

# MASTERCARD ASIA/PACIFIC PTE LTD

*(Incorporated in Singapore. Registration Number: 199306324E)*

## ANNUAL REPORT

*For the financial year ended 31 December 2018*

**MASTERCARD ASIA/PACIFIC PTE LTD**  
*(Incorporated in Singapore)*

**ANNUAL REPORT**  
*For the financial year ended 31 December 2018*

# Contents

	Page
Directors' Statement	1
Independent Auditor's Report	5
Statement of Comprehensive Income	7
Balance Sheet	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to the Financial Statements	11

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## **MASTERCARD ASIA/PACIFIC PTE LTD**

### **DIRECTORS' STATEMENT**

*For the financial year ended 31 December 2018*

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The directors present their statement to the member together with the audited financial statements of Mastercard Asia/Pacific Pte Ltd ("the Company") for the financial year ended 31 December 2018.

In the opinion of the directors,

- (a) the financial statements as set out on pages 7 to 50 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and of the financial performance, changes in equity and cash flows of the Company for the financial year then ended;
- (b) the Company is a wholly-owned subsidiary of Mastercard Incorporated, a company incorporated in the United States of America, which prepares consolidated financial statements, and is therefore exempt from having to prepare one set of consolidated financial statements under Singapore Financial Reporting Standard No. 110, Consolidated Financial Statements; and
- (c) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due. The ultimate holding company has undertaken to provide continuing financial support to the Company to enable the Company to meet its liabilities as and when they fall due for a period of 12 months from the date of the financial statements.

#### **Directors**

The directors of the Company in office at the date of this statement are as follows:

Arijit Ranjan Sarker

Naushaza Molu

Ling Hai

Mohammed Shafi Shaik

Krstic Aleksandra Louise (Appointed on 2 January 2019)

#### **Arrangements to enable directors to acquire shares and debentures**

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as disclosed under "Directors' interests in shares or debentures".

## MASTERCARD ASIA/PACIFIC PTE LTD

### DIRECTORS' STATEMENT

For the financial year ended 31 December 2018

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#### Directors' interests in shares or debentures

According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had interests in stock options ("options"), restricted stock units ("RSUs") and performance stock units ("PSUs") to subscribe for ordinary shares of its ultimate holding company, Mastercard Incorporated ("MA"), granted pursuant to the Employee Long-Term Incentive Plan ("LTIP") as set out below, except as follows:

	No. of unissued ordinary shares of its ultimate holding company under RSUs	
	At 31 December 2018	At 1 January 2018 or date of appointment if later
Arijit Ranjan Sarker	-	1,587
Mohammed Shafi Shaik	4,392	3,343
Ling Hai	-	1,700
Naushaza Molu	762	-

	No. of unissued ordinary shares of its ultimate holding company under PSUs	
	At 31 December 2018	At 1 January 2018 or date of appointment if later
Arijit Ranjan Sarker	5,599	4,162
Ling Hai	6,342	4,905

	No. of issued ordinary shares of its ultimate holding company	
	At 31 December 2018	At 1 January 2018 or date of appointment if later
Arijit Ranjan Sarker	3,743	2,239
Ling Hai	14,346	12,987
Naushaza Molu	100	-

#### Directors' contractual benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interests, except as disclosed in the accompanying financial statements and in this statement, and except that certain directors have received remuneration as a result of their employment with related corporations.

## MASTERCARD ASIA/PACIFIC PTE LTD

### DIRECTORS' STATEMENT

For the financial year ended 31 December 2018

#### Share options

(a) Long-Term Incentive Plan (the "LTIP")

In May 2006, the ultimate holding company, MA, implemented the Mastercard Incorporated 2006 Long-Term Incentive Plan, which was amended and restated as of 13 October 2008 (the "LTIP"). The LTIP is a shareholder-approved omnibus plan that permits the grant of various types of equity awards to employees.

MA has granted non-qualified options, RSUs and PSUs under the LTIP. The options, which expire ten years from the date of grant, generally vest rateably over four years from the date of grant. The RSUs generally vest after three years. The PSUs vest after three years. MA uses the straight-line method of attribution for expensing equity awards. Compensation expense is recorded net of estimated forfeitures. Estimates are adjusted as appropriate.

Options granted to directors holding office at the end of the financial year are as follows:

	Number of unissued ordinary shares of its ultimate holding company under options held by director			
	Granted in financial year ended 31 December 2018	Aggregate granted since commencement of scheme to 31 December 2018	Aggregate exercised since commencement of scheme to 31 December 2018	Aggregate outstanding as at 31 December 2018
Arijit Ranjan Sarker	7,948	30,488	-	30,488
Ling Hai	7,948	94,244	25,990	68,254
Mohammed Shafi Shaik	2,568	2,568	-	2,568

(b) Share Options outstanding

The number of unissued ordinary shares of Mastercard Incorporated under option in relation to the LTIP outstanding at the end of the financial year is as follows:

	No. of unissued ordinary shares at 31 December 2018	Exercise price	Exercise period
2011 Options	2,810	US\$24.04	1 March 2011 to 28 February 2021
2012 Options	4,220	US\$42.04	1 March 2012 to 28 February 2022
2013 Options	8,220	US\$51.83	1 March 2013 to 28 February 2023
2014 Options	9,972	US\$77.72	1 March 2014 to 28 February 2024
2015 Options	8,676	US\$90.13	1 March 2015 to 28 February 2025
2016 Options	24,220	US\$90.10	1 March 2016 to 28 February 2026
2017 Options	24,728	US\$112.31	1 March 2017 to 28 February 2027
2018 Options	18,464	US\$173.49	1 March 2018 to 28 February 2028

No options were exercised during the year.

**MASTERCARD ASIA/PACIFIC PTE LTD**

**DIRECTORS' STATEMENT**

*For the financial year ended 31 December 2018*

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**Independent auditor**

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors



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Mohammed Shafi Shalk  
Director



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Naushaza Molu  
Director

17 May 2019

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF  
MASTERCARD ASIA/PACIFIC PTE LTD**

**Report on the Audit of the Financial Statements**

**Our Opinion**

In our opinion, the accompanying financial statements of Mastercard Asia/Pacific Pte Ltd (the "Company") are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Financial Reporting Standards in Singapore ("FRSs"), so as to give a true and fair view of the financial position of the Company as at 31 December 2018, and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

*What we have audited*

The financial statements of the Company comprise:

- the statement of comprehensive income for the year ended 31 December 2018;
- the balance sheet as at 31 December 2018;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

**Basis for Opinion**

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

**Other Information**

Management is responsible for the other information. The other information comprises the Directors' Statement but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Directors for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF  
MASTERCARD ASIA/PACIFIC PTE LTD (continued)**

**Responsibilities of Management and Directors for the Financial Statements (continued)**

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on Other Legal and Regulatory Requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.



PricewaterhouseCoopers LLP  
Public Accountants and Chartered Accountants  
Singapore, 17 May 2019

**MASTERCARD ASIA/PACIFIC PTE LTD****STATEMENT OF COMPREHENSIVE INCOME***For the financial year ended 31 December 2018*

	Notes	2018 US\$	2017 US\$
Revenue	4	3,079,219,196	2,508,194,689
Other gains – net	5	69,975,626	51,265,847
Expenses			
- Employee compensation	6	(132,224,083)	(109,551,836)
- Advertising and marketing		(550,511,589)	(424,065,195)
- Travel and entertainment		(11,659,930)	(10,262,693)
- Depreciation	15	(5,040,906)	(3,307,578)
- Other operating expenses	7	(1,060,366,828)	(1,272,654,706)
Total expenses		(1,759,803,336)	(1,819,842,008)
<b>Profit before income tax</b>		<b>1,389,391,486</b>	<b>739,618,528</b>
Income tax expense	8(a)	(31,346,365)	(24,233,195)
<b>Profit after tax</b>		<b>1,358,045,121</b>	<b>715,385,333</b>
<b>Other comprehensive income:</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale financial assets:			
- Fair value losses	10	-	(54,862)
- Reclassification to profit or loss		-	27,366
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Financial assets measured at FVOCI		54,862	-
<b>Total comprehensive income</b>		<b>1,358,099,983</b>	<b>715,357,837</b>

*The accompanying notes form an integral part of these financial statements.*

# MASTERCARD ASIA/PACIFIC PTE LTD

## BALANCE SHEET

As at 31 December 2018

	Note	2018 US\$	2017 US\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalent	9	747,616,782	723,563,321
Trade receivables	11	334,919,845	313,940,058
Other investments	10	-	33,000,267
Due from intermediate holding company	12	56,475	2,007,544
Due from related companies	12	62,741,384	46,077,490
Intercompany loans	16	87,384,395	84,384,395
Other receivables	13	264,530,829	176,555,180
		<u>1,497,249,710</u>	<u>1,379,528,255</u>
<b>Non-current assets</b>			
Investments in subsidiaries	14	264,896,067	251,946,055
Other investments	10	40,000,000	65,235,083
Property, plant and equipment	15	17,927,719	14,465,865
Deferred income tax assets	17	442,835	243,243
Club memberships		512,432	523,760
Intercompany loans	16	797,297,297	932,297,297
Other receivables	13	946,231,419	485,879,893
		<u>2,067,307,769</u>	<u>1,750,591,196</u>
<b>Total assets</b>		<u>3,564,557,479</u>	<u>3,130,119,451</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Due to intermediate holding company	18	138,185,325	78,417,395
Due to related companies and subsidiaries	18	135,588,283	92,197,147
Tax payables	8(b)	24,547,330	18,210,947
Trade payables	19	984,577,923	989,950,567
Other payables	20	260,195,388	262,266,113
Intercompany loans	16	184,468,287	124,700,000
		<u>1,727,562,536</u>	<u>1,565,742,169</u>
<b>Non-current liabilities</b>			
Provision for reinstatement		21,993	22,549
Trade payables	19	272,602,097	58,444,956
		<u>272,624,090</u>	<u>58,467,505</u>
<b>Total liabilities</b>		<u>2,000,186,626</u>	<u>1,624,209,674</u>
<b>NET ASSETS</b>		<u>1,564,370,853</u>	<u>1,505,909,777</u>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	21	28,852,416	28,852,416
Translation reserve		(151,692)	702,677
Equity compensation reserve		13,975,400	11,880,722
Fair value reserve		-	(54,862)
Retained profits		1,521,694,729	1,464,528,824
		<u>1,564,370,853</u>	<u>1,505,909,777</u>

The accompanying notes form an integral part of these financial statements.

## MASTERCARD ASIA/PACIFIC PTE LTD

### STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

	Share capital US\$	Translation reserve US\$	Equity compensation reserve US\$	Fair value reserve US\$	Retained profits US\$	Total equity US\$
<b>2018</b>						
Balance at 1 January 2018	28,852,416	702,677	11,880,722	(54,862)	1,464,528,824	1,505,909,777
Impact of adoption of FRS115	-	-	-	-	(4,432,716)	(4,432,716)
Adjusted balance at 1 January 2018	28,852,416	702,677	11,880,722	(54,862)	1,460,096,108	1,501,477,061
Currency translation differences	-	(854,369)	-	-	-	(854,369)
Share-based compensation for the year (Note 6)	-	-	12,287,853	-	-	12,287,853
Reversal upon settlement with intermediate holding company	-	-	(10,193,175)	-	-	(10,193,175)
Dividend distribution to immediate holding company (Note 25)	-	-	-	-	(1,296,446,500)	(1,296,446,500)
Profit for the year	-	-	-	-	1,358,045,121	1,358,045,121
Other comprehensive income for the year	-	-	-	54,862	-	54,862
<b>Balance at 31 December 2018</b>	<b>28,852,416</b>	<b>(151,692)</b>	<b>13,975,400</b>	<b>-</b>	<b>1,521,694,729</b>	<b>1,564,370,853</b>
<b>2017</b>						
Balance at 1 January 2017	28,852,416	522,157	10,123,415	(27,366)	843,325,021	882,795,643
Currency translation differences	-	180,520	-	-	-	180,520
Share-based compensation for the year (Note 6)	-	-	10,669,564	-	-	10,669,564
Reversal upon settlement with intermediate holding company	-	-	(8,912,257)	-	-	(8,912,257)
Dividend distribution to immediate holding company (Note 25)	-	-	-	-	(94,181,530)	(94,181,530)
Profit for the year	-	-	-	-	715,385,333	715,385,333
Other comprehensive income for the year	-	-	-	(27,496)	-	(27,496)
<b>Balance at 31 December 2017</b>	<b>28,852,416</b>	<b>702,677</b>	<b>11,880,722</b>	<b>(54,862)</b>	<b>1,464,528,824</b>	<b>1,505,909,777</b>

The accompanying notes form an integral part of these financial statements.

## MASTERCARD ASIA/PACIFIC PTE LTD

### STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2018

	Notes	2018 US\$	2017 US\$
<b>Cash flows from operating activities</b>			
Profit after tax		1,358,045,121	715,385,333
Adjustments for:			
- Income tax expense	8(a)	31,346,365	24,233,195
- Depreciation	15	5,040,906	3,307,578
- Gain on disposal of property, plant and equipment	5	(13,950)	(16,832)
- Interest income	5	(63,413,164)	(48,261,605)
- Loss from financial assets		-	(27,496)
- Currency translation differences		(790,938)	586,272
- Share-based compensation expense	6	12,287,853	10,669,564
- Loss on disposal of investments in subsidiaries	5	-	3,662,897
		<u>1,342,502,193</u>	<u>709,538,906</u>
Change in working capital			
- Other receivables		(552,990,362)	(267,763,631)
- Trade receivables		(20,979,787)	(63,215,798)
- Available-for-sale financial assets		-	54,862
- Due from/to intermediate holding company, subsidiaries and related companies		78,253,066	(49,146,365)
- Trade payables		208,784,497	233,862,591
- Other liabilities		(2,071,281)	57,841,453
<b>Cash generated from operations</b>		<u>1,053,498,326</u>	<u>621,172,018</u>
Income tax paid	8(b)	(24,744,420)	(17,410,835)
<b>Net cash provided by operating activities</b>		<u>1,028,753,906</u>	<u>603,761,183</u>
<b>Cash flows from investing activities</b>			
Loans to related parties	16	132,000,000	(503,351,397)
Purchase of property, plant and equipment	15	(10,904,315)	(14,283,933)
Proceeds from disposal of property, plant and equipment		2,183,581	18,991
Proceeds from disposal of subsidiaries		-	448,250
Proceeds from disposal of other investments		120,939,849	47,505,620
Addition in investments in subsidiaries		(12,950,012)	(13,108,366)
Addition in investments (external)		(62,704,499)	(48,614,728)
Interest received		63,413,164	48,261,605
<b>Net cash provided by/(used in) investing activities</b>		<u>231,977,768</u>	<u>(483,123,958)</u>
<b>Cash flows from financing activities</b>			
Dividend distribution to immediate holding company	25	(1,296,446,500)	(94,181,530)
Loan from related company		59,768,287	124,700,000
<b>Net cash (used in)/provided by financing activities</b>		<u>(1,236,678,213)</u>	<u>30,518,470</u>
<b>Net increase in cash and cash equivalent</b>		<u>24,053,461</u>	<u>151,155,695</u>
Cash and cash equivalent at beginning of financial year	9	723,563,321	572,407,626
<b>Cash and cash equivalent at end of financial year</b>	9	<u>747,616,782</u>	<u>723,563,321</u>

The accompanying notes form an integral part of these financial statements.

## **MASTERCARD ASIA/PACIFIC PTE LTD**

### **NOTES TO THE FINANCIAL STATEMENTS**

*For the financial year ended 31 December 2018*

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These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

#### **1. General information**

The Company is incorporated and domiciled in Singapore. The address of its registered office is 3 Fraser Street DUO Tower Level #17-21/28, Singapore 189352. The Company has registered branches in Malaysia and Thailand and a representative office in Vietnam.

The principal activities of the Company are those relating to the payment technology that connects consumers, financial institutions, merchants, and businesses worldwide, enabling them to use electronic forms of payment and investment holding. The Company earns fees from customers in the Asia Pacific, Middle East and Africa ("APMEA") region for providing transaction processing and other payment-related services to customers.

#### **2. Significant accounting policies**

##### **2.1 Basis of preparation**

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

As at 31 December 2018, the Company's current liabilities exceeded its current assets by US\$230,312,826. The financial statements have been prepared on a going concern basis as the ultimate holding company has undertaken to provide financial support to the Company to enable the Company to meet its liabilities as and when they fall due for a period of 12 months from the date of the financial statements.

The preparation of these financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Company's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where estimates and assumptions are significant to the financial statements are disclosed in Note 3.

**2. Significant accounting policies** (continued)

**2.1 Basis of preparation** (continued)

**Interpretations and amendments to published standards effective in 2018**

On 1 January 2018, the Company adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Company's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years except for the following:

(a) *Adoption of FRS 115 Revenue from Contracts with Customers*

The Company has adopted the new standard using the modified retrospective approach with the cumulative impact of the adoption recognised in the opening retained earnings at 1 January 2018. Comparative information for 2017 are not restated.

The accounting policies for revenue from contracts with customers under FRS 115 are disclosed in Note 2.2.

The effects on adoption of FRS 115 are as follows:

Under FRS 115, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. FRS 115 impacts the timing of certain customer incentives recognised in the Company's statement of profit or loss, as they are recognised over the life of the contract. Previously, such incentives were recognised when earned by the customer. FRS 115 also impacts the Company's accounting recognition for certain market development fund contributions and expenditures. Historically, these items were recorded on a net basis in net revenue and will now be recognised on a gross basis, resulting in an increase to both revenues and expenses.

The Company has adopted FRS 115 using the cumulative effect method to contracts that are not completed contracts at the date of initial application (i.e. 1 January 2018), with the effect of initially applying this standard recognised at the date of initial application as an adjustment to the opening balance of equity at 1 January 2018. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under FRS 18, FRS 11 and related interpretations, as applicable.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. Significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### Interpretations and amendments to published standards effective in 2018 (continued)

##### (a) Adoption of FRS 115 Revenue from Contracts with Customers (continued)

See the section below in this note for a summary of the cumulative impact of adopting FRS 115 as of 1 January 2018.

The Company has also applied the practical expedient not to retrospectively restate contracts for contract modifications that occurred before the date of initial application. Instead, the Company has reflected the aggregate effect of all modifications that occurred before the date of initial application when:

- identifying the satisfied and unsatisfied performance obligations (PO);
- determining the transaction price; and
- allocating the transaction price to the satisfied and unsatisfied PO.

The effects of adopting FRS 115 on 1 January 2018 resulted in an increase in other receivables of \$56,129,462, deferred income tax asset of \$260,254, trade payables of \$60,822,432 and decrease in opening retained earnings of \$4,432,716 as follows:

#### Balance sheet

	Balance at 31 December 2017 US\$	Impact of revenue standard US\$	Balance at 1 January 2018 US\$
Deferred income tax assets	243,243	260,254	503,497
Trade receivables	313,940,058	-	313,940,058
Other receivables	662,435,073	56,129,462	718,564,535
Other	2,153,501,077	-	2,153,501,077
<b>Total assets</b>	<b>3,130,119,451</b>	<b>56,389,716</b>	<b>3,186,509,167</b>
Trade payables	1,048,395,523	60,822,432	1,109,217,955
Other	575,814,151	-	575,814,151
<b>Total liabilities</b>	<b>1,624,209,674</b>	<b>60,822,432</b>	<b>1,685,032,106</b>
Retained profits	1,464,528,824	(4,432,716)	1,460,096,108
Other	41,380,953	-	41,380,953
<b>Total equity</b>	<b>1,505,909,777</b>	<b>(4,432,716)</b>	<b>1,501,477,061</b>

Had the Company apply FRS 18 and its related interpretation during 2018, the difference between FRS 18 and FRS 115 is immaterial to each financial statement line item.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

## 2. Significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### Interpretations and amendments to published standards effective in 2018 (continued)

##### (b) Adoption of FRS 109 Financial Instruments

The Company has adopted the new standard retrospectively from 1 January 2018, in line with the transition provision permitted under the standards. Comparatives for financial year ended 2017 are not restated and the Company has recognised any difference between the carrying amounts at 31 December 2017 and 1 January 2018 in the opening retained earnings.

The accounting policies for financial instruments under FRS 109 are disclosed in Notes 2.7.

The effects on adoption of FRS 109 do not have a significant impact on the financial statements of the Company in the period of adoption.

	Note	Financial assets, available-for-sale (AFS) \$'000	Financial assets at FVOCI (FVOCI) \$'000	Financial assets at amortised cost* \$'000	Retained earnings \$'000
Balances at 31 December 2017 before adoption of FRS 109		98,235,350	-	2,163,867,556	-
Reclassifying investments from AFS to FVOCI	(i)	(98,235,350)	98,235,350		-
Impairment allowances on trade receivables	(ii)			-	-
Tax effects		-	-	-	-
Balances at 1 January 2018 after adoption of FRS 109		-	98,235,350	2,163,867,556	-

\* Financial assets measured at amortised cost includes cash and cash equivalents, trade receivables, other receivables and intercompany loans.

**2. Significant accounting policies** (continued)

**2.1 Basis of preparation** (continued)

**Interpretations and amendments to published standards effective in 2018**  
(continued)

(b) *Adoption of FRS 109 Financial Instruments* (continued)

- (i) Available-for-sale debt instruments and equity investments reclassified from AFS to FVOCI

The Company has elected to recognise changes in fair values of all its debt and equity investments not held for trading and previously classified as AFS, in other comprehensive income. As a result, "Financial assets, available-for-sale" of \$98,235,350 were reclassified to "financial assets at FVOCI" on 1 January 2018.

- (ii) Impairment of financial assets

The Company has the following financial assets subject to the expected credit loss impairment model under FRS 109:

- Cash and cash equivalent;
- Trade receivables;
- Other receivables;
- Other investments;
- Intercompany loans; and
- Due from intermediate holding company and related companies

The impairment methodology for each of these classes of financial assets under FRS 109 are different as disclosed in Note 2.7.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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**2. Significant accounting policies (continued)**

**2.2 Revenue recognition**

The Company's revenue from contracts with customers is recognised when services are performed in an amount that reflects the consideration to which the Company expects to be entitled to in exchange for those services. Revenue recognised from domestic assessments, cross-border volume fees and transaction processing are derived from Mastercard's payment network services. Revenue is generated by charging fees to issuers, acquirers and other stakeholders for providing switching services, as well as by assessing customers based primarily on the dollar volume of activity, or gross dollar volume, on the cards and other devices that carry the Company's brands. Revenue is generally derived from transactional information accumulated by Mastercard's systems or reported by customers. In addition, the Company recognises revenue from other payment-related products and services in the period in which the related transactions occur or services are performed.

The Company classifies its net revenue into the following categories:

Domestic assessments are fees charged to issuers and acquirers based primarily on the dollar volume of activity on cards and other devices that carry the Company's brands where the acquirer country and the issuer country are the same. Revenue from domestic assessments is recorded as revenue in the period it is earned, which is when the related volume is generated on the cards or other devices that carry the Company's brands.

Cross-border volume fees are charged to issuers and acquirers based on the dollar volume of activity on cards and other devices that carry the Company's brands where the acquirer country and the issuer country are different. Revenue from cross-border volume is recorded as revenue in the period it is earned, which is when the related volume is generated on the cards or other devices that carry the Company's brands.

Transaction processing revenue is recognised for both domestic and cross-border transactions in the period in which the related transactions occur.

Other revenues consist of value added service offerings that are typically sold with the Company's payment service offerings and are recognised in the period in which the related services are performed or transactions occur. Other revenues include the following:

- Consulting, data analytic and research fees.
- Safety and security services fees are for products and services offered to prevent, detect and respond to fraud and to ensure the safety of transactions made primarily on Mastercard products.
- Other payment-related products and services, including account and transaction enhancement services, rules compliance and publications.

Service fee income is for services rendered to the Company's immediate holding company and related companies. It is calculated based on cost plus a percentage mark-up adjusted for selected items in accordance with the service agreement and recognised as revenue in the same period as the services are rendered.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2018*

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#### **2. Significant accounting policies (continued)**

##### **2.2 Revenue recognition (continued)**

Rebates and incentives (contra-revenue) are provided to customers that meet certain volume targets and can be in the form of a rebate or other support incentives, which are tied to performance. Rebates and incentives are recorded as a reduction of revenue primarily when volume-based and transaction-based revenues are recognised over the contractual term. In addition, the Company may make incentive payments to a customer directly related to entering into an agreement, which are generally capitalised and amortised over the life of the agreement on a straight-line basis.

##### **2.3 Group accounting**

###### **(a) Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date on that control ceases.

###### **(b) Consolidation**

These financial statements are separate financial statements of the Company. The Company is exempted from the preparation of consolidated financial statements as the Company is a wholly-owned subsidiary of Mastercard Incorporated, a United States-incorporated company which produces consolidated financial statements available for public use. The significant subsidiaries of the Company are disclosed in Note 14. The registered office of Mastercard Incorporated is 2000 Purchase Street, Purchase NY 10577-2509, United States of America.

##### **2.4 Property, plant and equipment**

Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses. Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2018*

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#### **2. Significant accounting policies** (continued)

##### **2.4 Property, plant and equipment** (continued)

Depreciation is calculated using the straight-line method to allocate depreciable amounts over their estimated useful lives. The estimated useful lives are as follows:

	<u>Useful lives</u>
Leasehold improvements	Shorter of 5 years or remaining lease period
Motor vehicles	5 years
Furniture and fixtures	5 years
Office equipment	3 - 5 years
Software	3 years

The residual values, estimated useful lives and depreciation method of property and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in the profit or loss when the changes arise.

##### **2.5 Investments in subsidiaries**

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

##### **2.6 Impairment of non-financial assets**

Non-financial assets are reviewed for impairment whenever there is any indication that these assets may be impaired.

If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in the profit or loss.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of accumulated depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in the profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS**

*For the financial year ended 31 December 2018*

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**2. Significant accounting policies (continued)**

**2.7 Financial assets**

- (a) The accounting for financial assets before 1 January 2018 under FRS 39 are as follows:

**(i) Loans and receivables**

Cash and cash equivalent  
Trade receivables  
Other receivables  
Intercompany loans  
Due from intermediate holding company and related companies

Cash and cash equivalent, trade receivables, other receivables, intercompany loans, due from intermediate holding company and related companies are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method, less accumulated impairment losses.

The Company assesses at each balance sheet date whether there is objective evidence that these financial assets are impaired and recognises an allowance for impairment when such evidence exists.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

These assets are presented as current assets except for those that are expected to be realised later than 12 months after the balance sheet which are presented as non-current assets.

**(ii) Financial assets, available-for-sale**

Financial assets, available-for-sale are initially recognised at their fair values plus transaction costs and subsequently carried at their fair values. Changes in fair values are recognised in other comprehensive income and accumulated under the fair value reserve within equity.

**2. Significant accounting policies** (continued)

**2.7 Financial assets** (continued)

- (a) The accounting for financial assets before 1 January 2018 under FRS 39 are as follows: (continued)

**(ii) Financial assets, available-for-sale** (continued)

These financial assets are recognised on the date which the Company commits to purchase the asset. They are presented as non-current assets unless the investment matures or management intends to dispose of the assets within 12 months after the balance sheet date.

The Company assesses at each balance sheet date whether there is objective evidence that these financial assets are impaired. Significant or prolonged decline in the fair value of an equity security below its cost is objective evidence that the security is impaired.

If there is evidence of impairment, the cumulative loss that was recognised in the fair value reserve is reclassified to profit or loss. Impairment losses on available-for-sale equity securities are not reversed through the profit or loss.

On disposal, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount in the other comprehensive income relating to that asset is transferred to profit or loss.

- (b) The accounting for financial assets from 1 January 2018 under FRS 109 are as follows:

The Company classifies its financial assets into the following measurement Categories:

- Amortised cost; and
- Fair value through other comprehensive income (FVOCI)

The classification of debt instruments depends on the Company's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial assets.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Company reclassifies debt instruments when and only when its business model for managing those assets changes.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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#### 2. Significant accounting policies (continued)

##### 2.7 Financial assets (continued)

(b) The accounting for financial assets from 1 January 2018 under FRS 109 are as follows: (continued)

(i) At initial recognition

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

(ii) At subsequent measurement

1. Debt instruments

Debt instruments of the Company mainly comprise of cash and cash equivalent, trade receivables, other receivables, intercompany loans, due from intermediate holding company and related companies.

There are three prescribed subsequent measurement categories, depending on the Institute's business model in managing the assets and the cash flow characteristic of the assets.

The Company managed these group of financial assets by collecting the contractual cash flow and these cash flows represents solely payment of principal and interest. Accordingly, these group of financial assets are measured at amortised cost subsequent to initial recognition.

A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets are recognised using the effective interest rate method.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2018*

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#### 2. Significant accounting policies (continued)

##### 2.7 Financial assets (continued)

(b) The accounting for financial assets from 1 January 2018 under FRS 109 are as follows: (continued)

(ii) At subsequent measurement (continued)

1. Debt instruments (continued)

The Company assesses on forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost.

For trade receivables, other receivables, due from intermediate holding company and related companies, the Company applied the simplified approach permitted by the FRS 109, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For cash and cash equivalent and intercompany loans, the general 3 stage approach is applied.

Credit loss allowance is based on 12-month expected credit loss if there is no significant increase in credit risk since initial recognition of the assets. If there is a significant increase in credit risk since initial recognition, lifetime expected credit loss will be calculated and recognised.

2. Equity investments

On disposal, the differences between the carrying amount and sales proceed is recognised in profit or loss if there was no election made to recognise fair value changes in other comprehensive income. If there was an election made, any difference between the carrying amount and the sale proceed amount would be recognised in other comprehensive income and transferred to retained earnings along with the amount previously recognised in other comprehensive income relating to that asset.

**2. Significant accounting policies (continued)**

**2.8 Fair value estimation of financial assets and financial liabilities**

The fair values of current financial assets and financial liabilities, carried at amortised cost approximate their fair values.

The fair values of non-current financial assets and financial liabilities carried at amortised cost are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

**2.9 Operating leases payments**

Payments made under operating leases (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in the profit or loss when incurred.

When an operating lease is terminated before the lease period expires, any payment made by the Company as penalty is recognised as an expense when termination takes place.

**2.10 Income taxes**

Current income tax is recognised at the amount expected to be paid to or recovered from the tax authorities.

Deferred income tax is recognised for all temporary differences except when the deferred income tax arises from the initial recognition of an asset or liability that affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured based on the tax consequence that would follow from the manner in which the Company expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income tax is measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date, and are recognised as income or expenses in profit or loss, except to the extent that the tax arises from a transaction which is recognised directly in equity.

**2. Significant accounting policies (continued)**

**2.11 Provisions for other liabilities and charges**

Provisions for other liabilities and charges are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

The Company recognises the estimated costs of dismantlement, removal or restoration of items of property, plant and equipment arising from the acquisition or use of assets. This provision is estimated based on the best estimate of the expenditure required to settle the obligation, taking into consideration time value.

*Reinstatement*

Provision for reinstatement is recognised in accordance with the applicable contractual requirements to reinstate leasehold building back to its original condition upon expiry of the lease.

**2.12 Employee compensation**

**(a) Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The Company's contribution to defined contribution plans are recognised as employee compensation expense when the contributions are due, unless they can be capitalised as an asset.

**(b) Employee leave entitlement**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS**

*For the financial year ended 31 December 2018*

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**2. Significant accounting policies (continued)**

**2.12 Employee compensation (continued)**

(c) Equity-settled share-based compensation

The Company's ultimate holding company operates an equity-based share-based compensation plan and grants various types of equity awards to the Company's employees. The fair value of the employees services received in exchange for the grant of equity awards is recognised as an expense in the profit or loss with a corresponding increase in equity compensation reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of equity awards granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under option that are expected to become exercisable on the vesting date. At each balance sheet date, the Company revises its estimates of the number of shares under option that are expected to become exercisable on the vesting date and recognised the impact of the revision of the estimates in the profit or loss with a corresponding adjustment to the equity compensation reserve over the remaining vesting period.

**2.13 Currency translation**

(a) Transactions and balances

The financial statements are presented in United States Dollars ("US\$"), which is the functional currency of the Company.

Transactions in a currency other than the US\$ ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2018*

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#### 2. Significant accounting policies (continued)

##### 2.13 Currency translation (continued)

- (b) Translation of the Company's overseas branches' and representative office's financial statements

The results and financial position of all the Company's overseas branches and representative office (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing exchange rates at the date of the balance sheet;
- (ii) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated using the exchange rates at the dates of the transactions); and
- (iii) All resulting currency translation differences are recognised in the currency translation reserve.

##### 2.14 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation. The reclassifications have no material impact to the Company.

#### 3. Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no estimates or assumptions that would have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- (a) Rebates and incentives

The Company has business agreements with certain customers that provide for fee rebates when the customers meet certain volume hurdles as well as other support incentives such as marketing, which are tied to performance. Rebates and incentives are recorded as a reduction of revenue in the same period as the revenue is earned or performance has occurred. Rebates and incentives are calculated on a monthly basis based upon estimated performance and the terms of the related business agreements. In addition, the Company may incur costs directly related to the acquisition of the contract, which are deferred and amortised over the life of the contract.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

#### 3. Critical accounting estimates, assumptions and judgements (continued)

##### (a) Rebates and incentives (continued)

In addition, certain incentives are prepaid and amortised over the life of the agreement or based on the terms of the related agreements. In the event of customer or merchant business failure, these prepayment and incentives may not have future economic benefits for the business. Impairment analysis is performed quarterly or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

##### (b) Income taxes

The Company is subject to income taxes in numerous jurisdictions. In determining the income tax liabilities, management is required to estimate the amount of capital allowances and the deductibility of certain expenses at each tax jurisdiction. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

#### 4. Revenue

	2018 US\$	2017* US\$
Fees for services rendered to:		
- Immediate holding company	5,602,278	5,239,275
- Related companies	39,512,593	45,597,567
	<u>45,114,871</u>	<u>50,836,842</u>
Revenue from customers		
- Domestic assessment fees	925,697,983	661,134,572
- Cross-border volume fees	1,476,732,948	1,248,448,390
- Transaction processing fees	1,919,768,780	1,558,688,499
- Rebates and incentives	(1,288,095,386)	(1,010,913,614)
	<u>3,034,104,325</u>	<u>2,457,357,847</u>
	<u>3,079,219,196</u>	<u>2,508,194,689</u>

All the revenue are recognised at a point in time, except for rebates and incentives.

\* The Company has initially applied FRS 115 using the modified retrospective method. Under this method, the comparative information is not restated.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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#### 5. Other gains - net

	2018 US\$	2017* US\$
Gain on disposal of property, plant and equipment	13,950	16,832
Interest income from intercompany loans	44,178,530	43,450,026
Loss on disposal of subsidiaries	-	(3,662,897)
Interest income from investments	19,234,634	4,811,579
Other	6,548,512	6,650,307
	<b>69,975,626</b>	<b>51,265,847</b>

All the revenue are recognised at a point in time.

\* The Company has initially applied FRS 115 using the modified retrospective method. Under this method, the comparative information is not restated.

#### 6. Employee compensation

	2018 US\$	2017 US\$
Wages and salaries	65,002,936	55,796,597
Employer's contribution to defined contribution plans including Central Provident Fund	4,609,263	4,009,446
Share-based compensation expense	12,287,853	10,669,564
Bonus and other variable incentives	25,639,400	19,073,885
Relocation and allowances	9,294,176	8,753,580
Insurance	3,589,004	3,112,104
Other benefits	11,801,451	8,136,660
	<b>132,224,083</b>	<b>109,551,836</b>

Key management personnel compensation is disclosed in Note 26.

#### Long Term Incentive Plan (the "LTIP")

In May 2006, the ultimate holding company, Mastercard Incorporated ("MA"), implemented the Mastercard Incorporated 2006 Long-Term Incentive Plan, which was amended and restated as of 5 June 2012 (the "LTIP"). The LTIP is a shareholder-approved omnibus plan that permits the grant of various types of equity awards to employees.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

#### 6. Employee compensation (continued)

##### Long Term Incentive Plan (the "LTIP") (continued)

The Company has granted non-qualified stock options ("Options"), restricted stock units ("RSUs") and performance stock units ("PSUs") under the LTIP. The options, which expire ten years from the date of grant, generally vest rateably over four years from the date of grant. The RSUs and PSUs generally vest after three years. The Company uses the straight-line method of attribution for expensing equity awards. Compensation expense is recorded net of estimated forfeitures. Estimates are adjusted as appropriate.

For all awards granted prior to March 2017, a participant's unvested awards are forfeited upon termination of employment. For all awards granted on or after 1 March 2017, in the event of termination due to job elimination (as defined by the Company), a participant will retain a pro-rata portion of the unvested awards for services performed through the date of termination. In the event a participant terminates employment due to disability or retirement more than six months (seven months for those granted on or after 1 March 2017) after receiving the award, the participant retains all of their awards without providing additional service to the Company. Retirement eligibility is dependent upon age and years of service. Compensation expense is recognized over the shorter of the vesting periods stated in the LTIP or the date the individual becomes eligible to retire but not less than six months (or seven months for grants awarded on or after 1 March 2017).

The summary of RSUs, PSUs and options as of 31 December 2018 and changes during the year are presented below:

	Restricted Stock Units		Performance Stock Units		Options	
	No. of Shares as at year end	Weighted Average Share Price US\$	No. of Shares as at year end	Weighted Average Grant Price US\$	No. of Shares as at year end	Weighted Average Exercise Price US\$
<b>2018</b>						
Outstanding at the beginning of year	156,826		4,182		311,432	
Granted during the year	38,534	168.5	-	-	22,616	173.5
Exercised/vested during the year	(45,210)	177.3	-	-	(26,139)	91.1
Cancelled/forfeited during the year	(19,751)	177.3	-	-	(11,883)	128.7
Outstanding at the end of year	<u>130,399</u>		<u>4,182</u>		<u>296,026</u>	
<b>2017</b>						
Outstanding at the beginning of year	168,434		4,182		325,229	
Granted during the year	56,752	110.5	-	-	35,332	112.3
Exercised/vested during the year	(52,329)	110.6	-	-	(42,065)	113.0
Cancelled/forfeited during the year	(16,031)	95.6	-	-	(7,064)	112.3
Outstanding at the end of year	<u>156,826</u>		<u>4,182</u>		<u>311,432</u>	

##### *Restricted Stock Units*

The fair value of each RSU is the closing stock price on the New York Stock Exchange of MA Class A common stock on the date of grant. The weighted average grant-date fair value granted during the year ended 31 December 2018 was US\$168.5 (2017: US\$112).

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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#### 6. Employee compensation (continued)

##### Long Term Incentive Plan (the "LTIP") (continued)

###### *Performance Stock Units*

Performance measures used to determine the actual number of shares that vest after three years include net revenue growth, EPS growth, and relative total shareholder return ("TSR"). Relative TSR is considered a market condition, while net revenue and EPS growth are considered performance conditions. The Monte Carlo simulation valuation model is used to determine the grant-date fair value. The PSUs contain performance conditions based on MA's performance against an annually predetermined return on equity goal, with an average return on equity per year over the three-year period commencing on January 1 of the grant year.

The initial fair value of each PSU is the closing price on the New York Stock Exchange of MA's Class A common stock on the date of issuance. Given that the performance conditions are subjective and not fixed on the date of issuance, these PSUs will be remeasured at the end of each reporting period, at fair value, until the time the performance conditions are fixed and the ultimate number of shares to be issued is determined. Compensation expenses for PSUs are recognized over the requisite service period if it is probable that the performance target will be achieved and subsequently adjusted if the probability assessment changes.

###### *Stock Options*

The fair value of each stock option is estimated on the date of grant using a Black-Scholes option pricing model with the following assumptions were used arriving at the fair value of stock options granted during the year:

	<b>31 December 2018</b>	31 December 2017
Risk-free rate of return	<b>2.7%</b>	2.0%
Expected term (in years)	<b>6.00</b>	5.00
Expected volatility	<b>19.7%</b>	19.3%
Expected dividend yield	<b>0.6%</b>	0.8%

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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#### 6. Employee compensation (continued)

##### Long Term Incentive Plan (the "LTIP") (continued)

##### *Stock Options (continued)*

The risk-free rate of return was based on the U.S. Treasury yield curve in effect on the date of grant. In 2018 and 2017, the expected term and the expected volatility were based on historical Mastercard information. The expected dividend yields were based on MA's expected annual dividend rate on the date of grant.

The weighted average grant-date fair value per option of MA granted in the year ended 31 December 2018 was US\$40.90 (2017: US\$21.23).

#### 7. Other operating expenses

The following items have been included in other operating expenses:

	2018 US\$	2017 US\$
Royalty fees to intermediate holding company	613,949,541	874,172,793
Service fee expenses	201,690,623	163,554,146
Data processing fees	182,153,479	146,316,652
Cardmembers' expenses	11,950,279	12,887,985
Professional fees expense	18,130,721	19,245,343
Rental expense – Operating leases	6,824,759	6,079,155
Net foreign exchange losses	5,805,925	31,103,168
Telecommunications	1,360,119	1,750,313
Hologram expenses	3,426,520	3,184,981
Administrative expenses	2,102,624	1,307,319
Other	12,972,238	13,052,851
	<u>1,060,366,828</u>	<u>1,272,654,706</u>

**MASTERCARD ASIA/PACIFIC PTE LTD****NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2018***8. Income taxes****(a) Income tax expense**

	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
Tax expense attributable to profit is made up of:		
Current income tax		
- Singapore	<b>17,497,739</b>	10,723,537
- Foreign	<b>12,995,799</b>	13,514,818
Deferred income tax (Note 17)	<b>42,207</b>	(29,561)
	<b>30,535,745</b>	24,208,794
Under provision in preceding financial years		
- Current income tax	<b>810,620</b>	24,401
	<b>31,346,365</b>	24,233,195

In 2011, the Company received an incentive grant from the Singapore Ministry of Finance, at the recommendation of the Singapore Economic Development Board. The incentive had provided the Company with, among other benefits, a reduced income tax rate on excess taxable income of a fixed base amount commencing 1 July 2011.

The tax expense on profit differs from the amount that would arise using the Singapore standard rate of income tax as follows:

	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
Profit before tax	<b>1,389,391,486</b>	739,618,528
Tax calculated at a tax rate of 17%	<b>236,196,553</b>	125,735,150
Effects of:		
- Profits being taxed at a concessionary rate	<b>(217,768,639)</b>	(109,393,352)
- Expenses not deductible for tax purposes	<b>264,158</b>	1,921,823
- Non-taxable income	<b>(696,252)</b>	(8,223,362)
- Other	<b>(455,874)</b>	653,717
- Under provision in respect of prior years	<b>810,620</b>	24,401
Tax charge	<b>18,350,566</b>	10,718,377

The Company's tax liabilities have been computed based on the corporate tax rate and tax laws prevailing at balance sheet date.

**MASTERCARD ASIA/PACIFIC PTE LTD**

**NOTES TO THE FINANCIAL STATEMENTS**

*For the financial year ended 31 December 2018*

**8. Income taxes (continued)**

(b) Movements in current income tax liabilities

	2018 US\$	2017 US\$
Beginning of financial year	18,210,947	11,698,390
Currency translation differences	(223,355)	(339,364)
Income tax paid	(24,744,420)	(17,410,835)
Tax payable on profit for the current financial year	30,493,538	24,238,355
Under provision in preceding financial year	810,620	24,401
End of financial year	<u>24,547,330</u>	<u>18,210,947</u>

**9. Cash and cash equivalent**

	2018 US\$	2017 US\$
Cash at bank and on hand	116,793,247	66,383,927
Short-term bank deposits	630,823,535	657,179,394
	<u>747,616,782</u>	<u>723,563,321</u>

The carrying value of cash and cash equivalent approximates its fair value.

**10. Other investments**

	2018 US\$	2017 US\$
Beginning of financial year	98,235,350	97,181,104
Purchases in the year	62,704,499	48,614,728
Matured/sale in the year	(120,939,849)	(47,505,620)
Fair value loss	-	(54,862)
End of financial year	40,000,000	98,235,350
Less: Current portion	-	(33,000,267)
<b>Non-current portion</b>	<u>40,000,000</u>	<u>65,235,083</u>

Other investments are analysed as follows:

<u>Financial assets, available-for-sale</u>		
- Corporate securities	-	46,598,101
- Government and agency securities	-	39,124,239
- Asset-backed securities	-	12,513,010
<u>Financial assets, at FVOCI</u>		
- Unlisted securities	40,000,000	-
	<u>40,000,000</u>	<u>98,235,350</u>

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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#### 10. Other investments (continued)

Other investments comprise:

- Government and agency securities are primarily invested in U.S. government treasury bills and bonds and U.S. government sponsored agency bonds. Corporate securities are comprised of commercial paper and corporate bonds. The asset-backed securities are investments in bonds which are collateralised primarily by automobile loan receivables.
- Equity securities which are not held for trading, and which the Company has elected at initial recognition to recognise the changes in fair value in other comprehensive income. These are strategic investments and the Company considers this classification to be more relevant.

#### 11. Trade receivables

Trade receivables comprise domestic assessment fees, cross-border volume fees and transaction processing fees receivable from customers and issuers.

The carrying value of trade receivables approximates their fair value.

#### 12. Due from intermediate holding company and related companies

	2018 US\$	2017 US\$
Due from intermediate holding company	56,475	2,007,544
Due from related companies	62,741,384	46,077,490
	<u>62,797,859</u>	<u>48,085,034</u>

The amounts due from intermediate holding company and related companies are unsecured, interest-free and repayable upon demand.

**MASTERCARD ASIA/PACIFIC PTE LTD****NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2018***13. Other receivables**

	2018 US\$	2017 US\$
<i>Current</i>		
Rental and other deposits	1,683,746	1,707,139
Prepayments	4,194,710	5,100,923
Prepaid customer and merchant incentives	230,666,678	146,114,941
Interest receivables - intercompany loans	6,385,033	13,281,660
Input tax receivables	6,703,314	5,892,627
Other	14,897,348	4,457,890
	<u>264,530,829</u>	<u>176,555,180</u>
<i>Non-current</i>		
Prepaid customer incentives	868,065,610	449,621,758
Other	78,165,809	36,258,135
	<u>946,231,419</u>	<u>485,879,893</u>

The carrying amount of other receivables approximates their fair value.

**14. Investments in subsidiaries**

	2018 US\$	2017 US\$
Equity investment at cost		
Beginning of financial year	350,586,056	341,588,837
Additions	12,950,012	13,108,366
Disposals	-	(4,111,147)
End of financial year	<u>363,536,068</u>	<u>350,586,056</u>
Accumulated impairment loss		
Beginning of financial year	(98,640,001)	(98,640,001)
Impairment loss during the financial year	-	-
End of financial year	<u>(98,640,001)</u>	<u>(98,640,001)</u>
Net book value	<u>264,896,067</u>	<u>251,946,055</u>

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

#### 14. Investments in subsidiaries (continued)

Details of the subsidiaries are as follows:

<u>Subsidiaries</u>	<u>Principal activities</u>	<u>Country of incorporation and business</u>	<u>Equity holding</u>	
			<u>2018</u> %	<u>2017</u> %
Mastercard International Korea Ltd	Providing services to its related companies	Korea	100	100
Mastercard Japan KK	Providing services to its related companies	Japan	100	100
Mastercard New Zealand Limited	Providing services to its related companies	New Zealand	100	100
Mastercard Asia/Pacific (Hong Kong) Limited	Providing services to its related companies	Hong Kong	100	100
Mastercard West Africa Limited	Providing services to its related companies	Nigeria	99.9	99.9
PT Mastercard Indonesia	Providing card based payment products and services to customers	Indonesia	99	99
Mastercard Southern Africa Proprietary Limited	Providing services to its related companies	South Africa	100	100
Mastercard East Africa Limited	Providing services to its related companies	Kenya	99.9	99.9
Mastercard Middle East Africa FZ-LLC	Providing services to its related companies	Dubai, UAE	100	100
Mastercard Egypt LLC	Providing services to its related companies	Egypt	99.9	99.9
Mastercard Gulf LLC	Providing services to its related companies	Qatar	100	100
Mastercard India Services Private Limited	Providing services to its related companies	India	99	99
Mobile Payment Solutions Pte Ltd	Providing mobile payment solutions to financial institutions and mobile network operators	Singapore	100	100
Mastercard Technology Private Limited	Providing software solutions for electronic payment and credit card processing	India	99.5	99.5
Mastercard Shanghai Business Consulting Ltd	Providing services to its related companies	China	99	99
Asia C-SAM Pte Ltd	Providing sale, delivery and design of software for mobile phone and related services	Singapore	100	100
Mastercard Asia/ Pacific Pte Limited	Providing services to its related companies	Jordan	100	100
APT Technology Consulting (Shanghai) Co Ltd	Providing business analysis services	China	100	-
Mastercard Services Sub-Saharan Africa Limited	Providing services to its related companies	Nigeria	99%	99
Mastercard (Thailand) Limited	Providing services to its related companies	Thailand	99.9%	99.9%

# MASTERCARD ASIA/PACIFIC PTE LTD

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

### 15. Property, plant and equipment

	Leasehold <u>improvements</u> US\$	Motor <u>vehicles</u> US\$	Furniture <u>and fixtures</u> US\$	Office <u>equipment</u> US\$	Software US\$	Total US\$
<b>2018</b>						
<b>Cost</b>						
Beginning of financial year	7,179,382	780,578	1,784,853	4,933,682	4,991,312	19,669,807
Additions	678,413	229,183	108,979	2,088,028	7,799,712	10,904,315
Disposals	(348)	(112,395)	(659)	(76,090)	-	(189,492)
Write offs	(241,620)	-	-	(275,509)	(1,640,911)	(2,158,040)
Currency translation differences	(32,080)	(90,374)	(890)	(127,623)	-	(250,967)
End of financial year	7,583,747	806,992	1,892,283	6,542,488	11,150,113	27,975,623
<b>Accumulated depreciation</b>						
Beginning of financial year	1,414,107	413,990	561,188	1,893,602	921,055	5,203,942
Disposals	(348)	(101,155)	(659)	(75,739)	-	(177,901)
Depreciation charge	1,421,748	156,619	355,663	1,212,006	1,894,870	5,040,906
Currency translation differences	(33,013)	18,932	(2,127)	55,806	(58,641)	(19,043)
End of financial year	2,802,494	488,386	914,065	3,085,675	2,757,284	10,047,904
<b>Net book value</b>						
End of financial year	4,781,253	318,606	978,218	3,456,813	8,392,829	17,927,719
<b>2017</b>						
<b>Cost</b>						
Beginning of financial year	2,136,186	769,555	1,029,972	2,502,169	2,142,455	8,580,337
Additions	6,354,239	103,502	1,403,468	3,475,469	2,947,255	14,283,933
Disposals	(1,553,041)	(162,502)	(662,284)	(154,099)	-	(2,531,926)
Write offs	(32,233)	-	-	(762,048)	(141,160)	(935,441)
Currency translation differences	274,231	70,023	13,697	(127,809)	42,762	272,904
End of financial year	7,179,382	780,578	1,784,853	4,933,682	4,991,312	19,669,807
<b>Accumulated depreciation</b>						
Beginning of financial year	1,860,542	385,442	926,890	1,194,746	5,493	4,373,113
Disposals	(1,584,106)	(159,719)	(639,799)	(146,143)	-	(2,529,767)
Depreciation charge	1,099,530	143,596	266,698	882,192	915,562	3,307,578
Currency translation differences	38,141	44,671	7,399	(37,193)	-	53,018
End of financial year	1,414,107	413,990	561,188	1,893,602	921,055	5,203,942
<b>Net book value</b>						
End of financial year	5,765,275	366,588	1,223,665	3,040,080	4,070,257	14,465,865

### 16. Intercompany loans

	2018 US\$	2017 US\$
<b>Intercompany loans provided</b>		
<b>Current</b>		
Loans to related companies	87,384,395	84,384,395
	87,384,395	84,384,395
<b>Non-current</b>		
Loan to immediate holding company	-	135,000,000
Loans to related companies	797,297,297	797,297,297
	797,297,297	932,297,297
<b>Total intercompany loans provided</b>	884,681,692	1,016,681,692

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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#### 16. Intercompany loans (continued)

	2018 US\$	2017 US\$
<i>Intercompany loan received</i>		
<i>Current</i>		
Loan from related company	<b>184,468,287</b>	124,700,000
<b>Total intercompany loan received</b>	<b>184,468,287</b>	124,700,000

The Company provided a loan to related company, Mastercard Holdings LP of

- US\$353,124,000 (2017: US\$353,124,000), subject to fixed interest rate of 5.32% (2017: 5.32%) per annum and to be paid on annual basis respectively. The loan is due to be repaid on 1 April 2027.
- US\$89,114,900 (2017: US\$89,114,900), subject to fixed interest rate of 3.50% (2017: 3.50%) per annum and to be paid on annual basis respectively. The loan is due to be repaid on 15 December 2023.
- US\$200,780,700 (2017: US\$200,780,700), subject to fixed interest rate of 4.79% (2017: 4.79%) per annum and to be paid on annual basis respectively. The loan is due to be repaid on 24 April 2027.
- US\$76,464,000 (2017: US\$76,464,000), subject to fixed interest rate of 3.18% (2017: 3.18%) per annum and to be paid on annual basis respectively. The loan is due to be repaid on 28 June 2022.
- US\$9,146,928 (2017: US\$9,146,928), subject to fixed interest rate of 2.63% (2017: 2.63%) per annum and to be paid on annual basis respectively. The loan is due to be repaid on 6 November 2022.

The Company provided a loan to related company, Mastercard Europay UK Ltd of US\$84,384,395 (2017: US\$84,384,395), subject to fixed interest rate of 5.58% (2017: 5.58%) per annum and to be paid on annual basis respectively. The loan is repayable upon demand.

In 2018, the Company provided a loan to subsidiary, PT Mastercard Indonesia of US\$3,000,000, subject to fixed interest rate of 3.32% per annum and to be paid on annual basis. The loan is due to be repaid on 1 December 2019.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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#### 16. Intercompany loans (continued)

In 2017, the Company provided a loan to immediate holding company, Mastercard Singapore Holdings Pte Ltd of US\$135,000,000, subject to fixed interest rate of 4.84% per annum and to be paid on annual basis respectively. The loan was fully repaid on 16 March 2018.

The Company provided a loan to related company, Mastercard Canada Holdings ULC of

- US\$51,500,077 (2017: US\$51,500,077), subject to fixed interest rate of 5.44% (2017: 5.44%) per annum and to be paid on annual basis respectively. The loan is due to be repaid on 31 March 2027.
- US\$17,166,692 (2017: US\$17,166,692), subject to fixed interest rate of 5.92% (2017: 5.92%) per annum and to be paid on annual basis respectively. The loan is due to be repaid on 31 March 2027.

The Company received a loan from a related company, Mastercard Financing UK LP of US\$184,468,287 (2017: US\$124,700,000), subject to fixed interest rate of 1.33% (2017: 1.33%) per annum and to be paid on annual basis respectively. The loan was fully repaid on 24 January 2019.

The fair values of non-current intercompany loans are computed based on cash flows discounted at market borrowing rates. The fair values of the intercompany loans were not materially different from their carrying amounts at year end.

#### 17. Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheet as follows:

	2018 US\$	2017 US\$
Deferred income tax assets - net: - to be recovered after one year	442,835	243,243

**MASTERCARD ASIA/PACIFIC PTE LTD****NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2018***17. Deferred income taxes (continued)**

The movement in the deferred income tax assets, prior to offsetting of balances during the financial year is as follows:

*Net deferred income tax assets*

	<u>Provisions</u> US\$	<u>Other</u> US\$	<u>Total</u> US\$
<b>2018</b>			
Beginning of financial year	179,702	63,541	243,243
Debited to income statement (Note 8a)	(42,207)	-	(42,207)
Other	-	241,799	241,799
End of financial year	<u>137,495</u>	<u>305,340</u>	<u>442,835</u>
<b>2017</b>			
Beginning of financial year	150,141	193,338	343,479
Credited to income statement (Note 8a)	29,561	-	29,561
Other	-	(129,797)	(129,797)
End of financial year	<u>179,702</u>	<u>63,541</u>	<u>243,243</u>

At 31 December 2018 and 2017, no deferred tax liability has been recognised for taxes that would be payable on the interest income of the Company's intercompany loans and the investment activities related to other investments. The Company has no intention of remitting the investment gains and interest income of these intercompany loans to Singapore.

Such temporary differences for which no deferred tax liability has been recognised amount to approximately US\$64,358,929 (2017: US\$49,704,450). The deferred tax liability is estimated to be approximately US\$10,941,018 (2017: US\$8,449,756).

**18. Due to intermediate holding company, related companies and subsidiaries**

	<b>2018</b> US\$	2017 US\$
Due to intermediate holding company	<b>138,185,325</b>	78,417,395
Due to related companies	<b>126,224,525</b>	82,016,669
Due to subsidiaries	<b>9,363,758</b>	10,180,478
	<u><b>273,773,608</b></u>	<u>170,614,542</u>

The balances due to the intermediate holding company, related companies and subsidiaries are unsecured, interest-free and repayable upon demand.

**MASTERCARD ASIA/PACIFIC PTE LTD****NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2018***19. Trade payables**

	<b>2018</b>	2017
	<b>US\$</b>	US\$
<i>Current</i>		
Customer and merchant incentive payables	<b>984,577,923</b>	989,950,567
<i>Non-current</i>		
Customer incentive payables	<b>272,602,097</b>	58,444,956

**20. Other payables**

	<b>2018</b>	2017
	<b>US\$</b>	US\$
<i>Current</i>		
Accrual for advertising	<b>21,601,422</b>	14,351,691
Customer contributions for card activities	<b>94,532,455</b>	121,050,300
Accrual for other operating expenses	<b>144,061,511</b>	126,864,122
	<b>260,195,388</b>	262,266,113

**21. Share capital**

	Issued ordinary shares US\$	Issued redeemable non-convertible preference shares US\$	Total share capital US\$
<b>2018</b>			
Beginning and end of financial year	17,468,523	11,383,893	28,852,416
<b>2017</b>			
Beginning and end of financial year	17,468,523	11,383,893	28,852,416

The Company's share capital comprise 19,919,077 (2017: 19,919,077) ordinary shares and 19,741,795 (2017: 19,741,795) redeemable non-convertible preference shares.

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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#### 21. Share capital (continued)

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally regard to the Company's residual assets.

The holders of the redeemable non-convertible preference shares shall not be entitled to any dividend. In the event of a reduction of capital or the winding up of the Company, the holders of the redeemable non-convertible preference shares shall be entitled to a preferential return of the capital paid up on the redeemable non-convertible preference shares, such preferential return to be paid in priority to the ordinary shares, and thereafter shall not participate with the holders of the ordinary shares in any return of capital or surplus assets. The Company may at any time by resolution of the Directors and upon 24 hours' written notice to the holders of the redeemable non-convertible preference shares redeem all or any of the redeemable non-convertible preference shares at par value.

#### 22. Lessee - operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	2018 US\$	2017 US\$
Not later than one year	5,152,460	5,061,790
Between one and five years	21,449,582	8,869,114
Later than five years	19,490,539	-
	<u>46,092,581</u>	<u>13,930,904</u>

#### 23. Financial instruments

The Company's activities expose it to a variety of financial risks, including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Company's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Company's financial performance.

(i) *Foreign exchange risk*

The Company's business during the financial year is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Australia dollar and Japanese yen. This risk is managed by the intermediate holding company.

# MASTERCARD ASIA/PACIFIC PTE LTD

## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

### 23. Financial risk management (continued)

#### (i) Foreign exchange risk (continued)

The Company's currency exposure is as follows:

	US\$ US\$	S\$ US\$	THB US\$	AUD US\$	JPY US\$	Other US\$	Total US\$
<b>2018</b>							
<b>Financial assets</b>							
Cash and cash equivalent	524,737,033	17,307,883	9,125,571	157,104,806	-	39,341,489	747,616,782
Other investments	40,000,000	-	-	-	-	-	40,000,000
Trade receivables	263,770,393	34,187,689	-	28,648,317	444,723	7,868,723	334,919,845
Other receivables – interest receivables	6,385,033	-	-	-	-	-	6,385,033
Intercompany loans Due from intermediate holding company and related companies	884,681,692	-	-	-	-	-	884,681,692
	62,797,859	-	-	-	-	-	62,797,859
	<u>1,782,372,010</u>	<u>51,495,572</u>	<u>9,125,571</u>	<u>185,753,123</u>	<u>444,723</u>	<u>47,210,212</u>	<u>2,076,401,211</u>
<b>Financial liabilities</b>							
Due to intermediate holding company, subsidiaries and related companies	(273,773,608)	-	-	-	-	-	(273,773,608)
Trade payables	(737,296,547)	-	(1,199,385)	(169,657,111)	(27,400,190)	(49,024,690)	(984,577,923)
Other payables	(207,416,938)	(32,620,235)	(1,341,195)	(7,759,500)	(1,432,443)	(9,625,077)	(260,195,388)
Intercompany loan	(184,468,287)	-	-	-	-	-	(184,468,287)
Trade payables - non-current	(154,196,479)	-	-	(47,951,293)	(58,516,810)	(11,937,515)	(272,602,097)
	<u>(1,557,151,859)</u>	<u>(32,620,235)</u>	<u>(2,540,580)</u>	<u>(225,367,904)</u>	<u>(87,349,443)</u>	<u>(70,587,282)</u>	<u>(1,975,617,303)</u>
<b>Net currency position</b>	<u>225,220,151</u>	<u>18,875,337</u>	<u>6,584,991</u>	<u>(39,614,781)</u>	<u>(86,904,720)</u>	<u>(23,377,070)</u>	
<b>2017</b>							
<b>Financial assets</b>							
Cash and cash equivalent	674,195,940	7,156,530	6,335,341	11,103,438	-	24,772,072	723,563,321
Available-for-sale financial assets	98,235,350	-	-	-	-	-	98,235,350
Trade receivables	301,277,500	-	-	5,951,692	515,508	6,195,358	313,940,058
Other receivables – interest receivables	13,281,660	-	-	-	-	-	13,281,660
Intercompany loans Due from intermediate holding company, subsidiaries and related companies	1,016,681,692	-	-	-	-	-	1,016,681,692
	48,085,034	-	-	-	-	-	48,085,034
	<u>2,151,757,176</u>	<u>7,156,530</u>	<u>6,335,341</u>	<u>17,055,130</u>	<u>515,508</u>	<u>30,967,430</u>	<u>2,213,787,115</u>
<b>Financial liabilities</b>							
Due to intermediate holding company, subsidiaries and related companies	(170,614,542)	-	-	-	-	-	(170,614,542)
Trade payables	(964,767,297)	(4,565,727)	(158,609)	(17,076,247)	(2,870,672)	(512,015)	(989,950,567)
Other payables	(95,310,079)	(41,510,647)	(1,752,742)	(72,730,193)	(4,475,655)	(46,486,797)	(262,266,113)
Intercompany loan	(124,700,000)	-	-	-	-	-	(124,700,000)
Trade payables - non-current	(52,692,443)	(265,970)	(53,002)	(3,836,735)	(1,596,806)	-	(58,444,956)
	<u>(1,408,084,361)</u>	<u>(46,342,344)</u>	<u>(1,964,353)</u>	<u>(93,643,175)</u>	<u>(8,943,133)</u>	<u>(46,998,812)</u>	<u>(1,605,976,178)</u>
<b>Net currency position</b>	<u>743,672,815</u>	<u>(39,185,814)</u>	<u>4,370,988</u>	<u>(76,588,045)</u>	<u>(8,427,625)</u>	<u>(16,031,382)</u>	

MASTERCARD ASIA/PACIFIC PTE LTD

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

23. Financial risk management (continued)

(i) Foreign exchange risk (continued)

At 31 December 2018, if the AUD or JPY had changed by 10% (2017: 7%) against the US\$ with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset positions will be as follows:

	← Increase/(decrease) →	
	2018	2017
	US\$	US\$
	Profit	Profit
	<u>after tax</u>	<u>after tax</u>
AUD against US\$		
- strengthened	(3,961,478)	(5,361,163)
- weakened	<u>3,961,478</u>	<u>5,361,163</u>
JPY against US\$		
- strengthened	(8,690,472)	(589,934)
- weakened	<u>8,690,472</u>	<u>589,934</u>

(ii) Interest rate risk

Interest rate risk is the risk to earning and value of financial instruments caused by fluctuation in interest rates. Interest rate risk arises primarily from the differences in the maturities and re-pricing dates of financial assets and financial liabilities.

The Company's income and operating cash flows are substantially independent of changes in market interest rates. Other than cash and cash equivalents, intercompany loans and other investments (municipal securities), the Company has no significant interest-bearing assets. The intercompany loans are subject to fixed interest rate. Refer to Note 16 for maturity profile of intercompany loans. The impact of interest rate movement on the other investments (municipal securities) is not material. Other than intercompany loan, the Company has no significant interest-bearing liabilities.

**23. Financial risk management** (continued)

(iii) *Credit risk*

The Company relies on the credit risk policies and procedures of Mastercard Group as a whole. 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 ended 31 December 2018 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 Incorporated may pursue one or more remedies available under our rules to recover potential losses. Historically, the Company has experienced a low level of losses from customer failures.

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

The expected credit losses on the Company's financial assets are assessed to be immaterial.

(iv) *Liquidity risk*

The Company has access to funding from its ultimate holding company and related companies in order to manage its liquidity.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

#### 23. Financial risk management (continued)

##### (iv) Liquidity risk (continued)

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The contractual undiscounted cash flows were not materially different from their carrying amount as the impact of discounting is not significant.

	Less than <u>1 year</u> US\$	More than <u>1 year</u> US\$	<u>Total</u> US\$
<b>At 31 December 2018</b>			
Due to intermediate holding company	138,185,325	-	138,185,325
Due to related companies and subsidiaries	135,588,283	-	135,588,283
Trade payables	984,577,923	272,602,097	1,257,180,020
Other payables	260,195,388	-	260,195,388
Intercompany loan	184,468,287	-	184,468,287
	<u>1,703,015,206</u>	<u>272,602,097</u>	<u>1,975,617,303</u>

	Less than <u>1 year</u> US\$	More than <u>1 year</u> US\$	<u>Total</u> US\$
<b>At 31 December 2017</b>			
Due to intermediate holding company	78,417,395	-	78,417,395
Due to related companies and subsidiaries	92,197,147	-	92,197,147
Trade payables	989,950,567	58,444,956	1,048,395,523
Other payables	262,266,113	-	262,266,113
Intercompany loan	132,934,675	-	132,934,675
	<u>1,555,765,897</u>	<u>58,444,956</u>	<u>1,614,210,853</u>

##### (v) Capital risk

The Company's objectives when managing capital are to ensure that the Company is adequately capitalised and to maintain an optimal capital structure by issuing or redeeming additional equity and debt instruments when necessary.

The Company is not subject to any externally imposed capital requirement.

**MASTERCARD ASIA/PACIFIC PTE LTD**

**NOTES TO THE FINANCIAL STATEMENTS**

*For the financial year ended 31 December 2018*

**23. Financial risk management (continued)**

*(vi) Fair value measurements*

The following table presents assets and liabilities measured at fair value and classified by level of fair value measurement hierarchy as follows:

	<u>Level 1</u> US\$	<u>Level 2</u> US\$	<u>Level 3</u> US\$	<u>Total</u> US\$
<b>As at 31 December 2018</b>				
Other investments	-	-	40,000,000	40,000,000
<b>As at 31 December 2017</b>				
Other investments	32,394,845	65,840,505	-	98,235,350

There was no transfer between levels during the year.

The following table shows the valuation techniques used in measuring the Level 3 fair values, as well as the significant unobservable inputs used.

<b>Type</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between key unobservable inputs and fair value measurement</b>
Unlisted securities	Discounted cash flows was used to consider the present value of the expected future economic benefits from the ownership of these investees	Budgeted revenue growth rates, taking into account management's experience and knowledge of market conditions of the industry at 8% per annum	Increase / decrease in budgeted revenue growth rates would result in an increase / decrease in the estimated fair value

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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#### 23. Financial risk management (continued)

(vi) *Fair value measurements (continued)*

##### Level 3 fair values

The following table shows a reconciliation from the opening balances to the ending balances for Level 3 fair values:

	<b>Financial assets, at FVOCI US\$</b>
At 1 January 2018	-
Purchases	40,000,000
At 31 December 2018	<u>40,000,000</u>

In 2017, the fair values of the available-for-sale financial assets are based on quoted prices for similar assets in active markets. These instruments are included in Level 2, except for U.S. government treasury bills that are classified as Level 1 as the fair values are based on unadjusted quoted prices for identical assets in active markets.

(vii) *Financial instruments by category*

The aggregate carrying amounts of loans and receivables and financial liabilities at amortised cost are as follows:

	<b>2018 US\$</b>	<b>2017 US\$</b>
Financial assets, at amortised cost/ Loans and receivables	<b>2,036,401,212</b>	2,115,551,765
Other financial liabilities	<b><u>1,975,617,303</u></b>	<u>1,605,976,178</u>

#### 24. Immediate, intermediate and ultimate holding companies

The Company's immediate holding company is Mastercard Singapore Holding Pte Ltd, incorporated in Singapore. The intermediate holding company is Mastercard International Incorporated, incorporated in the United States of America. The ultimate holding company is Mastercard Incorporated, which is also incorporated in the United States of America.

## MASTERCARD ASIA/PACIFIC PTE LTD

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

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#### 25. Dividends

	2018 US\$	2017 US\$
<u>Ordinary dividends paid</u>		
Tax exempt 1-tier dividend paid in respect of the current financial year of US\$44.93 (2017: US\$3.26) per US\$1 of share	<b>1,296,446,500</b>	94,181,530

On 25 February 2019, the Company's Board of Directors declared an interim dividend of US\$30.12 per share amounting to a total of US\$600 million, which was paid on the same date.

On 8 May 2019, the Company's Board of Directors declared an interim dividend of US\$10.04 per share amounting to US\$200 million payable on 28 May 2019.

These financial statements do not reflect these dividends, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2019.

#### 26. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Company and related parties at terms agreed between the parties:

##### Key management personnel compensation

The key management personnel compensation includes salary, fees, bonus, commission and other emoluments (including benefits-in-kind) computed based on the cost incurred by the Company.

The key management personnel compensation is analysed as follows:

	2018 US\$	2017 US\$
<u>Directors of the Company</u>		
Salaries and other short-term employee benefits	<b>5,449,837</b>	4,570,617
Employer's contribution to defined contribution plans including Central Provident Fund	<b>86,501</b>	100,605
Share-based compensation expense	<b>184,193</b>	132,791
	<b>5,720,531</b>	4,804,013

**27. New or revised accounting Standards and Interpretations**

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Company's accounting periods beginning on or after 1 January 2019 and which the Company has not early adopted:

- FRS 116 Leases (effective for annual periods beginning on or after 1 January 2019)

FRS 116 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

Some of the Company's commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under FRS 116.

The new standard also introduces expanded disclosure requirements and changes in presentation.

Upon adoption of the standard, the estimated impact on Company's financial statements is expected to be an increase in non-current assets with a corresponding increase in current and non-current liabilities. The Company estimates that the increase in assets and liabilities will represent approximately 1% of the Company's total assets and 2% of total liabilities as of 31 December 2018 and expects no significant impact to retained earnings.

**28. Subsequent events**

On 12 April 2019, the Company acquired shares of Jumia Technologies AG from a related corporation, Mastercard Europe SA, for €50.0 million (\$57.3 million) in cash.

**29. Authorisation of financial statements**

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Mastercard Asia/Pacific Pte Ltd on 17 May 2019.