

*MasterCard  
International*



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# To Our Stakeholders

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

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

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

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

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

### 1. Build the brand

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

MasterCard-branded cards as part of the reissuance cycle. In addition, all points of sale in the U.K. and in Europe now will get updated signage to show the new MasterCard acceptance mark.

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

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

### 2. Broaden acceptance

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

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

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

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

New alliances—such as our agreements with both Hypercom and VeriFone to promote point-of-interaction electronic payments—further broaden acceptance. The MasterCard®/Cirrus®

ATM Network, with 316,000 locations, is the largest and best recognized in the world. When merchants, ATMs, and cash-advance locations are counted, there are more than 14 million places on Earth to use MasterCard products—a remarkable and unsurpassed level of global acceptance.

### 3. Develop next-generation technology platforms and standards

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

## What our new brand acceptance mark represents



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

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



## MasterCard products

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

### Consumer payment solutions

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

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

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

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

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

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

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

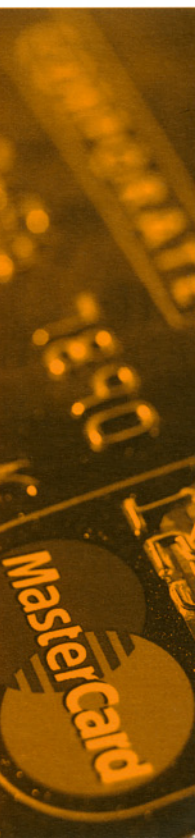
### Corporate payment solutions

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

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

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

MasterCard® BusinessCard Card: a multi-use card targeted to the needs of small businesses in the U.S. Region



# The technological advantage

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

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

secure transactions from any point on the globe—is the system behind our card products.

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

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

emerging products and services, and enhanced security. Best of all, it achieves this without the capital cost of creating a new infrastructure, and with the added flexibility to integrate newer, faster technologies as they become available.

On December 23—the busiest buying day of 1996—our systems performed flawlessly, handling as many as 20 million transactions.

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

MasterCard is taking a similar role in establishing the Secure Electronic Transaction (SET) standard to make commerce on the Internet more secure. In December, we completed the first end-to-end

secure Internet transaction using the SET protocol. In creating this standard, MasterCard, with our partners Netscape and IBM, was able to convince other industry players to agree to an open system that will be available to everyone.

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

#### 4. Develop and enhance products and services

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

Although credit cards remain an integral and profitable part of our business, our greatest growth is, and will continue to be, generated by providing consumers with secure and confident access to their deposit accounts. Our global deposit access strategy—which includes debit-based MasterCard cards, Maestro (our global online point-of-sale debit program),

## Vision, Purpose, and Operating Principles

### Vision

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

### Purpose

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

### Operating Principles

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

*Be open, honest, and direct*

*Be fair and caring*

*Treat each other with dignity and respect*

*Inspire teamwork through example*

*Accept personal accountability*

*Promote balance between professional and personal life*

*Encourage new ideas*

*Cultivate personal development in an enjoyable working environment*

*Execute with excellence*

*Celebrate and reward successes*

MasterMoney (the U.S.-issued offline debit program), the MasterCard/Cirrus ATM Network, and emerging chip card products—will help us and our members capture an increasing share of the estimated 70 percent of all transactions currently served by cash and checks.

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

words, they represent a tremendous growth opportunity for MasterCard and its members.

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

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

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

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

## 5. Improve association performance

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

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

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

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

Our people are the foundation of MasterCard, and we added significantly to this foundation in 1996. We've been successful in attracting

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

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



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



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