuant to the requirements of Regulation S-K, portions of this “Management’s

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Discussion and Analysis of Financial Condition and Results of Operations" include a reconciliation of certain non-GAAP financial measures to the most directly comparable GAAP financial measures. The presentation of non-GAAP financial measures should not be considered in isolation or as a substitute for the Company's related financial results prepared in accordance with GAAP.

MasterCard presents non-GAAP financial measures to enhance an investor's evaluation of MasterCard's ongoing operating results and to facilitate meaningful comparison of its results between periods. MasterCard's management uses these non-GAAP financial measures to, among other things, evaluate its ongoing operations in relation to historical results, for internal planning and forecasting purposes and in the calculation of performance-based compensation. More specifically, the following non-GAAP financial measures are presented in Management's Discussion and Analysis of Financial Condition and Results of Operations:

- Total operating expenses and operating expense growth excluding the provision recorded in 2013 ($95 million) and 2012 ($20 million) for settlements relating to U.S. merchant litigations (collectively referred to as the "MDL Provision"). MasterCard excluded these items because MasterCard's management monitors provisions for material litigation settlements separately from ongoing operations and evaluates ongoing performance without these amounts. See "Operating Expenses" for the table that provides a reconciliation of operating expenses and operating expense growth excluding the MDL Provisions to the most directly comparable GAAP measure.
- Effective income tax rate excluding the 2013 MDL Provision. MasterCard excluded this item because MasterCard's management monitors provisions for material litigation settlements separately from ongoing operations and evaluates ongoing performance without these amounts. See "Income Taxes" for the table that provides a reconciliation of the effective income tax rate excluding the 2013 MDL Provision to the most directly comparable GAAP measure.

Overview

We recorded net income of $3.6 billion, or $3.10 per diluted share in 2014 versus net income of $3.1 billion, or $2.56 per diluted share in 2013, and net income of $2.8 billion, or $2.19 per diluted share in 2012. During 2014, net income growth of 16% was driven by higher net revenue and an improved effective tax rate, partially offset by increased operating expenses.

Our 2014 results were positively impacted by a tax benefit resulting from a repatriation of foreign earnings, which was offset by restructuring expenses and the impact of acquisitions. In 2013 and 2012, net income was impacted by the increased MDL provisions of $95 million ($61 million after tax) and $20 million ($13 million after tax), respectively.

Our net revenue increased 14% and 13% in 2014 and 2013 versus the comparable periods in the prior years, respectively, primarily driven by increases across our revenue categories, partially offset by higher rebates and incentives. Acquisitions contributed 2 percentage points to net revenue growth in 2014. In 2014 and 2013, our processed transactions increased 12% and 13% versus the comparable periods in the prior years, respectively. In 2014 and 2013, our volumes increased 13% and 14%, on a local currency basis, versus the comparable periods in the prior years, respectively.

Operating expenses in 2014 increased $524 million, or 14%, from 2013 and increased $389 million, or 11%, in 2013 from 2012 primarily due to higher general and administrative expenses as a result of investments to support strategic initiatives. Acquisitions contributed 6 percentage points to operating expense growth in 2014.

We generated net cash flows from operations of $3.4 billion for the year ended December 31, 2014, compared to $4.1 billion and $2.9 billion for the years ended December 31, 2013 and 2012, respectively.

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The following table provides a summary of our operating results for the years ended December 31, 2014, 2013 and 2012:

	For the Years Ended December 31,			Percent Increase (Decrease)	
	2014	2013	2012	2014	2013
	(in millions, except per share data and percentages)				
Net revenue	$9,473	$8,346	$7,391	14%	13%
Operating expenses	4,367	3,843	3,454	14%	11%
Operating income	5,106	4,503	3,937	13%	14%
Operating margin	53.9 %	54.0 %	53.3 %	**	**
Income tax expense	1,462	1,384	1,174	6%	18%
Effective income tax rate	28.8 %	30.8 %	29.9 %	**	**
Net income	$3,617	$3,116	$2,759	16%	13%
Diluted earnings per share	$3.10	$2.56	$2.19	21%	17%
Diluted weighted-average shares outstanding	1,169	1,215	1,258	(4)%	(3)%

** Not meaningful.

Business Environment

We process transactions from more than 210 countries and territories and in more than 150 currencies. Net revenue generated in the United States was 39% of total revenue in each of 2014, 2013 and 2012. No individual country, other than the United States, generated more than 10% of total revenue in any such period, but differences in market growth, economic health and foreign exchange fluctuations in certain countries can have an impact on the proportion of revenue generated outside the United States over time. While the global nature of our business helps protect our operating results from adverse economic conditions in a single or a few countries, the significant concentration of our revenue generated in the United States makes our business particularly susceptible to adverse economic conditions in the United States.

The competitive and evolving nature of the global payments industry provides both challenges to and opportunities for the continued growth of our business. 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. Notwithstanding recent encouraging trends, the extent and pace of economic recovery in various regions remains uncertain and the overall business environment may present challenges for MasterCard to grow its business. For a full discussion see “Risk Factors - Business Risk” in Part I, Item 1A of this Report.

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

Impact of Foreign Currency Rates

Our overall operating results can be impacted by changes in foreign currency exchange rates, especially the strengthening or weakening of the U.S. dollar versus the euro and Brazilian real. The functional currency of MasterCard Europe, our principal

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European operating subsidiary, is the euro, and the functional currency of our Brazilian subsidiary is the Brazilian real. Accordingly, the strengthening or weakening of the U.S. dollar versus the euro and Brazilian real impacts the translation of our European and Brazilian subsidiaries' operating results into the U.S. dollar. For 2014 as compared to 2013 and for 2013 compared to 2012, the U.S. dollar strengthened against the Brazilian real but weakened against the euro. The net foreign currency impact of changes in the U.S. dollar average exchange rates against the euro and Brazilian real negatively impacted net income in 2014 by less than 1 percentage point as compared to 2013. Conversely, net income in 2013 was positively impacted by approximately 1 percentage point as compared to 2012.
In addition, changes in foreign currency exchange rates directly impact the calculation of gross dollar volume ("GDV") and gross euro volume ("GEV"), which are used in the calculation of our domestic assessments, cross-border volume fees and volume related rebates and incentives. In most non-European regions, GDV is calculated based on local currency spending volume converted to U.S. dollars using average exchange rates for the period. In Europe, GEV is calculated based on local currency spending volume converted to euros using average exchange rates for the period. As a result, our domestic assessments, cross-border volume fees and volume related rebates and incentives are impacted by the strengthening or weakening of the U.S. dollar versus primarily non-European local currencies and the strengthening or weakening of the euro versus primarily European local currencies. The strengthening or weakening of the U.S. dollar is evident when GDV growth on a U.S. dollar converted basis is compared to GDV growth on a local currency basis. In 2014, GDV on a U.S. dollar converted basis increased 9%, versus GDV growth on a local currency basis of 13%. In 2013, GDV on a U.S. dollar converted basis increased 13%, versus GDV growth on a local currency basis of 14%. The Company attempts to manage these foreign currency exposures through its foreign exchange risk management activities, which are discussed further in Note 20 (Foreign Exchange Risk Management) to the consolidated financial statements included in Part II, Item 8 of this Report.
The Company generates revenue and has financial assets in countries at risk for currency devaluation. While these revenues and financial assets are not material to MasterCard on a consolidated basis, they could be negatively impacted if a devaluation of local currencies occurs relative to the U.S. dollar.

Financial Results

Revenue

Revenue Description

MasterCard's business model involves four participants in addition to us: cardholders, merchants, issuers (the cardholders' financial institutions) and acquirers (the merchants' financial institutions). Our gross revenue is generated by assessing our customers based primarily on the dollar volume of activity on the cards and other devices that carry our brands and from the fees that we charge our customers for providing transaction processing and other payment-related products and services. Our revenue is based upon transactional information accumulated by our systems or reported by our customers. Our primary revenue billing currencies are the U.S. dollar, euro and Brazilian real.
The price structure for our products and services is complex and is dependent on the nature of volumes, types of transactions and type of products and services we offer to our customers. Our net revenue can be significantly impacted by the following:
- domestic or cross-border transactions;
- signature-based or PIN-based transactions;
- geographic region or country in which the transaction occurs;
- volumes/transactions subject to tiered rates;
- processed or not processed by MasterCard;
- amount of usage of our other products or services; and
- amount of rebates and incentives provided to customers.

The Company classifies its net revenue into the following five categories:
1. Domestic assessments: 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

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of cards issued or assessments for specific purposes, such as acceptance development or market development programs.

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

- Transaction Switching fees for the following 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.

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

- Consulting and research fees are primarily generated by MasterCard Advisors, the Company's professional advisory services group.
- Fraud products and services used to prevent or detect fraudulent transactions. This includes fees for warning bulletins provided to issuers and acquirers either electronically or in paper form.
- Loyalty and rewards solutions fees are charged to issuers for benefits provided directly to consumers with MasterCard-branded cards, such as insurance, assistance for lost cards, locating ATMs and rewards programs.
- Program management services provided to prepaid card issuers consist of foreign exchange margin, commissions, load fees, and ATM withdrawal fees paid by cardholders on the sale and encashment of prepaid cards.
- The Company also charges for a variety of other payment-related products and services, including account and transaction enhancement services, rules compliance and publications.

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

Revenue Analysis

Gross revenue in 2014 and 2013 increased $1.5 billion and $1.3 billion, or 13% versus 2013 and 2012, respectively, 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 2014 and 2013 increased $329 million and $325 million, or 11% and 12%, versus 2013 and 2012, respectively, due to the impact from new and renewed agreements and increased volumes. Our net revenue in 2014 and 2013 increased 14% and 13% versus 2013 and 2012, respectively. Acquisitions contributed 2 percentage points to net revenue growth in 2014. In 2014 and 2013, our GDV increased 13% and 14% on a local currency basis while our processed transactions increased 12% and 13%, respectively.

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

	Years Ended December 31,			
	2014		2013	
	Growth (USD)	Growth (Local)	Growth (USD)	Growth (Local)
MasterCard-branded GDV [1]	9 %	13 %	13 %	14 %
Asia Pacific/Middle East/Africa	13 %	17 %	18 %	22 %
Canada	— %	7 %	3 %	7 %
Europe	9 %	14 %	16 %	14 %
Latin America	5 %	15 %	12 %	16 %
United States	8 %	8 %	7 %	7 %
Cross-border Volume [1]		16 %		18 %
Processed Transactions Growth		12 %		13 %

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

A significant portion of our revenue is concentrated among our five largest customers. In 2014, the net revenue from these customers was approximately $2.2 billion, or 24%, of total net revenue. The loss of any of these customers or their significant card programs could adversely impact our revenue. In addition, as part of our business strategy, MasterCard, among other efforts, enters into business agreements with customers. These agreements can be terminated in a variety of circumstances. See our risk factor in “Risk Factor - Business Risks” in Part I, Item 1A of this Report for further discussion.

The significant components of our net revenue for the years ended December 31, 2014, 2013 and 2012 were as follows:

	For the Years Ended December 31,	Percent Increase (Decrease)
	2014	