MasterCard
International

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Financial Highlights

(U.S. Dollars, in Thousands).	As of and for the Years Ended December 31,		
Results of Operations	**1996**	1995	1994
Revenue			
Operations fees	**$465,112**	$404,265	$322,227
Member assessments	**405,466**	361,807	316,600
Other	**74,953**	50,043	25,783
Total revenue	**945,531**	816,115	664,610
Expenses			
General operating and administrative	**438,467**	401,392	338,731
Advertising, marketing and promotions	**383,543**	306,870	246,461
Occupancy	**35,042**	36,788	32,102
Depreciation and amortization	**33,961**	33,725	26,451
Other	**1,759**	1,461	99
Total expenses	**892,772**	780,236	643,844
Operating income	**52,759**	35,879	20,766
Other income and expenses			
Gain on sale of MAPP	**111,393**	—	—
Access[5] transactions	**(45,000)**	—	—
Total other income and expenses	**66,393**	—	—
Income before income taxes	**119,152**	35,879	20,766
Income tax expense	**47,657**	14,387	8,974
Net income	**$ 71,495**	$ 21,492	$ 11,792
Balance Sheet Data			
Total assets	**$541,135**	$364,667	$257,278
Equity	**$131,500**	$ 58,165	$ 36,507
Performance Ratios			
Return on average total assets	**15.8%**	6.9%	5.7%
Return on average equity	**75.4%**	45.4%	38.5%
Equity to total assets	**24.3%**	16.0%	14.2%

What Is MasterCard?

MasterCard International is a global payments system, comprising 23,000 member financial institutions, with a proven history of innovation and leadership. Our role is to facilitate transactions among those who use our payment products, those who accept them, and the member financial institutions that manage these relationships. We provide the infrastructure to ensure that these payment transactions are completed—with a 99.999 percent success rate. MasterCard is a "virtual" entity comprising thousands of companies around the world working together to benefit themselves, each other, and the industry as a whole.

Since its inception 30 years ago, MasterCard has grown from a U.S.-based credit card system into a leader in the multitrillion-dollar global payments industry, with credit and debit products as core competencies. In 1996, we recorded nearly 6 billion transactions with a gross dollar volume of more than $550 billion.* We also provide worldwide ATM access through our MasterCard®/Cirrus® ATM Network, which handled 412 million transactions in 1996.

Contents

*Unless otherwise noted, all monetary amounts in this annual report are stated in U.S. dollars.

The Future of Money

(It's closer than you think.)

Joseph W. Saunders *(right)*
Chairman
MasterCard International Incorporated
President and Chief Executive Officer,
Household Credit Services, Inc.

H. Eugene Lockhart
President and Chief Executive Officer
MasterCard International Incorporated

To Our Stakeholders

As I was preparing to pay my son's college tuition this year, I reached for my credit card—not my checkbook—and paid the bill over the phone, not through the mail. That choice brought home to me just how much the payments industry has changed in the few years since my son became a teenager. It was one of those instances in which you glimpse the future and realize it is here already. —Gene Lockhart

The future is very much on our minds, even as we look back at the last year. Our financial results confirm that 1996 was a great year for MasterCard. We exceeded our corporate objectives—growth in acceptance locations, usage volume, and card issuance—for the third consecutive year. We made critical operational improvements. But our most important accomplishment for 1996 was this: We took fundamental steps toward establishing a leadership position in what we believe will be a very different future for the payments industry.

We continued to focus our time and resources this past year on transforming MasterCard into a system that will thrive during this time of change. In the 30 years of our existence, MasterCard has had an amazing record of growth and service. We've grown at an average of more than 20 percent, year in and year out. In 1996 alone, we handled nearly 6 billion transactions representing gross dollar volume of more than $550 billion. To date, we've put a total of more than 400 million MasterCard® and Maestro® cards in people's hands worldwide. Now it's time to look forward—to what the future holds for global payments, and to our leadership role in shaping *The Future of Money*℠.

What do we mean by *The Future of Money*? We mean an environment in which payments for products and services are accepted universally, in many forms, with greater convenience and security than ever before. As the world's leading payments system innovator, we have an incredible opportunity to redefine what money is and how people will use it. The benefit will be universal: We'll make payments safer and more convenient for everyone by providing a payment solution for every need. We're committed to creating this future, and to becoming the world's best and most preferred way to pay.

To make this future a reality, we adopted five key objectives:

1. Build the brand

MasterCard's greatest assets are its brands and the global system that stands behind them. This past year, we worked hard to further build our brands. A new agreement with our strategic partner, Europay International, means our enhanced MasterCard acceptance mark will appear at merchant locations throughout Europe along with the Eurocard name. This agreement builds on the leadership we already have in Europe, and helps consolidate our brand worldwide. Another agreement, with Access Brands Ltd. in the United Kingdom, means that about 7 million Access cards in use there and in the Republic of Ireland will be replaced by MasterCard-branded cards as part of the reissuance cycle. In addition, all points of sale in the U.K. and in Europe now will get updated signage to show the new MasterCard acceptance mark.

MasterCard is already one of the most respected brands in the world, however it needs to be more visible and recognizable to both the consumer and the merchant. The most visible way we're building the brand is by enhancing our acceptance mark, to clarify our identity and strengthen the mark at the point of sale. Beyond that, we'll communicate our brand and products worldwide with a new, breakthrough advertising campaign, and with promotion and sponsorship programs.

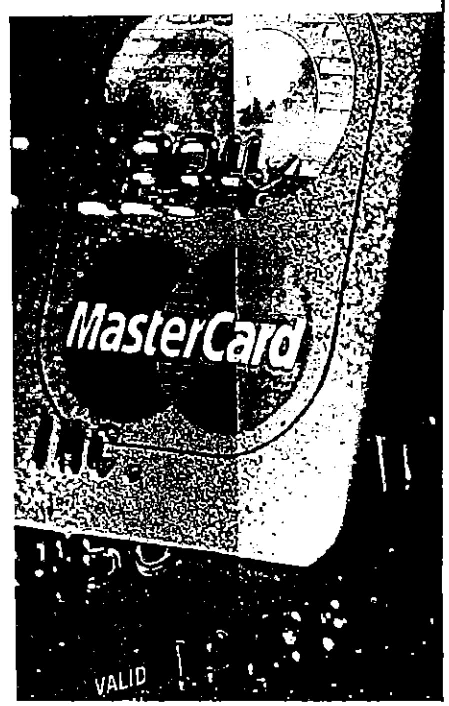
Similarly, we are working to increase the visibility of the Maestro brand — already the global online POS debit leader, with more financial institutions, merchants, cards, and acceptance locations in more countries than any other online debit program in the world. For example, during 1996, to enhance the visibility of our deposit-access brands in the U.S. Region, we successfully conducted the first integrated ATM/POS debit promotion for MasterCard MasterMoney™, Maestro, and Cirrus®.

2. Broaden acceptance

In 1996, MasterCard broadened its acceptance efforts to ensure that a transaction will work securely and effectively for everyone in the

As part of our global efforts to build the MasterCard brand, we have created an enhanced brand acceptance mark, which will be introduced over the next three years. You'll see a new look on cards, at member financial institutions, and at all point-of-sale locations.

To improve visibility and recognition, we have made a number of small but high-impact changes. The word "MasterCard" is larger and is highlighted with a drop shadow. Our interlocking circles now have nine bars instead of 22. On point-of-sale decals and signage, the brand mark will stand out against a dark blue background.



What are we doing to help create the future of money?

process — the merchant, the acquirer, the issuer, and, of course, the cardholder. During 1996, throughout the world, no card was accepted in more places, by more merchants, than MasterCard. We added an average of 3,800 merchants a day to our acceptance network in 1996, and our products are now welcome at about 14 million acceptance locations worldwide.

Throughout the world, MasterCard continues to broaden acceptance in places where cash and checks usually dominate: taxis, doctors' offices, fast-food restaurants, government agencies, toll booths, buses, and commuter trains, as well as warehouse clubs, appliance stores, and office-supply stores. The development of these acceptance categories helps us offer consumers new ways to pay, and works toward our long-term goal of displacing cash and checks.

New alliances — such as our agreements with both Hypercom and VeriFone to promote point-of-interaction electronic payments — further broaden acceptance. The MasterCard®/Cirrus® ATM Network, with 316,000 locations, is the largest and best recognized in the world. When merchants, ATMs, and cash-advance locations are counted, there are more than 14 million places on Earth to use MasterCard products — a remarkable and unsurpassed level of global acceptance.

3. Develop next-generation technology platforms and standards

Our core operating systems provide the technical capability to make *The Future of Money* real. We're enhancing them to ensure that we have the strength and flexibility to support emerging products and services. An example of this commitment is the Virtual Private Network (VPN). It's a significant enhancement of our existing Banknet® transaction-processing network — which is able to authorize a transaction from anywhere in the world in less than two seconds. The first wave of members migrated to the VPN in 1996, and all members will have access by 1998. VPN provides faster access and transport speeds, support for

MasterCard is building a robust product portfolio to meet a variety of global needs. Our products and programs address the needs of both consumers and businesses.

Consumer payment solutions

MasterCard® Card: our standard payment card; revolving credit and/or delayed debit in major markets

Gold MasterCard® Card: a payment card with enhanced services and a higher credit limit

Platinum Class MasterCard® Card: our credit card with the highest credit limit and exemplary service

World MasterCard™ Card: a product with exceptional service features and no preset spending limit, plus the option to revolve part of the charges

Maestro®: our global online point-of-sale debit program

MasterMoney™: our offline point-of-sale debit program in the U.S. Region

MasterCard®/Cirrus® ATM Network: our worldwide automated teller machine network

Corporate payment solutions

MasterCard® Corporate Card: a corporate charge payment card with an array of business services for large corporate T&E spending

MasterCard® Corporate Purchasing Card: a payment product that permits payment and tracking of business purchasing

MasterCard® Corporate Fleet Card: the industry's first multi-use fleet card

MasterCard® BusinessCard Card: a multi-use card targeted to the needs of small businesses

The technological advantage

We are committed to the continued development of the most technologically advanced payments system in the world, and to shaping *The Future of Money* to benefit all of our stakeholders.

The most visible manifestation of that development will be our five-to-ten year migration to a chip-based card system, from one using magnetic stripes. In the future, MasterCard products will be "smart"—capable of storing monetary value, debit and credit capabilities, loyalty program information, and a variety of other customer data. Yet, what provides MasterCard its true technological advantage—what facilitates secure transactions from any point on the globe—is the system behind our card products.

As a global payments system, MasterCard has created a technology framework that's advanced enough to react instantly, yet flexible enough to meet current and future needs. We've adopted an "open" systems architecture that supports members anywhere, anytime. We're deploying services closer to the customer, using regional service centers to customize products for local markets. This regional flexibility improves support of local currencies and local settlement.

Member computers are linked to our Banknet global telecommunications network, providing instant access to core MasterCard services. Our network enables us to authorize millions of transactions a day, with a 99.999 percent success rate. It allows us to handle increased speed, volume, and geographic diversity, while reducing fraud. In addition, the MasterCard Debit Switch (MDS) online, real-time processing system permits nearly 34 million debit transactions a month. Through MasterCard OnLiNE™, members can securely access a trillion-byte database from their own computers, giving them the power to track and analyze purchasing trends.

emerging products and services, and enhanced security. Best of all, it achieves this without the capital cost of creating a new infrastructure, and with the added flexibility to integrate newer, faster technologies as they become available. On December 23—the busiest buying day of 1996—our systems performed flawlessly, handling as many as 20 million transactions.

MasterCard's agreement to acquire a 51 percent stake in Mondex International is an important step toward establishing the best global framework for chip-based payment products. These products, sometimes called "smart cards," not only will help create a future in which cash or checks aren't needed for many daily purchases, but also offer technology to support many new uses beyond traditional payment methods. Mondex is a distinct platform that complies with the global EMV standard for card interoperability. We are committed to EMV and global interoperability of all MasterCard cards.

MasterCard is taking a similar role in establishing the Secure Electronic Transaction (SET) standard to make commerce on the Internet more secure. In December, we completed the first end-to-end secure Internet transaction using the SET protocol. In creating this standard, MasterCard, with our partners Netscape and IBM, was able to convince other industry players to agree to an open system that will be available to everyone.

MasterCard's leadership will help turn the Internet into a viable commercial environment and will create a new source of revenue for our members. We are dedicated to creating open standards in new platforms to ensure that our products will be accepted anywhere, anytime.

4. Develop and enhance products and services

MasterCard's growth over the last 30 years is a testament to our ability to create products and services that enhance cardholder convenience and member profitability.

Although credit cards remain an integral and profitable part of our business, our greatest growth is, and will continue to be, generated by providing consumers with secure and confident access to their deposit accounts. Our global deposit access strategy—which includes debit-based MasterCard cards, Maestro (our global online point-of-sale debit program), *MasterMoney* (the U.S.-issued offline debit program), the MasterCard/Cirrus ATM Network, and emerging chip card products—will help us and our members capture an increasing share of the estimated 70 percent of all transactions currently served by cash and checks.

Maestro's rapid growth in all regions highlights the demand for deposit access products. The number of live Maestro cards rose more than 35 percent in 1996, to roughly 94 million cards worldwide. The Asia/Pacific and Latin America and Caribbean regions have seen nearly 40 percent growth in Maestro adoption. U.S. Maestro card issuance swelled by nearly one-third. Also in the U.S. Region, MasterMoney grew by more than 100 percent in the last year. There are now almost 16 million MasterMoney cards in circulation. Debit-based transactions and emerging chip applications are replacing cash and checks, while complementing credit cards. In other words, they represent a tremendous growth opportunity for MasterCard and its members.

Vision, Purpose, and Operating Principles

Vision

Working with and on behalf of members, MasterCard will help shape *The Future of Money* by becoming the world's best and most preferred way to pay.

Purpose

Our purpose is to add value to members and to markets worldwide by building superior brands and platforms, which insure the highest-quality access to payments anytime, anywhere.

Operating Principles

The MasterCard family has a code of conduct and is guided by a set of operating principles that form the core of our culture.

Be open, honest, and direct

Be fair and caring

Treat each other with dignity and respect

Inspire teamwork through example

Accept personal accountability

Promote balance between professional and personal life

Encourage new ideas

Cultivate personal development in an enjoyable working environment

Execute with excellence

Celebrate and reward successes

Customer service quality is increasingly important. Several new initiatives reaffirm our desire to be the leader in service for our members' customers. This past year, we introduced MasterCard Global Service™ throughout the world, the first and only program of its kind. It enables cardholders traveling outside their home countries to access, via a toll-free telephone number, core emergency and special services anytime, anywhere, in any language.

We've also formed new Global Corporate and T&E Marketing teams to develop new card products and to create beneficial ways in which to use them. New alliance-based marketing programs, for example, match travelers from various points of origin to key destinations worldwide. The MasterCard Corporate Fleet Card was announced in late 1996 and will launch in the U.S. Region during 1997, tapping into the $78 billion spent annually on corporate vehicle fuel and maintenance. Our new MasterCard Corporate Purchasing Card already has grown to nearly two and a half times last year's size in the U.S. Region and has begun to grow globally.

Other new credit products will help us increase our share of the $1.3 trillion travel and entertainment segment, which is expected to be the world's largest spending category by the year 2000. Our new premium card offerings are anchored by the new World MasterCard Card, which combines a no-preset-spending-limit feature with the option to revolve a portion of card charges. The World MasterCard Card is the only product to deliver such a powerful combination of rewards and value. Complementing the World MasterCard Card is the new *Platinum Class* MasterCard Card. It features a higher revolving line-of-credit limit and exemplary customer service. These products will launch in several regions in the coming year.

The co-branding of cards remains strong. MasterCard assisted members globally in winning huge-volume co-branded programs — like the Samsung Auto MasterCard® Card in Asia, where 1 million cards were issued during the first weeks of availability, and the Wal-Mart MasterCard® Card from Chase in the United States.

5. *Improve association performance*

Improving our operational and financial performance for the benefit of our members has been a major focus for MasterCard over the past three years. And, we've been successful. During 1996, we posted a 4 percent decrease in costs per $1,000 of gross dollar volume. Our $52.8 million operating income represents a 47 percent increase over that of 1995. Our equity grew 126 percent to $131.5 million. We are making significant new operational enhancements to perform better for our members and to further improve our operating margins.

We are committed to high performance and end-to-end service quality. To accomplish this, we work closely with our member financial institutions to understand their market research needs, operations issues, and risk management challenges, so we can develop plans and programs to address them.

Another way to improve performance is through groundbreaking research and initiatives. To better understand how and why our cardholders use our products, we've introduced a Global Consumer Payments Research Program. This research provides MasterCard with the best understanding in the industry of how different consumer segments can be profitable, so we can help members seize the exciting opportunities that a changing payments environment creates.

Additionally, we bolstered our capital base and strategically positioned ourselves through the creation of Global Payment Systems in association with National Data Corporation. The new entity, the industry's third-largest acquirer processor, operates as an independent, third-party company and assumes the responsibilities of the MasterCard Automated Point-of-Sale Program (MAPP®). The sale of MAPP to the new company also resulted in a $111 million gain for MasterCard. Global Payment Systems will provide our members with a processor that's also a true partner in maximizing performance.

Our people are the foundation of MasterCard, and we added significantly to this foundation in 1996. We've been successful in attracting key people in the payments business and related fields. Our team, anywhere in the world where we do business, is the envy of the industry. We have strengthened our commitment to this team by developing a corporate culture with a well-defined set of goals and operating principles. TEAM (Team Excellence at MasterCard) is a high-performance training system that empowers each employee to make his or her best effort toward a common objective. We're convinced that TEAM enriches us on many levels. Some 1,200 MasterCard employees have participated in TEAM training, and the balance will do so during 1997.

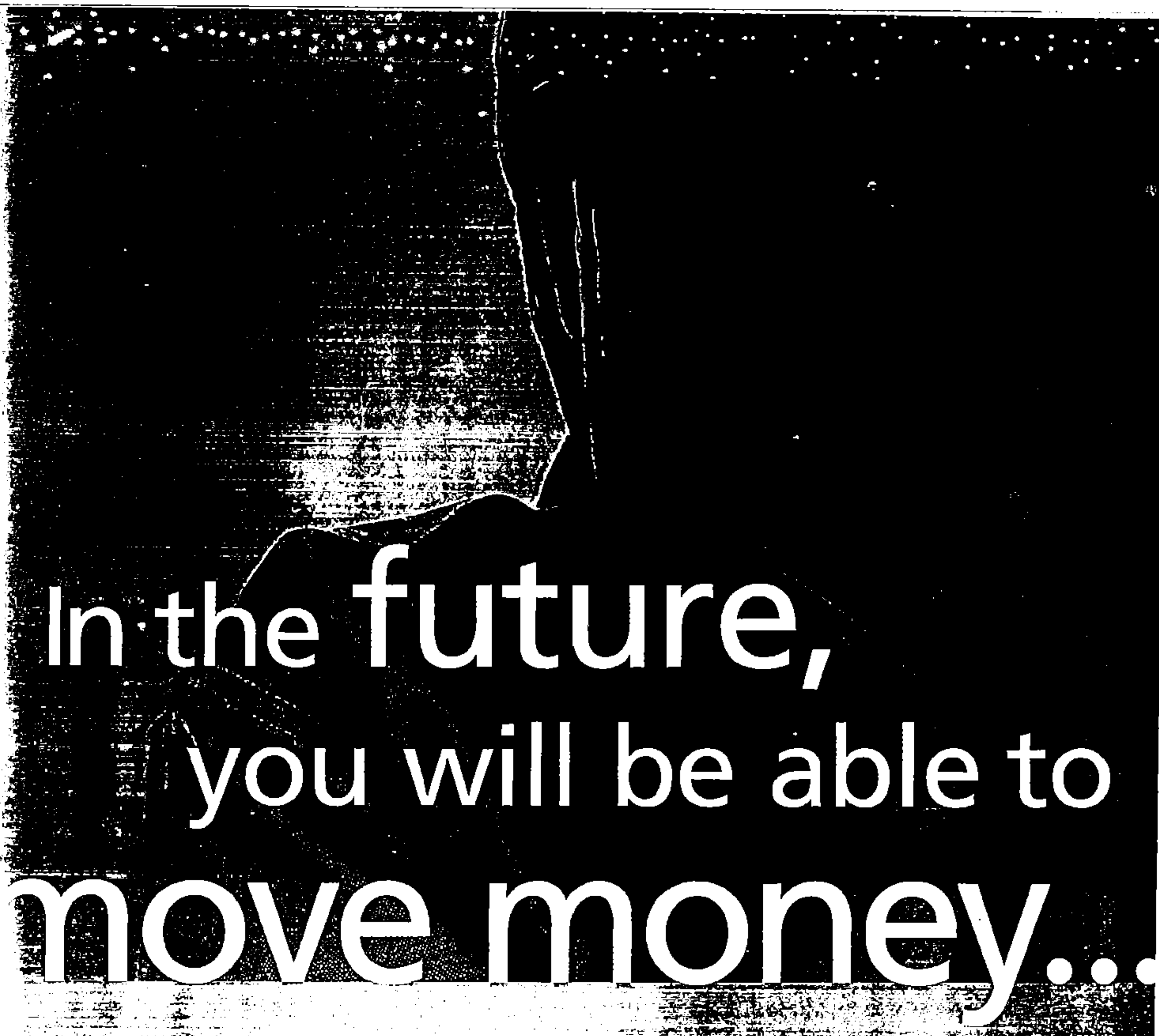
When MasterCard was born 30 years ago as the Interbank Card Association, who could have imagined our impact, or the variety and range of our achievements? Today, MasterCard products and services touch 350 million households around the world, but we believe that, as the nature of money changes, our opportunities globally have only just begun to take shape. We suspect that the changes coming in the next few years will be even more momentous than those of the last 30. Our children's generation will enjoy a range of payment choices that was unimaginable when MasterCard was created. Shaping that future is our great opportunity and our urgent responsibility. Everyone at MasterCard is responsible for our success and shares the excitement that this opportunity represents.

Joe Saunders

Joseph W. Saunders
Chairman, MasterCard International Incorporated;
President and Chief Executive Officer,
Household Credit Services, Inc.

HE Lockhart

H. Eugene Lockhart
President and Chief Executive Officer,
MasterCard International Incorporated



In the future, you will be able to move money...

Money is a constant in our lives [illegible] and our attitude toward it — is in a [illegible] money always has been in a state of transition. Beads [illegible] all have been considered money at [illegible] In the past, bank notes seemed familiar [illegible] as obsolete a form of money as [illegible] checks make up the vast major[illegible]ty of money now [illegible] convenient ways to pay [illegible]

Virtual money — credit [illegible] — will displace cash and checks as [illegible] will be able to choose how, when, and [illegible] money. Merchants will make transactions [illegible] money will become [illegible] credit and debit [illegible]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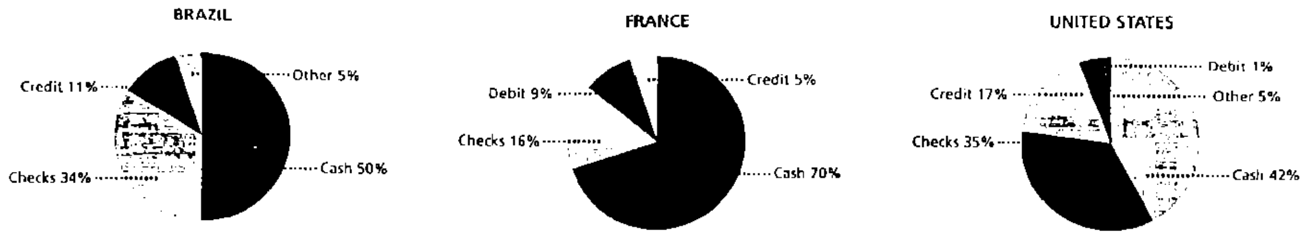


In the future, tangible cash will be joined by virtual money in a number of different forms. In some countries, that shift is well under way. These charts demonstrate the volume of transactions using different forms of payment in Brazil, France, and the United States.

...in many forms...

Gold was the first major diversified currency—one that was universally valued and recognized, and could be carried and converted into the coinage of different countries. But today gold isn't a conventional currency; virtual—or electronic—money is becoming the modern equivalent of gold. MasterCard is leading the way in providing different means of purchasing goods and services that are accepted regardless of the prevailing local currency. These new forms of money give people more payment choices than ever before.

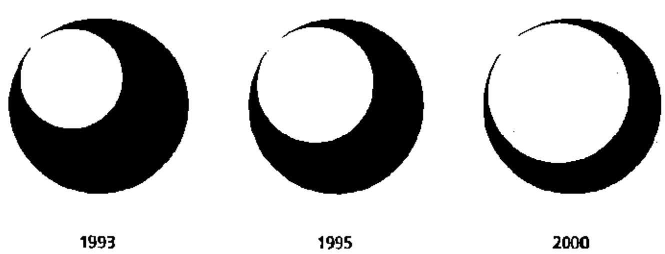
What forms will money take in a smaller, more interrelated world? Credit, debit, and electronic cash will appear in many new forms to suit specific needs, and even may be combined on a single card. When traveling, you'll be able to use an electronic cash card that can convert its value into a number of different currencies automatically. Virtual money will become important as a global payment tool. New payment products will give consumers and businesses more payment choices. The World MasterCard™ Card, with no preset spending limit and best-in-class rewards programs, is just one example of a breakthrough product. Co-branded and affinity card programs continue to give consumers the option to build value in a loyalty program while making purchases. In the future, MasterCard will provide even more choices.

...from anywhere...

Early in its history, money couldn't go anywhere—at least not easily. To collect money from someplace, or to send it elsewhere, you had to move the physical currency. Money remained difficult to move for centuries, until it became easier to carry. Paper notes helped, and later, when the telegraph wire-transfer system was created, money made the leap from physical currency to pure information. It could be moved at will, almost instantly.

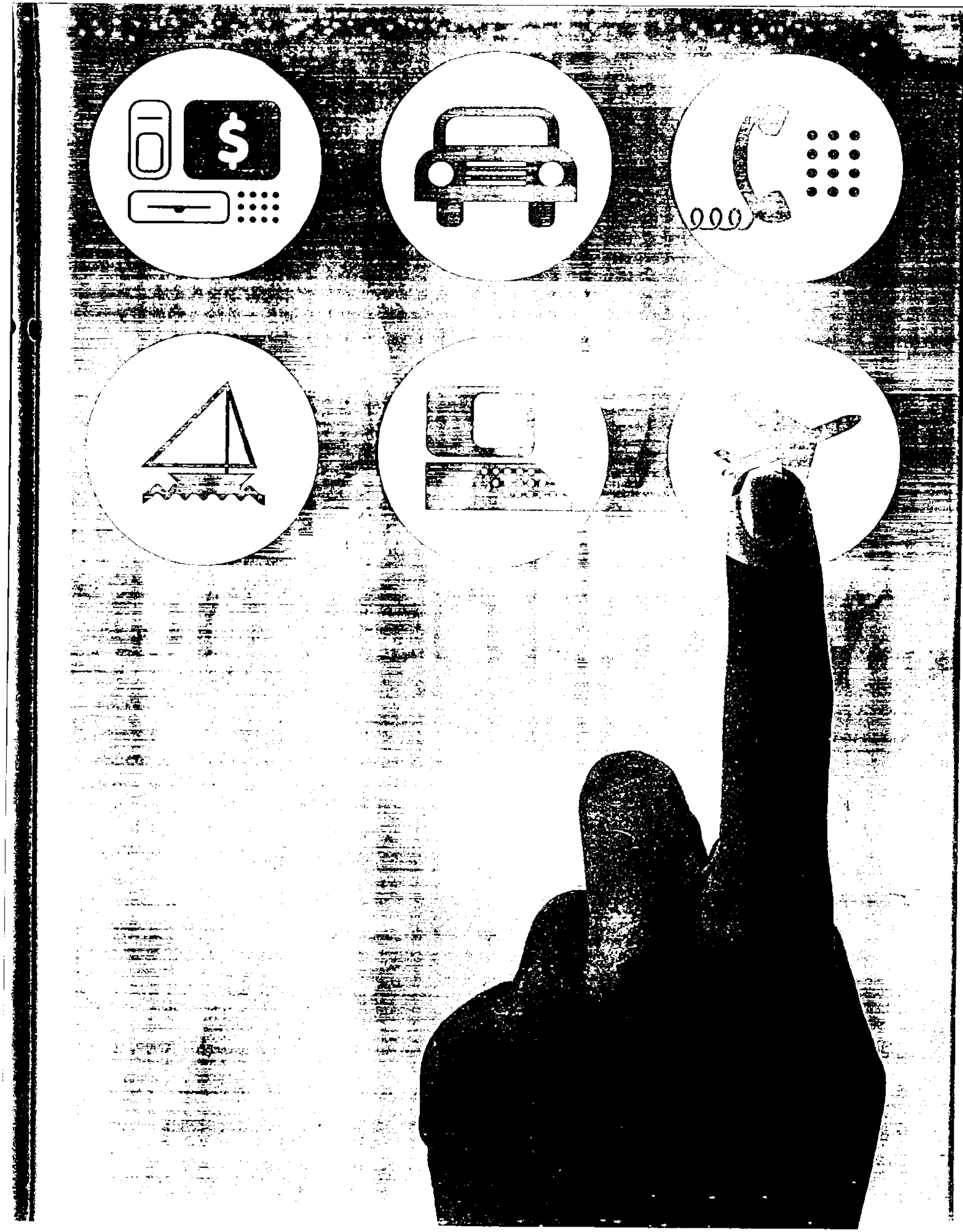
The next technological leap came with the creation of the ATM machine. You could access your bank account from any compatible ATM, anywhere in the world. Soon ATMs will be only one part of a virtual financial network. MasterCard will ensure that you'll be able to move money with any device that lets you communicate: cellular phones, personal computers, interactive TVs, digital organizers. As chip card technology becomes widely adopted, money is taking the next evolutionary step. You'll be able to transfer money from practically anywhere—from home, from the beach, from the Internet, and even from your electronic cash card to your daughter's card for her weekly allowance. MasterCard is creating the open platforms and standards that ensure that these new venues for money will be secure and universally accepted.

REMOTE BANKING TRANSACTIONS
(AS A PERCENTAGE OF TOTAL BANKING TRANSACTIONS)



As plastic supplants cash and checks, more transactions will take place remotely—by telephone, at the ATM, and via other delivery channels.

Source: MasterCard Global Consumer Payments Research Program



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Prehistory
Agricultural products
Money was what you grew or hunted. Everything from grains to game was traded, but it was hard to make change.

700 B.C.
Gold coins
Coins represented a great leap forward in portability and convenience. This Metapontum gold piece is from 350 B.C.

1661
Modern paper money
During a coin shortage, Sweden became the first European country to issue printed paper money.

1700
Checks and bank drafts
Checks let people move money readily, access it without carrying it, and make exact payments. Currency was no longer a prerequisite for payment.

1973
Credit cards
Credit cards made purchasing even more convenient, as banks began communicating transaction information through computers.

1988
ATMs
ATMs proliferated worldwide, providing consumers with convenient, secure access to money and account information.

1991
Debit cards
Debit cards extended card functionality to the deposit account, making it much more convenient for consumers to shop and pay bills.

1996
Chip cards
Chip cards, sometimes called "smart cards," offer the latest technology to support a variety of new uses beyond traditional payment methods.

As money has evolved, it has been transformed from the literal to the representational to the virtual. The first representational money appeared nearly 3,000 years ago. Coins stood for something of value. Checks were a refinement of the same idea. With plastic, the process became even more convenient; whether based on a chip or a magnetic stripe, a plastic card represents a form of payment honored around the world—even in cyberspace.

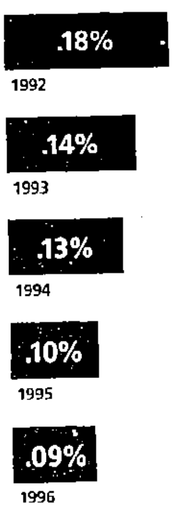
...more conveniently...

Ancient forms of value exchange—livestock, giant stones, spices, gold—were anything but convenient. Currency represented a fundamental shift away from these early varieties of money: You had something that represented the wealth you owned. The development of checks and bank drafts made carrying cumbersome amounts of currency less necessary. Today, credit and debit cards make life more convenient; they're easy to carry and use, and enable you to keep track of your spending by providing monthly statements. Virtual—or electronic—money takes the convenience concept a step further: You'll be able to access your bank account from anywhere in the world, obtain special services and benefits, and make purchases safely.

In the future, convenience will drive the form of payment people choose. Credit cards let you buy now and pay later, if that's your preference. Debit cards let you buy now and pay immediately through your checking account. Electronic cash lets you "pay in advance" by loading value onto the card, then making purchases using the stored value. "Smart cards" will offer even more conveniences that cash and checks can't. A single card will store information—health insurance data, motor vehicle permits, currency exchange rates, loyalty programs—and operate as virtual money.

...and with greater security.

FRAUD AS A PERCENTAGE OF SALES VOLUME, 1992–1996

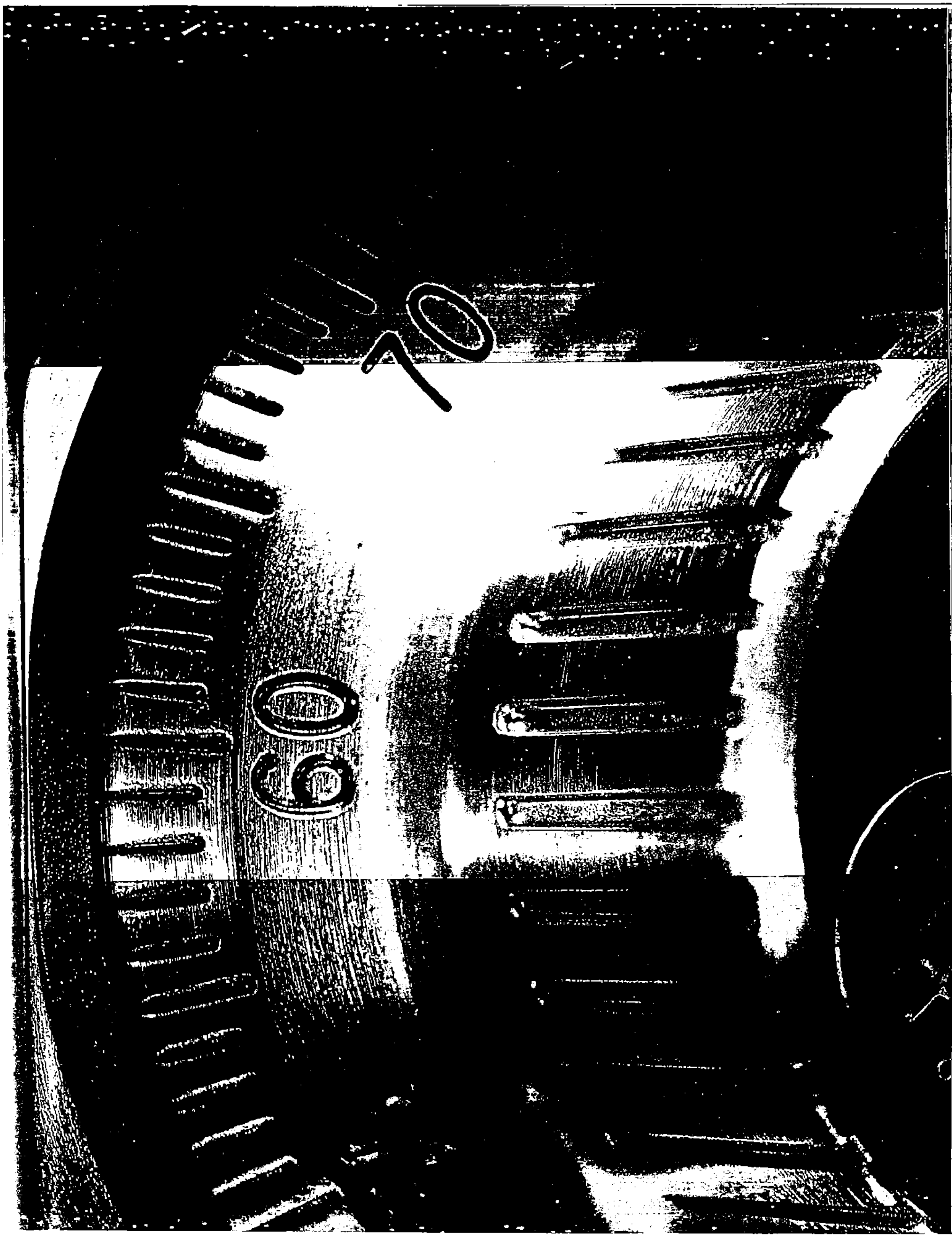


Through the use of the MasterCard SAFE (System To Avoid Fraud Effectively) reporting system, fraud—as measured against sales volume—has declined steadily since 1992.

Early forms of money were highly insecure, perishable, or both. As currency became widely used, banks were created to give people a relatively safe place to accumulate money. The problem, however, was access; your money wasn't readily available. People traded accessibility for the security that banks provided.

Virtual—or electronic—money has diminished the need for cash. MasterCard credit, debit, and electronic cash products mean that you don't need to carry much currency, or even a blank check, when you're shopping or traveling; you can get cash through an ATM, or use debit or credit cards for purchases. For merchants, these products eliminate the need to store or move quantities of cash; payments are transferred automatically into their bank accounts. MasterCard products also have given customers and merchants alike greater assurance of a secure transaction. Credit and debit cards eliminate counterfeit cash and fraudulent checks as a concern.

Working with other industry leaders, MasterCard has led the way in creating the Secure Electronic Transaction (SET) standard to make Internet commerce more secure. In the future, cards may incorporate cryptography, biometric technology like finger minutiae algorithms, or other security features. In addition, predictive models that mathematically determine which transactions may be fraudulent are becoming increasingly sophisticated.



Money is moving away from distinct hard currencies and toward ubiquitous payment products that transcend national borders, time zones, and — with the Internet — even physical space. It's digital and virtual, yet as real as a gold coin. Unlike gold, virtual money can take new forms and provide a variety of new choices for everyone.

Today, through the evolution of money, your payment is accepted by more people, in more forms, more securely, and in more places than at any point in history. In the future, acceptance of these new forms of money will become universal.

MasterCard has taken the leadership role in creating a global payments system in which virtual money is taking new forms to meet an increasing number of specific needs. We will accommodate a growing variety of credit and debit purchases, as well as the emerging electronic cash and Internet commerce technologies. We will increase convenience and safety for merchants and consumers alike, and help financial institutions save on processing costs. In short, everyone will have more choices than ever before.

MasterCard is *The Future of Money*™.

Global Overview

Global Performance

The payments industry is becoming increasingly international and operating outside national boundaries and time zones. To serve our members and cardholders, MasterCard must function around the clock, every day, in hundreds of languages and at thousands of locations worldwide. It's both an awesome responsibility and a tremendous opportunity.

MasterCard responds to members based on the needs and culture of their specific locality. Products that are mature in one part of the world may be just emerging in another; credit cards, for example, may be commonplace in Canada but represent an enormous growth opportunity in China. Similarly, deposit access products, well developed in Europe, are rapidly gaining in popularity and use in the United States and have tremendous opportunity among the newly banked populations of Africa, Asia, Latin America, and the Middle East. In these markets, deposit access products have the potential to leapfrog the conventional checkbook.

To better understand customers worldwide, we have made a commitment to increase our market research efforts in all of our regions. Our new premium products, for example, were developed using the data from 30 focus groups and numerous quantitative studies in countries including Australia, Brazil, Canada, Chile, France, Germany, Korea, Mexico, Taiwan, the United Kingdom, and the United States.

The challenges of working on a global scale are profound and ever-changing, but at MasterCard we know that this is the only way to become the world's best and most preferred way to pay.

Asia/Pacific

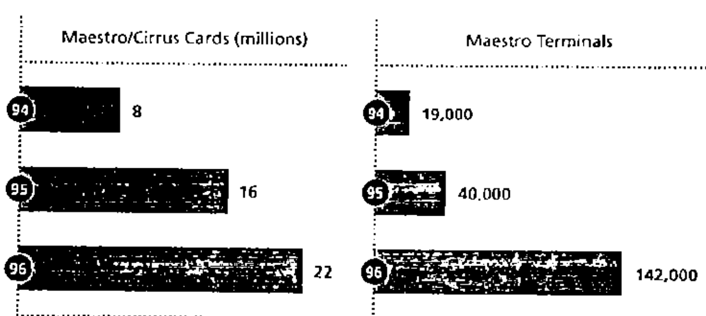
The Asia/Pacific Region is perhaps the most complex and diverse area MasterCard serves. New markets like Vietnam and changing markets such as Hong Kong pose unique challenges and opportunities.

MasterCard is the pioneer and agent for change in the region, having blazed the trail for card products in China and India, and established innovative uses for its range of payment tools in more developed markets like Australia, Korea, and Taiwan. In 1996, MasterCard also became the number-one payment brand in Vietnam by becoming the first to partner with local banks in issuing credit cards for that country.

The Asia/Pacific Region is MasterCard's second-largest region and accounted for 26 percent of our total gross dollar volume in 1996, with volume on MasterCard®-branded products reaching nearly $150 billion.

Overall, cards in circulation, including Maestro® cards, jumped 25 percent to 89.8 million. This growth reflects the increased preference for Gold MasterCard® Card products, and the continued success of affinity and co-branding programs in key markets like Japan, Korea, and Taiwan.

DEPOSIT ACCESS PRODUCT GROWTH



Maestro is the engine driving the explosive growth in online debit throughout the region. MasterCard's Maestro base in Asia has more than doubled since year-end 1994. In Korea, the second-largest Maestro market in the world, MasterCard worked with the country's banks to create its entire debit infrastructure — a success that put Maestro cards in the hands of 9 million Korean consumers. The expansion of MasterCard®/Cirrus® ATMs from Bangalore to Tasmania has further fueled usage of deposit access products.

MasterCard upgraded the processing infrastructure within the region — including the installation of India's first satellite network for payments, the launch of MasterNet™ in Japan, and the expansion of the Australian Processing Centre.

MasterCard has successfully conducted smart card field tests in Asia and has gained valuable lessons on how consumers use smart cards through an aggressive pilot program in Canberra, Australia.

Canada

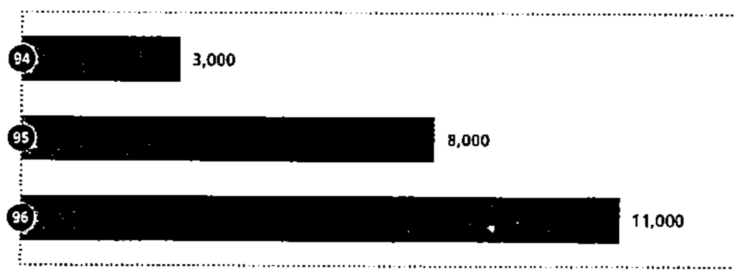
The Canada Region made significant progress in its strategic plan to build member profitability and consumer preference. The number of MasterCard® and Maestro® products issued rose 10.3 percent, to 17.1 million cards, in 1996.

Success stories for the year included Gold MasterCard® Card and MasterCard® Corporate Card products, with gross dollar volume increases of 27 and 54 percent, respectively. MasterCard® Corporate Purchasing Card issuance nearly tripled and included the debut of the Bank of Montreal MasterCard® Corporate Purchasing Card — the first such launch outside the United States. The Bank of Montreal and Bell Canada also introduced the first combined credit and telephone card in Canada. Consumers will earn points toward free long-distance calling by using the no-fee Bell MasterCard® Card.

The Canada Region's sponsorship successes reflect the country's love affair with ice. Professional hockey legend Bobby Orr became the spokesperson for the MasterCard National Hockey League sponsorship. Figure skating is represented by skating champion Elvis Stojko, who will represent MasterCard as our spokesperson for the World Figure Skating Championships.

MasterCard built on last year's success in ATM access. More than 3,000 ATM locations were added to the MasterCard®/Cirrus® ATM Network, bringing the total to more than 11,000 in Canada.

MASTERCARD/CIRRUS ATMs

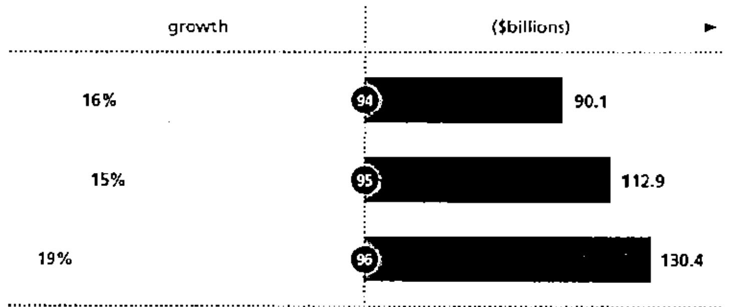


Maestro went live in the region about a year ago. Accordingly, Maestro card issuance in Canada grew by 17 percent in 1996, and acceptance locations grew from a single terminal at the end of 1995 to 8,700 terminals by year-end 1996. Of these, 5,300 terminals were installed by the Bank of Montreal at locations including every Shell Oil station and K-Mart retail store in the region. CUETS (Credit Union Electronic Transaction Services) added more than 3,300 Maestro terminals, primarily in western Canada.

Europe

MasterCard and our strategic partner in this region—Europay International—worked together to continue to lead the market. Maestro® services have extended national debit functionality across the borders of Europe, particularly in key markets including France, Germany, Italy, the Netherlands, the United Kingdom, and virtually all of Eastern Europe. Maestro card issuance was up nearly 30 percent for the year.

MASTERCARD/EUROCARD GROSS DOLLAR VOLUME*



*Excluding Maestro; adjusted for currency fluctuations

The new MasterCard agreement with our strategic partner, Europay International, calls for the convergence of the two brands in Europe, with MasterCard® becoming the acceptance mark there. This enhanced acceptance mark will now appear at merchant locations throughout Europe, along with the Eurocard name. The agreement builds on the leadership we have in the Europe Region, and helps consolidate our brand worldwide.

The agreement with Access Brands Ltd. in the United Kingdom means that about 7 million Access MasterCard® cards now in use in the United Kingdom and the Republic of Ireland will be replaced by MasterCard-only branded cards as part of the reissuance cycle.

Major breakthroughs were made in MasterCard brand issuance in Spain in 1996. The Association of Spanish Savings Banks signed an agreement with Europay that calls for the issuance of 6 million new credit and debit cards in Spain during the next two years. In addition, Sistema 4B, Spain's largest group of commercial banks, signed an agreement with Europay that will add the MasterCard brand mark to 4 million 4B cards.

In June, MasterCard sponsored Euro '96, the European Soccer Championships in the United Kingdom. Four of the largest U.K. member financial institutions helped us raise brand awareness by participating in special cardholder and merchant promotions. The result: a 5 percent increase in brand awareness.

Europe accounted for 24 percent of MasterCard's gross dollar volume, with card issuance growing 20 percent to 68 million cards. Europe's gross dollar volume increased 19 percent to $130 billion.

Latin America and Caribbean

MasterCard is the payments leader within many of the markets that comprise the multifaceted Latin America and Caribbean Region. We've established this position by customizing our products and services to meet the needs of each market and ensuring that our members receive the highest level of support.

Throughout Brazil and Argentina, the enhanced MasterCard® brand acceptance mark is gaining visibility at acceptance locations as redecalization begins.

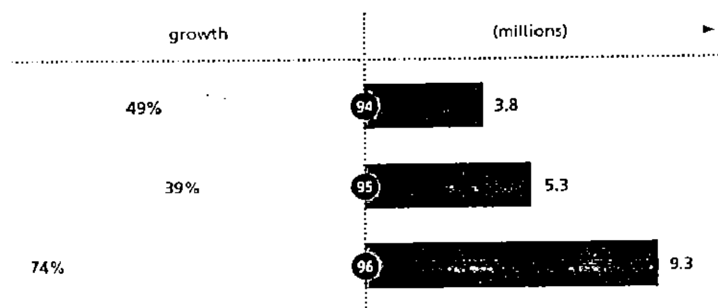
In August, MasterCard opened an office in Brazil, where competition has increased with the advent of duality. The impact of duality is being played out primarily in the merchant acquiring sector. Given MasterCard's mission of ensuring unsurpassed acceptance of our products and the importance of the MasterCard brand as an acceptance mark, MasterCard took equity participation in Redecard, the new, exclusively MasterCard acquirer in Brazil. With approximately 300,000 merchant locations and an extensive network of telecommunications assets, Redecard has the lead in this major global market.

In addition, MasterCard purchased equity in Argencard, S.A., which has sole responsibility for developing and managing the MasterCard brand in Argentina and Uruguay. Today, Argencard has more than 120 affiliate members that issue MasterCard products — including some of the largest banks in Argentina — and, with more than 300,000 merchants, the most extensive network in the country.

Across the region, cards in circulation rose 29 percent to 27 million, the strongest growth in more than two years. Gross dollar volume reached $22 billion, up 27 percent. MasterCard® Corporate Card and co-branded products were the greatest successes within the region. For the first time, the Dominican Republic and Ecuador were opened to the MasterCard®/Cirrus® ATM Network. Cirrus also became the first ATM network in the Galápagos Islands.

Overall, the region posted debit growth of 74 percent, with more than 9 million Maestro cards in use. Colombia has emerged as one of the world's leading debit markets, and Maestro® is the country's leading online debit brand, adding 3,100 new terminals to the nearly 1.4 million Maestro terminals in place worldwide.

MAESTRO CARDS



Middle East/ Africa

MasterCard is the market leader in the Middle East/Africa Region, which still shows enormous potential for growth—particularly in Gulf countries like Saudi Arabia and the United Arab Emirates (U.A.E.).

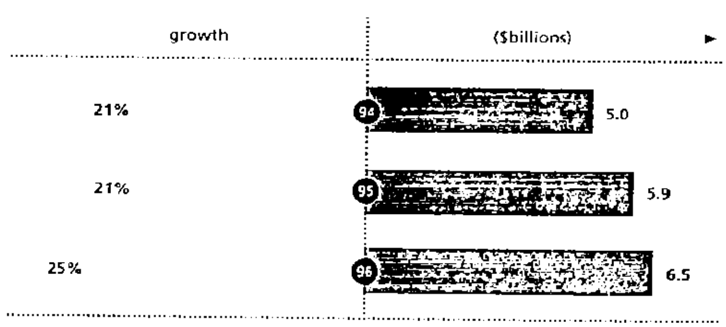
In a region where banks historically have been hesitant to grant credit—and in some cases governments prohibit the charging of interest for religious reasons—online debit is the area that should demonstrate the most explosive growth. Maestro® already is being used in Saudi Arabia, the U.A.E., Qatar, and Mauritius. The Saudi Arabia market, with nearly 729,000 Maestro cards, grew a staggering fivefold for the year.

Brand awareness increased significantly in the region, especially in the Saudi Arabia and South Africa markets. In Saudi Arabia in 1996, brand awareness increased to 34 percent from 8 percent; in South Africa, awareness grew to 41 percent, from 27 percent in 1995. Member-supported regional sponsorships and marketing initiatives played a significant role in reaching more than 1 million consumers during events like the African Cup of Nations soccer tournament, the Gulf Cup, and the Mauritius PGA Open.

In 1992, South Africa became the first country in the Middle East/Africa Region to introduce international ATM access through the MasterCard®/Cirrus® ATM Network. By the end of 1996, South Africa had been joined by Bahrain, Egypt, Lebanon, Mauritius, Morocco, Oman, Qatar, Saudi Arabia, Senegal, Tunisia, the U.A.E, and Zimbabwe. Today, cardholders can get cash at ATMs in seven regional countries that are prime tourist destinations. In addition, two of South Africa's largest banks have committed to the MasterCard chip card initiative, strengthening our leadership position in this key market.

Overall, the region's gross dollar volume grew by 25 percent, not including Maestro. For the same period, total cards in circulation reached nearly 3 million, up 42 percent from the previous year, with the Gold MasterCard® Card and MasterCard® Corporate Card products posting significant gains. In Egypt and Bahrain, gold card gross dollar volume increased by 142 percent and 169 percent, respectively. In Zimbabwe, MasterCard® Corporate Card gross dollar volume nearly quadrupled over 1995 levels.

MASTERCARD GROSS DOLLAR VOLUME*



*Excluding Maestro; adjusted for currency fluctuations

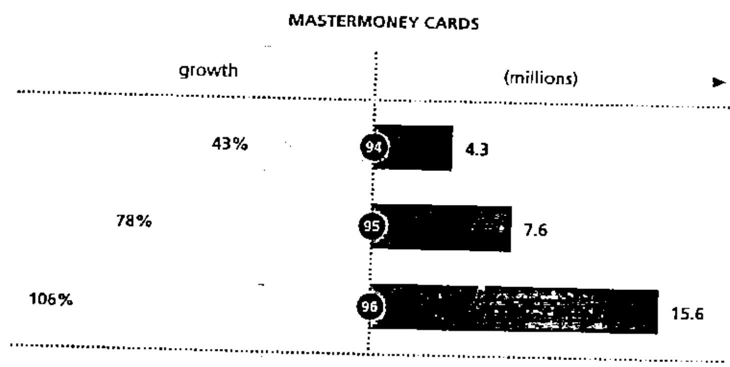
United States

The United States Region accounts for 42 percent of MasterCard's worldwide gross dollar volume, which reached nearly $230 billion in 1996—a 13.5 percent increase. Total cards in circulation surged to 200 million, a gain of 14 percent. MasterCard continued its dominance in the co-branding arena and enjoyed tremendous growth in the relatively untapped commercial products area. MasterCard BusinessCard® Card gross dollar volume was up 42 percent. MasterCard® Corporate Purchasing Card gross dollar volume grew to nearly two and a half times last year's level.

Key accomplishments in 1996 were realized by strengthening our core credit business, while developing our emerging corporate and deposit access programs. Our credit card mail share exceeded our market share during the second half of 1996 for the first time in more than five years, indicating stronger growth to come over the next few years. We greatly increased the number of acceptance locations, making MasterCard® cards more useful for a wider variety of payments. Warehouse clubs, health-care providers, and U.S. Post Offices are among our acceptance victories, with volume up more than fivefold in U.S. Post Offices.

Our greatest co-branding success for the year came in September, when the Wal-Mart MasterCard® Card from Chase was announced. It unites the world's largest retailer with America's largest bank in what we believe will become one of the most significant co-branding programs ever undertaken.

During the past two years, MasterMoney™, the offline debit program, experienced record growth, putting MasterCard cards in the hands of more Americans than ever before. Major banks, including Wells Fargo, KeyCorp, and Chase, selected MasterMoney™, Maestro®, and Cirrus® products over competitive brands—a choice that is expected to shift millions of cards to our debit platform. Total cards in the MasterMoney program reached nearly 16 million, reflecting 100 percent growth from the previous year. Purchase volume was up more than 100 percent to $8.5 billion.



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MasterCard: The Global Payments System

As the preceding pages make clear, MasterCard International showed broad strength across diverse geographic regions and payment program categories during 1996. Our payment products are growing strongly in parts of the world where they represent a new service. In economies long familiar with payment cards, we've introduced new payment products and services that both members and cardholders have adopted enthusiastically. Credit card products are the engine that has driven profitability for the last 30 years, and we don't see a short-term change in this scenario.

The greatest potential for growth in the future will come from providing consumers with secure and confident access to their money—anytime, anywhere. Markets that have debit products are showing greatly increased usage and adoption; the growth rates are even higher in countries where checks aren't a consumer product. People throughout the world are discovering the advantages of debit, and are using our cards in increasing numbers for a broad range of transactions. We believe that Maestro®, Cirrus®, and MasterMoney™ are models for the success we will have with other new programs as they are developed and introduced.

An increasingly diverse mixture of consumer and corporate payment solutions will position MasterCard to achieve the goal of replacing cash and checks, which represent the vast majority of the world's transactions—and a market with virtually unlimited growth. As the world leader in debit cards, and with the potential that our Mondex agreement represents, we believe that we are well positioned to make this goal a reality, and to become *The Future of Money*™.

Consolidated Financial Information

MasterCard International Incorporated ("MasterCard" or the "Company") is a global payments services franchise serving card issuing and merchant acquiring member institutions worldwide. The Company is a nonstock Delaware corporation that offers consumers and merchants, through its members, payments services (including credit, debit, chip, stored value and ATM) by means of the globally recognized MasterCard®, Cirrus® and Maestro® family of brands. MasterCard maintains six geographic regions and two functional groups as follows: Asia/Pacific, Canada, Europe, Latin America, Middle East/Africa, and the United States, and Global (corporate) functions and Operations (network and technology processing and services) functions. In support of MasterCard operations, each self-funded region manages local marketing and advertising, member relations, and other services under the governance of a regional board of directors with the exception of the Europe region which is managed through a strategic alliance with Europay International S.A.

MasterCard licenses its brand to members and provides support services that maintain and enhance the value of the brand. Additionally, MasterCard guarantees qualifying member settlement activity. MasterCard does not issue cards, set card fees or establish cardholder annual percentage rates and does not solicit individual merchants to accept the card or set discount rates. MasterCard's worldwide payments services role consists of:

Brand Management

MasterCard supports and promotes its members and family of brands globally through a series of brand awareness programs and initiatives for its consumer and commercial credit and debit products and services. The Company has embarked upon an ambitious effort to expand the way people think about and make payments around the world. Together with members and business partners, MasterCard has staked a leadership position in the global payments business. Through focused brand development, advertising and promotion, MasterCard is developing brand preference and improving value to cardholders and merchants.

Franchise Management

MasterCard is the governing body that establishes and enforces policies and rules with respect to its family of brands. In its franchise management role, MasterCard evaluates and monitors the financial stability of members within the system to ensure that the integrity of the franchise is maintained. The Company emphasizes and promotes end-to-end service quality. To ensure that quality standards are met, the Company establishes and monitors standards and procedures under which acceptance and settlement of cardholders' and service subscribers' transactions are conducted.

Transaction Processing

MasterCard provides a global telecommunications network for its members, facilitating electronic authorization of transactions, and related clearing and settlement. MasterCard has made significant investments in new technology development and new product delivery that will support unique requirements within our rapidly growing regions.

Authorization Authorization of MasterCard transactions is routed through the Banknet® communications and data processing network. The proprietary MasterCard network connects host computers of members to each other as well as to the MasterCard global processing center. Centrally controlled in St. Louis, Missouri, the network provides distributed authorization processing to issuers' host sites. Network availability is consistently maintained at a rate in excess of 99.99%. The MasterCard authorization service operates 24 hours a day, year-round, directing authorization of transactions between the issuing member for the cardholder or service subscriber and the acquiring member responsible for the merchant or commercial vendor. The authorization system is upgraded continually and currently supports global credit, debit and ATM transactions.

Clearing The MasterCard clearing system supports the exchange of electronic transaction data between acquiring (merchant) members and issuing (cardholder) members. Required transaction information is exchanged and each transaction is valued according to rules established by MasterCard. The resulting net dollar value, including multicurrency conversion of non-U.S. dollar transactions, is logged and sorted by member for calculating net settlement balances. Secured data files are electronically transferred to MasterCard's settlement system following appropriate review to ensure that member due to/due from positions are balanced. Transmission of the data is provided every U.S. banking business day to facilitate the member settlement process.

Settlement Settlement consists of compiling aggregate results, denominated in U.S. dollars, of the daily clearing files to determine aggregate net due to/due from amounts for transaction activity for each member. Accordingly, a MasterCard member will either owe or collect its net settlement position. A reconciliation is provided to each member detailing the net amounts by clearing cycle and a total for clearing cutoff. Members receiving or paying U.S. dollars interact with MasterCard's settlement bank through the Fedwire system or maintain accounts directly with the settlement bank. Payments are due on the settlement date.

MasterCard provides non-U.S. dollar settlement to its members who receive or pay in selected other currencies. These payments are handled through MasterCard's international settlement banks and payment is made to and received from the members based upon traditional two-day value dating. MasterCard currently provides non-U.S. dollar settlement to members in 14 currencies.

Other Significant Member Support Services

Member Settlement Risk Management Member risk management is a key function dedicated to evaluating member financial creditworthiness and adequacy. Risk management activities support established settlement risk standards and ensure that members operate according to established service and quality standards. The review process for new members and ongoing monitoring of all members is applied to both issuing activity and acquiring merchant relationships. Based on settlement activity risk and country exposure analysis against regulatory capital standards, security arrangements in the form of escrow funds or letters of credit are required, as appropriate, for acceptance or continued involvement in MasterCard's settlement process.

Member Protection Program MasterCard plays an integral role in an industry-focused effort to improve card security and reduce issuing and acquiring member fraud exposures. Services provided to members involve card technology and authorization intelligence with early warning of fraudulent transactions or questionable cardholder activity.

Remittance Processing Service ("RPS") By providing end-to-end electronic delivery and settlement of payment data for billers and financial institutions, RPS addresses the inefficiencies of the U.S. paper-based remittance industry.

The following is a discussion of certain factors affecting results of operations, liquidity and capital resources for each of the three years in the period ended December 31, 1996. This discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in this document.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

MasterCard has been in the business of processing authorizations and clearing and settling transactions among its issuing and acquiring members for more than 30 years. As a provider of financial services focused on global payments and value transfer information for its members, MasterCard is committed to service excellence and member profitability. In addition to launching numerous, successful global brand awareness and usage programs for its various consumer and commercial credit and debit products and services, MasterCard promotes unsurpassed global acceptance through a merchant acceptance network that supports member card issuance. Currently, MasterCard handles more than 7.5 million transactions a day. On a global scale, MasterCard clears transactions denominated in more than 150 currencies with the majority of its transaction clearing and settlement activity completed through a technologically sophisticated platform that virtually eliminates paper processing. The payment and value transfer reliability of MasterCard's network, along with advances in technology, has enabled MasterCard to expand into remittance processing applications, commercial purchasing card services, and a broad array of value-adding transaction services and enhancements.

On a worldwide basis, gross annual MasterCard branded transactions have increased at a compound annual growth rate of 15.0% over the last three years to nearly six billion transactions in 1996. Gross U.S. dollar volume associated with these transactions has increased at a compound annual growth rate of 18.0% over the three years to more than $550 billion in 1996 from $397.5 billion in 1994.

As a result of rapid global growth in recent years and the creation of regional organizations to better serve members in key markets around the world, MasterCard's annual revenue has increased to $945.5 million in 1996 from the 1994 level of $664.6 million.

To enhance services provided to members and to bolster the Company's capital base, MasterCard completed an agreement on April 1, 1996 with National Data Corporation ("NDC") to form a new payment processing company called Global Payment Systems L.L.C. ("GPS"). GPS consists of the MasterCard Automated Point-of-Sale Program ("MAPP") and NDC's payment services business, point-of-sale and back-office services. MasterCard contributed certain assets of MAPP to GPS and GPS assumed certain liabilities of MAPP. MasterCard received $110.0 million cash and a 7.5% equity ownership in GPS, valued at $15.0 million. The transaction resulted in a pretax gain of $111.4 million.

MAPP contributed 1.3%, 6.0% and 6.0%, or $12.2 million, $48.6 million and $40.1 million, of MasterCard's consolidated revenue for the years ended December 31, 1996, 1995 and 1994, respectively. Additionally, MAPP contributed 1.3%, 5.1% and 4.8%, or $11.7 million, $39.9 million and $31.1 million of total expenses for the years ended December 31, 1996, 1995 and 1994, respectively. The 1996 amounts reflect first quarter 1996 activity prior to the sale.

As part of an initiative to build the MasterCard brand, on June 29, 1996 the Company completed agreements with the shareholders of Access Brand Ltd. to acquire the Access® brand, convert all Access branded cards to MasterCard-only branded cards as part of the reissuance cycle, and to market the MasterCard brand in the United Kingdom. The costs associated with the acquisition of the Access brand of $5.0 million and with the collaborative marketing agreement of $40.0 million are included in Access transactions in the consolidated statement of income.

Results of Operations

The following table sets forth a summary of results of operations:

	Years Ended December 31, (U.S. Dollars, in Thousands)			Year to Year Changes % Increase (Decrease)	
	1996	1995	1994	1996 vs 1995	1995 vs 1994
Revenue					
Operations fees	**$465,112**	$404,265	$322,227	15.1%	25.5%
Member assessments	**405,466**	361,807	316,600	12.1	14.3
Other	**74,953**	50,043	25,783	49.8	94.1
Total revenue	**945,531**	816,115	664,610	15.9	22.8
Expenses					
General operating and administrative	**438,467**	401,392	338,731	9.2	18.5
Advertising, marketing and promotions	**383,543**	306,870	246,461	25.0	24.5
Occupancy	**35,042**	36,788	32,102	(4.7)	14.6
Depreciation and amortization	**33,961**	33,725	26,451	.7	27.5
Other	**1,759**	1,461	99	20.4	1,375.8
Total expenses	**892,772**	780,236	643,844	14.4	21.2
Operating income	**52,759**	35,879	20,766	47.0	72.8
Other income and expenses					
Gain on sale of MAPP	**111,393**	—	—		
Access transactions	**(45,000)**	—	—		
Total other income and expenses	**66,393**	—	—		
Income before income taxes	**119,152**	35,879	20,766	232.1	72.8
Income tax expense	**47,657**	14,387	8,974	231.3	60.3
Net income	**$ 71,495**	$ 21,492	$ 11,792	232.7%	82.3%

Revenue In 1996, total revenue increased 15.9% to $945.5 million versus the $816.1 million reported in 1995, following an increase of 22.8% for 1995 over the 1994 reported revenue of $664.6 million. Excluding MAPP, revenue has grown at a rate of 21.6% from 1995 to 1996 compared with 22.9% in the period from 1994 to 1995. Operations fees revenue represents user pay fees for authorization, clearing and settlement, and other processing services provided to members. Member assessments revenue represents payments made by members to support operating requirements. Assessments are based upon the members' transaction volumes and rates approved by the respective regional board of directors. Revenue growth has been driven by increases in user pay transaction volumes resulting from continued global growth and expansion.

General operating and administrative expenses During 1996, 1995 and 1994, general operating and administrative expense levels continued to decline as a percentage of revenue, from 51.0% of revenue in 1994 to 49.2% in 1995 and 46.4% in 1996. This trend reflects cost control efforts by management to make resources available to support the strategic emphasis on technology and global brand development. In 1996, total general operating and administrative expenses were $438.5 million compared with $401.4 million in 1995, representing a 9.2% increase. In 1995, these expenses were 18.5% higher than the $338.7 million level in 1994. MAPP expenses are included in these amounts and accounted for $10.3 million, $34.2 million and $27.0 million during 1996, 1995 and 1994, respectively. The reduced expense level in 1996 reflects the April 1 disposition of MAPP.

The Company is emphasizing investment in technology, and in developing a member-focused regional infrastructure. To support emerging technologies, such as chip, electronic commerce and core systems redevelopment, technology expenses increased to $117.5 million in 1996, or 19.5% over the 1995 level of $98.3 million.

In 1995, there was a significant reduction in member counterfeit losses due to the card verification code ("CVC") features as well as fraud predictive models, rules-based systems and similar programs to reduce losses. As a result, MasterCard's counterfeit insurance coverage was changed. Effective January 1, 1996, counterfeit coverage to protect the membership from catastrophic losses was implemented. This coverage transferred the liability from MasterCard to the insurance underwriter, which eliminated the need for a 1996 counterfeit provision.

The Company completed the relocation of its headquarters from New York City to Purchase, New York during 1995. Due to a higher than expected number of employees participating in the relocation program, an additional $5.0 million of expenses were provided in 1996. In 1995 and 1994, these expenses were $17.0 million and $4.0 million, respectively. All estimated costs of the headquarters relocation have been fully reserved.

Advertising, marketing and promotions expenses This includes advertising, promotion sponsorships, member support and other marketing related activities. These expenses were $383.5 million in 1996, or 25.0% over the 1995 total of $306.9 million. In 1995, these expenses increased 24.5% over the $246.5 million spent in 1994. The increase in 1996 costs resulted from an increased focus on building brand awareness for MasterCard credit and debit products on a global scale.

Occupancy expenses In 1996, occupancy expenses, which exclude amortization of leasehold improvements and depreciation of furniture, fixtures and equipment, were $35.0 million, or 4.7% lower than the 1995 expenses of $36.8 million, while 1995 levels increased 14.6% over the $32.1 million expense level in 1994. Occupancy expenses included costs to accommodate the headquarters move of $2.2 million, $7.5 million and $5.1 million in 1996, 1995 and 1994, respectively. Additionally, there were increased costs associated with the expansion of MasterCard's regional infrastructure and operations and technology facilities.

Depreciation and amortization expenses The level of expenses remained relatively constant at $34.0 million and $33.7 million for the years 1996 and 1995, respectively, while 1995 levels increased 27.5% over the 1994 expense level of $26.5 million. The significant increase in 1995 from 1994 primarily reflects the impact of investment in a new network technology platform and completion of accelerated leasehold amortization and furniture and equipment depreciation related to the 1995 headquarters relocation.

Other expenses Other expenses, comprised principally of interest expense related to the 1995 acquisition of Monetary Transfer Systems L.L.C., were $1.8 million in 1996, compared with $1.5 million in 1995 and $0.1 million in 1994.

Operating income Continued strong revenue growth and management's efforts to improve pretax margins contributed to 1996 operating income of $52.8 million. Operating income increased 47.0% and 72.8% in 1996 and 1995, respectively. The earnings increase in 1995 over 1994 was primarily the result of continued growth and increased transactions as well as continued cost containment efforts initiated in 1994.

Income before income taxes Income before income taxes was $119.2 million in 1996, a 232.1% increase over the 1995 level of $35.9 million. This increase is due primarily to the gain on the sale of MAPP reduced by the cost of Access transactions.

Income tax expense MasterCard's effective tax rate continued at 40.0% in 1996 compared to 40.1% in 1995 and 43.2% in 1994.

Net income In 1996, net income of $71.5 million increased 232.7% compared to 1995 net income of $21.5 million due primarily to the sale of MAPP and continued strong revenue growth combined with cost containment efforts. For 1995, net income increased 82.3% on a combination of growth in income before taxes with a small improvement in the effective tax rate. As a result, December 31, 1996 total equity was $131.5 million, an increase of 126.1% over the $58.2 million at December 31, 1995.

Liquidity and Capital Resources

Cash flows The Company has financed its operations from internally generated cash. Net cash flow provided by operating activities was $53.5 million in 1996, compared with $112.8 million in 1995 and $92.4 million in 1994. The $59.2 million decrease in cash flows from operating activities in 1996 compared with 1995 resulted from the Access transactions combined with increases in prepaid expenses and other current assets, deferred tax benefits and accounts receivable, partially offset by increases in reserve for payments to members. Cash provided by (used in) investing activities increased to $10.1 million in 1996 from ($138.7) in 1995 and from ($64.2) million in 1994. The 1996 increase was due primarily to cash proceeds received from the sale of MAPP offset by purchases of fixed assets.

Working capital At December 31, 1996, the Company had working capital of $19.1 million versus negative working capital of $34.2 million at December 31, 1995. Primarily, this results from cash proceeds realized from the sale of MAPP and strong operating results partially offset by investments in affiliates and liabilities incurred due to the Access transactions. Working capital balances at calendar year-end do not reflect cash receipts for assessment revenue that are due on January 15 of the following year. During January 1997 and 1996, the Company collected assessment revenue of $96.0 million and $92.9 million, respectively.

Investments available for sale increased $37.3 million to $139.7 million in 1996 as a result of investing cash generated from operations and the sale of MAPP.

Capital expenditures Capital expenditures were approximately $52.8 million for the period ended December 31, 1996, compared with $43.4 million and $39.5 million for 1995 and 1994, respectively. The increase in 1996 expenditures relates primarily to the upgrade and replacement of MasterCard Interface Processors ("MIPs") throughout the world. The 1995 increase in capital expenditures related primarily to the Company's new corporate headquarters in Purchase, New York. Both 1995 and 1994 experienced significant expenditures due to purchases of computer equipment for regional processors and the St. Louis data center, furniture and fixtures, and leasehold improvements.

Acquisition of Monetary Transfer Systems L.L.C. On January 31, 1995, the Company acquired all member interest in Monetary Transfer Systems L.L.C., which operates a debit switch in the central U.S. under the name BankMate®. The Company paid $13.8 million to acquire BankMate, and has guaranteed discounts on services to the former owners. The acquisition of BankMate did not have a material impact on the 1996 or 1995 results of the Company's operations.

Mondex agreement As discussed in Note 14 to the Consolidated Financial Statements, on February 21, 1997, the Company entered into an agreement with Mondex International ("Mondex" or "MXI") to acquire a 51% interest in London-based MXI and to adopt the Mondex technology as MasterCard's strategic chip card platform. In connection with MasterCard's adoption of this strategic chip card platform, MasterCard entered into various agreements, the terms of which provide for the following:

- Mondex issued shares to MasterCard sufficient to create MasterCard's 51% equity interest for £10.0 million, which Mondex will use for research and development;
- MasterCard also paid £27.0 million in exchange for a right to receive up to an equivalent amount from MXI's sale of rights to exploit Mondex technology in territories that remain unsold at the time of the agreement;
- MasterCard agreed to pay its proportionate share of assessments in exchange for global support services;
- Subject to certain limitations, for five years, MasterCard will fund the remaining share of assessments for global support services in exchange for certain product rights acquired from the global founders;
- MasterCard members, and others, will have the right to obtain licenses to use the Mondex stored-value technology in regions in which they operate;
- MasterCard members will participate in developing the Mondex platform for other chip-based products; and
- MasterCard will not invest in any other electronic purse products.

In conjunction with the transaction, the Company entered into an agreement to borrow £30.0 million at a rate of LIBOR plus .375%. The loan is due on August 20, 1999, but is extendable for three one-year periods.

Consolidated Balance Sheet

(U.S. Dollars, in Thousands)	December 31, 1996	1995
Assets		
Current assets		
Cash and cash equivalents	**$128,058**	$ 64,395
Investments available for sale	**139,713**	102,367
Accounts receivable	**8,703**	4,395
Accrued revenue	**26,775**	26,427
Deferred income taxes	**33,499**	22,138
Prepaid expenses and other current assets	**37,113**	19,440
Total current assets	**373,861**	239,162
Fixed assets, net	**91,245**	76,056
Investments in affiliates	**34,640**	9,633
Deferred income taxes	**15,336**	9,926
Intangible assets, net	**22,880**	27,455
Other assets	**3,173**	2,435
Total assets	**$541,135**	$364,667
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	**$184,283**	$184,206
Reserve for payments to members	**152,691**	75,765
Deferred revenue and other current liabilities	**17,766**	13,364
Total current liabilities	**354,740**	273,335
Other liabilities	**44,895**	33,167
Reserve for payments to members	**10,000**	—
Total liabilities	**409,635**	306,502
Commitments and contingent liabilities (Note 10)	**—**	—
Equity		
Retained earnings	**129,494**	57,999
Net unrealized gain on investments available for sale	**2,006**	166
Total equity	**131,500**	58,165
Total liabilities and equity	**$541,135**	$364,667

See accompanying Notes to Consolidated Financial Statements.

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Consolidated Statement of Changes in Equity

(U.S. Dollars, in Thousands)	Years Ended December 31, 1996	1995	1994
Retained earnings at beginning of year	$ 57,999	$ 36,507	$ 24,715
Net income	71,495	21,492	11,792
Retained earnings at end of year	129,494	57,999	36,507
Net unrealized gain on investments available for sale at beginning of year	166	—	—
Net change in unrealized gain on investments available for sale	1,840	166	—
Net unrealized gain on investments available for sale at end of year (net of deferred taxes of $1,338, $111 and $0)	2,006	166	—
Equity	$131,500	$ 58,165	$ 36,507

Consolidated Statement of Income

(U.S. Dollars, in Thousands)	Years Ended December 31, 1996	1995	1994
Revenue			
Operations fees	$465,112	$404,265	$322,227
Member assessments	405,466	361,807	316,600
Other	74,953	50,043	25,783
Total revenue	945,531	816,115	664,610
Expenses			
General operating and administrative	438,467	401,392	338,731
Advertising, marketing and promotions	383,543	306,870	246,461
Occupancy	35,042	36,788	32,102
Depreciation and amortization	33,961	33,725	26,451
Other	1,759	1,461	99
Total expenses	892,772	780,236	643,844
Operating income	52,759	35,879	20,766
Other income and expenses			
Gain on sale of MAPP	111,393	—	—
Access transactions	(45,000)	—	—
Total other income and expenses	66,393	—	—
Income before income taxes	119,152	35,879	20,766
Income tax expense	47,657	14,387	8,974
Net income	$ 71,495	$ 21,492	$ 11,792

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

(U.S. Dollars, in Thousands)	Years Ended December 31, 1996	1995	1994
Operating activities			
Net income	**$ 71,495**	$ 21,492	$ 11,792
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation and amortization	**33,961**	33,725	26,451
Deferred income tax benefit	**(17,998)**	(11,378)	(2,344)
Loss on disposal of fixed assets	**114**	335	218
(Gain) loss on sale of investments	**(2,989)**	(16)	180
(Gain) on sale of MAPP	**(111,393)**	—	—
Changes in operating assets and liabilities			
Decrease (increase) in accounts receivable	**(4,308)**	(299)	228
(Increase) in accrued revenue	**(348)**	(5,707)	(4,145)
(Increase) in prepaid expenses and other current assets	**(17,673)**	(7,152)	(2,663)
Increase in accounts payable and accrued expenses	**77**	60,088	22,274
(Decrease) increase in reserves for payments to members	**76,926**	(4,971)	37,803
Increase (decrease) in deferred revenue and other current liabilities	**4,402**	9,782	(3,006)
Net change in other operating assets and liabilities	**21,278**	16,851	5,650
Net cash provided by operating activities	**53,544**	112,750	92,438
Investing activities			
Purchase of fixed assets	**(52,814)**	(43,372)	(39,539)
Proceeds from sale of MAPP	**110,000**	—	—
Disposition costs related to sale of MAPP	**(5,770)**	—	—
Purchase of investments	**(311,660)**	(164,140)	(29,666)
Proceeds from sale of investments	**280,370**	87,702	3,850
Acquisition of subsidiary	**—**	(13,848)	—
Investment in affiliate	**(10,007)**	(5,000)	1,107
Net cash provided by (used in) investing activities	**10,119**	(138,658)	(64,248)
Financing activities			
Net cash provided by financing activities	**—**	—	—
Net increase (decrease) in cash and cash equivalents	**63,663**	(25,908)	28,190
Cash and cash equivalents at beginning of year	**64,395**	90,303	62,113
Cash and cash equivalents at end of year	**$128,058**	$ 64,395	$ 90,303
Supplemental Disclosure of Cash Flow Information			
Cash impact during the year for:			
Income taxes paid	**$ 76,574**	$ 33,622	$ 13,909
Interest paid	**1,482**	1,471	154
Noncash items			
Ownership interest in affiliate acquired in sale of MAPP	**$ 15,000**	$ —	$ —

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(In Thousands)

1. Summary of Significant Accounting Policies

Organization MasterCard International Incorporated ("MasterCard") is a nonstock company, owned by its members, incorporated under the laws of Delaware. MasterCard and its consolidated subsidiaries (the "Company") promote the interests of their members, which are predominantly financial institutions, by providing credit and debit card, travelers cheque and automated teller machine services throughout the world and marketing the MasterCard family of brands. Costs of operations are borne by the members and affiliates through operations fees, assessments and other charges.

Basis of presentation The Company follows generally accepted accounting principles. Assets and liabilities are carried principally at historical cost and the accrual method of accounting is followed. Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Principles of consolidation The Consolidated Financial Statements include the accounts of MasterCard and its wholly owned subsidiaries. Significant intercompany transactions have been eliminated in consolidation. Investments in affiliates on which the Company does not exercise significant influence are recorded on the cost basis.

Revenue and expense recognition Operations fees revenue represents fees for services provided to members. Certain operations fees are recognized as earned when the funds collected are used for the specific purpose for which they are assessed. Member assessments revenue represents payments by members to support the Company's operating requirements. Assessments are principally based upon members' MasterCard card transaction volumes at rates approved by the respective regional board of directors and are paid in advance each quarter based on transaction volume from the preceding quarter. The Company expenses all advertising and marketing costs as incurred.

Reserve for payments to members The reserve for payments to members is composed primarily of estimated reimbursements for various incentive programs, in-transit member settlement positions, counterfeit losses based on member submitted claims and other expected reimbursements to members. The reserve includes estimates based upon contractual obligations and other information.

Investments available for sale Investments available for sale are carried at fair value with changes in value reported as a component of equity until realized. Premiums and discounts are amortized or accreted over the life of the underlying investment, using the straight-line method which approximates the interest method. Realized gains and losses on sales of investments represent the difference between amortized cost and proceeds from sales on a specific identification basis. Municipal bonds have a minimum Standard & Poor's rating of AA or the equivalent.

Fixed assets Fixed assets are stated at cost. Depreciation on computer equipment and furniture and fixtures is computed principally under the straight-line method over the related estimated useful lives of the assets, ranging from three to five years. Amortization of leasehold improvements is computed under the straight-line method using the shorter of the estimated lives of the improvements or the term of the related leases.

Intangible assets Intangible assets are amortized over the period during which the Company realizes value which does not exceed 20 years. The carrying value of underlying assets is evaluated periodically to ensure that intangible assets are carried at the lower of cost or net realizable value.

Off-balance sheet financial instruments Foreign currency forward and option contracts are used in managing foreign exchange risk, arising primarily from expenses incurred for overseas operations. Foreign currency forward or option contracts are not used for trading purposes. Premiums paid for purchased foreign exchange options are amortized on a straight-line basis over the terms of the options. Unamortized premiums are included in prepaid expenses and other current assets. The carrying amounts of foreign currency options are adjusted at each reporting date for changes in exchange rates and the amortization of any net premiums paid. Realized and unrealized gains and losses related to option and forward contracts which qualify for hedge accounting are deferred and recognized in income when the hedged transaction occurs. Such deferred gains and losses are included on a net basis as either other assets or other liabilities. Realized and unrealized gains and losses related to forward contracts which do not qualify for hedge accounting are recognized in income.

The Company entered into an interest rate swap agreement to convert its lease payment on its building lease obligation from a variable to a fixed amount for two years. The Company does not hold or issue interest rate swaps for trading purposes. Income and expense related to this swap contract are reported in occupancy expense in the period in which it accrues.

Income taxes The Company follows the liability method of accounting for income taxes. Deferred income taxes are recorded for temporary differences between the reporting of income and expenses for financial and tax purposes.

Cash equivalents Highly liquid investments with a maturity of three months or less on the date of purchase and with Standard & Poor's credit ratings of a minimum of AA when purchased are considered to be cash equivalents. The ability of issuers of such securities to meet their obligations may be impacted by economic developments in specific regions or industries. Certain of the cash and cash equivalents are held at member banks.

Reclassifications Certain prior period amounts have been reclassified to conform with current year presentation.

2. Transactions with Members

The Company enters into transactions with its members in the normal course of business and operates a system for clearing and settling payments transactions between its members. Net settlements are generally cleared daily between members by wire transfer or other bank clearing means. However, some items may not be settled until subsequent business days, resulting in an amount due to/from MasterCard by/to members, which is included in accounts receivable and reserve for payments to members.

Credit risk is concentrated with members who are principally in the financial services industry and is related to the Company's guarantee of qualifying settlement transactions between its members and foreign currency forward and option contracts with members as counterparties. A significant portion of the Company's credit risk is concentrated in one member engaged in travelers cheque issuance. Accordingly, circumstances which impact the global financial services industry could also impact the Company. To minimize its exposure to settlement credit risk, the Company has established member risk standards. Members who are not in compliance with established risk standards are required to provide collateral or other security in the form of escrow accounts or standby letters of credit.

Generally, the Company does not obtain collateral related to forward and option contracts because of the high credit ratings of the counterparties involved. The amount of accounting loss the Company would incur if the counterparties failed completely to perform according to the terms of contracts is not material.

Cirrus® utilizes a member's processing facilities to operate the switch linking members' ATMs. Cirrus is charged a switch fee per transaction by the member that operates the switch.

Additionally, the Company has issued a $578 letter of credit in favor of a member related to its headquarters financing. The member shall have the right to draw on the letter of credit upon the occurrence of specific events of default or at the request of the lenders.

3. Investments Available for Sale

The amortized cost and fair value of investments are as follows:

December 31, 1996	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	$ 21,504	$ 480	$ (12)	$ 21,972
U.S. government agency securities	5,703	6	(61)	5,648
Municipal bonds	85,755	18	(327)	85,446
Equity securities	23,407	5,795	(2,555)	26,647
	$136,369	$6,299	$(2,955)	$139,713

December 31, 1995	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	$ 19,183	$ 72	$ —	$ 19,255
Municipal bonds	73,891	39	(14)	73,916
Equity securities	9,016	476	(296)	9,196
	$102,090	$ 587	$ (310)	$102,367

The maturity distribution of debt securities at December 31, 1996 is as follows:

	Amortized Cost	Fair Value
Due within a year	$ 52,623	$ 52,824
Due 1 to 5 years	60,339	60,242
	$112,962	$113,066

Equity securities are composed of securities of members held in connection with an executive incentive compensation plan.

Sales and redemptions of investments available for sale in 1996 resulted in gross realized gains and gross realized losses of $3,211 and $222, respectively. Gross realized gains and gross realized losses on sales of investments during 1995 were $17 and $1, respectively, and during 1994 were $0 and $180, respectively.

4. Fixed Assets

Fixed assets consist of the following at December 31:

	1996	1995
Computer equipment	$165,396	$156,451
Furniture and equipment	46,606	36,787
Leasehold improvements	28,767	22,246
	240,769	215,484
Less accumulated depreciation and amortization	149,524	139,428
	$ 91,245	$ 76,056

Depreciation expense aggregated $29,386, $29,434 and $25,349 for the years ended December 31, 1996, 1995 and 1994, respectively.

5. Income Taxes

The income tax provision (benefit) for the years ended December 31 is composed of the following components:

	1996	1995	1994
Current:			
Federal	$ 54,933	$ 21,495	$ 9,538
State and local	10,023	4,270	1,781
Foreign	700	—	—
	65,656	25,765	11,319
Deferred:			
Federal	(15,815)	(10,636)	(1,875)
State and local	(2,184)	(742)	(470)
	(17,999)	(11,378)	(2,345)
Total tax expense	$ 47,657	$ 14,387	$ 8,974

The provision for income taxes differs from the amount of income tax determined by applying the appropriate statutory U.S. federal income tax rate to pretax income as a result of the following:

	1996		1995		1994	
Federal statutory tax rate	$41,703	35.0%	$12,558	35.0%	$ 7,268	35.0%
Nondeductible expenses and other differences	2,230	1.8	3,132	8.8	2,893	13.9
Foreign sales corporation	(2,296)	(1.9)	(1,999)	(5.6)	(1,459)	(7.0)
Tax-exempt income	(994)	(.8)	(726)	(2.0)	(489)	(2.4)
State tax, net of federal benefit	5,129	4.3	1,422	3.9	761	3.7
Excess foreign losses and taxes	1,885	1.6	—	—	—	—
Effective tax rate	$47,657	40.0%	$14,387	40.1%	$ 8,974	43.2%

Deferred assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

The net deferred tax asset at December 31, 1996 and 1995 is composed of the following:

	1996		1995	
	Assets	Liabilities	Assets	Liabilities
Current:				
Accrued liabilities	$34,370	$ —	$24,488	$ —
Other items	467	1,338	—	2,350
	34,837	1,338	24,488	2,350
Noncurrent:				
Property and equipment	—	1,286	1,783	—
Intangible assets	—	2,716	1,159	—
Accrued liabilities	8,521	—	—	—
Pension plans, postretirement and other benefits	10,942	—	6,984	—
Other	—	125	—	—
	19,463	4,127	9,926	—
Total deferred income taxes	$54,300	$5,465	$34,414	$2,350

The deferred tax liability at December 31, 1996 and 1995 includes $1,338 and $111, respectively, related to net unrealized gains on investment securities classified as available for sale.

6. Pension and Savings Plans

The Company has a trusteed, noncontributory defined benefit pension plan covering substantially all of its employees. Individual benefits are based on years of service, average pay during the last five years of employment and age at retirement. The Company's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Net pension expense included the following components for the years ended December 31:

	1996	1995	1994
Service cost	$5,641	$3,612	$ 3,681
Interest cost	2,499	2,016	1,465
Actual return on plan assets	(2,570)	(4,606)	335
Net amortization and deferral	1,574	3,382	(1,047)
Pension expense	$7,144	$4,404	$ 4,434

The following table sets forth the plan's funded status and amounts recognized in the Company's balance sheet at December 31:

	1996	1995
Actuarial Present Value of Accumulated Benefit Obligation:		
Vested benefits	**$(14,482)**	$(14,285)
Nonvested benefits	**(3,515)**	(3,065)
Total	**$(17,997)**	$(17,350)
Actuarial present value of projected benefit obligation	**$(34,976)**	$(33,860)
Fair value of plan assets	**24,417**	20,834
Funded status	**(10,559)**	(13,026)
Unrecognized transition assets	**(611)**	(727)
Unrecognized prior service cost	**(1,124)**	(1,256)
Unrecognized net loss	**3,348**	8,453
Pension plan liability	**$ (8,946)**	$ (6,556)

Assumptions used to measure the accumulated and projected benefit obligation included a weighted average discount rate of 8% and 7% for 1996 and 1995, respectively, an assumed rate of increase in future compensation levels of 7% for both 1996 and 1995 and an expected rate of return on plan assets of 9% for both 1996 and 1995.

The Company has an employee savings plan whereby eligible employees may contribute a portion of their base compensation and the Company contributes an amount in excess of the participant's contribution. The Company's contribution aggregated $10,406 in 1996, $9,560 in 1995 and $8,368 in 1994.

7. Postretirement Health and Life Insurance Benefits

MasterCard has a combined defined benefit/defined contribution plan for providing postretirement medical, dental and life insurance benefits.

The defined benefit portion of the plan provides postretirement medical, dental and life insurance benefits for employees and a special subsidy equal to 50% of the cost of postretirement medical coverage for retiree spouses. Postretirement medical coverage is provided under this portion of the plan for employees who retired before 1993 and for approximately 80 grandfathered employees who will retire after 1992; postretirement medical coverage for all other employees is provided solely through the defined contribution portion of the plan.

The defined contribution portion of the plan is designed to help employees meet retirement medical needs. Under the program, an individual account was established for each eligible employee. Each eligible employee was provided a "start-up" amount of 1,200 credits per year of past service at January 1, 1993. In addition, the Company determines an amount to be credited to each account in each year covered by the plan. Upon retirement, an employee's account is converted into a lifetime annuity to pay for a percentage of retiree medical insurance costs. The amount for each employee for each of the years 1996 and 1995 is 1,200 credits. Also, the plan credits interest each year (based on a rate to be determined annually) on each participant's balance at the beginning of the year. The interest credit for 1996 and 1995 is 3%. An employee becomes eligible for the defined contribution portion upon reaching age 40 or completing five years of vesting service. Employees eligible for the defined benefit portion of the plan are not eligible for the defined contribution portion of the plan.

In adopting FAS 106, MasterCard elected to defer and amortize the $11,592 transition obligation through 2013.

The Company's postretirement benefit plan is currently unfunded. The following table presents the status of the Company's postretirement benefit plan at December 31, 1996 and 1995:

	1996	1995
Actuarial Present Value of Accumulated Benefit Obligation:		
Retirees	**$ 1,656**	$ 1,776
Plan participants fully eligible to retire	**1,669**	2,731
Plan participants not fully eligible to retire	**10,512**	14,105
	13,837	18,612
Unrecognized net (gain) loss	**(7,763)**	(526)
Unrecognized transition obligation	**9,274**	9,853
Accrued postretirement benefit cost	**$(12,326)**	$ (9,285)

Net periodic postretirement benefit cost for the years ended December 31, 1996, 1995 and 1994 included the following components:

	1996	1995	1994
Service cost	**$1,913**	$1,481	$2,105
Interest cost	**959**	982	1,017
Amortization of unrecognized transition obligation	**362**	335	580
Net periodic postretirement benefit cost	**$3,234**	$2,798	$3,702

Assumptions used in determining the postretirement defined benefit obligation included a weighted average discount rate of 8%, 7% and 9% for 1996, 1995 and 1994, respectively, and a rate of increase in future compensation levels of 7% for both 1996 and 1995 and 6% for 1994.

For net postretirement benefit cost measurement purposes, an annual rate of increase in the per capita cost of covered medical benefits of 18% was assumed for 1996. The rate was assumed to decrease gradually to 7% by 2004 and remain at that level thereafter. Increasing the assumed health care cost trend rates by 1% in each year would increase the accumulated postretirement defined benefit obligation by $2,435 for 1996 and increase the aggregate of the service and interest cost components of net periodic postretirement benefit cost by $550 for 1996.

8. Investments in Affiliates

The Company owns 12.25% of Europay International S.A. ("Europay"). Europay and the Company are the sole owners of European Payment Systems Services S.A. ("EPSS") with ownership percentages of 85% and 15%, respectively. These investments are accounted for on the cost basis and have a carrying value of $4,408 at December 31, 1996 and 1995. MasterCard also owns 50% of Maestro International. This $225 investment is accounted for on the cost basis.

In December 1995, the Company purchased 5 million shares of Credit Card Holding Co. ("CCHC") for $5,000, representing a 5.35% ownership which is accounted for on the cost basis. CCHC holds a 56.05% interest in Argencard, a member.

On April 1, 1996, the Company completed an agreement with National Data Corporation ("NDC") to form a new payment processing company called Global Payment Systems L.L.C. ("GPS") that consists of MasterCard Automated Point-of-Sale Processing ("MAPP") and NDC's payment services business, point-of-sale and back-office services. MasterCard contributed certain assets of MAPP to GPS and GPS assumed certain liabilities of MAPP. MasterCard received $110,000 cash and a 7.5% equity ownership in GPS, valued at $15,000 and accounted for on the cost basis. The transaction resulted in a pretax gain of $111,393.

In December 1996, the Company purchased 45,900 preferred shares and 22,950 common shares of Redecard S.A., a member, for $10,000, representing a 3.68% ownership, which is accounted for on the cost basis. MasterCard retains an irrevocable and unconditional option (the "option") exercisable, at any time until December 31, 2001, to acquire shares equivalent to 6.32% of the total outstanding capital stock of Redecard.

As these investments are in companies with no traded securities that operate for the benefit of their owners and members, it is not practicable to estimate their fair value.

9. Intangible Assets

The acquisition of Cirrus in 1988 resulted in $22,048 of goodwill, which is being amortized on a straight-line basis over 20 years.

In conjunction with the 1995 acquisition of Monetary Transfer Systems L.L.C., which operates a debit switch in the central U.S. under the name of BankMate®, the Company recorded $13,393 related to goodwill and $4,000 related to other intangibles, which are being amortized on a straight-line basis over 5 years.

The following table sets forth accumulated amortization and net intangible assets:

	1996	1995
Goodwill	**$35,441**	$35,441
Other intangibles	**4,000**	4,000
	39,441	39,441
Less accumulated amortization	**16,561**	11,986
Intangible assets, net	**$22,880**	$27,455

Amortization expense of intangible assets was $4,575, $4,291 and $1,102 in 1996, 1995 and 1994, respectively.

10. Commitments and Contingent Liabilities

The Company is party to various litigation incidental to the conduct of its normal operations. Management believes that pending litigation will not have a material effect on the Company's financial position.

In the ordinary course of business, the Company enters into certain agreements to fund marketing programs that may extend beyond the reporting period.

On November 14, 1996, the Company entered into an agreement with Europay under which Europay will manage the MasterCard brand in Europe, and will cease using the Eurocard logo as an acceptance mark. MasterCard will contribute up to $50,000 over three years to support the migration to the MasterCard logo in conjunction with the Eurocard name as the acceptance mark in Europe.

On December 15, 1994, the Company entered into a seven-year operating lease agreement for its new headquarters in Purchase, New York. The lease can be extended for additional periods of one year each for an aggregate lease term of 24 years at generally the same terms as those for the initial seven years. The Company occupied its new headquarters in October 1995 upon completion of tenant improvements.

In conjunction with the lease agreement, an independent investor purchased the property and completed tenant improvements with a combination of an equity investment and financing obtained through a Credit Agreement with a group of lenders, including some members. The Credit Agreement provides for variable rate Tranche A and Tranche B loans of $57,715 and $10,185, respectively. Rent is payable in amounts equal to interest payments on Tranche A and Tranche B loans plus a return of 3.75% interest over the loan rate to the investor. The lease agreement permits the Company to purchase the property upon 10 days' notice at a purchase price equal to the aggregate outstanding principal amount of Tranche A and Tranche B loans, including any accrued and unpaid interest and investor equity, along with any accrued and unpaid amounts due the investor under this agreement.

In conjunction with the Credit Agreement, the Company executed a Guarantee of the Tranche A notes outstanding. Additionally, upon the occurrence of specific events of default, the Company will also guarantee repayment of the Tranche B notes.

The future minimum lease payments under noncancelable operating leases with initial or remaining terms in excess of one year, at December 31, are as follows:

Operating Leases	
1997	$24,459
1998	21,768
1999	15,049
2000	12,959
2001	11,896
Thereafter	7,784
Total minimum lease payments	$93,915

On March 6, 1996, the Company entered into an agreement whereby a vendor will design and monitor a virtual private network to support the Company's data networking needs. The costs associated with this agreement are approximately $85,000 to be paid over a 10-year period, subject to certain termination provisions. Additionally, the agreement calls for certain variable costs to be paid annually. The Company also leases certain communications lines on a monthly basis. These are cancelable without penalty upon 30 days' notice.

Rental expense for office space aggregated approximately $17,915, $17,831 and $16,592 for the years ended December 31, 1996, 1995 and 1994, respectively. Rental for computer equipment, communications lines and office equipment aggregated $36,345, $27,438 and $19,708 for the years ended December 31, 1996, 1995 and 1994, respectively.

11. Financial Instruments and Risk Management

The Company enters into foreign exchange forward and option contracts to hedge certain anticipated costs denominated in certain foreign currencies (principally Australian dollars, Singapore dollars, Japanese yen and Swiss francs). The term of the forward and option contracts is rarely more than 18 months.

The amounts of these contracts at December 31, 1996 and 1995 are as follows:

	1996	1995
Forwards	$18,697	$20,103
Options purchased	36,933	—

Deferred gains and losses, based on dealer-quoted prices, were not material at December 31, 1996 and 1995.

The Company entered into an interest rate swap, maturing in December 1997, with a notional amount of $70,000 in order to convert payments in connection with its lease obligation for the headquarters facility from a floating interest rate to a fixed interest rate of 5.89%.

12. Fair Value of Financial Instruments

Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments", requires entities to disclose information about the estimated fair values of financial instruments.

Due to their short-term nature, the carrying amounts of cash and cash equivalents, accounts receivable, accrued revenue, accounts payable and reserve for payments to members, included in the consolidated balance sheet under the indicated captions, approximate estimated fair value at December 31, 1996 and 1995.

Investments available for sale are carried at estimated fair value, which was determined using quoted market prices at December 31, 1996 and 1995.

The fair value of off-balance sheet financial instruments generally reflects the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of outstanding forward and option contracts. The estimated fair value of off-balance sheet forwards and options was not material at December 31, 1996 and 1995.

The estimated fair value of the interest rate swap, discussed in Note 11, would result in a liability of $128 and $796 at December 31, 1996 and 1995, respectively.

13. Access Transactions

On June 29, 1996, the Company completed agreements with the shareholders of Access Brand Ltd. to acquire the Access brand and to market the MasterCard brand in the United Kingdom. The costs associated with the acquisition of the Access brand of $5,000 and the collaborative marketing agreement of $40,000 are included in Access transactions in the consolidated statement of income.

14. Subsequent Event

On February 21, 1997, the Company entered into an agreement with Mondex International ("Mondex" or "MXI") to acquire a 51% interest in London-based MXI and to adopt the Mondex technology as MasterCard's strategic chip card platform. In connection with MasterCard's adoption of this strategic chip card platform, MasterCard entered into various agreements, the terms of which provide for the following:

- Mondex issued shares to MasterCard sufficient to create MasterCard's 51% equity interest for £10,000, which Mondex will use for research and development;
- MasterCard also paid £27,000 in exchange for a right to receive up to an equivalent amount from MXI's sale of rights to exploit Mondex technology in territories that remain unsold at the time of the agreement;
- MasterCard agreed to pay its proportionate share of assessments in exchange for global support services;
- Subject to certain limitations, for five years, MasterCard will also fund the remaining share of assessments for global support services in exchange for certain product rights acquired from the global founders;
- MasterCard members, and others, will have the right to obtain licenses to use the Mondex stored-value technology in regions in which they operate;
- MasterCard members will participate in developing the Mondex platform for other chip-based products; and
- MasterCard will not invest in any other electronic purse products.

In conjunction with the transaction, the Company entered into an agreement to borrow £30,000 at a rate of LIBOR plus .375%. The loan is due on August 20, 1999, but is extendable for three one-year periods.

Management's Responsibility for Financial Reporting

MasterCard International Incorporated management is responsible for establishing and maintaining a system of internal controls and procedures for financial reporting designed to provide for preparation of reliable financial statements, including integrity and objectivity of the financial statements and other financial information in this report. The financial statements appropriately include amounts that are based on estimates and judgments of management. Management believes that the internal control structure provides reasonable assurance that assets are safeguarded and transactions are executed in accordance with its authorization to permit preparation of financial statements in conformity with generally accepted accounting principles.

The Audit Committee of the Board of Directors, composed of directors who are not officers of the Company, has responsibility for providing assistance to the Board of Directors in fulfilling its statutory and fiduciary responsibility for overseeing the Corporation's internal control structure. The Audit Committee meets with the independent auditors, management and internal auditors periodically to discuss accounting controls, auditing, financial reporting matters and the nature, scope and results of auditing efforts.

The financial statements in this report have been audited by Price Waterhouse LLP in accordance with generally accepted auditing standards. Price Waterhouse performs such auditing procedures, including a study and evaluation of the system of internal control, as they consider necessary to express an opinion in their report on the financial statements.

H. Eugene Lockhart
President and Chief Executive Officer

William I Jacobs
Executive Vice President

Report of Independent Accountants

To the Board of Directors and Members of MasterCard International Incorporated

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of changes in equity and of cash flows present fairly, in all material respects, the financial position of MasterCard International Incorporated and its subsidiaries (the "Company") at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

New York, New York
February 6, 1997, except for Note 14, as to which the date is February 21, 1997.

Executive Officers

H. Eugene Lockhart*
President and CEO

James A. Cassin
Executive Vice President;
President, Asia/Pacific Region

Richard N. Child
Executive Vice President;
President, Latin America and
Caribbean Region

Alan J. Heuer
Executive Vice President;
President, U.S. Region

William I Jacobs
Executive Vice President,
Global Resources

Jerry McElhatton
Executive Vice President;
President, Global Technology
and Operations

G. Henry Mundt III
Executive Vice President,
Global Deposit Access;
President and CEO,
Cirrus System, Inc.

Robert W. Selander*
Executive Vice President;
President, Europe,
Middle East/Africa,
and Canada Regions

Christopher D. Thom
Executive Vice President,
Franchise Management

Joseph V. Tripodi
Executive Vice President,
Global Marketing

Arthur B. Ziegler
Chairman Emeritus

Frank Cotroneo
Senior Vice President,
Chief Financial Officer

Edward J. Hogan
Senior Vice President,
Advisor to the CEO

Mary C. Johnsson
Senior Vice President,
Global Planning & Analysis

Robert K. McMillan
Senior Vice President,
Audit

Robert E. Norton, Jr.
Senior Vice President,
General Counsel and
Corporate Secretary

Gayle M. Rigione
Senior Vice President,
Office of the CEO

Charlotte Rush
Senior Vice President,
Communications

James M. Bagley
Senior Vice President,
Human Resources

*Effective May 1997,
Robert W. Selander
is President and CEO,
MasterCard International Incorporated

MasterCard International

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MasterCard International

Board of Directors

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Argentina

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Chairman of the Board
and President,
UC Card Co., Ltd.,
Japan

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Executive Vice President
and Group Executive,
The Chase Manhattan Bank,
U.S.A.

Joseph W. Saunders
Chairman,
MasterCard International
Incorporated;
President and
Chief Executive Officer,
Household Credit Services, Inc.,
U.S.A.

H. Eugene Lockhart
President and Chief
Executive Officer,
MasterCard International
Incorporated,
U.S.A.

Drs Paul Ribourdouille
Member of the
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ABN AMRO Bank N.V.,
The Netherlands

Tan Sri Dato (Dr) Loy
Hean Heong
President and Chief
Executive Officer,
MBf Group of Companies,
Malaysia

Stephen E. Wall
Chairman, President
and Chief Executive Officer,
KeyBank N.A.,
U.S.A.

A.R. "Drew" White
Chief Operating Officer,
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Bank of Montreal,
Canada

Javier de la Calle
Director, Consumer Products,
Banco Nacional de México, S.A.,
Mexico

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Member of the Board of Directors,
Bayerische Hypotheken-und Wechsel-Bank AG,
Germany

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Europay International S.A.,
Belgium

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First Financial Bank,
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U.S.A.

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Wells Fargo Bank,
U.S.A.

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Card Services,
NatWest UK,
United Kingdom

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U.S.A.

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Global Consumer Finance,
GE Capital Corporation,
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Retail Banking,
Standard Bank of South Africa Limited,
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Retired Chairman and Chief Executive Officer,
Boatmen's Credit Card Bank,
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Mark H. Wright
President and Chief Executive Officer,
USAA Federal Savings Bank,
U.S.A.

Michel Lucas
Chief Executive Officer,
Banque Fédérative du Crédit Mutuel,
France

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Chairman and Chief Executive Officer,
MBNA America Bank, N.A.,
U.S.A.

Martin G. McGuinn
Vice Chairman,
Mellon Bank Corporation,
U.S.A.

Moo Young Oh
Chairman of the Board and President,
BC Card Co., Ltd.,
Republic of Korea

Dr. Zhou Xiao Chuan
Managing Director,
Bank of China;
Vice Governor,
People's Bank of China;
Director-General,
State Administration of Foreign Exchanges,
People's Republic of China