

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

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

For the quarterly period ended September 30, 2020

Or

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

For the transition period from _____ to _____

Commission file number: 001-32877



Mastercard Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

13-4172551

(IRS Employer Identification Number)

2000 Purchase Street

Purchase, NY

(Address of principal executive offices)

10577

(Zip Code)

(914) 249-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange of which registered
Class A Common Stock, par value \$0.0001 per share	MA	New York Stock Exchange
1.1% Notes due 2022	MA22	New York Stock Exchange
2.1% Notes due 2027	MA27	New York Stock Exchange
2.5% Notes due 2030	MA30	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files) Yes ☒ No ☐

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act. ☐

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

As of October 23, 2020, there were 988,470,444 shares outstanding of the registrant's Class A common stock, par value \$0.0001 per share; and 8,454,904 shares outstanding of the registrant's Class B common stock, par value \$0.0001 per share.



MASTERCARD INCORPORATED FORM 10-Q

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

Forward-Looking Statements

This Report contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements. When used in this Report, the words "believe", "expect", "could", "may", "would", "will", "trend" and similar words are intended to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements that relate to the Company's future prospects, developments and business strategies.

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

- regulation directly related to the payments industry (including regulatory, legislative and litigation activity with respect to interchange rates and surcharging)
- the impact of preferential or protective government actions
- regulation of privacy, data, security and the digital economy
- regulation that directly or indirectly applies to us based on our participation in the global payments industry (including anti-money laundering, counter financing of terrorism, economic sanctions and anti-corruption; account-based payment systems; and issuer practice regulation)
- the impact of changes in tax laws, as well as regulations and interpretations of such laws or challenges to our tax positions
- potential or incurred liability and limitations on business related to any litigation or litigation settlements
- the impact of competition in the global payments industry (including disintermediation and pricing pressure)
- the challenges relating to rapid technological developments and changes
- the challenges relating to operating real-time account-based payment system and to working with new customers and end users
- the impact of information security incidents, account data breaches or service disruptions
- issues related to our relationships with our financial institution customers (including loss of substantial business from significant customers, competitor relationships with our customers and banking industry consolidation), merchants and governments
- exposure to loss or illiquidity due to our role as guarantor and other contractual obligations
- the impact of global economic, political, financial and societal events and conditions, including adverse currency fluctuations and foreign exchange controls
- the impact of the coronavirus (COVID-19) outbreak and measures taken in response to the outbreak
- reputational impact, including impact related to brand perception and lack of visibility of our brands in products and services
- the inability to attract, hire and retain a highly qualified and diverse workforce, or maintain our corporate culture
- issues related to acquisition integration, strategic investments and entry into new businesses
- issues related to our Class A common stock and corporate governance structure

Please see a complete discussion of these risk factors in Part I, Item 1A - Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 and in Part II, Item 1A - Risk Factors of this Report. We caution you that the important factors referenced above may not contain all of the factors that are important to you. Our forward-looking statements speak only as of the date of this Report or as of the date they are made, and we undertake no obligation to update our forward-looking statements.

PART I

Item 1. Consolidated financial statements (unaudited)

Item 2. Management's discussion and analysis of financial condition and results of operations

Item 3. Quantitative and qualitative disclosures about market risk

Item 4. Controls and procedures

Item 1. Consolidated financial statements (unaudited)

Mastercard Incorporated

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Consolidated Statement of Operations (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in millions, except per share data)			
Net Revenue	\$ 3,837	\$ 4,467	\$ 11,181	\$ 12,469
Operating Expenses				
General and administrative	1,423	1,448	4,285	4,184
Advertising and marketing	168	227	415	644
Depreciation and amortization	141	137	430	376
Provision for litigation	—	—	28	—
Total operating expenses	1,732	1,812	5,158	5,204
Operating income	2,105	2,655	6,023	7,265
Other Income (Expense)				
Investment income	3	26	27	77
Gains (losses) on equity investments, net	(91)	(100)	(190)	48
Interest expense	(105)	(63)	(275)	(160)
Other income (expense), net	3	16	7	26
Total other income (expense)	(190)	(121)	(431)	(9)
Income before income taxes	1,915	2,534	5,592	7,256
Income tax expense	402	426	966	1,238
Net Income	\$ 1,513	\$ 2,108	\$ 4,626	\$ 6,018
Basic Earnings per Share	\$ 1.51	\$ 2.08	\$ 4.61	\$ 5.90
Basic weighted-average shares outstanding	1,001	1,013	1,003	1,020
Diluted Earnings per Share	\$ 1.51	\$ 2.07	\$ 4.59	\$ 5.87
Diluted weighted-average shares outstanding	1,005	1,019	1,008	1,025

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

Consolidated Statement of Comprehensive Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in millions)			
Net Income	\$ 1,513	\$ 2,108	\$ 4,626	\$ 6,018
Other comprehensive income (loss):				
Foreign currency translation adjustments	228	(193)	(17)	(216)
Income tax effect	(8)	9	21	12
Foreign currency translation adjustments, net of income tax effect	220	(184)	4	(204)
Translation adjustments on net investment hedge	(73)	72	(82)	80
Income tax effect	16	(16)	18	(18)
Translation adjustments on net investment hedge, net of income tax effect	(57)	56	(64)	62
Cash flow hedges	2	—	(186)	—
Income tax effect	(1)	—	41	—
Cash flow hedges, net of income tax effect	1	—	(145)	—
Defined benefit pension and other postretirement plans	—	—	(1)	(1)
Income tax effect	—	—	—	—
Defined benefit pension and other postretirement plans, net of income tax effect	—	—	(1)	(1)
Investment securities available-for-sale	2	—	(1)	4
Income tax effect	—	—	—	(1)
Investment securities available-for-sale, net of income tax effect	2	—	(1)	3
Other comprehensive income (loss), net of tax	166	(128)	(207)	(140)
Comprehensive Income	\$ 1,679	\$ 1,980	\$ 4,419	\$ 5,878

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

Consolidated Balance Sheet (unaudited)

	September 30, 2020	December 31, 2019
	(in millions, except per share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,225	\$ 6,988
Restricted cash for litigation settlement	586	584
Investments	400	688
Accounts receivable	2,357	2,514
Settlement due from customers	1,375	2,995
Restricted security deposits held for customers	1,568	1,370
Prepaid expenses and other current assets	1,958	1,763
Total current assets	18,469	16,902
Property, equipment and right-of-use assets, net of accumulated depreciation and amortization of \$1,298 and \$1,100, respectively	1,887	1,828
Deferred income taxes	607	543
Goodwill	4,159	4,021
Other intangible assets, net of accumulated amortization of \$1,416 and \$1,296, respectively	1,507	1,417
Other assets	4,965	4,525
Total Assets	\$ 31,594	\$ 29,236
Liabilities, Redeemable Non-controlling Interests and Equity		
Current liabilities:		
Accounts payable	\$ 341	\$ 489
Settlement due to customers	1,129	2,714
Restricted security deposits held for customers	1,568	1,370
Accrued litigation	798	914
Accrued expenses	5,011	5,489
Other current liabilities	1,111	928
Total current liabilities	9,958	11,904
Long-term debt	12,574	8,527
Deferred income taxes	86	85
Other liabilities	3,095	2,729
Total Liabilities	25,713	23,245
Commitments and Contingencies		
Redeemable Non-controlling Interests	25	74
Stockholders' Equity		
Class A common stock, \$0.0001 par value; authorized 3,000 shares, 1,395 and 1,391 shares issued and 990 and 996 shares outstanding, respectively	—	—
Class B common stock, \$0.0001 par value; authorized 1,200 shares, 8 and 11 shares issued and outstanding, respectively	—	—
Additional paid-in-capital	4,926	4,787
Class A treasury stock, at cost, 406 and 395 shares, respectively	(35,653)	(32,205)
Retained earnings	37,403	33,984
Accumulated other comprehensive income (loss)	(880)	(673)
Mastercard Incorporated Stockholders' Equity	5,796	5,893
Non-controlling interests	60	24
Total Equity	5,856	5,917
Total Liabilities, Redeemable Non-controlling Interests and Equity	\$ 31,594	\$ 29,236

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

Consolidated Statement of Changes in Equity (Unaudited)

	Three Months Ended September 30, 2020															
	Stockholders' Equity									Non-Controlling Interests	Total Equity					
	Common Stock		Additional Paid-In Capital	Class A Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Mastercard Incorporated Stockholders' Equity									
	Class A	Class B														
	(in millions)															
Balance at June 30, 2020	\$	—	\$	—	\$	4,832	\$(33,604)	\$36,288	\$	(1,046)	\$	6,470	\$	28	\$	6,498
Net income		—		—		—		1,513		—		1,513		—		1,513
Activity related to non-controlling interests		—		—		—		—		—		—		32		32
Redeemable non-controlling interest adjustments		—		—		—		—		—		—		—		—
Other comprehensive income (loss)		—		—		—		—		166		166		—		166
Dividends		—		—		—		(398)		—		(398)		—		(398)
Purchases of treasury stock		—		—		—		(2,049)		—		(2,049)		—		(2,049)
Share-based payments		—		—		94		—		—		94		—		94
Balance at September 30, 2020	\$	—	\$	—	\$	4,926	\$(35,653)	\$37,403	\$	(880)	\$	5,796	\$	60	\$	5,856

	Nine Months Ended September 30, 2020									
	Stockholders' Equity									
	Common Stock		Additional Paid-In Capital	Class A Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Mastercard Incorporated Stockholders' Equity	Non- Controlling Interests	Total Equity	
	Class A	Class B								
	(in millions)									
Balance at December 31, 2019	\$ —	\$ —	\$ 4,787	\$(32,205)	\$33,984	\$ (673)	\$ 5,893	\$ 24	\$ 5,917	
Net income	—	—	—	—	4,626	—	4,626	—	4,626	
Activity related to non-controlling interests	—	—	—	—	—	—	—	36	36	
Redeemable non-controlling interest adjustments	—	—	—	—	(5)	—	(5)	—	(5)	
Other comprehensive income (loss)	—	—	—	—	—	(207)	(207)	—	(207)	
Dividends	—	—	—	—	(1,202)	—	(1,202)	—	(1,202)	
Purchases of treasury stock	—	—	—	(3,454)	—	—	(3,454)	—	(3,454)	
Share-based payments	—	—	139	6	—	—	145	—	145	
Balance at September 30, 2020	\$ —	\$ —	\$ 4,926	\$(35,653)	\$37,403	\$ (880)	\$ 5,796	\$ 60	\$ 5,856	

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

Consolidated Statement of Changes in Equity (Unaudited) - (Continued)

	Three Months Ended September 30, 2019									
	Stockholders' Equity									
	Common Stock		Additional Paid-In Capital	Class A Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Mastercard Incorporated Stockholders' Equity	Non- Controlling Interests	Total Equity	
	Class A	Class B								
	(in millions)									
Balance at June 30, 2019	\$ —	\$ —	\$ 4,675	\$(29,454)	\$30,517	\$ (730)	\$ 5,008	\$ 27	\$ 5,035	
Net income	—	—	—	—	2,108	—	2,108	—	2,108	
Activity related to non-controlling interests	—	—	—	—	—	—	—	(1)	(1)	
Redeemable non-controlling interest adjustments	—	—	—	—	(2)	—	(2)	—	(2)	
Other comprehensive income (loss)	—	—	—	—	—	(128)	(128)	—	(128)	
Dividends	—	—	—	—	(334)	—	(334)	—	(334)	
Purchases of treasury stock	—	—	—	(1,755)	—	—	(1,755)	—	(1,755)	
Share-based payments	—	—	50	2	—	—	52	—	52	
Balance at September 30, 2019	\$ —	\$ —	\$ 4,725	\$(31,207)	\$32,289	\$ (858)	\$ 4,949	\$ 26	\$ 4,975	

	Nine Months Ended September 30, 2019									
	Stockholders' Equity									
	Common Stock		Additional Paid-In Capital	Class A Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Mastercard Incorporated Stockholders' Equity	Non-Controlling Interests	Total Equity	
	Class A	Class B								
	(in millions)									
Balance at December 31, 2018	\$ —	\$ —	\$ 4,580	\$(25,750)	\$27,283	\$ (718)	\$ 5,395	\$ 23	\$ 5,418	
Net income	—	—	—	—	6,018	—	6,018	—	6,018	
Activity related to non-controlling interests	—	—	—	—	—	—	—	3	3	
Redeemable non-controlling interest adjustments	—	—	—	—	(6)	—	(6)	—	(6)	
Other comprehensive income (loss)	—	—	—	—	—	(140)	(140)	—	(140)	
Dividends	—	—	—	—	(1,006)	—	(1,006)	—	(1,006)	
Purchases of treasury stock	—	—	—	(5,465)	—	—	(5,465)	—	(5,465)	
Share-based payments	—	—	145	8	—	—	153	—	153	
Balance at September 30, 2019	\$ —	\$ —	\$ 4,725	\$(31,207)	\$32,289	\$ (858)	\$ 4,949	\$ 26	\$ 4,975	

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

Consolidated Statement of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2020	2019
	(in millions)	
Operating Activities		
Net income	\$ 4,626	\$ 6,018
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of customer and merchant incentives	749	878
Depreciation and amortization	430	376
(Gains) losses on equity investments, net	190	(48)
Share-based compensation	202	207
Deferred income taxes	7	14
Other	15	21
Changes in operating assets and liabilities:		
Accounts receivable	112	(278)
Settlement due from customers	1,618	(171)
Prepaid expenses	(1,291)	(1,440)
Accrued litigation and legal settlements	(116)	(637)
Restricted security deposits held for customers	198	93
Accounts payable	(145)	(36)
Settlement due to customers	(1,587)	(77)
Accrued expenses	(399)	266
Net change in other assets and liabilities	362	17
Net cash provided by operating activities	4,971	5,203
Investing Activities		
Purchases of investment securities available-for-sale	(161)	(549)
Purchases of investments held-to-maturity	(126)	(167)
Proceeds from sales of investment securities available-for-sale	349	1,003
Proceeds from maturities of investment securities available-for-sale	127	305
Proceeds from maturities of investments held-to-maturity	84	334
Purchases of property and equipment	(280)	(306)
Capitalized software	(277)	(237)
Purchases of equity investments	(183)	(391)
Acquisition of businesses, net of cash acquired	(183)	(1,170)
Settlement of interest rate derivative contracts	(175)	—
Other investing activities	—	(2)
Net cash used in investing activities	(825)	(1,180)
Financing Activities		
Purchases of treasury stock	(3,443)	(5,503)
Dividends paid	(1,206)	(1,012)
Proceeds from debt, net	3,959	1,980
Payment of debt	—	(500)
Acquisition of redeemable non-controlling interests	(49)	—
Contingent consideration paid	—	(199)
Tax withholdings related to share-based payments	(145)	(161)
Cash proceeds from exercise of stock options	88	107
Other financing activities	19	3
Net cash used in financing activities	(777)	(5,285)
Effect of exchange rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	66	(103)
Net increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents	3,435	(1,365)
Cash, cash equivalents, restricted cash and restricted cash equivalents - beginning of period	8,969	8,337
Cash, cash equivalents, restricted cash and restricted cash equivalents - end of period	\$ 12,404	\$ 6,972

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

Notes to consolidated financial statements (unaudited)

Note 1. Summary of Significant Accounting Policies

Organization

Mastercard Incorporated and its consolidated subsidiaries, including Mastercard International Incorporated ("Mastercard International" and together with Mastercard Incorporated, "Mastercard" or the "Company"), is a technology company in the global payments industry that connects consumers, financial institutions, merchants, governments, digital partners, businesses and other organizations worldwide, enabling them to use electronic forms of payment instead of cash and checks.

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Mastercard and its majority-owned and controlled entities, including any variable interest entities ("VIEs") for which the Company is the primary beneficiary. Investments in VIEs for which the Company is not considered the primary beneficiary are not consolidated and are accounted for as equity method or measurement alternative method investments and recorded in other assets on the consolidated balance sheet. At September 30, 2020 and December 31, 2019, there were no significant VIEs which required consolidation and the investments were not considered material to the consolidated financial statements. The Company consolidates acquisitions as of the date in which the Company has obtained a controlling financial interest. Intercompany transactions and balances have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the 2020 presentation. The Company follows accounting principles generally accepted in the United States of America ("GAAP").

The balance sheet as of December 31, 2019 was derived from the audited consolidated financial statements as of December 31, 2019. The consolidated financial statements for the three and nine months ended September 30, 2020 and 2019 and as of September 30, 2020 are unaudited, and in the opinion of management, include all normal recurring adjustments that are necessary to present fairly the results for interim periods. The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited consolidated financial statements are presented in accordance with the U.S. Securities and Exchange Commission ("SEC") requirements for Quarterly Reports on Form 10-Q. Reference should be made to the Mastercard Incorporated Annual Report on Form 10-K for the year ended December 31, 2019 for additional disclosures, including a summary of the Company's significant accounting policies.

Use of estimates - The preparation of financial statements in conformity with GAAP 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 periods. Future events and their effects cannot be predicted with certainty, including the potential impacts and duration of the COVID-19 pandemic, as well as other factors; accordingly, accounting estimates require the exercise of judgment. These financial statements were prepared using information reasonably available as of September 30, 2020 and through the date of this Report. The accounting estimates used in the preparation of the Company's consolidated financial statements may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. Actual results may differ from these estimates.

For the three and nine months ended September 30, 2020 and 2019, net losses from non-controlling interests were not material and, as a result, amounts are included in the consolidated statement of operations within other income (expense).

Accounting pronouncements not yet adopted

Simplifying the accounting for income taxes - In December 2019, the Financial Accounting Standards Board (the "FASB") issued accounting guidance to simplify the accounting for income taxes. This guidance includes the removal of certain exceptions to the general income tax accounting principles and provides clarity and simplification to other areas of income tax accounting by amending the existing guidance. The guidance is effective for periods beginning after December 15, 2020. The Company expects to adopt this guidance effective January 1, 2021 and does not expect the impacts to be material.

Reference Rate Reform - In March 2020, the FASB issued accounting guidance to provide temporary optional expedients and exceptions to the current contract modifications and hedge accounting guidance in light of the expected market transition from LIBOR to alternative rates. The new guidance provides optional expedients and exceptions to transactions affected by reference rate reform if certain criteria are met. The transactions primarily include (1) contract modifications, (2) hedging relationships, and (3) sale or transfer of debt securities classified as held-to-maturity. The amendments were effective immediately upon issuance of the update. Companies may elect to adopt the amendments prospectively to transactions existing as of or entered from the date of adoption through December 31, 2022. The Company is in the process of evaluating the impacted contracts, and the potential effects this will have on its consolidated financial statements.

Note 2. Acquisitions

Businesses Acquired

During the nine months ended September 30, 2020, the Company acquired businesses for \$185 million in cash. The Company is evaluating and finalizing the purchase accounting for these acquisitions. The Company's preliminary estimate of net assets acquired has been recorded primarily as intangible assets, including goodwill of \$140 million that is primarily attributable to the synergies expected to arise after the acquisition dates. The majority of the goodwill is not expected to be deductible for local tax purposes. Refer to Note 1 (Summary of Significant Accounting Policies) to the consolidated financial statements included in Part II, Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2019, for the valuation techniques Mastercard utilizes to fair value the respective components of business combinations.

In 2019, the Company acquired several businesses in separate transactions for total consideration of \$1.5 billion. As of September 30, 2020, the Company finalized the purchase accounting for certain businesses acquired during 2019 for total consideration of \$1.2 billion with no material adjustments from the preliminary estimated fair values. For the preliminary estimated fair values of the purchase price allocations, as of the acquisition dates, refer to Note 2 (Acquisitions) to the consolidated financial statements included in Part II, Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Pending Acquisitions

In June 2020, Mastercard entered into a definitive agreement to acquire Finicity Corporation ("Finicity") for \$825 million, subject to adjustments for cash and certain other liabilities at closing. Finicity's existing shareholders have the potential to receive an earn-out of up to an additional \$160 million, if certain performance targets are met. The pending acquisition is expected to enhance and expand the Company's existing open banking platform by providing real-time access to financial data and insights. Subject to satisfying certain closing conditions, including expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the transaction is expected to close in the fourth quarter of 2020.

In August 2019, Mastercard entered into a definitive agreement to acquire the majority of the Corporate Services business of Nets Denmark A/S for €2.85 billion (approximately \$3.33 billion as of September 30, 2020), subject to adjustments for cash and certain other liabilities at closing. The pending acquisition primarily comprises the clearing and instant payment services, and e-billing solutions of Nets Denmark A/S's Corporate Services business. The Company has secured conditional approval from the European Commission and, subject to other closing conditions, anticipates completing the acquisition in the first quarter of 2021.

Note 3. Revenue

The Company's disaggregated net revenue by source and geographic region were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in millions)			
Revenue by source:				
Domestic assessments	\$ 1,750	\$ 1,722	\$ 4,907	\$ 5,007
Cross-border volume fees	791	1,517	2,645	4,154
Transaction processing	2,251	2,231	6,352	6,206
Other revenues	1,143	1,087	3,286	2,891
Gross revenue	5,935	6,557	17,190	18,258
Rebates and incentives (contra-revenue)	(2,098)	(2,090)	(6,009)	(5,789)
Net revenue	\$ 3,837	\$ 4,467	\$ 11,181	\$ 12,469
Net revenue by geographic region:				
North American Markets	\$ 1,381	\$ 1,545	\$ 3,958	\$ 4,333
International Markets	2,419	2,877	7,094	8,013
Other ¹	37	45	129	123
Net revenue	\$ 3,837	\$ 4,467	\$ 11,181	\$ 12,469

¹ Includes revenues managed by corporate functions.

Receivables from contracts with customers of \$2.2 billion and \$2.3 billion at September 30, 2020 and December 31, 2019, respectively, are recorded within accounts receivable on the consolidated balance sheet. The Company's customers are generally billed weekly, however the frequency is dependent upon the nature of the performance obligation and the underlying contractual terms. The Company does not typically offer extended payment terms to customers.

Contract assets are included in prepaid expenses and other current assets and other assets on the consolidated balance sheet at September 30, 2020 in the amounts of \$43 million and \$192 million, respectively. The comparable amounts included in prepaid expenses and other current assets and other assets at December 31, 2019 were \$48 million and \$152 million, respectively.

Deferred revenue is included in other current liabilities and other liabilities on the consolidated balance sheet at September 30, 2020 in the amounts of \$367 million and \$164 million, respectively. The comparable amounts included in other current liabilities and other liabilities at December 31, 2019 were \$238 million and \$106 million, respectively. Revenue recognized from performance obligations satisfied during the three and nine months ended September 30, 2020 and 2019 was \$289 million and \$684 million and \$246 million and \$613 million, respectively.

Note 4. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in millions, except per share data)			
Numerator				
Net income	\$ 1,513	\$ 2,108	\$ 4,626	\$ 6,018
Denominator				
Basic weighted-average shares outstanding	1,001	1,013	1,003	1,020
Dilutive stock options and stock units	4	6	5	5
Diluted weighted-average shares outstanding ¹	1,005	1,019	1,008	1,025
Earnings per Share				
Basic	\$ 1.51	\$ 2.08	\$ 4.61	\$ 5.90
Diluted	\$ 1.51	\$ 2.07	\$ 4.59	\$ 5.87

¹ For the periods presented, the calculation of diluted EPS excluded a minimal amount of anti-dilutive share-based payment awards.

Note 5. Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents

The following table provides a reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents reported on the consolidated balance sheet that total to the amounts shown on the consolidated statement of cash flows.

	December 31,	
	2019	2018
	(in millions)	
Cash and cash equivalents	\$ 6,988	\$ 6,682
Restricted cash and restricted cash equivalents		
Restricted cash for litigation settlement	584	553
Restricted security deposits held for customers	1,370	1,080
Prepaid expenses and other current assets	27	22
Cash, cash equivalents, restricted cash and restricted cash equivalents - beginning of period	\$ 8,969	\$ 8,337

	September 30,	
	2020	2019
	(in millions)	
Cash and cash equivalents	\$ 10,225	\$ 5,101
Restricted cash and restricted cash equivalents		
Restricted cash for litigation settlement	586	666
Restricted security deposits held for customers	1,568	1,173
Prepaid expenses and other current assets	25	32
Cash, cash equivalents, restricted cash and restricted cash equivalents - end of period	\$ 12,404	\$ 6,972

Note 6. Investments

The Company's investments on the consolidated balance sheet include both available-for-sale and held-to-maturity securities (see Investments section below). The Company classifies its investments in equity securities of publicly traded and privately held companies within other assets on the consolidated balance sheet (see Equity Investments section below).

Investments

Investments on the consolidated balance sheet consisted of the following:

	September 30, 2020	December 31, 2019
	(in millions)	
Available-for-sale securities	\$ 281	\$ 591
Held-to-maturity securities	119	97
Total investments	\$ 400	\$ 688

Available-for-Sale-Securities

The major classes of the Company's available-for-sale investment securities and their respective amortized cost basis and fair values were as follows:

	September 30, 2020				December 31, 2019			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions)							
Municipal securities	\$ 6	\$ —	\$ —	\$ 6	\$ 15	\$ —	\$ —	\$ 15
Government and agency securities	47	—	—	47	108	—	—	108
Corporate securities	227	1	—	228	381	1	—	382
Asset-backed securities	—	—	—	—	85	1	—	86
Total	\$ 280	\$ 1	\$ —	\$ 281	\$ 589	\$ 2	\$ —	\$ 591

The Company's available-for-sale investment securities held at September 30, 2020 and December 31, 2019 primarily carried a credit rating of A- or better with unrealized gains and losses recorded as a separate component of other comprehensive income (loss) on the consolidated statement of comprehensive income. The municipal securities are comprised of state tax-exempt bonds and are diversified across states and sectors. Government and agency securities include U.S. government bonds, U.S. government sponsored agency bonds and foreign government bonds with similar credit quality to that of the U.S. government bonds. Corporate securities are comprised of commercial paper and corporate bonds. The asset-backed securities are investments in bonds which are collateralized primarily by automobile loan receivables.

The maturity distribution based on the contractual terms of the Company's investment securities at September 30, 2020 was as follows:

	Available-For-Sale	
	Amortized Cost	Fair Value
	(in millions)	
Due within 1 year	\$ 83	\$ 83
Due after 1 year through 5 years	197	198
Total	\$ 280	\$ 281

Investment income on the consolidated statement of operations primarily consists of interest income generated from cash, cash equivalents, time deposits, and realized gains and losses on the Company's debt securities. The realized gains and losses from the sales of available-for-sale securities for the three and nine months ended September 30, 2020 and 2019 were not significant.

Held-to-Maturity Securities

The Company classifies time deposits with maturities greater than three months but less than one year as held-to-maturity. Time deposits are carried at amortized cost on the consolidated balance sheet and are intended to be held until maturity. The cost of these securities approximates fair value.

Equity Investments

Included in other assets on the consolidated balance sheet are equity investments with readily determinable fair values ("Marketable securities") and equity investments without readily determinable fair values ("Nonmarketable securities"). Marketable securities are publicly traded companies and are measured using unadjusted quoted prices in their respective active markets. Nonmarketable securities that do not qualify for equity method accounting are measured at cost, less any impairment and adjusted for changes resulting from observable price changes in orderly transactions for the identical or similar investments of the same issuer ("measurement alternative").

The following table is a summary of the activity related to the Company's equity investments:

	Balance at December 31, 2019	Purchases (Sales), net	Changes in Fair Value ¹	Other ²	Balance at September 30, 2020
	(in millions)				
Marketable securities	\$ 479	\$ —	\$ (193)	\$ (7)	\$ 279
Nonmarketable securities	435	179	3	17	634
Total equity investments	\$ 914	\$ 179	\$ (190)	\$ 10	\$ 913

¹ Recorded in gains (losses) on equity investments, net on the consolidated statement of operations

² Includes translational impact of currency

At September 30, 2020, the total carrying value of Nonmarketable securities included \$507 million of measurement alternative investments and \$127 million of equity method investments. At December 31, 2019, the total carrying value of Nonmarketable securities included \$317 million of measurement alternative investments and \$118 million of equity method investments. Cumulative impairments and downward fair value adjustments on measurement alternative investments were \$14 million and cumulative upward fair value adjustments were \$69 million as of September 30, 2020.

Note 7. Fair Value Measurements

The Company classifies its fair value measurements of financial instruments into a three-level hierarchy (the "Valuation Hierarchy"). Financial instruments are categorized for fair value measurement purposes as recurring or non-recurring in nature. There were no transfers made among the three levels in the Valuation Hierarchy for the three and nine months ended September 30, 2020.

Financial Instruments - Recurring Measurements

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

	September 30, 2020				December 31, 2019			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions)							
Assets								
Investment securities available for sale ¹:								
Municipal securities	\$ —	\$ 6	\$ —	\$ 6	\$ —	\$ 15	\$ —	\$ 15
Government and agency securities	18	29	—	47	66	42	—	108
Corporate securities	—	228	—	228	—	382	—	382
Asset-backed securities	—	—	—	—	—	86	—	86
Derivative instruments ²:								
Foreign exchange contracts	—	40	—	40	—	12	—	12
Interest rate contracts	—	—	—	—	—	14	—	14
Marketable securities ³:								
Equity securities	279	—	—	279	479	—	—	479
Deferred compensation plan ⁴:								
Deferred compensation assets	72	—	—	72	67	—	—	67
Liabilities								
Derivative instruments ²:								
Foreign exchange derivative liabilities	\$ —	\$ (19)	\$ —	\$ (19)	\$ —	\$ (32)	\$ —	\$ (32)
Deferred compensation plan ⁵:								
Deferred compensation liabilities	(73)	—	—	(73)	(67)	—	—	(67)

¹ The Company's U.S. government securities are classified within Level 1 of the Valuation Hierarchy as the fair values are based on unadjusted quoted prices for identical assets in active markets. The fair value of the Company's available-for-sale municipal securities, non-U.S. government and agency securities, corporate securities and asset-backed securities are based on observable inputs such as quoted prices, benchmark yields and issuer spreads for similar assets in active markets and are therefore included in Level 2 of the Valuation Hierarchy.

² The Company's foreign exchange and interest rate derivative asset and liability contracts have been classified within Level 2 of the Valuation Hierarchy as the fair value is based on observable inputs such as broker quotes relating to foreign exchange and interest rates for similar derivative instruments. See Note 17 (Derivative and Hedging Instruments) for further details.

³ The Company's Marketable securities are publicly held and classified within Level 1 of the Valuation Hierarchy as the fair values are based on unadjusted quoted prices in their respective active markets.

⁴ The Company has a nonqualified deferred compensation plan where assets are invested primarily in mutual funds held in a rabbi trust, which is restricted for payments to participants of the plan. The Company has elected to use the fair value option for these mutual funds, which are measured using quoted prices of identical instruments in active markets and are included in prepaid expenses and other current assets on the consolidated balance sheet.

⁵ The deferred compensation liabilities are measured at fair value based on the quoted prices of identical instruments to the investment vehicles selected by the participants. These are included in other liabilities on the consolidated balance sheet.

Financial Instruments - Non-Recurring Measurements

Nonmarketable Securities

The Company's Nonmarketable securities are recorded at fair value on a non-recurring basis in periods after initial recognition under the equity method or measurement alternative method. Nonmarketable securities are classified within Level 3 of the Valuation Hierarchy due to the absence of quoted market prices, the inherent lack of liquidity and unobservable inputs used to measure fair value that require management's judgment. The Company uses discounted cash flows and market assumptions to estimate the fair value of its Nonmarketable securities when certain events or circumstances indicate that impairment may exist. See Note 6 (Investments) for further details.

Debt

The Company estimates the fair value of its long-term debt based on quoted market prices. These debt securities are classified as Level 2 of the Valuation Hierarchy as they are not traded in active markets. At September 30, 2020, the carrying value and fair value of total long-term debt was \$12.6 billion and \$14.6 billion, respectively. At December 31, 2019, the carrying value and fair value of long-term debt was \$8.5 billion and \$9.2 billion, respectively.

Other Financial Instruments

Certain other financial instruments are carried on the consolidated balance sheet at cost or amortized cost basis, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, restricted cash, time deposits, accounts receivable, settlement due from customers, restricted security deposits held for customers, accounts payable, settlement due to customers and other accrued liabilities.

Note 8. Prepaid Expenses and Other Assets

Prepaid expenses and other current assets consisted of the following:

	September 30, 2020	December 31, 2019
	(in millions)	
Customer and merchant incentives	\$ 1,049	\$ 872
Prepaid income taxes	177	105
Other	732	786
Total prepaid expenses and other current assets	\$ 1,958	\$ 1,763

Other assets consisted of the following:

	September 30, 2020	December 31, 2019
	(in millions)	
Customer and merchant incentives	\$ 3,175	\$ 2,838
Equity investments	913	914
Income taxes receivable	508	460
Other	369	313
Total other assets	\$ 4,965	\$ 4,525

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

Note 9. Accrued Expenses and Accrued Litigation

Accrued expenses consisted of the following:

	September 30, 2020	December 31, 2019
	(in millions)	
Customer and merchant incentives	\$ 3,709	\$ 3,892
Personnel costs	559	713
Income and other taxes	260	332
Other	483	552
Total accrued expenses	\$ 5,011	\$ 5,489

Customer and merchant incentives represent amounts to be paid to customers under business agreements. As of September 30, 2020 and December 31, 2019, the Company's provision for litigation was \$798 million and \$914 million, respectively. These amounts are not included in the accrued expenses table above and are separately reported as accrued litigation on the consolidated balance sheet. See Note 15 (Legal and Regulatory Proceedings) for additional information regarding the Company's accrued litigation.

Note 10. Debt

Long-term debt consisted of the following:

		September 30, 2020	December 31, 2019	Effective Interest Rate
		(in millions)		
2020 USD Notes	3.300 % Senior Notes due March 2027	\$ 1,000	\$ —	3.420 %
	3.350 % Senior Notes due March 2030	1,500	—	3.430 %
	3.850 % Senior Notes due March 2050	1,500	—	3.896 %
2019 USD Notes	2.950 % Senior Notes due June 2029	1,000	1,000	3.030 %
	3.650 % Senior Notes due June 2049	1,000	1,000	3.689 %
	2.000 % Senior Notes due March 2025	750	750	2.147 %
2018 USD Notes	3.500 % Senior Notes due February 2028	500	500	3.598 %
	3.950 % Senior Notes due February 2048	500	500	3.990 %
2016 USD Notes	2.000 % Senior Notes due November 2021	650	650	2.236 %
	2.950 % Senior Notes due November 2026	750	750	3.044 %
	3.800 % Senior Notes due November 2046	600	600	3.893 %
2015 Euro Notes ¹	1.100 % Senior Notes due December 2022	819	785	1.265 %
	2.100 % Senior Notes due December 2027	936	896	2.189 %
	2.500 % Senior Notes due December 2030	175	169	2.562 %
2014 USD Notes	3.375 % Senior Notes due April 2024	1,000	1,000	3.484 %
		12,680	8,600	
Less: Unamortized discount and debt issuance costs		(106)	(73)	
Long-term debt		\$ 12,574	\$ 8,527	

¹ Relates to euro-denominated debt issuance of €1.650 billion in December 2015

In March 2020, the Company issued \$1 billion principal amount of notes due March 2027, \$1.5 billion principal amount of notes due March 2030 and \$1.5 billion principal amount notes due March 2050 (collectively the “2020 USD Notes”). The net proceeds from the issuance of the 2020 USD Notes, after deducting the original issue discount, underwriting discount and offering expenses, were \$3.959 billion.

The outstanding debt described above is not subject to any financial covenants and it may be redeemed in whole, or in part, at the Company’s option at any time for a specified make-whole amount. These notes are senior unsecured obligations and would rank equally with any future unsecured and unsubordinated indebtedness. The proceeds of the notes are to be used for general corporate purposes.

Note 11. Stockholders' Equity

The Company declared quarterly cash dividends on its Class A and Class B Common Stock during the three and nine months ended September 30, 2020 and 2019 as summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(in millions, except per share data)				
Dividends declared per share	\$ 0.40	\$ 0.33	\$ 1.20	\$ 0.99
Total dividends declared	\$ 398	\$ 334	\$ 1,202	\$ 1,006

The Company’s Board of Directors has approved share repurchase programs authorizing the Company to repurchase shares of its Class A Common Stock. These programs become effective after the completion of the previously authorized share repurchase program.

The following table summarizes the Company's share repurchase authorizations of its Class A common stock through September 30, 2020, as well as historical purchases:

Board authorization dates	December 2019	December 2018	December 2017	
Date program became effective	January 2020	January 2019	March 2018	Total
	(in millions, except average price data)			
Board authorization	\$ 8,000	\$ 6,500	\$ 4,000	\$ 18,500
Dollar value of shares repurchased during the nine months ended September 30, 2019	\$ —	\$ 5,202	\$ 301	\$ 5,503
Remaining authorization at December 31, 2019	\$ 8,000	\$ 304	\$ —	\$ 8,304
Dollar value of shares repurchased during the nine months ended September 30, 2020	\$ 3,139	\$ 304	\$ —	\$ 3,443
Remaining authorization at September 30, 2020	\$ 4,861	\$ —	\$ —	\$ 4,861
Shares repurchased during the nine months ended September 30, 2019	—	21.2	1.6	22.8
Average price paid per share during the nine months ended September 30, 2019	\$ —	\$ 245.25	\$ 188.38	\$ 241.27
Shares repurchased during the nine months ended September 30, 2020	10.2	1.0	—	11.2
Average price paid per share during the nine months ended September 30, 2020	\$ 308.04	\$ 304.89	\$ —	\$ 307.76
Cumulative shares repurchased through September 30, 2020	10.2	25.8	20.6	56.6
Cumulative average price paid per share	\$ 308.04	\$ 251.72	\$ 194.27	\$ 240.96

The following table presents the changes in the Company's outstanding Class A and Class B common stock for the nine months ended September 30, 2020:

	Outstanding Shares	
	Class A	Class B
	(in millions)	
Balance at December 31, 2019	996.0	11.2
Purchases of treasury stock	(11.2)	—
Share-based payments	2.1	—
Conversion of Class B to Class A common stock	2.7	(2.7)
Balance at September 30, 2020	989.6	8.5

Note 12. Accumulated Other Comprehensive Income (Loss)

The changes in the balances of each component of accumulated other comprehensive income (loss), net of tax, for the nine months ended September 30, 2020 and 2019 were as follows:

	Foreign Currency Translation Adjustments ¹	Translation Adjustments on Net Investment Hedge ²	Cash Flow Hedges ³	Defined Benefit Pension and Other Postretirement Plans	Investment Securities Available- for-Sale ⁴	Accumulated Other Comprehensive Income (Loss)
(in millions)						
Balance at December 31, 2019	\$ (638)	\$ (38)	\$ 11	\$ (9)	\$ 1	\$ (673)
Other comprehensive income (loss)	4	(64)	(145)	(1)	(1)	(207)
Balance at September 30, 2020	\$ (634)	\$ (102)	\$ (134)	\$ (10)	\$ —	\$ (880)
Balance at December 31, 2018	\$ (661)	\$ (66)	\$ —	\$ 10	\$ (1)	\$ (718)
Other comprehensive income (loss)	(204)	62	—	(1)	3	(140)
Balance at September 30, 2019	\$ (865)	\$ (4)	\$ —	\$ 9	\$ 2	\$ (858)

¹ During the nine months ended September 30, 2020, foreign currency translation adjustments were not material. During the nine months ended September 30, 2019, the increase in the accumulated other comprehensive loss related to foreign currency translation adjustments was driven primarily by the strengthening of the U.S. dollar against the Brazilian real, British pound and euro.

² The Company uses foreign currency denominated debt to hedge a portion of its net investment in foreign operations against adverse movements in exchange rates. Changes in the value of the debt are recorded in accumulated other comprehensive income (loss). During the nine months ended September 30, 2020, the increase in the accumulated other comprehensive loss related to the net investment hedge was driven by the appreciation of the euro. During the nine months ended September 30, 2019, the decrease in the accumulated other comprehensive loss related to the net investment hedge was driven by the depreciation of the euro. See Note 17 (Derivative and Hedging Instruments) for additional information.

³ In the fourth quarter of 2019, the Company entered into treasury rate locks which are accounted for as cash flow hedges. In the first quarter of 2020, in connection with the issuance of the 2020 USD Notes, these contracts were settled and the Company recorded a loss of \$150 million net of tax, in accumulated other comprehensive income (loss). The cumulative loss will be reclassified as an adjustment to interest expense over the respective terms of the 2020 USD Notes. During the nine months ended September 30, 2020, reclassifications to interest expense were not material. See Note 17 (Derivative and Hedging Instruments) for additional information.

⁴ During the nine months ended September 30, 2020 and 2019, gains and losses on available-for-sale investment securities, reclassified from accumulated other comprehensive income (loss) to investment income, were not material. See Note 6 (Investments) for additional information.

Note 13. Share-Based Payments

During the nine months ended September 30, 2020, the Company granted the following awards under the Mastercard Incorporated 2006 Long Term Incentive Plan, as amended and restated as of June 5, 2012 (the "LTIP"). The LTIP is a stockholder-approved plan that permits the grant of various types of equity awards to employees.

	Grants in 2020 (in millions)	Weighted-Average Grant-Date Fair Value (per option/unit)
Non-qualified stock options	0.4	\$55
Restricted stock units	0.9	\$286
Performance stock units	0.2	\$291

The Company used the Black-Scholes option pricing model to determine the grant-date fair value of stock options and calculated the expected life and the expected volatility based on historical Mastercard information. The expected life of stock options granted in 2020 was estimated to be six years, while the expected volatility was determined to be 19.3%. Stock options generally vest in four equal annual installments beginning one year after the date of grant and expire ten years from the date of grant.

The fair value of restricted stock units ("RSUs") is determined and fixed on the grant date based on the Company's Class A common stock price, adjusted for the exclusion of dividend equivalents. For awards granted on or after March 1, 2020, shares underlying the RSUs will generally vest in four equal annual installments beginning one year after the date of grant. For awards issued prior to March 1, 2020, shares underlying the RSUs will generally vest three years from the date of grant.

The Company used the Monte Carlo simulation valuation model to determine the grant-date fair value of performance stock units (“PSUs”) granted. Shares underlying the PSUs will vest after three years from the date of grant. For all PSUs granted on or after March 1, 2019, shares issuable upon vesting are subject to a mandatory one-year deferral period, during which vested PSUs are eligible for dividend equivalents.

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

Note 14. Income Taxes

The effective income tax rates were 21.0% and 16.9% for the three months ended September 30, 2020 and 2019, respectively. The higher effective income tax rate for three months ended September 30, 2020, versus the comparable period in 2019, was primarily due to a discrete tax benefit related to a favorable court ruling in 2019 and certain losses on equity investments that did not provide any tax benefit in the current period.

The effective income tax rates were 17.3% and 17.1% for the nine months ended September 30, 2020 and 2019, respectively. The higher effective income tax rate for the nine months ended September 30, 2020, versus the comparable period in 2019, was primarily due to discrete tax benefits related to a favorable court ruling, a reduction to the Company’s transition tax liability in 2019 and certain losses on equity investments that did not provide any tax benefit in the current period, partially offset by a more favorable geographic mix of earnings in the current period.

The Company is subject to tax in the United States, Belgium, Singapore, the United Kingdom and various other foreign jurisdictions, as well as state and local jurisdictions. Uncertain tax positions are reviewed on an ongoing basis and are adjusted after considering facts and circumstances, including progress of tax audits, developments in case law and closing of statutes of limitation. Within the next twelve months, the Company believes that the resolution of certain federal, foreign and state and local examinations is reasonably possible and that a change in estimate, reducing unrecognized tax benefits, may occur. While such a change may be significant, it is not possible to provide a range of the potential change until the examinations progress further or the related statutes of limitation expire. The Company has effectively settled its U.S. federal income tax obligations through 2011. With limited exception, the Company is no longer subject to state and local or foreign examinations by tax authorities for years before 2010.

As of September 30, 2020 and December 31, 2019, the amount of the unrecognized tax benefit was \$394 million and \$203 million, respectively. These amounts, if recognized, would reduce the effective income tax rate. The Company’s unrecognized tax benefits increased primarily due to a prior year tax issue resulting from a refund claim filed in the second quarter of 2020.

Note 15. Legal and Regulatory Proceedings

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

Interchange Litigation and Regulatory Proceedings

Mastercard’s interchange fees and other practices are subject to regulatory, legal review and/or challenges in a number of jurisdictions, including the proceedings described below. When taken as a whole, the resulting decisions, regulations and legislation with respect to interchange fees and acceptance practices may have a material adverse effect on the Company’s prospects for future growth and its overall results of operations, financial position and cash flows.

United States. In June 2005, the first of a series of complaints were filed on behalf of merchants (the majority of the complaints were styled as class actions, although a few complaints were filed on behalf of individual merchant plaintiffs) against Mastercard International, Visa U.S.A., Inc., Visa International Service Association and a number of financial institutions. Taken together, the claims in the complaints were generally brought under both Sections 1 and 2 of the Sherman Act, which prohibit monopolization and attempts or conspiracies to monopolize a particular industry, and some of these complaints contain unfair competition law claims under state law. The complaints allege, among other things, that Mastercard, Visa, and certain financial institutions conspired to set the price of interchange fees, enacted point of sale acceptance rules (including the no surcharge rule) in violation of antitrust laws and engaged in unlawful tying and bundling of certain products and services. The cases were consolidated for pre-trial proceedings in the U.S. District Court for the Eastern District of New York in MDL No. 1720. The plaintiffs filed a consolidated class action complaint that seeks treble damages.

In July 2006, the group of purported merchant class plaintiffs filed a supplemental complaint alleging that Mastercard's initial public offering of its Class A Common Stock in May 2006 (the "IPO") and certain purported agreements entered into between Mastercard and financial institutions in connection with the IPO: (1) violate U.S. antitrust laws and (2) constituted a fraudulent conveyance because the financial institutions allegedly attempted to release, without adequate consideration, Mastercard's right to assess them for Mastercard's litigation liabilities. The class plaintiffs sought treble damages and injunctive relief including, but not limited to, an order reversing and unwinding the IPO.

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

In October 2012, the parties entered into a definitive settlement agreement with respect to the merchant class litigation (including with respect to the claims related to the IPO) and the defendants separately entered into a settlement agreement with the individual merchant plaintiffs. The settlements included cash payments that were apportioned among the defendants pursuant to the omnibus judgment sharing and settlement sharing agreement described above. Mastercard also agreed to provide class members with a short-term reduction in default credit interchange rates and to modify certain of its business practices, including its "no surcharge" rule. The court granted final approval of the settlement in December 2013, and objectors to the settlement appealed that decision to the U.S. Court of Appeals for the Second Circuit. In June 2016, the court of appeals vacated the class action certification, reversed the settlement approval and sent the case back to the district court for further proceedings. The court of appeals' ruling was based primarily on whether the merchants were adequately represented by counsel in the settlement. As a result of the appellate court ruling, the district court divided the merchants' claims into two separate classes - monetary damages claims (the "Damages Class") and claims seeking changes to business practices (the "Rules Relief Class"). The court appointed separate counsel for each class.

In September 2018, the parties to the Damages Class litigation entered into a class settlement agreement to resolve the Damages Class claims. Mastercard increased its reserve by \$237 million during 2018 to reflect both its expected financial obligation under the Damages Class settlement agreement and the filed and anticipated opt-out merchant cases. The time period during which Damages Class members were permitted to opt out of the class settlement agreement ended in July 2019 with merchants representing slightly more than 25% of the Damages Class interchange volume choosing to opt out of the settlement. The district court granted final approval of the settlement in December 2019. The district court's settlement approval order has been appealed. Mastercard has commenced settlement negotiations with a number of the opt-out merchants and has reached settlements and/or agreements in principle to settle a number of these claims. The Damages Class settlement agreement does not relate to the Rules Relief Class claims. Separate settlement negotiations with the Rules Relief Class are ongoing.

As of September 30, 2020 and December 31, 2019, Mastercard had accrued a liability of \$784 million and \$914 million, respectively, as a reserve for both the Damages Class litigation and the opt-out merchant cases. As of September 30, 2020 and December 31, 2019, Mastercard had \$586 million and \$584 million, respectively, in a qualified cash settlement fund related to the Damages Class litigation and classified as restricted cash on its consolidated balance sheet.

The reserve as of September 30, 2020 for both the Damages Class litigation and the opt-out merchants represents Mastercard's best estimate of its probable liabilities in these matters. The portion of the accrued liability relating to both the opt-out merchants and the Damages Class litigation settlement does not represent an estimate of a loss, if any, if the matters were litigated to a final outcome. Mastercard cannot estimate the potential liability if that were to occur.

Canada. In December 2010, a proposed class action complaint was commenced against Mastercard in Quebec on behalf of Canadian merchants. The suit essentially repeated the allegations and arguments of a previously filed application by the Canadian Competition Bureau to the Canadian Competition Tribunal (dismissed in Mastercard's favor) concerning certain Mastercard rules related to point-of-sale

acceptance, including the “honor all cards” and “no surcharge” rules. The Quebec suit sought compensatory and punitive damages in unspecified amounts, as well as injunctive relief. In the first half of 2011, additional purported class action lawsuits were commenced in British Columbia and Ontario against Mastercard, Visa and a number of large Canadian financial institutions. The British Columbia suit sought compensatory damages in unspecified amounts, and the Ontario suit sought compensatory damages of \$5 billion on the basis of alleged conspiracy and various alleged breaches of the Canadian Competition Act. Additional purported class action complaints were commenced in Saskatchewan and Alberta with claims that largely mirror those in the other suits. In June 2017, Mastercard entered into a class settlement agreement to resolve all of the Canadian class action litigation. The settlement, which requires Mastercard to make a cash payment and modify its “no surcharge” rule, has received court approval in each Canadian province. Objectors to the settlement have sought to appeal the approval orders. Certain appellate courts have rejected the objectors’ appeals, while outstanding appeals remain in a few provinces.

Europe. Since May 2012, a number of United Kingdom (“U.K.”) retailers filed claims or threatened litigation against Mastercard seeking damages for alleged anti-competitive conduct with respect to Mastercard’s cross-border interchange fees and its U.K. and Ireland domestic interchange fees (the “U.K. Merchant claimants”). In addition, Mastercard, has faced similar filed or threatened litigation by merchants with respect to interchange rates in other countries in Europe (the “Pan-European Merchant claimants”). In aggregate, the alleged damages claims from the U.K. and Pan-European Merchant claimants were in the amount of approximately £3 billion (approximately \$4 billion as of September 30, 2020). Mastercard has resolved over £2 billion (approximately \$3 billion as of September 30, 2020) of these damages claims through settlement or judgment.

In January 2017, Mastercard received a liability judgment in its favor on all significant matters in a separate action brought by ten of the U.K. Merchant claimants. Three of the U.K. Merchant claimants appealed the judgment, and these appeals were combined with Mastercard’s appeal of a 2016 judgment in favor of one U.K. merchant. In July 2018, the U.K. appellate court heard the appeals of the four merchant claimants and ruled against both Mastercard and Visa on two of the three legal issues being considered. The parties appealed the rulings to the U.K. Supreme Court. In June 2020, the U.K. Supreme Court ruled against Mastercard and Visa with respect to one of the liability issues being considered by the Court related to U.K. domestic interchange fees. Additionally, the U.K. Supreme Court set out the legal standard that should be applied by lower trial courts with respect to determining whether interchange was exemptible under applicable law, and provided guidance to lower courts with regard to the legal standard that should be applied in assessing merchants’ damages claims. The U.K. Supreme Court sent one of the four merchant cases back to the trial court for a determination of liability and damages issues and sent the remaining three merchant cases back to the trial court for a determination of damages issues only. A case management conference has been scheduled with these four merchant claimants for the fourth quarter of 2020 at which time Mastercard expects to learn the timing for the trials.

Mastercard continues to litigate with the remaining U.K. and Pan-European Merchant claimants and it has submitted statements of defense disputing liability and damages claims. The majority of these merchant claims generally had been stayed pending the decision of the U.K. Supreme Court, and Mastercard now expects these matters to progress with liability and damages discovery. Mastercard incurred charges of \$22 million during the second quarter of 2020 to reflect both the estimated attorneys’ fees incurred by the four merchant claimants in the U.K. Supreme Court appeal, as well as agreements in principle to settle with a number of Pan-European merchants.

In September 2016, a proposed collective action was filed in the United Kingdom on behalf of U.K. consumers seeking damages for intra-EEA and domestic U.K. interchange fees that were allegedly passed on to consumers by merchants between 1992 and 2008. The complaint, which seeks to leverage the European Commission’s 2007 decision on intra-EEA interchange fees, claims damages in an amount that exceeds £14 billion (approximately \$18 billion as of September 30, 2020). In July 2017, the trial court denied the plaintiffs’ application for the case to proceed as a collective action. In April 2019, the U.K. appellate court granted the plaintiffs’ appeal of the trial court’s decision and sent the case back to the trial court for a re-hearing on the plaintiffs’ collective action application. Mastercard was granted permission to appeal the appellate court ruling to the U.K. Supreme Court, which heard oral argument on that appeal in May 2020.

ATM Non-Discrimination Rule Surcharge Complaints

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

Subsequently, multiple related complaints were filed in the U.S. District Court for the District of Columbia alleging both federal antitrust and multiple state unfair competition, consumer protection and common law claims against Mastercard and Visa on behalf of putative classes of users of ATM services (the “ATM Consumer Complaints”). The claims in these actions largely mirror the allegations made in the ATM Operators Complaint, although these complaints seek damages on behalf of consumers of ATM services who pay allegedly inflated ATM fees at both bank and non-bank ATM operators as a result of the defendants’ ATM rules. Plaintiffs seek both injunctive and monetary

relief equal to treble the damages they claim to have sustained as a result of the alleged violations and their costs of suit, including attorneys' fees.

In January 2012, the plaintiffs in the ATM Operators Complaint and the ATM Consumer Complaints filed amended class action complaints that largely mirror their prior complaints. In February 2013, the district court granted Mastercard's motion to dismiss the complaints for failure to state a claim. On appeal, the Court of Appeals reversed the district court's order in August 2015 and sent the case back for further proceedings. In September 2019, the plaintiffs filed their motions for class certification in which the plaintiffs, in aggregate, allege over \$1 billion in damages against all of the defendants. Mastercard intends to vigorously defend against both the plaintiffs' liability and damages claims and has opposed class certification. Briefing on class certification is complete.

U.S. Liability Shift Litigation

In March 2016, a proposed U.S. merchant class action complaint was filed in federal court in California alleging that Mastercard, Visa, American Express and Discover (the "Network Defendants"), EMVCo, and a number of issuing banks (the "Bank Defendants") engaged in a conspiracy to shift fraud liability for card present transactions from issuing banks to merchants not yet in compliance with the standards for EMV chip cards in the United States (the "EMV Liability Shift"), in violation of the Sherman Act and California law. Plaintiffs allege damages equal to the value of all chargebacks for which class members became liable as a result of the EMV Liability Shift on October 1, 2015. The plaintiffs seek treble damages, attorney's fees and costs and an injunction against future violations of governing law, and the defendants have filed a motion to dismiss. In September 2016, the district court denied the Network Defendants' motion to dismiss the complaint, but granted such a motion for EMVCo and the Bank Defendants. In May 2017, the district court transferred the case to New York so that discovery could be coordinated with the U.S. merchant class interchange litigation described above. In August 2020, the district court issued an order granting the plaintiffs' request for class certification. The Network Defendants have requested permission to appeal the district court's certification decision to the appellate court. The case is proceeding with substantive expert discovery.

Telephone Consumer Protection Class Action

Mastercard is a defendant in a Telephone Consumer Protection Act ("TCPA") class action pending in Florida. The plaintiffs are individuals and businesses who allege that approximately 381,000 unsolicited faxes were sent to them advertising a Mastercard co-brand card issued by First Arkansas Bank ("FAB"). The TCPA provides for uncapped statutory damages of \$500 per fax. Mastercard has asserted various defenses to the claims, and has notified FAB of an indemnity claim that it has (which FAB has disputed). In June 2018, the court granted Mastercard's motion to stay the proceedings until the Federal Communications Commission makes a decision on the application of the TCPA to online fax services. In December 2019, the FCC issued a declaratory ruling clarifying that the TCPA does not apply to faxes sent to online fax services that are received via e-mail. As a result of the ruling, the stay of the litigation was lifted in January 2020. The parties have completed briefing plaintiff's motion for class certification.

U.S. Federal Trade Commission Investigation

In June 2020, the U.S. Federal Trade Commission's Bureau of Competition ("FTC") informed Mastercard that it has initiated a formal investigation into compliance with the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act. In particular, the investigation focuses on Mastercard's compliance with the debit routing provisions of the Durbin Amendment. The FTC has issued a subpoena and Mastercard is cooperating with it in the investigation.

Note 16. Settlement and Other Risk Management

Mastercard's rules guarantee the settlement of many of the transactions between its customers ("settlement risk"). Settlement exposure is the settlement risk to customers under Mastercard's rules due to the difference in timing between the payment transaction date and subsequent settlement. While the term and amount of the guarantee are unlimited, the duration of settlement exposure is short term and typically limited to a few days.

Gross settlement exposure is estimated using the average daily payment volume during the three months prior to period end multiplied by the estimated number of days of exposure. The Company has global risk management policies and procedures, which include risk standards, to provide a framework for managing the Company's settlement risk and exposure. In the event of a failed customer, Mastercard may pursue one or more remedies available under the Company's rules to recover potential losses. Historically, the Company has experienced a low level of losses from customer failures.

As part of its policies, Mastercard requires certain customers that are not in compliance with the Company's risk standards to post collateral, such as cash, letters of credit, or guarantees. This requirement is based on a review of the individual risk circumstances for each customer. Mastercard monitors its credit risk portfolio on a regular basis and the adequacy of collateral on hand. Additionally, from time to time, the Company reviews its risk management methodology and standards and revises the estimated settlement exposure as necessary.

The Company's estimated settlement exposure was as follows:

	September 30, 2020	December 31, 2019
	(in millions)	
Gross settlement exposure	\$ 48,607	\$ 55,800
Collateral held for settlement exposure	(4,140)	(4,772)
Net uncollateralized settlement exposure	\$ 44,467	\$ 51,028

Mastercard also provides guarantees to customers and certain other counterparties indemnifying them from losses stemming from failures of third parties to perform duties. This includes guarantees of Mastercard-branded travelers cheques issued, but not yet cashed of \$365 million and \$367 million at September 30, 2020 and December 31, 2019, respectively, of which \$289 million and \$290 million at September 30, 2020 and December 31, 2019, respectively, is mitigated by collateral arrangements. In addition, the Company enters into agreements in the ordinary course of business under which the Company agrees to indemnify third parties against damages, losses and expenses incurred in connection with legal and other proceedings arising from relationships or transactions with the Company. Certain indemnifications do not provide a stated maximum exposure. As the extent of the Company's obligations under these agreements depends entirely upon the occurrence of future events, the Company's potential future liability under these agreements is not determinable. Historically, payments made by the Company under these types of contractual arrangements have not been material.

Note 17. Derivative and Hedging Instruments

The Company monitors and manages its foreign currency and interest rate exposures as part of its overall risk management program which focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on its operating results. A primary objective of the Company's risk management strategies is to reduce the financial impact that may arise from volatility in foreign currency exchange rates principally through the use of both foreign exchange derivative contracts (Derivatives) and foreign currency denominated debt (Net Investment Hedge). In addition, the Company may enter into interest rate derivative contracts to manage the effects of interest rate movements on the Company's aggregate liability portfolio, including potential future debt issuances (Cash Flow Hedges).

Foreign Exchange Risk

Derivatives

The Company enters into foreign exchange derivative contracts to manage currency exposure associated with anticipated receipts and disbursements which are valued based on currencies other than the functional currency of the entity. The Company may also enter into foreign exchange derivative contracts to offset possible changes in value of assets and liabilities due to foreign exchange fluctuations. In addition, the Company is subject to foreign exchange risk as part of its daily settlement activities. This risk is typically limited to a few days between when a payment transaction takes place and the subsequent settlement with customers. To manage this risk, the Company enters into short duration foreign exchange derivative contracts based upon anticipated receipts and disbursements for the respective currency position. The objective of these activities is to reduce the Company's exposure to gains and losses resulting from fluctuations of foreign currencies against its functional currencies.

The Company's derivative contracts are summarized below:

	September 30, 2020		December 31, 2019	
	Notional	Estimated Fair Value	Notional	Estimated Fair Value
	(in millions)			
Commitments to purchase foreign currency	\$ 600	\$ 15	\$ 185	\$ 3
Commitments to sell foreign currency	1,439	6	1,506	(25)
Options to sell foreign currency	—	—	21	2
Balance sheet location				
Prepaid expenses and other current assets ¹		40		12
Other current liabilities ¹		(19)		(32)

¹ The derivative contracts are subject to enforceable master netting arrangements, which contain various netting and setoff provisions.

The amount of gain (loss) recognized on the consolidated statement of operations for the contracts to purchase and sell foreign currency is summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in millions)			
Foreign exchange derivative contracts				
General and administrative	\$ (11)	\$ 17	\$ 72	\$ (3)

The fair value of the foreign exchange derivative contracts generally reflects the estimated amounts that the Company would receive (or pay), on a pre-tax basis, to terminate the contracts. The terms of the foreign exchange derivative contracts are generally less than 18 months. The Company had no deferred gains or losses related to foreign exchange contracts in accumulated other comprehensive income as of September 30, 2020 and December 31, 2019, as these contracts were not designated as hedging instruments for accounting.

The Company's derivative financial instruments are subject to both market and counterparty credit risk. Market risk is the potential for economic losses to be incurred on market risk sensitive instruments arising from adverse changes in market factors such as foreign currency exchange rates, interest rates and other related variables. Counterparty credit risk is the risk of loss due to failure of the counterparty to perform its obligations in accordance with contractual terms. To mitigate counterparty credit risk, the Company enters into derivative contracts with a diversified group of selected financial institutions based upon their credit ratings and other factors. Generally, the Company does not obtain collateral related to derivatives because of the high credit ratings of the counterparties.

Net Investment Hedge

The Company uses foreign currency denominated debt to hedge a portion of its net investment in foreign operations against adverse movements in exchange rates, with changes in the value of the debt recorded within currency translation adjustment in accumulated other comprehensive income (loss). In 2015, the Company designated its €1.65 billion euro-denominated debt as a net investment hedge for a portion of its net investment in European operations. As of September 30, 2020, the Company had a net foreign currency pre-tax loss of \$166 million in accumulated other comprehensive income (loss) associated with hedging activity.

Interest Rate Risk

Cash Flow Hedges

During the fourth quarter of 2019, the Company entered into treasury rate locks for a total notional amount of \$1 billion, which were accounted for as cash flow hedges. These contracts were entered into to hedge a portion of the Company's interest rate exposure attributable to changes in the treasury rates related to the forecasted debt issuance during 2020. The maximum length of time over which the Company had hedged its exposure was 30 years. In connection with the issuance of the 2020 USD Notes, these contracts were settled and the Company paid \$175 million. As of September 30, 2020, a cumulative loss of \$134 million, net of tax, was recorded in accumulated other comprehensive income (loss) associated with these contracts and will be reclassified as an adjustment to interest expense over the respective terms of the 2020 USD Notes. As of December 31, 2019, the Company recorded a pre-tax net unrealized gain of \$14 million (\$11 million, net of tax) in accumulated other comprehensive income (loss) associated with these contracts.

During the nine months ended September 30, 2020, reclassifications to interest expense were not material. The Company estimates that \$6 million, pre-tax, of the deferred loss on cash flow derivative contracts recorded in accumulated other comprehensive income (loss) at September 30, 2020 will be reclassified into interest expense on the statement of operations within the next 12 months.

Item 2. Management's discussion and analysis of financial condition and results of operations

The following supplements management's discussion and analysis of Mastercard Incorporated for the year ended December 31, 2019 as contained in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission on February 14, 2020. It also should be read in conjunction with the consolidated financial statements and notes of Mastercard Incorporated and its consolidated subsidiaries, including Mastercard International Incorporated (together, "Mastercard" or the "Company"), included elsewhere in this Report. Percentage changes provided throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" were calculated on amounts rounded to the nearest thousand.

COVID-19

The coronavirus ("COVID-19") pandemic has spread rapidly across the globe. This outbreak has affected business activity, adversely impacting consumers, our customers, suppliers and business partners. We continue to monitor the effects of the pandemic and actions taken by governments as they relate to travel restrictions, social distancing measures and restrictions on business operations, as well as the continued impact of these actions on consumers and businesses. The pandemic has had significant negative effects on the global economy. The duration of the pandemic and its impact on the global economy continues to be uncertain.

The COVID-19 outbreak has affected our 2020 performance to date, during which we have seen unfavorable trends compared to historical periods. The impact of this outbreak started in the first quarter of 2020 as we experienced declines in our key metrics, primarily due to travel restrictions and stay-at-home orders implemented by governments in many regions and countries across the globe. Early in the second quarter of 2020, switched transactions and cross-border volume growth rates stabilized around new lower activity levels as a result of compliance with social distancing and mobility limitations. Subsequently, switched transactions trends have improved over the course of the second and third quarters, with positive growth starting early in the third quarter of 2020. These switched transaction trends are in part due to the global relaxation of restrictions on business operations and social distancing measures. Cross-border volume trends continued to be significantly impacted by the decline in travel, with modest improvements throughout the second and third quarters. Additionally, gross dollar volumes declined during the second quarter of 2020, recovering from that decline in the third quarter of 2020 to experience slight growth as compared to the year ago periods in 2019 for the reasons mentioned above.

The full extent to which the pandemic, and measures taken in response, affect our business, results of operations and financial condition will depend on future developments, which are highly uncertain, and cannot be predicted at this time.

Financial Results Overview

The following table provides a summary of our key GAAP operating results, as reported:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Increase/ (Decrease)	2020	2019	Increase/ (Decrease)
	(\$ in millions, except per share data)					
Net revenue	\$ 3,837	\$ 4,467	(14)%	\$ 11,181	\$ 12,469	(10)%
Operating expenses	\$ 1,732	\$ 1,812	(4)%	\$ 5,158	\$ 5,204	(1)%
Operating income	\$ 2,105	\$ 2,655	(21)%	\$ 6,023	\$ 7,265	(17)%
Operating margin	54.9 %	59.4 %	(4.6) ppt	53.9 %	58.3 %	(4.4) ppt
Income tax expense	\$ 402	\$ 426	(6)%	\$ 966	\$ 1,238	(22)%
Effective income tax rate	21.0 %	16.9 %	4.1 ppt	17.3 %	17.1 %	0.2 ppt
Net income	\$ 1,513	\$ 2,108	(28)%	\$ 4,626	\$ 6,018	(23)%
Diluted earnings per share	\$ 1.51	\$ 2.07	(27)%	\$ 4.59	\$ 5.87	(22)%
Diluted weighted-average shares outstanding	1,005	1,019	(1)%	1,008	1,025	(2)%

The following table provides a summary of our key non-GAAP operating results¹, adjusted to exclude the impact of gains and losses on our equity investments, special items (which represent litigation judgments and settlements and certain one-time items) and the related tax impacts on our non-GAAP adjustments. In addition, we have presented growth rates, adjusted for the impact of currency:

	Three Months Ended September 30,		Increase/(Decrease)		Nine Months Ended September 30,		Increase/(Decrease)		
	2020	2019	As adjusted	Currency- neutral	2020	2019	As adjusted	Currency- neutral	
(\$ in millions, except per share data)									
Net revenue	\$ 3,837	\$ 4,467	(14)%	(14)%	\$ 11,181	\$ 12,469	(10)%	(9)%	
Adjusted operating expenses	\$ 1,732	\$ 1,812	(4)%	(5)%	\$ 5,129	\$ 5,204	(1)%	(1)%	
Adjusted operating margin	54.9 %	59.4 %	(4.6) ppt	(4.2) ppt	54.1 %	58.3 %	(4.1) ppt	(3.8) ppt	
Adjusted effective income tax rate	20.0 %	16.8 %	3.2 ppt	3.3 ppt	17.1 %	17.4 %	(0.3) ppt	(0.1) ppt	
Adjusted net income	\$ 1,605	\$ 2,191	(27)%	(26)%	\$ 4,819	\$ 5,956	(19)%	(18)%	
Adjusted diluted earnings per share	\$ 1.60	\$ 2.15	(26)%	(25)%	\$ 4.78	\$ 5.81	(18)%	(16)%	

Note: Tables may not sum due to rounding.

¹ See "Non-GAAP Financial Information" for further information on our non-GAAP adjustments and the reconciliation to GAAP reported amounts.

Key highlights for the three and nine months ended September 30, 2020, versus the comparable periods in 2019, were as follows:

Net revenue	
Three Months Ended September 30, 2020	
GAAP	Non-GAAP (currency-neutral)
down 14%	down 14%
For the three months ended September 30, 2020, net revenue decreased 14% on a currency-neutral basis due to COVID-19 impacts, and includes a 1 percentage point benefit from acquisitions. The primary drivers were:	
<ul style="list-style-type: none">- Cross-border volume decline of 36% on a local currency basis- Rebates and incentives were flat, or increased 2% on a currency-neutral basis	
These decreases to net revenue were partially offset by:	
<ul style="list-style-type: none">- Gross dollar volume growth of 1% on a local currency basis- Switched transactions growth of 5%- Other revenues growth of 5%, or 6% on a currency-neutral basis, which includes 2 percentage points of growth due to acquisitions	
Nine Months Ended September 30, 2020	
GAAP	Non-GAAP (currency-neutral)
down 10%	down 9%
For the nine months ended September 30, 2020, net revenue decreased 9% on a currency-neutral basis due to COVID-19 impacts, and includes a 1 percentage point benefit from acquisitions. The primary drivers were:	
<ul style="list-style-type: none">- Gross dollar volume decline of 0.4% on a local currency basis- Cross-border volume decline of 29% on a local currency basis- Rebates and incentives growth of 4%, or 6% on a currency-neutral basis	
These decreases to net revenue were partially offset by:	
<ul style="list-style-type: none">- Switched transactions growth of 2%- Other revenues growth of 14%, or 15% on a currency-neutral basis, which includes 4 percentage points of growth due to acquisitions	

Adjusted operating expenses	
Three Months Ended September 30, 2020	
GAAP	Non-GAAP (currency-neutral)
down 4%	down 5%
For the three months ended September 30, 2020, the 5 percentage point decline in adjusted operating expenses on a currency-neutral basis included growth of 3 percentage points due to acquisitions. Excluding acquisitions, expenses declined 8 percentage points primarily due to reduced spending on advertising and marketing, travel, personnel costs and professional fees, partially offset by 1.5 percentage points of growth from foreign exchange derivative contracts.	
Nine Months Ended September 30, 2020	
GAAP	Non-GAAP (currency-neutral)
down 1%	down 1%
For the nine months ended September 30, 2020, the 1 percentage point decline in adjusted operating expenses on a currency-neutral basis included a 4 percentage point increase due to acquisitions. Excluding acquisitions, expenses declined 5 percentage points primarily due to reduced spending on advertising and marketing, travel and professional fees, partially offset by higher personnel costs to support our continued investment in our strategic initiatives.	

Effective income tax rate	Adjusted effective income tax rate	
Three Months Ended September 30, 2020		Adjusted effective income tax rate of 20.0% for the three months ended September 30, 2020, was higher than the comparable period in 2019 primarily due to a discrete tax benefit related to a favorable court ruling in 2019.
GAAP	Non-GAAP (currency-neutral)	
21.0%	20.0%	
Nine Months Ended September 30, 2020		Adjusted effective income tax rate of 17.1% for the nine months ended September 30, 2020, was lower than the comparable period in 2019 primarily due to a more favorable geographic mix of earnings, partially offset by a tax benefit related to a favorable court ruling in 2019 .
GAAP	Non-GAAP (currency-neutral)	
17.3%	17.1%	

Other financial highlights for the nine months ended September 30, 2020 were as follows:

- We generated net cash flows from operations of \$5.0 billion.
- We repurchased 11.2 million shares of our common stock for \$3.4 billion and paid dividends of \$1.2 billion.
- We completed a debt offering in the first quarter of 2020 for an aggregate principal amount of \$4 billion.

Non-GAAP Financial Information

Non-GAAP financial information is defined as a numerical measure of a company's performance that excludes or includes amounts so as to be different than the most comparable measure calculated and presented in accordance with accounting principles generally accepted in the United States ("GAAP"). Our non-GAAP financial measures exclude the impact of gains and losses on our equity investments which includes mark-to-market fair value adjustments, impairments and gains and losses upon disposition, as well as the related tax impacts. Our non-GAAP financial measures also exclude the impact of special items, where applicable, which represent litigation judgments and settlements and certain one-time items, as well as the related tax impacts ("Special Items"). Our non-GAAP financial measures for the comparable periods exclude the impact of the following:

Gains and Losses on Equity Investments

- In the three and nine months ended September 30, 2020, we recorded net losses of \$91 million, which included certain losses that did not provide any tax benefit, (\$92 million after tax, or \$0.09 per diluted share), and net losses of \$190 million (\$171 million after tax, or \$0.17 per diluted share), respectively, primarily related to unrealized fair market value adjustments on marketable and non-marketable equity securities.
- In the three and nine months ended September 30, 2019, we recorded net losses of \$100 million (\$84 million after tax, or \$0.08 per diluted share), and net gains of \$48 million (\$32 million after tax, or \$0.03 per diluted share), respectively, primarily related to unrealized fair market value adjustments on marketable and non-marketable equity securities.

Special Items

Litigation provisions

- In the second quarter of 2020, we recorded pre-tax charges of \$22 million (\$17 million after tax, or \$0.02 per diluted share) related to estimated attorneys' fees and litigation settlements with U.K. and Pan-European merchants.
- In the first quarter of 2020, we recorded pre-tax charges of \$6 million (\$5 million after tax, and an immaterial impact per diluted share) related to litigation settlements with U.K. merchants.

Tax act

- In the first quarter of 2019, we recorded a \$30 million tax benefit (\$0.03 per diluted share) related to a reduction to the 2017 one-time deemed repatriation tax on accumulated foreign earnings resulting from final transition tax regulations issued in 2019.

See Note 6 (Investments), Note 14 (Income Taxes) and Note 15 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1 for further discussion. We excluded these items because management evaluates the underlying operations and performance of the Company separately from these recurring and nonrecurring items.

We believe that the non-GAAP financial measures presented facilitate an understanding of our operating performance and provide a meaningful comparison of our results between periods. We use non-GAAP financial measures to, among other things, evaluate our ongoing operations in relation to historical results, for internal planning and forecasting purposes and in the calculation of performance-based compensation.

In addition, we present growth rates adjusted for the impact of currency which is a non-GAAP financial measure. Currency-neutral growth rates are calculated by remeasuring the prior period's results using the current period's exchange rates for both the translational and transactional impacts on operating results. The impact of currency translation represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency. The impact of the transactional currency represents the effect of converting revenue and expenses occurring in a currency other than the functional currency. We believe the presentation of currency-neutral growth rates provides relevant information to facilitate an understanding of our operating results.

Net revenue, operating expenses, operating margin, other income (expense), effective income tax rate, net income and diluted earnings per share adjusted for the impact of gains and losses on our equity investments, Special Items and/or the impact of currency, are non-GAAP financial measures and should not be relied upon as substitutes for measures calculated in accordance with GAAP.

The following tables reconcile our reported financial measures calculated in accordance with GAAP to the respective non-GAAP adjusted financial measures:

	Three Months Ended September 30, 2020					
	Operating expenses	Operating margin	Other income (expense)	Effective income tax rate	Net income	Diluted earnings per share
	(\$ in millions, except per share data)					
Reported - GAAP	\$ 1,732	54.9 %	\$ (190)	21.0 %	\$ 1,513	\$ 1.51
(Gains) losses on equity investments	**	**	91	(1.0)%	92	\$ 0.09
Non-GAAP	\$ 1,732	54.9 %	\$ (99)	20.0 %	\$ 1,605	\$ 1.60

	Nine Months Ended September 30, 2020					
	Operating expenses	Operating margin	Other income (expense)	Effective income tax rate	Net income	Diluted earnings per share
	(\$ in millions, except per share data)					
Reported - GAAP	\$ 5,158	53.9 %	\$ (431)	17.3 %	\$ 4,626	\$ 4.59
(Gains) losses on equity investments	**	**	190	(0.2)%	171	0.17
Litigation provisions	(28)	0.3 %	**	— %	22	0.02
Non-GAAP	\$ 5,129	54.1 %	\$ (241)	17.1 %	\$ 4,819	\$ 4.78

	Three Months Ended September 30, 2019					
	Operating expenses	Operating margin	Other income (expense)	Effective income tax rate	Net income	Diluted earnings per share
	(\$ in millions, except per share data)					
Reported - GAAP	\$ 1,812	59.4 %	\$ (121)	16.9 %	\$ 2,108	\$ 2.07
(Gains) losses on equity investments	**	**	100	— %	84	\$ 0.08
Non-GAAP	\$ 1,812	59.4 %	\$ (21)	16.8 %	\$ 2,191	\$ 2.15

	Nine Months Ended September 30, 2019					
	Operating expenses	Operating margin	Other income (expense)	Effective income tax rate	Net income	Diluted earnings per share
	(\$ in millions, except per share data)					
Reported - GAAP	\$ 5,204	58.3 %	\$ (9)	17.1 %	\$ 6,018	\$ 5.87
(Gains) losses on equity investments	**	**	(48)	(0.1)%	(32)	(0.03)
Tax act	**	**	**	0.4 %	(30)	(0.03)
Non-GAAP	\$ 5,204	58.3 %	\$ (57)	17.4 %	\$ 5,956	\$ 5.81

Note: Tables may not sum due to rounding.

** Not applicable

The following tables represent the reconciliation of our growth rates reported under GAAP to our non-GAAP growth rates:

Three Months Ended September 30, 2020 as compared to the Three Months Ended September 30, 2019						
	Increase/(Decrease)					
	Net revenue	Operating expenses	Operating margin	Effective income tax rate	Net income	Diluted earnings per share
Reported - GAAP	(14)%	(4)%	(4.6) ppt	4.1 ppt	(28)%	(27)%
(Gains) losses on equity investments	**	**	**	(0.9) ppt	1%	1%
Non-GAAP	(14)%	(4)%	(4.6) ppt	3.2 ppt	(27)%	(26)%
Currency impact ¹	—%	—%	0.3 ppt	0.1 ppt	1%	1%
Non-GAAP - currency-neutral	(14)%	(5)%	(4.2) ppt	3.3 ppt	(26)%	(25)%

Nine Months Ended September 30, 2020 as compared to the Nine Months Ended September 30, 2019						
	Increase/(Decrease)					
	Net revenue	Operating expenses	Operating margin	Effective income tax rate	Net income	Diluted earnings per share
Reported - GAAP	(10)%	(1)%	(4.4) ppt	0.2 ppt	(23)%	(22)%
(Gains) losses on equity investments	**	**	**	(0.1) ppt	3%	3%
Litigation provisions	**	(1)%	0.3 ppt	— ppt	—%	—%
Tax act	**	**	**	(0.4) ppt	—%	—%
Non-GAAP	(10)%	(1)%	(4.1) ppt	(0.3) ppt	(19)%	(18)%
Currency impact ¹	1%	1%	0.3 ppt	0.2 ppt	2%	2%
Non-GAAP - currency-neutral	(9)%	(1)%	(3.8) ppt	(0.1) ppt	(18)%	(16)%

Note: Tables may not sum due to rounding.

** Not applicable

¹ Represents the translational and transactional impact of currency.

Key Metrics

In addition to the financial measures described above in “Financial Results Overview”, we review the following metrics to evaluate and identify trends in our business, measure our performance, prepare financial projections and make strategic decisions. We believe that the key metrics presented facilitate an understanding of our operating and financial performance and provide a meaningful comparison of our results between periods.

Gross Dollar Volume (“GDV”)¹ measures dollar volume of activity on cards carrying our brands during the period. Dollar volume represents purchase volume plus cash volume and includes the impact of balance transfers and convenience checks; “purchase volume” means the aggregate dollar amount of purchases made with Mastercard-branded cards for the relevant period; and “cash volume” means the aggregate dollar amount of cash disbursements obtained with Mastercard-branded cards for the relevant period. Information denominated in U.S. dollars relating to GDV is calculated by applying an established U.S. dollar/local currency exchange rate for each local currency in which Mastercard volumes are reported. These exchange rates are calculated on a quarterly basis using the average exchange rate for each quarter. Mastercard reports period-over-period rates of change in purchase volume and cash volume on the basis of local currency information, in order to eliminate the impact of changes in the value of currencies against the U.S. dollar in calculating such rates of change.

Cross-border Volume² measures cross-border dollar volume initiated and switched through our network during the period, on a local currency basis and U.S. dollar-converted basis, for all Mastercard-branded programs.

Switched Transactions² measures the number of transactions switched by Mastercard. We define transactions switched as the number of transactions initiated and switched through our network during the period.

Operating Margin measures how much profit we make on each dollar of sales after our operating costs but before other income (expense) and income tax expense. Operating margin is calculated by dividing our operating income by net revenue.

¹ Data used in the calculation of GDV is provided by Mastercard customers and is subject to verification by Mastercard and partial cross-checking against information provided by Mastercard's transaction switching systems. All data is subject to revision and amendment by Mastercard or Mastercard's customers.

² Normalized to eliminate the effects of differing switching and carryover days between periods. Carryover days are those where transactions and volumes from days where the company does not clear and settle are processed.

Foreign Currency

Currency Impact (Translational and Transactional)

Our primary revenue functional currencies are the U.S. dollar, euro, Brazilian real and the British pound. Our overall operating results are impacted by currency translation, which represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency.

Our operating results can also be impacted by transactional currency. The impact of the transactional currency represents the effect of converting revenue and expense transactions occurring in a currency other than the functional currency. Changes in currency exchange rates directly impact the calculation of gross dollar volume ("GDV") and gross euro volume ("GEV"), which are used in the calculation of our domestic assessments, cross-border volume fees and certain volume-related rebates and incentives. In most non-European regions, GDV is calculated based on local currency spending volume converted to U.S. dollars using average exchange rates for the period. In Europe, GEV is calculated based on local currency spending volume converted to euros using average exchange rates for the period. As a result, our domestic assessments, cross-border volume fees and certain volume-related rebates and incentives are impacted by the strengthening or weakening of the U.S. dollar versus non-European local currencies and the strengthening or weakening of the euro versus other European local currencies. For example, our billing in Australia is in the U.S. dollar, however, consumer spend in Australia is in the Australian dollar. The currency transactional impact of converting Australian dollars to our U.S. dollar billing currency will have an impact on the revenue generated. The strengthening or weakening of the U.S. dollar is evident when GDV growth on a U.S. dollar-converted basis is compared to GDV growth on a local currency basis. For the three months ended September 30, 2020, GDV on a U.S. dollar-converted basis was flat, or increased 1% on a local currency basis, versus the comparable period in 2019. For the nine months ended September 30, 2020 GDV on a U.S. dollar-converted basis and on a local currency basis decreased 3% and 0.4%, respectively, versus the comparable period in 2019. Further, the impact from transactional currency occurs in transaction processing revenue, other revenue and operating expenses when the local currency of these items are different than the functional currency.

The translational and transactional impact of currency ("Currency impact") has been identified in our drivers of change impact tables and has been excluded from our currency-neutral growth rates, which are non-GAAP financial measures. See "Financial Results - Revenue and Operating Expenses" for our drivers of change impact tables and "Non-GAAP Financial Information" for further information on our non-GAAP adjustments.

Foreign Exchange Activity

We incur foreign currency gains and losses from remeasuring monetary assets and liabilities that are in a currency other than the functional currency and from remeasuring foreign exchange derivative contracts ("Foreign Exchange Activity"). The impact of Foreign Exchange Activity has not been eliminated in our currency-neutral results (see "Non-GAAP Financial Information") and is recorded in general and administrative expenses on the consolidated statement of operations. We manage foreign currency balance sheet remeasurement and transactional currency exposure through our foreign exchange risk management activities, which are discussed further in Note 17 (Derivative and Hedging Instruments) to the consolidated financial statements included in Part I, Item 1. Since we do not designate foreign exchange derivatives as hedging instruments pursuant to the accounting standards for derivative instruments and hedging activities, we record gains and losses on foreign exchange derivatives immediately in current period earnings, with the related hedged item being recognized as the exposures materialize.

Risk of Currency Devaluation

We are exposed to currency devaluation in certain countries. In addition, we are subject to exchange control regulations that restrict the conversion of financial assets into U.S. dollars. While these revenues and assets are not material to us on a consolidated basis, we can be negatively impacted should there be a continued and sustained devaluation of local currencies relative to the U.S. dollar and/or a continued and sustained deterioration of economic conditions in these countries.

Financial Results

Revenue

Primary drivers of net revenue, versus the comparable periods in 2019, were as follows:

For the three months ended September 30, 2020, net revenue decreased 14% on both an as reported and a currency-neutral basis reflecting impacts of the COVID-19 outbreak, and includes 1 percentage point of growth from our acquisitions. Gross revenue decreased 9% on both an as reported and a currency-neutral basis, driven by decreased cross-border volumes, partially offset by an increase in gross dollar volume activity, our value-added products and services and the number of switched transactions. Rebates and incentives were flat, or increased 2% on a currency-neutral basis, due to new and renewed deals partially offset by a favorable mix of incentive-related volumes.

For the nine months ended September 30, 2020, net revenue decreased 10%, or 9% on a currency-neutral basis reflecting impacts of the COVID-19 outbreak, and includes 1 percentage point of growth from our acquisitions. Gross revenue decreased 6%, or 4% on a currency-neutral basis, driven by decreased cross-border volumes and gross dollar volume activity, partially offset by an increase in our value-added products and services and the number of switched transactions. Rebates and incentives increased 4%, or 6% on a currency-neutral basis, due to new and renewed deals partially offset by a favorable mix of incentive-related volumes.

See Note 3 (Revenue) in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2019 for further discussion of how we recognize revenue.

The components of net revenue were as follows:

	Three Months Ended September 30,			Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2020	2019	2020		2019		
	(\$ in millions)						
Domestic assessments	\$ 1,750	\$ 1,722	2%	\$ 4,907	\$ 5,007	(2)%	
Cross-border volume fees	791	1,517	(48)%	2,645	4,154	(36)%	
Transaction processing	2,251	2,231	1%	6,352	6,206	2%	
Other revenues	1,143	1,087	5%	3,286	2,891	14%	
Gross revenue	5,935	6,557	(9)%	17,190	18,258	(6)%	
Rebates and incentives (contra-revenue)	(2,098)	(2,090)	—%	(6,009)	(5,789)	4%	
Net revenue	\$ 3,837	\$ 4,467	(14)%	\$ 11,181	\$ 12,469	(10)%	

The following table summarizes the drivers of change in net revenue:

	Three Months Ended September 30, 2020				
	Volume	Acquisitions	Currency Impact ¹	Other ²	Total
Domestic assessments	1 %	— %	(3)%	4 % ³	2 %
Cross-border volume fees	(36)%	— %	— %	(12)%	(48)%
Transaction processing	5 %	— %	— %	(4)%	1 %
Other revenues	**	2 %	— %	4 % ⁴	5 %
Rebates and incentives (contra-revenue)	(9)% ⁵	— %	(1)%	10 % ⁶	— %
Net revenue	(6)%	1 %	— %	(9)%	(14)%

	Nine Months Ended September 30, 2020				
	Volume	Acquisitions	Currency Impact ¹	Other ²	Total
Domestic assessments	— %	— %	(3)%	2 % ³	(2)%
Cross-border volume fees	(29)%	— %	(1)%	(6)%	(36)%
Transaction processing	3 %	— %	(1)%	— %	2 %
Other revenues	**	4 %	(1)%	11 % ⁴	14 %
Rebates and incentives (contra-revenue)	(6)% ⁵	— %	(2)%	12 % ⁶	4 %
Net revenue	(6)%	1 %	(1)%	(4)%	(10)%

Note: Table may not sum due to rounding.

** Not applicable.

¹ Represents the translational and transactional impact of currency.

² Includes impact from pricing, other non-volume based fees and geographical mix.

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

⁴ Includes impacts from cyber and intelligence fees, data analytics and consulting fees and other payment-related products and services.

⁵ Includes the impact from mix on incentive-related volumes.

⁶ Includes the impact of new, renewed and expired agreements.

The following tables provide a summary of the trend in volumes and transactions:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Increase/(Decrease)				Increase/(Decrease)			
	USD	Local	USD	Local	USD	Local	USD	Local
Mastercard-branded GDV ¹	—%	1%	13%	15%	(3)%	(0.4)%	9%	13%
Asia Pacific/Middle East/Africa	(2)%	(1)%	10%	12%	(5)%	(3)%	7%	12%
Canada	(4)%	(3)%	8%	9%	(6)%	(4)%	4%	8%
Europe	2%	3%	16%	20%	(2)%	—%	11%	19%
Latin America	(22)%	(7)%	14%	18%	(18)%	(3)%	9%	16%
United States	4%	4%	12%	12%	2%	2%	10%	10%
Cross-border volume ¹	(35)%	(36)%	13%	16%	(29)%	(29)%	10%	16%

¹ Excludes volume generated by Maestro and Cirrus cards.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	Increase/(Decrease)		Increase/(Decrease)	
Switched transactions	5%	19%	2%	18%

Operating Expenses

For the three months ended September 30, 2020, operating expenses decreased 4% versus the comparable period in 2019. Adjusted operating expenses decreased 4%, or 5% on a currency-neutral basis, versus the comparable period in 2019. Current period results include growth of 3 percentage points from acquisitions. Excluding acquisitions expenses declined 8% primarily due to reduced spending on advertising and marketing, travel, personnel costs and professional fees, partially offset by 1.5 percentage points of growth from foreign exchange activity.

For the nine months ended September 30, 2020, operating expenses decreased 1% versus the comparable period in 2019. Operating expenses decreased 1% on both an as adjusted and a currency-neutral basis, versus the comparable period in 2019, which includes a 4 percentage point increase from acquisitions. Excluding acquisitions, expenses declined 5% primarily due to reduced spending on advertising and marketing, travel and professional fees, partially offset by higher personnel costs to support our continued investment in our strategic initiatives.

The components of operating expenses were as follows:

	Three Months Ended September 30,			Increase (Decrease)	Nine Months Ended September 30,			Increase (Decrease)		
	2020	2019			2020	2019				
	(\$ in millions)									
General and administrative	\$	1,423	\$	1,448	(2)%	\$	4,285	\$	4,184	2%
Advertising and marketing		168		227	(26)%		415		644	(36)%
Depreciation and amortization		141		137	3%		430		376	14%
Provision for litigation		—		—	**		28		—	**
Total operating expenses		1,732		1,812	(4)%		5,158		5,204	(1)%
Special Items ¹		—		—	**		(28)		—	**
Adjusted total operating expenses (excluding Special Items ¹)	\$	1,732	\$	1,812	(4)%	\$	5,130	\$	5,204	(1)%

Note: Table may not sum due to rounding

** Not meaningful.

¹ See "Non-GAAP Financial Information" for further information on our non-GAAP adjustments and the reconciliation to GAAP reported amounts.

The following table summarizes the drivers of changes in operating expenses:

	Three Months Ended September 30, 2020				
	Operational	Special Items ¹	Acquisitions	Currency Impact ²	Total
General and administrative	(6)%	**	4%	—%	(2)%
Advertising and marketing	(25)%	**	—%	—%	(26)%
Depreciation and amortization	(1)%	**	3%	1%	3%
Provision for litigation	**	**	**	**	**
Total operating expenses	(8)%	**	3%	—%	(4)%

	Nine Months Ended September 30, 2020				
	Operational	Special Items ¹	Acquisitions	Currency Impact ²	Total
General and administrative	(2)%	**	5%	(1)%	2%
Advertising and marketing	(35)%	**	—%	(1)%	(36)%
Depreciation and amortization	8%	**	7%	—%	14%
Provision for litigation	**	**	**	**	**
Total operating expenses	(5)%	1%	4%	(1)%	(1)%

Note: Tables may not sum due to rounding.

** Not meaningful.

¹ See "Non-GAAP Financial Information" for further information on our non-GAAP adjustments and the reconciliation to GAAP reported amounts.

² Represents the translational and transactional impact of currency.

General and Administrative

For the three months ended September 30, 2020, general and administrative expenses decreased 2% on both an as reported and a currency-neutral basis, versus the comparable period in 2019. Current period results include growth of 4 percentage points from acquisitions. Excluding acquisitions, expenses declined 6% primarily due to reduced spending on travel, personnel costs and professional fees, partially offset by 2 percentage points of growth from foreign exchange derivative contracts

For the nine months ended September 30, 2020, general and administrative expenses increased 2%, or 3% on a currency-neutral basis, versus the comparable period in 2019. Current period results include growth of 5 percentage points from acquisitions. Excluding acquisitions, expenses declined 2% primarily due to reduced spending on travel, professional fees and 1 percentage point decline from foreign exchange derivative contracts, partially offset by an increase in personnel costs to support our continued investment in our strategic initiatives.

The components of general and administrative expenses were as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
	(\$ in millions)					
Personnel	\$ 940	\$ 937	—%	\$ 2,817	\$ 2,601	8%
Professional fees	81	105	(23)%	258	293	(12)%
Data processing and telecommunications	195	171	14%	551	488	13%
Foreign exchange activity ¹	23	(2)	**	(10)	12	NM
Other	184	237	(22)%	669	790	(15)%
General and administrative expenses	\$ 1,423	\$ 1,448	(2)%	\$ 4,285	\$ 4,184	2%

Note: Table may not sum due to rounding.

** Not meaningful.

¹ Foreign exchange activity includes gains and losses on foreign exchange derivative contracts and the impact of remeasurement of assets and liabilities denominated in foreign currencies. See Note 17 (Derivative and Hedging Instruments) to the consolidated financial statements included in Part I, Item 1 for further discussion.

Advertising and Marketing

Advertising and marketing expenses decreased 26% and 36%, or 26% and 35% on a currency-neutral basis, respectively, for the three and nine months ended September 30, 2020, versus the comparable periods in 2019, primarily due to lower advertising and sponsorship spend in response to COVID-19.

Depreciation and Amortization

For the three months ended September 30, 2020, depreciation and amortization expenses increased 3%, or 2% on a currency-neutral basis, versus the comparable period in 2019, due to the impact of acquisitions.

For the nine months ended September 30, 2020, depreciation and amortization expenses increased 14% on both an as reported and a currency-neutral basis, versus the comparable period in 2019. Current period results include growth of 7 percentage points from acquisitions. The remaining increase was primarily due to higher depreciation from capital investments.

Provision for Litigation

There were no litigation charges for the three months ended September 30, 2020. For the nine months ended September 30, 2020, we recorded \$28 million related to various litigation settlements and legal costs. There were no litigation charges in the comparable periods in 2019. See "Non-GAAP Financial Information" in this section and Note 15 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1 of this Report for further discussion.

Other Income (Expense)

For the three months ended September 30, 2020, other income (expense) was unfavorable, versus the comparable period in 2019, primarily due to increased interest expense related to our recent debt issuances.

For the nine months ended September 30, 2020, other income (expense) was unfavorable, versus the comparable period in 2019, primarily due to net losses in the current period versus net gains in prior period related to unrealized fair market value adjustments on marketable equity securities, as well as increased interest expense related to our recent debt issuances.

The components of our other income (expense) were as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
	(\$ in millions)					
Investment income	\$ 3	\$ 26	(90)%	\$ 27	\$ 77	(65)%
Gains (losses) on equity investments, net	(91)	(100)	9%	(190)	48	**
Interest expense	(105)	(63)	(65)%	(275)	(160)	(72)%
Other income (expense), net	3	16	(82)%	7	26	(73)%
Total other income (expense)	\$ (190)	\$ (121)	(58)%	\$ (431)	\$ (9)	**

Note: Table may not sum due to rounding.

** Not meaningful.

Income Taxes

For the three months ended September 30, 2020, the effective income tax rate was 21.0% versus 16.9% for the comparable period in 2019, primarily due to a discrete tax benefit related to a favorable court ruling in 2019 and certain losses on equity investments that did not provide any tax benefit in the current period. The adjusted effective income tax rate was 20.0% versus 16.8% for the comparable period in 2019, primarily due to a discrete tax benefit related to a favorable court ruling in 2019.

For the nine months ended September 30, 2020, the effective income tax rate was 17.3% versus 17.1% for the comparable period in 2019, primarily due to discrete tax benefits related to a favorable court ruling and a reduction to the Company's transition tax liability in 2019, and certain losses on equity investments that did not provide any tax benefit in the current period, partially offset by a more favorable geographic mix of earnings in the current period. The adjusted effective income tax rate was 17.1% versus 17.4% for the comparable period in 2019, primarily due to a more favorable geographic mix of earnings, partially offset by a discrete tax benefit related to a favorable court ruling in 2019.

Liquidity and Capital Resources

We rely on existing liquidity, cash generated from operations and access to capital to fund our global operations, credit and settlement exposure, capital expenditures, investments in our business and current and potential obligations. The following table summarizes the cash, cash equivalents, investments and credit available to us:

	September 30, 2020	December 31, 2019
	(in billions)	
Cash, cash equivalents and investments ¹	\$ 10.6	\$ 7.7
Unused line of credit	6.0	6.0

¹ Investments include available-for-sale securities and held-to-maturity securities. This amount excludes restricted cash and restricted cash equivalents of \$2.2 billion and \$2.0 billion at September 30, 2020 and December 31, 2019, respectively.

We believe that our existing cash, cash equivalents and investment securities balances, our cash flow generating capabilities, and our access to capital resources are sufficient to satisfy our future operating cash needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with our existing operations and potential obligations.

Our liquidity and access to capital could be negatively impacted by global credit market conditions. We guarantee the settlement of many of the transactions between our customers. Historically, payments under these guarantees have not been significant; however, historical trends may not be an indication of potential future losses. The risk of loss on these guarantees is specific to individual customers, but may also be driven by regional or global economic conditions, including, but not limited to the health of the financial institutions in a country or region. See Note 16 (Settlement and Other Risk Management) to the consolidated financial statements in Part I, Item 1 for a description of these guarantees.

Our liquidity and access to capital could also be negatively impacted by the outcome of any of the legal or regulatory proceedings to which we are a party. For additional discussion of these and other risks facing our business, see Part I, Item 1A - Risk Factors and Part II, Item 7 (Business Environment) of our Annual Report on Form 10-K for the year ended December 31, 2019, Note 15 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1 and Part II, Item 1A - Risk Factors of this Report.

Cash Flow

The table below shows a summary of the cash flows from operating, investing and financing activities:

	Nine Months Ended September 30,	
	2020	2019
	(in millions)	
Net cash provided by operating activities	\$ 4,971	\$ 5,203
Net cash used in investing activities	(825)	(1,180)
Net cash used in financing activities	(777)	(5,285)

Net cash provided by operating activities decreased \$232 million for the nine months ended September 30, 2020, versus the comparable period in 2019, primarily due to lower net income adjusted for non-cash items, partially offset by a decrease in litigation payments and lower outstanding accounts receivable in the current period.

Net cash used in investing activities decreased \$355 million for the nine months ended September 30, 2020, versus the comparable period in 2019, primarily due to higher prior year acquisitions, partially offset by lower net proceeds from investments in available-for-sale and held-to-maturity securities.

Net cash used in financing activities decreased \$4,508 million for the nine months ended September 30, 2020, versus the comparable period in 2019, primarily due to lower repurchases of our Class A common stock and higher net debt proceeds in the current period.

Debt and Credit Availability

In March 2020, we issued \$1 billion principal amount of notes due March 2027, \$1.5 billion principal amount of notes due March 2030 and \$1.5 billion principal amount notes due March 2050. Our total debt outstanding was \$12.6 billion and \$8.5 billion at September 30, 2020 and December 31, 2019, respectively, with the earliest maturity of \$650 million of principal occurring in November 2021.

As of September 30, 2020, we have a commercial paper program (the "Commercial Paper Program"), under which we are authorized to issue up to \$6 billion in outstanding notes, with maturities up to 397 days from the date of issuance. In conjunction with the Commercial Paper Program, we have a committed unsecured \$6 billion revolving credit facility (the "Credit Facility") which expires in November 2024.

Borrowings under the Commercial Paper Program and the Credit Facility are to provide liquidity for general corporate purposes, including providing liquidity in the event of one or more settlement failures by our customers. In addition, we may borrow and repay amounts under these facilities for business continuity purposes. We had no borrowings outstanding under the Commercial Paper Program or the Credit Facility at September 30, 2020 and December 31, 2019.

See Note 10 (Debt) to the consolidated financial statements included in Part I, Item 1 for further discussion on our debt and Note 15 (Debt) to the consolidated financial statements included in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2019 for further discussion on our debt, the Commercial Paper Program and the Credit Facility.

Dividends

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

Aggregate payments for quarterly dividends totaled \$1,206 million for the nine months ended September 30, 2020.

On December 4, 2019, our Board of Directors declared a quarterly cash dividend of \$0.40 per share paid on February 7, 2020 to holders of record on January 9, 2020 of our Class A common stock and Class B common stock. The aggregate amount of this dividend was \$403 million.

On February 4, 2020, our Board of Directors declared a quarterly cash dividend of \$0.40 per share payable on May 8, 2020 to holders of record on April 9, 2020 of our Class A common stock and Class B common stock. The aggregate amount of this dividend was \$402 million.

On June 16, 2020, our Board of Directors declared a quarterly cash dividend of \$0.40 per share payable on August 7, 2020 to holders of record on July 9, 2020 of our Class A common stock and Class B common stock. The aggregate amount of this dividend was \$402 million.

On September 22, 2020, our Board of Directors declared a quarterly cash dividend of \$0.40 per share payable on November 9, 2020 to holders of record on October 9, 2020 of our Class A common stock and Class B common stock. The aggregate amount of this dividend is estimated to be \$398 million.

Share Repurchases

Repurchased shares of our common stock are considered treasury stock. In December 2019 and 2018, our Board of Directors approved share repurchase programs authorizing us to repurchase up to \$8.0 billion and \$6.5 billion, respectively, of our Class A common stock under each plan. The program approved in 2019 became effective in January 2020 after completion of the share repurchase program authorized in 2018. The timing and actual number of additional shares repurchased will depend on a variety of factors, including the operating needs of the business, legal requirements, price and economic and market conditions.

The following table summarizes our share repurchase authorizations and repurchase activity of our Class A common stock through September 30, 2020, under the plans approved in 2019 and 2018:

	(in millions, except average price data)
Remaining authorization at December 31, 2019	\$ 8,304
Dollar value of shares repurchased during the nine months ended September 30, 2020	\$ 3,443
Remaining authorization at September 30, 2020	\$ 4,861
Shares repurchased during the nine months ended September 30, 2020	11.2
Average price paid per share during the nine months ended September 30, 2020	\$ 307.76

See Note 11 (Stockholders' Equity) to the consolidated financial statements included in Part I, Item 1 for further discussion.

Off-Balance Sheet Arrangements

We have no off-balance sheet debt, other than the commitments presented in the future obligations table in Part II, Item 7 - Liquidity and Capital Resources of our Annual Report on Form 10-K for the year ended December 31, 2019.

Recent Accounting Pronouncements

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

Item 3. Quantitative and qualitative disclosures about market risk

Market risk is the potential for economic losses to be incurred on market risk sensitive instruments arising from adverse changes in factors such as interest rates and foreign currency exchange rates. Our exposure to market risk from changes in interest rates and foreign exchange rates is limited. Management monitors risk exposures on an ongoing basis and establishes and oversees the implementation of policies governing our funding, investments and use of derivative financial instruments to manage these risks.

Foreign currency exposures are managed through our risk management activities, which is discussed further in Note 17 (Derivative and Hedging Instruments).

Foreign Exchange Risk

We enter into foreign exchange derivative contracts to manage currency exposure associated with anticipated receipts and disbursements occurring in a currency other than the functional currency of the entity. We may also enter into foreign currency derivative contracts to offset possible changes in value of assets and liabilities due to foreign exchange fluctuations. The objective of these activities is to reduce our exposure to transaction gains and losses resulting from fluctuations of foreign currencies against our functional and reporting currencies, principally the U.S. dollar and euro. The effect of a hypothetical 10% adverse change in the value of the functional currencies could result in a fair value loss of approximately \$62 million and \$144 million on our foreign exchange derivative contracts outstanding at September 30, 2020 and December 31, 2019, respectively, before considering the offsetting effect of the underlying hedged activity.

We are also subject to foreign exchange risk as part of our daily settlement activities. To manage this risk, we enter into short duration foreign exchange contracts based upon anticipated receipts and disbursements for the respective currency position. This risk is typically limited to a few days between when a payment transaction takes place and the subsequent settlement with our customers. The effect of a hypothetical 10% adverse change in the value of the functional currencies could result in a fair value loss of approximately \$29 million on our short duration foreign exchange derivative contracts outstanding at September 30, 2020. The Company did not have any outstanding short duration foreign exchange derivative contracts related to this activity at December 31, 2019.

Interest Rate Risk

Our available-for-sale debt investments include fixed and variable rate securities that are sensitive to interest rate fluctuations. Our policy is to invest in high quality securities, while providing adequate liquidity and maintaining diversification to avoid significant exposure. A hypothetical 100 basis point adverse change in interest rates would not have a material impact on our investments at September 30, 2020 and December 31, 2019.

Item 4. Controls and procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There was no change in Mastercard's internal control over financial reporting that occurred during the three months ended September 30, 2020 that has materially affected, or is reasonably likely to materially affect, Mastercard's internal control over financial reporting.

PART II

Item 1. Legal proceedings

Item 1A. Risk factors

Item 2. Unregistered sales of equity securities and use of proceeds

Item 5. Other information

Item 6. Exhibits

Signatures

Item 1. Legal proceedings

Refer to Note 15 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part I, Item 1.

Item 1A. Risk factors

The following supplements the risk factors disclosed in Part I, Item 1A - Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2019 (our “2019 Form 10-K”). The following risk factor disclosure should be read in conjunction with the risk factors described in our 2019 Form 10-K.

The extent to which the coronavirus (“COVID-19”) outbreak and measures taken in response to it impact our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted.

Global health concerns relating to the COVID-19 outbreak have been weighing on the macroeconomic environment, and the outbreak has significantly increased economic uncertainty. The outbreak has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place orders, and business shutdowns. These measures have not only negatively impacted consumer spending and business spending, they have also adversely impacted and may further impact our workforce and operations and the operations of our customers, suppliers and business partners. These measures may remain in place for a significant period of time and they are likely to continue to adversely affect our business, results of operations and financial condition.

The spread of COVID-19 has caused us to modify our business practices (including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers and business partners. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or otherwise be satisfactory to government authorities.

The extent to which COVID-19 impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of its global economic impact, including any recession that has occurred or may occur in the future.

There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19 and a global pandemic, and, as a result, the ultimate impact of COVID-19 or a similar health epidemic is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. However, the effects could have a material impact on our results of operations, and we will continue to monitor the COVID-19 situation closely.

Risks related to consumers and businesses lowering or changing spending, which impact domestic and cross-border spend, are described in our risk factor titled “Global economic, political, financial and societal events or conditions could result in a material and adverse impact on our overall business and results of operations” under “Risk Factors-Global Economic and Political Environment” in our 2019 Form 10-K. For a full discussion of our additional risk factors, see Part I, Item 1A - Risk Factors of our 2019 Form 10-K.

Item 2. Unregistered sales of equity securities and use of proceeds

Issuer Purchases of Equity Securities

During the third quarter of 2020, we repurchased 6.5 million shares for \$2.1 billion at an average price of \$317.88 per share of Class A common stock. See Note 11 (Stockholders' Equity) to the consolidated financial statements included in Part I, Item 1 for further discussion with respect to our share repurchase programs. The following table presents our repurchase activity on a cash basis during the third quarter of 2020:

Period	Total Number of Shares Purchased	Average Price Paid per Share (including commission cost)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that may yet be Purchased under the Plans or Programs ¹
July 1 - 31	3,468,650	\$ 302.71	3,468,650	\$ 5,870,512,989
August 1 - 31	1,540,748	\$ 330.88	1,540,748	\$ 5,360,716,624
September 1 - 30	1,468,424	\$ 340.07	1,468,424	\$ 4,861,351,238
Total	6,477,822	\$ 317.88	6,477,822	

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

Item 5. Other information

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

Item 6. Exhibits

Refer to the Exhibit Index included herein.

Exhibit index

Exhibit Number	Exhibit Description
31.1*	Certification of Ajay Banga, Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Sachin Mehra, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Ajay Banga, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Sachin Mehra, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Disclosure pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

+ Management contracts or compensatory plans or arrangements.

* Filed or furnished herewith.

The agreements and other documents filed as exhibits to this Report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and should not be relied upon for that purpose. In particular, any representations and warranties made by the Company in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

Signatures

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

MASTERCARD INCORPORATED

(Registrant)

Date: October 28, 2020

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

Date: October 28, 2020

By: /S/ SACHIN MEHRA
Sachin Mehra
Chief Financial Officer
(Principal Financial Officer)

Date: October 28, 2020

By: /S/ SANDRA ARKELL
Sandra Arkell
Corporate Controller
(Principal Accounting Officer)

**CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a),
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Ajay Banga, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mastercard Incorporated for the three months ended September 30, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2020

By: /s/ Ajay Banga
Ajay Banga
Chief Executive Officer

**CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a),
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Sachin Mehra, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mastercard Incorporated for the three months ended September 30, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2020

By: /s/ Sachin Mehra

Sachin Mehra
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Mastercard Incorporated (the "Company") on Form 10-Q for the three month period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ajay Banga, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

October 28, 2020

/s/ Ajay Banga

Ajay Banga

Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Mastercard Incorporated (the "Company") on Form 10-Q for the three month period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sachin Mehra, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

October 28, 2020

/s/ Sachin Mehra

Sachin Mehra

Chief Financial Officer

Section 13(r) Disclosure

Mastercard Incorporated ("Mastercard") has established a risk-based compliance program designed to prevent us from having business dealings with Iran, as well as other prohibited countries, regions, individuals or entities. This includes obligating issuers and acquirers to screen account holders and merchants, respectively, against the U.S. Office of Foreign Assets Control's ("OFAC") sanctions lists, including the List of Specially Designated Nationals ("SDN list").

We identified through our compliance program that for the period covered by this Report, Mastercard processed transactions resulting from certain acquirers located in the Europe and Middle East/Africa regions having acquired transactions for an Iranian airline, which accepted Mastercard cards in these regions.

OFAC regulations and other legal authorities provide exemptions for certain activities involving dealings with Iran. However, Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 requires us to disclose whether we, or any of our affiliates, have knowingly engaged in certain transactions or dealings involving the Government of Iran or with certain persons or entities found on the SDN list, regardless of whether these dealings constitute a violation of OFAC regulations.

We do not calculate net revenues or net profits associated with specific merchants (our customers' customers). However, we used our fee schedule and the aggregate number and amount of transactions involving the Iranian airline to estimate the net revenue and net profit we obtained during the three months ended September 30, 2020. Both the number of transactions and our estimated net revenue and net profits for this period are de minimis.