

Western Union CO
Form 10-Q
November 01, 2016
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO
SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
For the transition period from _____ to _____

Commission File Number: 001-32903
THE WESTERN UNION COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE 20-4531180
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)
12500 EAST BELFORD AVENUE 80112
ENGLEWOOD, CO (Zip Code)
(Address of principal executive offices)

Registrant's telephone number, including area code: (866) 405-5012

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a Smaller reporting company
 smaller reporting company)

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

As of October 28, 2016, 484,855,170 shares of the registrant's common stock were outstanding.

1

Table of Contents

THE WESTERN UNION COMPANY

INDEX

PAGE
NUMBER

PART I FINANCIAL INFORMATION

Item 1. <u>Financial Statements (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015</u>	4
<u>Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	55
Item 4. <u>Controls and Procedures</u>	55
<u>Review Report of Independent Registered Public Accounting Firm</u>	56

PART II OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	57
Item 1A. <u>Risk Factors</u>	62
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	63
Item 3. <u>Defaults Upon Senior Securities</u>	63
Item 4. <u>Mine Safety Disclosures</u>	63
Item 5. <u>Other Information</u>	63

Item 6. Exhibits

63

2

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

THE WESTERN UNION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenues:				
Transaction fees	\$960.4	\$994.9	\$2,840.7	\$2,931.8
Foreign exchange revenues	381.5	372.3	1,105.8	1,072.4
Other revenues	35.9	32.0	104.7	99.5
Total revenues	1,377.8	1,399.2	4,051.2	4,103.7
Expenses:				
Cost of services	822.9	817.2	2,424.2	2,388.4
Selling, general and administrative	276.6	277.5	829.8	887.7
Total expenses	1,099.5	1,094.7	3,254.0	3,276.1
Operating income	278.3	304.5	797.2	827.6
Other income/(expense):				
Interest income	1.1	3.0	2.7	8.4
Interest expense	(41.4)	(42.2)	(122.9)	(127.1)
Derivative gains, net	0.3	1.4	2.2	2.4
Other income/(expense), net	1.7	(1.3)	0.8	(6.4)
Total other expense, net	(38.3)	(39.1)	(117.2)	(122.7)
Income before income taxes	240.0	265.4	680.0	704.9
Provision for income taxes	23.1	33.1	71.8	79.4
Net income	\$216.9	\$232.3	\$608.2	\$625.5
Earnings per share:				
Basic	\$0.45	\$0.46	\$1.24	\$1.21
Diluted	\$0.44	\$0.45	\$1.23	\$1.20
Weighted-average shares outstanding:				
Basic	487.0	509.6	492.4	515.3
Diluted	490.3	513.2	495.5	519.4
Cash dividends declared per common share	\$0.16	\$0.155	\$0.48	\$0.465

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE WESTERN UNION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$216.9	\$232.3	\$608.2	\$625.5
Other comprehensive income/(loss), net of tax (Note 7):				
Unrealized gains/(losses) on investment securities	(2.1)	3.7	4.6	(2.1)
Unrealized losses on hedging activities	(12.1)	(4.2)	(39.2)	(1.8)
Foreign currency translation adjustments	0.6	(3.9)	(3.5)	(8.2)
Defined benefit pension plan adjustments	1.7	1.6	5.1	4.7
Total other comprehensive loss	(11.9)	(2.8)	(33.0)	(7.4)
Comprehensive income	\$205.0	\$229.5	\$575.2	\$618.1

See Notes to Condensed Consolidated Financial Statements.

4

Table of Contents

THE WESTERN UNION COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except per share amounts)

	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 1,280.7	\$ 1,315.9
Settlement assets	3,389.0	3,308.7
Property and equipment, net of accumulated depreciation of \$587.2 and \$538.2, respectively	224.4	231.8
Goodwill	3,162.3	3,163.8
Other intangible assets, net of accumulated amortization of \$955.4 and \$884.4, respectively	693.4	705.0
Other assets (Note 1)	768.9	724.0
Total assets	\$ 9,518.7	\$ 9,449.2
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 557.4	\$ 606.6
Settlement obligations	3,389.0	3,308.7
Income taxes payable	235.8	211.5
Deferred tax liability, net	272.8	272.6
Borrowings (Note 1)	3,224.8	3,215.9
Other liabilities	451.3	429.0
Total liabilities	8,131.1	8,044.3
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, \$1.00 par value; 10 shares authorized; no shares issued	—	—
Common stock, \$0.01 par value; 2,000 shares authorized; 485.2 shares and 502.4 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	4.9	5.0
Capital surplus	628.7	566.5
Retained earnings	930.9	977.3
Accumulated other comprehensive loss	(176.9	) (143.9)
Total stockholders' equity	1,387.6	1,404.9
Total liabilities and stockholders' equity	\$ 9,518.7	\$ 9,449.2

See Notes to Condensed Consolidated Financial Statements.

5

Table of Contents

THE WESTERN UNION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)

	Nine Months Ended		
	September 30,		
	2016		2015
Cash flows from operating activities			
Net income	\$ 608.2		\$ 625.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	55.0		49.6
Amortization	142.9		151.6
Other non-cash items, net	62.0		32.8
Increase/(decrease) in cash resulting from changes in:			
Other assets	(41.8)	)	(118.2)
Accounts payable and accrued liabilities	(50.2)	)	41.1
Income taxes payable	25.6		33.5
Other liabilities	20.2		(11.7)
Net cash provided by operating activities	821.9		804.2
Cash flows from investing activities			
Capitalization of contract costs	(85.9)	)	(110.5)
Capitalization of purchased and developed software	(39.7)	)	(30.5)
Purchases of property and equipment	(51.4)	)	(65.7)
Purchases of non-settlement related investments and other	(44.1)	)	(111.2)
Proceeds from maturity of non-settlement related investments and other	22.7		—
Purchases of held-to-maturity non-settlement related investments	(39.7))	—

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Proceeds from held-to-maturity non-settlement related investments	4.2		—	
Net cash used in investing activities	(233.9))	(317.9))
Cash flows from financing activities				
Cash dividends paid	(235.1)	)	(238.5))
Common stock repurchased (Note 7)	(419.8)	)	(441.9))
Principal payments on borrowings	—		(250.0))
Proceeds from exercise of options and other	31.7		75.3	
Net cash used in financing activities	(623.2)	)	(855.1))
Net change in cash and cash equivalents	(35.2)	)	(368.8))
Cash and cash equivalents at beginning of period	1,315.9		1,783.2	
Cash and cash equivalents at end of period	\$ 1,280.7		\$ 1,414.4	
Supplemental cash flow information:				
Interest paid	\$ 88.4		\$ 91.5	
Income taxes paid	\$ 46.8		\$ 51.3	

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE WESTERN UNION COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Business and Basis of Presentation

Business

The Western Union Company ("Western Union" or the "Company") is a leader in global money movement and payment services, providing people and businesses with fast, reliable and convenient ways to send money and make payments around the world. The Western Union® brand is globally recognized. The Company's services are primarily available through a network of agent locations in more than 200 countries and territories. Each location in the Company's agent network is capable of providing one or more of the Company's services.

The Western Union business consists of the following segments:

Consumer-to-Consumer - The Consumer-to-Consumer operating segment facilitates money transfers between two consumers, primarily through a network of third-party agents. The Company's multi-currency, real-time money transfer service is viewed by the Company as one interconnected global network where a money transfer can be sent from one location to another, around the world. This service is available for international cross-border transfers - that is, the transfer of funds from one country to another - and, in certain countries, intra-country transfers - that is, money transfers from one location to another in the same country. This segment also includes money transfer transactions that can be initiated through websites and mobile devices.

Consumer-to-Business - The Consumer-to-Business operating segment facilitates bill payments from consumers to businesses and other organizations, including utilities, auto finance companies, mortgage servicers, financial service providers, government agencies and other businesses. The significant majority of the segment's revenue was generated in the United States during all periods presented, with the remainder primarily generated in Argentina.

Business Solutions - The Business Solutions operating segment facilitates payment and foreign exchange solutions, primarily cross-border, cross-currency transactions, for small and medium size enterprises and other organizations and individuals. The majority of the segment's business relates to exchanges of currency at spot rates, which enable customers to make cross-currency payments. In addition, in certain countries, the Company writes foreign currency forward and option contracts for customers to facilitate future payments.

All businesses that have not been classified in the above segments are reported as "Other" and include the Company's money order and other services, in addition to costs for the review and closing of acquisitions.

There are legal or regulatory limitations on transferring certain assets of the Company outside of the countries where these assets are located. However, there are generally no limitations on the use of these assets within those countries. Additionally, the Company must meet minimum capital requirements in some countries in order to maintain operating licenses. As of December 31, 2015, the amount of net assets subject to these limitations totaled approximately \$300 million, and there have been no material changes to these limitations subsequent to that date.

Various aspects of the Company's services and businesses are subject to United States federal, state and local regulation, as well as regulation by foreign jurisdictions, including certain banking and other financial services regulations.

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited and were prepared in accordance with the instructions for Form 10-Q and Article 10 of Regulation S-X. In compliance with those instructions, certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The unaudited condensed consolidated financial statements in this quarterly report are presented on a consolidated basis and include the accounts of the Company and its majority-owned subsidiaries. Results of operations and cash flows for the interim periods are not necessarily indicative of the results that may be expected for the entire year. All significant intercompany transactions and accounts were eliminated as of September 30, 2016 and December 31, 2015 and for all periods presented.

In the opinion of management, these condensed consolidated financial statements include all the normal recurring adjustments necessary to fairly present the Company's condensed consolidated results of operations, financial position and cash flows as of September 30, 2016 and for all periods presented. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements within the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Consistent with industry practice, the accompanying Condensed Consolidated Balance Sheets are unclassified due to the short-term nature of the Company's settlement obligations contrasted with the Company's ability to invest cash awaiting settlement in long-term investment securities.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

New Accounting Pronouncements

On January 1, 2016, the Company adopted an accounting pronouncement that requires capitalized debt issuance costs to be presented as a reduction to the carrying value of debt, with adoption retrospective for periods previously presented. The adoption of this standard resulted in a reduction of \$9.7 million to the "Other assets" and "Borrowings" lines within the Condensed Consolidated Balance Sheet as of December 31, 2015.

In May 2014, the Financial Accounting Standards Board issued a new accounting pronouncement regarding revenue from contracts with customers. This new standard provides guidance on recognizing revenue, including a five step model to determine when revenue recognition is appropriate. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company is required to adopt the new standard on January 1, 2018. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

In January 2016, the Financial Accounting Standards Board issued a new accounting pronouncement regarding classification and measurement of financial instruments. This new standard provides guidance on how entities measure certain equity investments and present changes in the fair value. This standard requires that entities measure certain equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. The Company is required to adopt the new standard on January 1, 2018. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

In February 2016, the Financial Accounting Standards Board issued a new accounting pronouncement regarding the financial reporting of leasing transactions. This new standard requires a lessee to record assets and liabilities on the balance sheet for the rights and obligations arising from leases with terms of more than 12 months. The Company is required to adopt the new standard on January 1, 2019 using a modified retrospective approach. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

In March 2016, the Financial Accounting Standards Board issued a new accounting pronouncement regarding share-based payments to employees. This new standard requires that all excess tax benefits and tax deficiencies be recognized as income tax expense (benefit) in the income statement and that excess tax benefits be included as an operating activity for the cash flow statement. While this new standard also allows entities to either estimate share-based awards that are expected to vest or account for forfeitures as they occur, the Company intends to continue its current practice of estimating forfeitures when calculating compensation expense. Furthermore, the new standard also changes the tax withholding threshold for awards to qualify for accounting in equity. However, as all of the Company's awards have qualified for equity accounting, such change is not expected to impact the Company's current practices related to the accounting for share-based payments. The Company is required to adopt the new standard on January 1, 2017. Management believes that the adoption of this standard will not have a material impact on the Company's financial position, results of operations, and related disclosures.

In June 2016, the Financial Accounting Standards Board issued a new accounting pronouncement regarding credit losses for financial instruments. The new standard requires entities to measure expected credit losses for certain financial assets held at the reporting date using a current expected credit loss model, which is based on historical experience, adjusted for current conditions and reasonable and supportable forecasts. The Company is required to adopt the new standard on January 1, 2020. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

2. Earnings Per Share

The calculation of basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Outstanding options to purchase Western Union stock and unvested shares of restricted stock are excluded from basic shares outstanding. Diluted earnings per share reflects the potential dilution that could occur if outstanding stock options at the presented dates are exercised and shares of restricted stock have vested, using the treasury stock method. The treasury stock method assumes proceeds from the exercise price of stock options, the unamortized compensation expense and assumed tax benefits of options and restricted stock are available to acquire shares at an average market price throughout the period, and therefore, reduce the dilutive effect.

For the three months ended September 30, 2016 and 2015, there were 2.4 million and 7.1 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation, as their effect was anti-dilutive. For the nine months ended September 30, 2016 and 2015, there were 3.9 million and 5.8 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation, as their effect was anti-dilutive.

The following table provides the calculation of diluted weighted-average shares outstanding (in millions):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Basic weighted-average shares outstanding	487.0	509.6	492.4	515.3
Common stock equivalents	3.3	3.6	3.1	4.1

Diluted weighted-average shares outstanding 490.3 513.2 495.5 519.4

9

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

3. Fair Value Measurements

Fair value, as defined by the relevant accounting standards, represents the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. For additional information on how the Company measures fair value, refer to the Company's consolidated financial statements within the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The following tables reflect assets and liabilities that were measured at fair value on a recurring basis (in millions):

	Fair Value Measurement Using		Assets/ Liabilities at Fair Value
	Level 1	Level 2	
September 30, 2016			
Assets:			
Settlement assets:			
State and municipal debt securities	\$ —	\$ 969.9	\$ —\$ 969.9
State and municipal variable rate demand notes	—	108.2	— 108.2
Corporate and other debt securities	—	39.9	— 39.9
Other assets:			
Derivatives	—	366.1	— 366.1
Total assets	\$ —	\$ 1,484.1	\$ —\$ 1,484.1
Liabilities:			
Derivatives	\$ —	\$ 278.4	\$ —\$ 278.4
Total liabilities	\$ —	\$ 278.4	\$ —\$ 278.4
	Fair Value Measurement Using		Assets/ Liabilities at Fair Value
	Level 1	Level 2	
December 31, 2015			
Assets:			
Settlement assets:			
State and municipal debt securities	\$ —	\$ 1,052.5	\$ —\$ 1,052.5
State and municipal variable rate demand notes	—	42.9	— 42.9
Corporate and other debt securities	—	67.2	— 67.2
Other assets:			
Derivatives	—	396.3	— 396.3
Total assets	\$ —	\$ 1,558.9	\$ —\$ 1,558.9
Liabilities:			
Derivatives	\$ —	\$ 283.7	\$ —\$ 283.7
Total liabilities	\$ —	\$ 283.7	\$ —\$ 283.7

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

No non-recurring fair value adjustments were recorded during the three and nine months ended September 30, 2016 and 2015.

Other Fair Value Measurements

The carrying amounts for many of the Company's financial instruments, including cash and cash equivalents, settlement cash and cash equivalents, and settlement receivables and settlement obligations approximate fair value due to their short maturities. The Company's borrowings are classified as Level 2 of the valuation hierarchy, and the aggregate fair value of these borrowings was based on quotes from multiple banks and excluded the impact of related interest rate swaps. Fixed rate notes are carried in the Company's Condensed Consolidated Balance Sheets at their original issuance values as adjusted over time to accrete that value to par, except for portions of notes hedged by these interest rate swaps, as disclosed in Note 8. As of September 30, 2016, the carrying value and fair value of the Company's borrowings was \$3,224.8 million and \$3,328.0 million, respectively (see Note 9). As of December 31, 2015, the carrying value and fair value of the Company's borrowings was \$3,215.9 million and \$3,279.6 million, respectively.

The Company's investments in foreign corporate debt securities are classified as held-to-maturity securities within Level 2 of the valuation hierarchy and are recorded at amortized cost in "Other Assets" in the Company's Condensed Consolidated Balance Sheets. As of September 30, 2016, the carrying value and fair value of the Company's foreign corporate debt securities was \$44.8 million and \$44.9 million, respectively. As of December 31, 2015, the carrying value and fair value of the Company's foreign corporate debt securities was \$9.3 million.

4. Commitments and Contingencies

Letters of Credit and Bank Guarantees

The Company had approximately \$180 million in outstanding letters of credit and bank guarantees as of September 30, 2016 that are primarily held in connection with safeguarding consumer funds, lease arrangements, and certain agent agreements. The letters of credit and bank guarantees have expiration dates through 2021, with many having a one-year renewal option. The Company expects to renew the letters of credit and bank guarantees prior to expiration in most circumstances.

Litigation and Related Contingencies

The Company is subject to certain claims and litigation that could result in losses, including damages, fines and/or civil penalties, which could be significant, and in some cases, criminal charges. The Company regularly evaluates the status of legal matters to assess whether a loss is probable and reasonably estimable in determining whether an accrual is appropriate. Furthermore, in determining whether disclosure is appropriate, the Company evaluates each legal matter to assess if there is at least a reasonable possibility that a loss or additional loss may have been incurred and whether an estimate of possible loss or range of loss can be made. Unless otherwise specified below, the Company believes that there is at least a reasonable possibility that a loss or additional loss may have been incurred for each of the matters described below. For certain of these matters, management is unable to provide a meaningful estimate of the possible loss or range of loss because, among other reasons: (a) the proceedings are in preliminary stages; (b) specific damages have not been sought; (c) damage claims are unsupported and/or unreasonable; (d) there is uncertainty as to the outcome of pending appeals or motions; (e) there are significant factual issues to be resolved; or

(f) novel legal issues or unsettled legal theories are being asserted.

State of Arizona Settlement Agreement

On February 11, 2010, Western Union Financial Services, Inc. ("WUFSI"), a subsidiary of the Company, signed a settlement agreement ("Southwest Border Agreement"), which resolved all outstanding legal issues and claims with the State of Arizona (the "State") and required the Company to fund a multi-state not-for-profit organization promoting safety and security along the U.S. and Mexico border, in which California, Texas and New Mexico are participating with the State. As part of the Southwest Border Agreement, the Company has made and expects to make certain investments in its anti-money laundering ("AML") compliance programs along the U.S. and Mexico border and a monitor (the "Monitor") has been engaged for those programs. The Company has incurred, and expects to continue to incur, significant costs in connection with the Southwest Border Agreement. The Monitor has made a number of primary and secondary recommendations related to WUFSI's AML compliance programs, which WUFSI has implemented or is implementing, including programs related to the Company's Business Solutions segment.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

On January 31, 2014, the Southwest Border Agreement was amended to extend its term until December 31, 2017 (the "Amendment"). The Amendment imposes additional obligations on the Company and WUFSI in connection with WUFSI's AML compliance programs and cooperation with law enforcement. In particular, the Amendment requires WUFSI to continue implementing the primary and secondary recommendations made by the Monitor, and includes, among other things, timeframes for implementing such primary and secondary recommendations. Under the Amendment, the Monitor could make additional primary recommendations until January 1, 2015 and may make additional secondary recommendations until January 31, 2017. After these dates, the Monitor may only make additional primary or secondary recommendations, as applicable, that meet certain requirements as set forth in the Amendment.

WUFSI implemented all of the primary recommendations prior to October 31, 2015. On June 29, 2016, the Monitor notified WUFSI and the State that the Monitor had determined that (i) WUFSI had successfully implemented all of the primary recommendations, and (ii) WUFSI has implemented an effective AML compliance program along the U.S. and Mexico border. On July 27, 2016, the Monitor delivered its final report for the primary recommendations period and the Superior Court of Arizona in and for Maricopa County accepted the report. Accordingly, the State cannot pursue any remedies under the Southwest Border Agreement with respect to the primary recommendations.

The Amendment also provides until June 30, 2017 for implementation of the secondary recommendations, and provides a deadline of December 31, 2017 for the Monitor to issue a report evaluating implementation of the secondary recommendations. If the Monitor concludes in that report that WUFSI has not implemented an effective AML compliance program along the U.S. and Mexico border, the State cannot assert a willful and material breach of the Southwest Border Agreement but may require WUFSI to pay \$25 million (the "Secondary Period Remedy"). There is no monetary penalty associated with secondary recommendations that were classified as such on the date of the Amendment or any new secondary recommendations that the Monitor makes after the date of the Amendment. There are currently 15 such secondary recommendations and groups of secondary recommendations.

The Amendment requires WUFSI to continue funding the Monitor's reasonable expenses in \$500,000 increments as requested by the Monitor. The Amendment also requires WUFSI to make a one-time payment of \$250,000, which was paid in March 2014, and thereafter \$150,000 per month for five years from the date of the Amendment to fund the activities and expenses of a money transfer transaction data analysis center formed by WUFSI and a Financial Crimes Task Force comprised of federal, state and local law enforcement representatives, including those from the State. In addition, California, Texas, and New Mexico are participating in the money transfer transaction data analysis center.

The changes in WUFSI's AML compliance program required by the Southwest Border Agreement, including the Amendment, and the Monitor's recommendations have had, and will continue to have, adverse effects on the Company's business, including additional costs. The Company is unable at this stage to predict whether the Monitor will conclude at the end of the timeframe for implementing the secondary recommendations that WUFSI has successfully implemented the secondary recommendations and has an effective AML compliance program, and, accordingly, whether the State will pursue the Secondary Period Remedy.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

United States Department of Justice Investigations

On March 20, 2012, the Company was served with a federal grand jury subpoena issued by the United States Attorney's Office for the Central District of California ("USAO-CDCA") seeking documents relating to Shen Zhou International ("US Shen Zhou"), a former Western Union agent located in Monterey Park, California. The principal of US Shen Zhou was indicted in 2010 and in December 2013, pled guilty to one count of structuring international money transfers in violation of United States federal law in U.S. v. Zhi He Wang (SA CR 10-196, C.D. Cal.). Concurrent with the government's service of the subpoena, the government notified the Company that it is a target of an ongoing investigation into structuring and money laundering. Since March 20, 2012, the Company has received additional subpoenas from the USAO-CDCA seeking additional documents relating to US Shen Zhou, materials relating to certain other former and current agents and other materials relating to the Company's AML compliance policies and procedures. The government has interviewed several current and former Western Union employees and has served grand jury subpoenas seeking testimony from several current and former employees. The government's investigation is ongoing and the Company may receive additional requests for information as part of the investigation. The Company has provided and continues to provide information and documents to the government.

In March 2012, the Company was served with a federal grand jury subpoena issued by the United States Attorney's Office for the Eastern District of Pennsylvania ("USAO-EDPA") seeking documents relating to Hong Fai General Contractor Corp. (formerly known as Yong General Construction) ("Hong Fai"), a former Western Union agent located in Philadelphia, Pennsylvania. Since March 2012, the Company has received additional subpoenas from the USAO-EDPA seeking additional documents relating to Hong Fai. The government's investigation is ongoing and the Company may receive additional requests for information as part of the investigation. The Company has provided and continues to provide information and documents to the government. The government has interviewed several current and former Western Union employees. In March 2016, the government filed a criminal complaint against the principal of Hong Fai General Contractor Corp. and in June 2016, he pled guilty to one count of mail fraud, two counts of transporting illegal aliens and one count of tax evasion in violation of United States federal law in U.S. v. Yong Quan Zheng (2:16-cr-00212-AB E. D. Pa.).

On November 25, 2013, the Company was served with a federal grand jury subpoena issued by the United States Attorney's Office for the Middle District of Pennsylvania ("USAO-MDPA") seeking documents relating to complaints made to the Company by consumers anywhere in the world relating to fraud-induced money transfers since January 1, 2008. Concurrent with the government's service of the subpoena, the government notified the Company that it is the subject of the investigation. Since November 25, 2013, the Company has received additional subpoenas from the USAO-MDPA seeking documents relating to certain Western Union agents and Western Union's agent suspension and termination policies. The government has interviewed several current and former employees and has served grand jury subpoenas seeking testimony from several current and former employees. The government has indicated that it believes Western Union failed to timely terminate or suspend certain Western Union agents who allegedly paid or forwarded thousands of fraud-induced transactions sent from the United States to various countries from at least 2008 to 2012. The government's investigation is ongoing and the Company may receive additional requests for information as part of the investigation. The Company has provided and continues to provide information and documents to the government.

On March 6, 2014, the Company was served with a federal grand jury subpoena issued by the United States Attorney's Office for the Southern District of Florida ("USAO-SDFL") seeking a variety of AML compliance materials, including documents relating to the Company's AML, Bank Secrecy Act ("BSA"), Suspicious Activity Report

("SAR") and Currency Transaction Report procedures, transaction monitoring protocols, BSA and AML training programs and publications, AML compliance investigation reports, compliance-related agent termination files, SARs, BSA audits, BSA and AML-related management reports and AML compliance staffing levels. The subpoena also calls for Board meeting minutes and organization charts. The period covered by the subpoena is January 1, 2007 to November 27, 2013. Since March 6, 2014, the Company has received seizure warrants and additional subpoenas from the USAO-SDFL seeking documents relating to certain Western Union agents in, and certain transactions to, specified countries. The government advised the Company that it is investigating concerns the Company was aware there were gaming transactions being sent to Panama, Nicaragua, Haiti, Philippines, Vietnam, the Dominican Republic, Peru, Antigua, the Bahamas, and Costa Rica and that the Company failed to take proper steps to stop the activity. The government has also notified the Company that it is a target of the investigation. The government has interviewed several current and former Western Union employees. The government's investigation is ongoing and the Company may receive additional requests for information or seizure warrants as part of the investigation. The Company has provided and continues to provide information and documents to the government.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The Company anticipates entering into discussions with the United States Department of Justice to potentially resolve the four investigations described immediately above. Due to the stage of these matters and the fact that no criminal charges or civil claims have been brought, the Company is unable to predict the outcome of these matters, or reasonably estimate the possible loss or range of loss, if any, which could be associated with the potential resolution of these matters or with any possible charges or claims that may be brought against the Company in connection with them. Should such charges or claims be brought, or should the Company reach a resolution of these matters with the United States Department of Justice, the Company could face significant fines, payments, damage awards or regulatory consequences which could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Federal Trade Commission Investigation

The Company has had discussions with the United States Federal Trade Commission (the "FTC") regarding the Company's consumer protection and anti-fraud programs. On December 12, 2012, the Company received a civil investigative demand from the FTC requesting that the Company produce (i) all documents relating to communications with the Monitor appointed pursuant to the Southwest Border Agreement, including information the Company provided to the Monitor and any reports prepared by the Monitor; and (ii) all documents relating to complaints made to the Company by consumers anywhere in the world relating to fraud-induced money transfers since January 1, 2011. On April 15, 2013, the FTC filed a petition in the United States District Court for the Southern District of New York requesting an order to compel production of the requested documents. On June 6, 2013, the Court granted in part and denied in part the FTC's request. On August 14, 2013, the FTC filed a notice of appeal. On August 27, 2013, Western Union filed a notice of cross-appeal. On February 21, 2014, the Company received another civil investigative demand from the FTC requesting the production of all documents relating to complaints made to the Company by or on behalf of consumers relating to fraud-induced money transfers that were sent from or received in the United States since January 1, 2004, except for documents that were already produced to the FTC in response to the first civil investigative demand. On October 7, 2014, the United States Court of Appeals for the Second Circuit entered a summary order reversing in part and vacating and remanding in part the June 6, 2013 order entered by the United States District Court for the Southern District of New York. On October 22, 2014, the Company received another civil investigative demand issued by the FTC requesting documents and information since January 1, 2004 relating to the Company's consumer fraud program, its policies and procedures governing agent termination, suspension, probation and reactivation, its efforts to comply with its 2005 agreement with 47 states and the District of Columbia regarding consumer fraud prevention, and complaints made to the Company by or on behalf of consumers concerning fraud-induced money transfers that were sent to or from the United States, excluding complaint-related documents that were produced to the FTC in response to the earlier civil investigative demands. The civil investigative demand also seeks various documents concerning approximately 720 agents, including documents relating to the transactions they sent and paid and the Company's investigations of and communications with them. On July 31, 2015, the Company received another civil investigative demand requesting documents and information relating to the total number of agent and subagent locations in 13 countries annually since 2010, the average and median dollar values for money transfers sent anywhere in the world annually since 2010, copies of the Company's anti-fraud programs, know your agent policy, know your customer policy, representative agent contracts, transaction data, background investigation documents and fraud complaints associated with four agents in Greece, Peru and Mexico and consumer fraud reports not already produced to the FTC. The Company has responded to each of the civil investigative demands it has received from the FTC and may receive additional civil investigative demands. In the second quarter of 2016, the FTC advised the Company of its view that the Company violated Section 5 of the Federal Trade Commission Act and the Telemarketing Sales rule by failing to take timely, appropriate, and effective measures to mitigate fraud in the processing of money transfers sent by consumers. Since that time, the Company has engaged in discussions with the FTC seeking to reach an appropriate resolution of this matter. The FTC staff has advised the Company that it believes that the Company bears responsibility for principal amounts of what it alleges to be hundreds of millions of dollars in fraud-induced money transfers, or a multiple thereof based on the FTC's belief that fraud-induced money transfers are underreported by consumers, dating back to 2004. The Company strongly disagrees with the FTC's assertions regarding its potential liability and any scope thereof, but has continued to engage in discussions with the FTC in an effort to reach an appropriate resolution of this matter. As of September 30, 2016, the Company adjusted its accrual to \$30 million, based on its recent offer towards a proposed resolution and upon other facts and circumstances known to the Company. Due to the stage of the discussions, the Company is unable to predict the possible range of additional loss exceeding the amount already accrued for this matter. There can be no assurance

that the Company will reach an agreement with the FTC and the amount of any loss ultimately incurred in relation to this matter may be substantially higher than the amount currently accrued. The FTC staff has advised the Company that it will request authority from the FTC to file a complaint against the Company in United States federal court if it is not able to reach an agreement with the Company. Should the Company enter into a settlement agreement with the FTC, or if the FTC files a complaint against the Company, the Company could be required to make significant restitution and/or other payments and changes to its programs, any of which separately or combined could have a material adverse effect on the Company's business, financial condition and results of operations. If the FTC files a complaint against the Company, the Company intends to defend itself vigorously.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Other Matters

Since 2011, Western Union has received several civil investigative demands from a group of state attorneys general in connection with an investigation into the adequacy of the Company's consumer protection efforts. The civil investigative demands sought information and documents relating to money transfers sent from the United States to certain countries, consumer fraud complaints that the Company has received and the Company's procedures to help identify and prevent fraudulent transfers. The Company has provided and continues to provide information and documents to the attorneys general. Due to the stage of the investigation, the Company is unable to predict the outcome of the investigation, or reasonably estimate the possible loss or range of loss, if any, which could be associated with any possible civil claims that might be brought by one or more of the states. Should such claims be brought, the Company could face significant fines, damage awards, or regulatory consequences, or compulsory changes in our business practices, that could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

The Company and one of its subsidiaries are defendants in two purported class action lawsuits: James P. Tennille v. The Western Union Company and Robert P. Smet v. The Western Union Company, both of which are pending in the United States District Court for the District of Colorado. The original complaints asserted claims for violation of various consumer protection laws, unjust enrichment, conversion and declaratory relief, based on allegations that the Company waits too long to inform consumers if their money transfers are not redeemed by the recipients and that the Company uses the unredeemed funds to generate income until the funds are escheated to state governments. The Tennille complaint was served on the Company on April 27, 2009. The Smet complaint was served on the Company on April 6, 2010. On September 21, 2009, the Court granted the Company's motion to dismiss the Tennille complaint and gave the plaintiff leave to file an amended complaint. On October 21, 2009, Tennille filed an amended complaint. The Company moved to dismiss the Tennille amended complaint and the Smet complaint. On November 8, 2010, the Court denied the motion to dismiss as to the plaintiffs' unjust enrichment and conversion claims. On February 4, 2011, the Court dismissed the plaintiffs' consumer protection claims. On March 11, 2011, the plaintiffs filed an amended complaint that adds a claim for breach of fiduciary duty, various elements to its declaratory relief claim and WUFISI as a defendant. On April 25, 2011, the Company and WUFISI filed a motion to dismiss the breach of fiduciary duty and declaratory relief claims. WUFISI also moved to compel arbitration of the plaintiffs' claims and to stay the action pending arbitration. On November 21, 2011, the Court denied the motion to compel arbitration and the stay request. Both companies appealed the decision. On January 24, 2012, the United States Court of Appeals for the Tenth Circuit granted the companies' request to stay the District Court proceedings pending their appeal. During the fourth quarter of 2012, the parties executed a settlement agreement, which the Court preliminarily approved on January 3, 2013. On June 25, 2013, the Court entered an order certifying the class and granting final approval to the settlement. Under the approved settlement, a substantial amount of the settlement proceeds, as well as all of the class counsel's fees, administrative fees and other expenses, would be paid from the class members' unclaimed money transfer funds, which are included within "Settlement obligations" in the Company's Condensed Consolidated Balance Sheets. These fees and other expenses are currently estimated to be approximately \$50 million. During the final approval hearing, the Court overruled objections to the settlement that had been filed by several class members. In July 2013, two of those class members filed notices of appeal. On May 1, 2015, the United States Court of Appeals for the Tenth Circuit affirmed the District Court's decision to overrule the objections filed by the two class members who appealed. On January 11, 2016, the United States Supreme Court denied petitions for certiorari that were filed by the two class members who appealed. On February 1, 2016, pursuant to the settlement agreement and the Court's June 25, 2013 final approval order, Western Union deposited the class members' unclaimed money transfer funds into a class settlement fund, from which class member claims, administrative fees and class counsel's fees, as well as other

expenses will be paid. On November 6, 2013, the Attorney General of California notified Western Union of the California Controller's position that Western Union's deposit of the unclaimed money transfer funds into the class settlement fund pursuant to the settlement "will not satisfy Western Union's obligations to report and remit funds" under California's unclaimed property law, and that "Western Union will remain liable to the State of California" for the funds that would have escheated to California in the absence of the settlement. The State of Pennsylvania and District of Columbia have previously expressed similar views. Other states have also recently expressed concerns about the settlement and many have not yet expressed an opinion. Since some states and jurisdictions believe that the Company must escheat its full share of the settlement fund and that the deductions for class counsel's fees, administrative costs, and other expenses that are required under the settlement agreement are not permitted, there is a reasonable possibility a loss could result up to approximately the amount of those fees and other expenses. However, given the number of jurisdictions involved and the fact that no actions have been brought, the Company is unable to provide a more precise estimate of the range of possible loss.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

On March 12, 2014, Jason Douglas filed a purported class action complaint in the United States District Court for the Northern District of Illinois asserting a claim under the Telephone Consumer Protection Act, 47 U.S.C. § 227, et seq., based on allegations that since 2009, the Company has sent text messages to class members' wireless telephones without their consent. During the first quarter of 2015, the Company's insurance carrier and the plaintiff reached an agreement to create an \$8.5 million settlement fund that will be used to pay all class member claims, class counsel's fees and the costs of administering the settlement. The agreement has been signed by the parties and, on November 10, 2015, the Court granted preliminary approval to the settlement. The Company accrued an amount equal to the retention under its insurance policy in previous quarters and believes that any amounts in excess of this accrual will be covered by the insurer. However, if the Company's insurer is unable to or refuses to satisfy its obligations under the policy or the parties are unable to reach a definitive agreement or otherwise agree on a resolution, the Company's financial condition, results of operations, and cash flows could be adversely impacted. As the parties have reached an agreement in this matter, the Company believes that the potential for additional loss in excess of amounts already accrued is remote.

On February 10, 2015, Caryn Pincus filed a purported class action lawsuit in the United States District Court for the Southern District of Florida against Speedpay, Inc. ("Speedpay"), a subsidiary of the Company, asserting claims based on allegations that Speedpay imposed an unlawful surcharge on credit card transactions and that Speedpay engages in money transmission without a license. The complaint requests certification of a class and two subclasses generally comprised of consumers in Florida who made a payment through Speedpay's bill payment services using a credit card and were charged a surcharge for such payment during the four-year and five-year periods prior to the filing of the complaint through the date of class certification. On April 6, 2015, Speedpay filed a motion to dismiss the complaint. On April 23, 2015, in response to the motion to dismiss, Pincus filed an amended complaint that adds claims (1) under the Florida Civil Remedies for Criminal Practices Act, which authorizes civil remedies for certain criminal conduct; and (2) for violation of the federal Racketeer Influenced and Corrupt Organizations Act ("RICO"). On May 15, 2015, Speedpay filed a motion to dismiss the amended complaint. On October 6, 2015, the Court entered an order denying Speedpay's motion to dismiss. On October 20, 2015, Speedpay filed an answer to the amended complaint. On December 1, 2015, Pincus filed a second amended complaint that revised her factual allegations, but added no new claims. On December 18, 2015, Speedpay filed an answer to the second amended complaint. On May 20, 2016, Speedpay filed a motion for judgment on the pleadings as to Pincus' Florida Civil Remedies for Criminal Practices Act and federal RICO claims. On June 7, 2016, Pincus filed an opposition to Speedpay's motion for judgment on the pleadings. On June 17, 2016, Speedpay filed a reply brief in support of the motion. On October 28, 2016, Pincus filed a motion seeking class certification. The motion seeks the certification of a class consisting of "All (i) persons in Florida (ii) who paid Speedpay, Inc. a fee for using Speedpay, Inc.'s electronic payment services (iii) during the five year period prior to the filing of the complaint in this action through the present." As this action is in a preliminary stage, the Company is unable to predict the outcome, or the possible loss or range of loss, if any, which could be associated with this action. Speedpay intends to vigorously defend itself in this matter.

In addition to the principal matters described above, the Company is a party to a variety of other legal matters that arise in the normal course of the Company's business. While the results of these other legal matters cannot be predicted with certainty, management believes that the final outcome of these matters will not have a material adverse effect either individually or in the aggregate on the Company's financial condition, results of operations, or cash flows.

On January 26, 2006, the First Data Corporation ("First Data") Board of Directors announced its intention to pursue the distribution of all of its money transfer and consumer payments business and its interest in a Western Union

money transfer agent, as well as its related assets, including real estate, through a tax-free distribution to First Data shareholders (the "Spin-off"). The Spin-off resulted in the formation of the Company and these assets and businesses no longer being part of First Data. Pursuant to the separation and distribution agreement with First Data in connection with the Spin-off, First Data and the Company are each liable for, and agreed to perform, all liabilities with respect to their respective businesses. In addition, the separation and distribution agreement also provides for cross-indemnities principally designed to place financial responsibility for the obligations and liabilities of the Company's business with the Company and financial responsibility for the obligations and liabilities of First Data's retained businesses with First Data. The Company also entered into a tax allocation agreement ("Tax Allocation Agreement") that sets forth the rights and obligations of First Data and the Company with respect to taxes imposed on their respective businesses both prior to and after the Spin-off as well as potential tax obligations for which the Company may be liable in conjunction with the Spin-off (see Note 10).

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

5. Related Party Transactions

The Company has ownership interests in certain of its agents accounted for under the equity method of accounting. The Company pays these agents commissions for money transfer and other services provided on the Company's behalf. Commission expense recognized for these agents for the three months ended September 30, 2016 and 2015 totaled \$17.5 million and \$15.8 million, respectively, and \$50.2 million and \$48.7 million for the nine months ended September 30, 2016 and 2015, respectively.

6. Settlement Assets and Obligations and Non-Settlement Related Investments

Settlement assets represent funds received or to be received from agents for unsettled money transfers, money orders and consumer payments. The Company records corresponding settlement obligations relating to amounts payable under money transfers, money orders and consumer payment service arrangements. Settlement assets and obligations also include amounts receivable from, and payable to, customers for the value of their cross-currency payment transactions related to the Business Solutions segment.

Settlement assets and obligations consisted of the following (in millions):

	2016	2015
Settlement assets:		
Cash and cash equivalents	\$1,153.7	\$1,075.7
Receivables from selling agents and Business Solutions customers	1,117.3	1,070.4
Investment securities	1,118.0	1,162.6
	\$3,389.0	\$3,308.7
Settlement obligations:		
Money transfer, money order and payment service payables	\$2,449.1	\$2,428.5
Payables to agents	939.9	880.2
	\$3,389.0	\$3,308.7

Investment securities included in "Settlement assets" in the Company's Condensed Consolidated Balance Sheets consist primarily of highly-rated state and municipal debt securities, including fixed rate term notes and variable rate demand notes. Variable rate demand note securities can be put (sold at par) typically on a daily basis with settlement periods ranging from the same day to one week, but have varying maturities through 2049. These securities may be used by the Company for short-term liquidity needs and held for short periods of time. The Company is required to hold highly-rated, investment grade securities and such investments are restricted to satisfy outstanding settlement obligations in accordance with applicable state and foreign country requirements.

The substantial majority of the Company's investment securities are classified as available-for-sale and recorded at fair value. Investment securities are exposed to market risk due to changes in interest rates and credit risk. Western Union regularly monitors credit risk and attempts to mitigate its exposure by investing in highly-rated securities and through investment diversification.

Unrealized gains and losses on available-for-sale securities are excluded from earnings and presented as a component of accumulated other comprehensive loss, net of related deferred taxes. Gains and losses on investments are calculated using the specific-identification method and are recognized during the period in which the investment is sold or when an investment experiences an other-than-temporary decline in value. Proceeds from the sale and maturity of available-for-sale securities during the nine months ended September 30, 2016 and 2015 were \$2.9 billion and \$8.5

billion, respectively. The decline in proceeds from the sale and maturity of available-for-sale securities for the nine months ended September 30, 2016 compared to the prior period was primarily due to reduced sales of variable rate demand note securities.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The components of investment securities are as follows (in millions):

September 30, 2016	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains
Settlement assets:					
Available-for-sale securities:					
State and municipal debt securities (a)	\$ 951.8	\$ 969.9	\$ 19.1	\$ (1.0)	\$ 18.1
State and municipal variable rate demand notes	108.2	108.2	—	—	—
Corporate and other debt securities	38.8	39.9	1.1	—	1.1
	1,098.8	1,118.0	20.2	(1.0)	19.2
Other assets:					
Held-to-maturity securities:					
Foreign corporate debt securities	44.8	44.9	0.1	—	0.1
	\$ 1,143.6	\$ 1,162.9	\$ 20.3	\$ (1.0)	\$ 19.3
December 31, 2015	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/ (Losses)
Settlement assets:					
Available-for-sale securities:					
State and municipal debt securities (a)	\$ 1,040.3	\$ 1,052.5	\$ 14.2	\$ (2.0)	\$ 12.2
State and municipal variable rate demand notes	42.9	42.9	—	—	—
Corporate and other debt securities	67.3	67.2	—	(0.1)	(0.1)
	1,150.5	1,162.6	14.2	(2.1)	12.1
Other assets:					
Held-to-maturity securities:					
Foreign corporate debt securities	9.3	9.3	—	—	—
	\$ 1,159.8	\$ 1,171.9	\$ 14.2	\$ (2.1)	\$ 12.1

(a) The majority of these securities are fixed rate instruments.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following summarizes the contractual maturities of settlement-related debt securities as of September 30, 2016 (in millions):

	Fair Value
Due within 1 year	\$132.6
Due after 1 year through 5 years	538.4
Due after 5 years through 10 years	322.9
Due after 10 years	124.1
	\$1,118.0

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay the obligations or the Company may have the right to put the obligation prior to its contractual maturity, as with variable rate demand notes. Variable rate demand notes, having a fair value of \$12.4 million and \$95.8 million are included in the "Due after 5 years through 10 years" and "Due after 10 years" categories, respectively, in the table above. The significant majority of the held-to-maturity foreign corporate debt securities are due within 1 year.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

7. Stockholders' Equity

Accumulated other comprehensive loss

The following table summarizes the components of accumulated other comprehensive loss, net of tax (in millions). All amounts reclassified from accumulated other comprehensive loss affect the line items as indicated below within the Condensed Consolidated Statements of Income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Unrealized gains on investment securities, beginning of period	\$14.5	\$3.1	\$7.8	\$8.9
Unrealized gains/(losses)	(2.1)	5.7	10.1	(1.6)
Tax (expense)/benefit	0.8	(2.0)	(3.6)	0.7
Reclassification of gains into "Other revenues"	(1.2)	—	(3.0)	(1.8)
Tax expense related to reclassifications	0.4	—	1.1	0.6
Net unrealized gains/(losses) on investment securities	(2.1)	3.7	4.6	(2.1)
Unrealized gains on investment securities, end of period	\$12.4	\$6.8	\$12.4	\$6.8
Unrealized gains on hedging activities, beginning of period	\$14.3	\$51.0	\$41.4	\$48.6
Unrealized gains/(losses)	(1.2)	17.3	(7.4)	55.7
Tax (expense)/benefit	(0.5)	(3.0)	1.8	(5.7)
Reclassification of gains into "Transaction fees"	(7.9)	(14.9)	(26.1)	(40.4)
Reclassification of gains into "Foreign exchange revenues"	(3.6)	(6.1)	(11.4)	(16.4)
Reclassification of losses into "Interest expense"	0.9	0.9	2.7	2.7
Tax expense related to reclassifications	0.2	1.6	1.2	2.3
Net unrealized losses on hedging activities	(12.1)	(4.2)	(39.2)	(1.8)
Unrealized gains on hedging activities, end of period	\$2.2	\$46.8	\$2.2	\$46.8
Foreign currency translation adjustments, beginning of period	\$(70.1)	\$(53.5)	\$(66.0)	\$(49.2)
Foreign currency translation adjustments	(0.4)	(3.9)	(4.3)	(8.2)
Tax benefit	1.0	—	0.8	—
Net foreign currency translation adjustments	0.6	(3.9)	(3.5)	(8.2)
Foreign currency translation adjustments, end of period	\$(69.5)	\$(57.4)	\$(69.5)	\$(57.4)
Defined benefit pension plan adjustments, beginning of period	\$(123.7)	\$(124.1)	\$(127.1)	\$(127.2)
Reclassification of losses into "Cost of services"	2.7	2.9	8.0	8.6
Tax benefit related to reclassifications and other	(1.0)	(1.3)	(2.9)	(3.9)
Net defined benefit pension plan adjustments	1.7	1.6	5.1	4.7
Defined benefit pension plan adjustments, end of period	\$(122.0)	\$(122.5)	\$(122.0)	\$(122.5)
Accumulated other comprehensive loss, end of period	\$(176.9)	\$(126.3)	\$(176.9)	\$(126.3)

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Cash Dividends Paid

The Company's Board of Directors declared quarterly cash dividends of \$0.16 per common share in the first three quarters of 2016, representing \$235.1 million in total dividends. Of this amount, \$77.7 million was paid on September 30, 2016, \$78.1 million was paid on June 30, 2016 and \$79.3 million was paid on March 31, 2016. The Company's Board of Directors declared quarterly cash dividends of \$0.155 per common share in the first three quarters of 2015, representing \$238.5 million in total dividends. Of this amount, \$78.5 million was paid on September 30, 2015, \$79.5 million was paid on June 30, 2015 and \$80.5 million was paid on March 31, 2015.

Share Repurchases

During the nine months ended September 30, 2016 and 2015, 20.9 million and 21.4 million shares were repurchased for \$402.2 million and \$431.2 million, respectively, excluding commissions, at an average cost of \$19.22 and \$20.12, respectively. These amounts represent shares authorized by the Board of Directors for repurchase under the publicly announced authorizations. As of September 30, 2016, \$309.7 million remained available under the share repurchase authorization approved by the Company's Board of Directors through December 31, 2017. The amounts included in the "Common stock repurchased" line in the Company's Condensed Consolidated Statements of Cash Flows represent both shares authorized by the Board of Directors for repurchase under the publicly announced authorization as well as shares withheld from employees to cover tax withholding obligations on restricted stock units that have vested.

8. Derivatives

The Company is exposed to foreign currency exchange risk resulting from fluctuations in exchange rates, primarily the euro, and to a lesser degree the British pound, Canadian dollar, Australian dollar, Swiss franc, and other currencies, related to forecasted revenues and on settlement assets and obligations as well as on certain foreign currency denominated cash and other asset and liability positions. The Company is also exposed to risk from derivative contracts written to its customers arising from its cross-currency Business Solutions payments operations. Additionally, the Company is exposed to interest rate risk related to changes in market rates both prior to and subsequent to the issuance of debt. The Company uses derivatives to (a) minimize its exposures related to changes in foreign currency exchange rates and interest rates and (b) facilitate cross-currency Business Solutions payments by writing derivatives to customers.

The Company executes derivatives with established financial institutions, with the substantial majority of these financial institutions having credit ratings of "A-" or better from a major credit rating agency. The Company also writes Business Solutions derivatives mostly with small and medium size enterprises. The primary credit risk inherent in derivative agreements represents the possibility that a loss may occur from the nonperformance of a counterparty to the agreements. The Company performs a review of the credit risk of these counterparties at the inception of the contract and on an ongoing basis. The Company also monitors the concentration of its contracts with any individual counterparty. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements, but takes action when doubt arises about the counterparties' ability to perform. These actions may include requiring Business Solutions customers to post or increase collateral, and for all counterparties, the possible termination of the related contracts. The Company's hedged foreign currency exposures are in liquid currencies; consequently, there is minimal risk that appropriate derivatives to maintain the hedging program would not be available in the future.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Foreign Currency Derivatives

The Company's policy is to use longer-term foreign currency forward contracts, with maturities of up to 36 months at inception and a targeted weighted-average maturity of approximately one year, to help mitigate some of the risk that changes in foreign currency exchange rates compared to the United States dollar could have on forecasted revenues denominated in other currencies related to its business. As of September 30, 2016, the Company's longer-term foreign currency forward contracts had maturities of a maximum of 24 months with a weighted-average maturity of approximately one year. These contracts are accounted for as cash flow hedges of forecasted revenue, with effectiveness assessed based on changes in the spot rate of the affected currencies during the period of designation. Accordingly, all changes in the fair value of the hedges not considered effective or portions of the hedge that are excluded from the measure of effectiveness are recognized immediately in "Derivative gains, net" within the Company's Condensed Consolidated Statements of Income.

The Company also uses short duration foreign currency forward contracts, generally with maturities from a few days up to one month, to offset foreign exchange rate fluctuations on settlement assets and obligations between initiation and settlement. In addition, forward contracts, typically with maturities of less than one year at inception, are utilized to offset foreign exchange rate fluctuations on certain foreign currency denominated cash and other asset and liability positions. None of these contracts are designated as accounting hedges.

The aggregate equivalent United States dollar notional amounts of foreign currency forward contracts as of September 30, 2016 were as follows (in millions):

Contracts designated as hedges:

Euro	\$ 380.6
British pound	136.9
Canadian dollar	96.5
Australian dollar	45.7
Swiss franc	41.8
Other	82.4

Contracts not designated as hedges:

Euro	\$286.7
British pound	62.1
Australian dollar	50.6
Canadian dollar	48.7
Singapore dollar	34.6
Indian rupee	29.2
Japanese yen	29.2
Mexican peso	26.4
Other (a)	123.6

(a) Comprised of exposures to 18 different currencies. None of these individual currency exposures is greater than \$25 million.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Business Solutions Operations

The Company writes derivatives, primarily foreign currency forward contracts and option contracts, mostly with small and medium size enterprises and derives a currency spread from this activity as part of its Business Solutions operations. The Company aggregates its Business Solutions foreign currency exposures arising from customer contracts, including the derivative contracts described above, and hedges the resulting net currency risks by entering into offsetting contracts with established financial institution counterparties (economic hedge contracts). The derivatives written are part of the broader portfolio of foreign currency positions arising from the Company's cross-currency payments operations, which primarily include spot exchanges of currency in addition to forwards and options. The resulting foreign exchange revenues from the total portfolio of positions comprise Business Solutions foreign exchange revenues. None of the derivative contracts used in Business Solutions operations are designated as accounting hedges. The duration of these derivative contracts at inception is generally less than one year.

The aggregate equivalent United States dollar notional amount of foreign currency derivative customer contracts held by the Company in its Business Solutions operations as of September 30, 2016 was approximately \$5.5 billion. The significant majority of customer contracts are written in major currencies such as the Australian dollar, British pound, Canadian dollar, and euro.

Interest Rate Hedging

The Company utilizes interest rate swaps to effectively change the interest rate payments on a portion of its notes from fixed-rate payments to short-term LIBOR-based variable rate payments in order to manage its overall exposure to interest rates. The Company designates these derivatives as fair value hedges. The change in fair value of the interest rate swaps is offset by a change in the carrying value of the debt being hedged within "Borrowings" in the Condensed Consolidated Balance Sheets and "Interest expense" in the Condensed Consolidated Statements of Income has been adjusted to include the effects of interest accrued on the swaps.

The Company, at times, utilizes derivatives to hedge the forecasted issuance of fixed-rate debt. These derivatives are designated as cash flow hedges of the variability in the fixed-rate coupon of the debt expected to be issued. The effective portion of the change in fair value of the derivatives is recorded in "Accumulated other comprehensive loss" in the Condensed Consolidated Balance Sheets.

The Company held interest rate swaps in an aggregate notional amount of \$975.0 million as of September 30, 2016 and December 31, 2015. Of this aggregate notional amount held at September 30, 2016, \$500.0 million related to notes due in 2017, \$300.0 million related to notes due in 2018, and \$175.0 million related to notes due in 2020.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Balance Sheet

The following table summarizes the fair value of derivatives reported in the Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015 (in millions):

	Derivative Assets		Derivative Liabilities			
	Fair Value		Fair Value			
	Balance Sheet Location	September 30, 2016	December 31, 2015	Balance Sheet Location	September 30, 2016	December 31, 2015
Derivatives — hedges:						
Interest rate fair value hedges	Other assets	\$ 18.4	\$ 7.6	Other liabilities	\$ 0.1	\$ —
Foreign currency cash flow hedges	Other assets	26.2	59.7	Other liabilities	10.6	2.4
Total		\$ 44.6	\$ 67.3		\$ 10.7	\$ 2.4
Derivatives — undesignated:						
Business Solutions operations — foreign currency (a)	Other assets	\$ 320.0	\$ 326.1	Other liabilities	\$ 265.7	\$ 277.1
Foreign currency	Other assets	1.5	2.9	Other liabilities	2.0	4.2
Total		\$ 321.5	\$ 329.0		\$ 267.7	\$ 281.3
Total derivatives		\$ 366.1	\$ 396.3		\$ 278.4	\$ 283.7

In many circumstances, the Company allows its Business Solutions customers to settle part or all of their derivative contracts prior to maturity. However, the offsetting positions originally entered into with financial institution counterparties do not allow for similar settlement. To mitigate this, additional foreign currency contracts are entered into with financial institution counterparties to offset the original economic hedge contracts. This frequently results in increases in the Company's derivative assets and liabilities that may exceed the growth in the underlying derivatives business.

The fair values of derivative assets and liabilities associated with contracts that include netting language that the Company believes to be enforceable have been netted in the following tables to present the Company's net exposure with these counterparties. The Company's rights under these agreements generally allow for transactions to be settled on a net basis, including upon early termination, which could occur upon the counterparty's default, a change in control, or other conditions.

In addition, certain of the Company's other agreements include netting provisions, the enforceability of which may vary from jurisdiction to jurisdiction and depending on the circumstances. Due to the uncertainty related to the enforceability of these provisions, the derivative balances associated with these agreements are included within "Derivatives that are not or may not be subject to master netting arrangement or similar agreement" in the following tables. In certain circumstances, the Company may require its Business Solutions customers to maintain collateral balances which may mitigate the risk associated with potential customer defaults.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following tables summarize the gross and net fair value of derivative assets and liabilities as of September 30, 2016 and December 31, 2015 (in millions):

Offsetting of Derivative Assets

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Presented in the Condensed Consolidated Balance Sheets	Derivatives Not Offset in the Condensed Consolidated Balance Sheets	Net Amounts
September 30, 2016					
Derivatives subject to a master netting arrangement or similar agreement	\$ 198.2	\$	—\$ 198.2	\$ (143.6)	\$ 54.6
Derivatives that are not or may not be subject to master netting arrangement or similar agreement	167.9				
Total	\$ 366.1				

December 31, 2015

Derivatives subject to a master netting arrangement or similar agreement	\$ 224.3	\$	—\$ 224.3	\$ (119.2)	\$ 105.1
Derivatives that are not or may not be subject to master netting arrangement or similar agreement	172.0				
Total	\$ 396.3				

Offsetting of Derivative Liabilities

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Presented in the Condensed Consolidated Balance Sheets	Derivatives Not Offset in the Condensed Consolidated Balance Sheets	Net Amounts
September 30, 2016					
Derivatives subject to a master netting arrangement or similar agreement	\$ 163.1	\$	—\$ 163.1	\$ (143.6)	\$ 19.5
Derivatives that are not or may not be subject to master netting arrangement or similar agreement	115.3				
Total	\$ 278.4				
December 31, 2015					
Derivatives subject to a master netting arrangement or similar agreement	\$ 169.6	\$	—\$ 169.6	\$ (119.2)	\$ 50.4
Derivatives that are not or may not be subject to master netting arrangement or similar agreement	114.1				
Total	\$ 283.7				

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Income Statement

The following tables summarize the location and amount of gains and losses of derivatives in the Condensed Consolidated Statements of Income segregated by designated, qualifying hedging instruments and those that are not, for the three and nine months ended September 30, 2016 and 2015 (in millions):

Fair Value Hedges

The following table presents the location and amount of gains/(losses) from fair value hedges for the three months ended September 30, 2016 and 2015 (in millions):

Derivatives	Gain/(Loss) Recognized in Income on Derivatives			Gain/(Loss) Recognized in Income on Related Hedged Item (a)			Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)		
	Income Statement Location	Amount September 2016	Amount September 2015	Income Statement Location	Amount September 2016	Amount September 2015	Income Statement Location	Amount September 2016	Amount September 2015
Interest rate contracts	Interest expense	\$(2.6)	\$ 10.5	Interest expense	\$ 5.0	\$(7.3)	Interest expense	\$(0.2)	\$ 0.2
Total gain/(loss)		\$(2.6)	\$ 10.5		\$ 5.0	\$(7.3)		\$(0.2)	\$ 0.2

The following table presents the location and amount of gains/(losses) from fair value hedges for the nine months ended September 30, 2016 and 2015 (in millions):

Derivatives	Gain/(Loss) Recognized in Income on Derivatives			Gain/(Loss) Recognized in Income on Related Hedged Item (a)			Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)		
	Income Statement Location	Amount September 2016	Amount September 2015	Income Statement Location	Amount September 2016	Amount September 2015	Income Statement Location	Amount September 2016	Amount September 2015
Interest rate contracts	Interest expense	\$ 12.8	\$ 21.1	Interest expense	\$(5.1)	\$(11.3)	Interest expense	\$ 0.1	\$ 0.8
Total gain/(loss)		\$ 12.8	\$ 21.1		\$(5.1)	\$(11.3)		\$ 0.1	\$ 0.8

Cash Flow Hedges

The following table presents the location and amount of gains/(losses) from cash flow hedges for the three months ended September 30, 2016 and 2015 (in millions):

Derivatives	Gain/(Loss) Recognized in OCI on Derivatives (Effective Portion)		Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)		
	Amount September 2016	Amount September 2015	Amount September 2016	Amount September 2015	Amount September 2016	Amount September 2015	
	\$(1.2)	\$ 17.3	Revenue	\$ 11.5	\$ 21.0	\$ 0.2	\$ 0.6

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Foreign currency contracts					Derivative gains, net			
Interest rate contracts (c)	—	—	Interest expense	(0.9)	(0.9)	Interest expense	—	—
Total gain/(loss)	\$(1.2)	\$ 17.3		\$10.6	\$ 20.1		\$ 0.2	\$ 0.6

27

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following table presents the location and amount of gains/(losses) from cash flow hedges for the nine months ended September 30, 2016 and 2015 (in millions):

Derivatives	Gain/(Loss) Recognized in OCI on Derivatives (Effective Portion)		Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Gain/(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b)			
	Amount	Income Statement Location	Amount	Income Statement Location	Amount	Income Statement Location		
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015		
Foreign currency contracts	\$(7.4)	\$ 55.7	Revenue	\$37.5	\$ 56.8	Derivative gains, net	\$ 2.9	\$ 0.6
Interest rate contracts (c)	—	—	Interest expense	(2.7)	(2.7)	Interest expense	—	—
Total gain/(loss)	\$(7.4)	\$ 55.7		\$34.8	\$ 54.1		\$ 2.9	\$ 0.6

The following table presents the location and amount of net gains/(losses) from undesignated hedges for the three and nine months ended September 30, 2016 and 2015 (in millions):

Derivatives	Gain/(Loss) Recognized in Income on Derivatives (d)			
	Income Statement Location		Amount	
			Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Foreign currency contracts (e) Selling, general and administrative			\$0.2	\$15.1
Foreign currency contracts (f) Derivative gains, net			(0.7)	1.8
Total gain/(loss)			\$0.3	\$15.9

(a) The gain/(loss) of \$5.0 million and \$(7.3) million in the three months ended September 30, 2016 and 2015, respectively, consisted of a gain/(loss) in value on the debt of \$2.8 million and \$(10.7) million, respectively, and amortization of hedge accounting adjustments of \$2.2 million and \$3.4 million, respectively. The loss of \$5.1 million and \$11.3 million in the nine months ended September 30, 2016 and 2015, respectively, consisted of a loss in value on the debt of \$12.9 million and \$21.9 million, respectively, and amortization of hedge accounting adjustments of \$7.8 million and \$10.6 million, respectively.

(b) The portion of the change in fair value of a derivative excluded from the effectiveness assessment for foreign currency forward contracts designated as cash flow hedges represents the difference between changes in forward rates and spot rates.

(c) The Company uses derivatives to hedge the forecasted issuance of fixed-rate debt and records the effective portion of the derivative's fair value in "Accumulated other comprehensive loss" in the Condensed Consolidated Balance Sheets. These amounts are reclassified to "Interest expense" in the Condensed Consolidated Statements of Income over the life of the related notes.

(d)

The Company uses foreign currency forward and option contracts as part of its Business Solutions payments operations. These derivative contracts are excluded from this table as they are managed as part of a broader currency portfolio that includes non-derivative currency exposures. The gains and losses on these derivatives are included as part of the broader disclosure of portfolio revenue for this business discussed above.

The Company uses foreign currency forward contracts to offset foreign exchange rate fluctuations on settlement assets and obligations as well as certain foreign currency denominated positions. Foreign exchange gains/(losses) on settlement assets and obligations, cash balances, and other assets and liabilities, not including amounts related to (e) derivatives activity as displayed above and included in "Selling, general and administrative" in the Condensed Consolidated Statements of Income were \$(2.9) million and \$(17.5) million for the three months ended September 30, 2016 and 2015, respectively, and \$3.8 million and \$(39.0) million for the nine months ended September 30, 2016 and 2015, respectively.

(f) The derivative contracts used in the Company's revenue hedging program are not designated as hedges in the final month of the contract.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

An accumulated other comprehensive pre-tax gain of \$13.2 million related to the foreign currency forward contracts is expected to be reclassified into revenue within the next 12 months as of September 30, 2016. Approximately \$3.4 million of net losses on the forecasted debt issuance hedges are expected to be recognized in "Interest expense" in the Condensed Consolidated Statements of Income within the next 12 months as of September 30, 2016. No amounts have been reclassified into earnings as a result of the underlying transaction being considered probable of not occurring within the specified time period.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

9. Borrowings

The Company's outstanding borrowings consisted of the following (in millions):

	September 30, December 31,	
	2016	2015
Notes:		
5.930% notes due 2016 (a) (b)	\$ 1,000.0	\$ 1,000.0
2.875% notes due 2017 (a)	500.0	500.0
3.650% notes (effective rate of 4.3%) due 2018	400.0	400.0
3.350% notes due 2019 (a)	250.0	250.0
5.253% notes due 2020 (a)	324.9	324.9
6.200% notes due 2036 (a)	500.0	500.0
6.200% notes due 2040 (a)	250.0	250.0
Other borrowings	5.4	5.5
Total borrowings at par value	3,230.3	3,230.4
Fair value hedge accounting adjustments, net (c)	12.7	7.6
Unamortized discount and debt issuance costs (d)	(18.2	) (22.1
Total borrowings at carrying value (e)	\$ 3,224.8	\$ 3,215.9

(a) The difference between the stated interest rate and the effective interest rate is not significant.

These notes were repaid in October 2016 using proceeds from the Company's delayed draw term loan facility,

(b) cash, including cash generated from operations, and proceeds from commercial paper borrowings, as discussed below.

The Company utilizes interest rate swaps designated as fair value hedges to effectively change the interest rate payments on a portion of its notes from fixed-rate payments to short-term LIBOR-based variable rate payments in order to manage its overall exposure to interest rates. The changes in fair value of these interest rate swaps result in an offsetting hedge accounting adjustment recorded to the carrying value of the related note. These hedge accounting adjustments will be reclassified as reductions to or increases in "Interest expense" in the Condensed Consolidated Statements of Income over the life of the related notes, and cause the effective rate of interest to differ from the notes' stated rate.

(d) On January 1, 2016, the Company adopted an accounting pronouncement that requires capitalized debt issuance costs to be presented as a reduction to the carrying value of debt, with adoption retrospective for periods previously presented. The adoption of this standard resulted in a reduction of \$9.7 million to the carrying value of borrowings as of December 31, 2015.

(e) As of September 30, 2016, the Company's weighted-average effective rate on total borrowings was approximately 5.0%.

The following summarizes the Company's maturities of borrowings at par value as of September 30, 2016 (in millions):

Due within 1 year	\$1,005.4
Due after 1 year through 2 years	900.0
Due after 2 years through 3 years	250.0
Due after 3 years through 4 years	324.9
Due after 5 years	750.0

The Company's obligations with respect to its outstanding Notes, as described above, rank equally.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Term Loan Facility

On April 11, 2016, the Company entered into a term loan agreement, which matures in April 2021, providing for an unsecured delayed draw term loan facility in an aggregate amount of \$575.0 million (the "Term Loan Facility"). As of September 30, 2016, the Company had no outstanding borrowings under the Term Loan Facility. In October 2016, the Company borrowed \$575.0 million under the Term Loan Facility and used the proceeds, in addition to cash, including cash generated from operations, and proceeds from commercial paper borrowings to repay the Company's notes due in October 2016.

The Term Loan Facility contains covenants, subject to certain exceptions, that, among other things, limit or restrict the Company's ability to sell or transfer assets or merge or consolidate with another company, grant certain types of security interests, incur certain types of liens, impose restrictions on subsidiary dividends, enter into sale and leaseback transactions, incur certain subsidiary level indebtedness, or use proceeds in violation of anti-corruption or anti-money laundering laws. The Term Loan Facility requires the Company to maintain a consolidated adjusted EBITDA interest coverage ratio of greater than 3:1 for each period of four consecutive fiscal quarters. The Term Loan Facility also contains customary representations, warranties and events of default.

Generally, interest under the Term Loan Facility is calculated using a selected LIBOR rate plus an interest rate margin of 150 basis points. The interest rate margin percentage is based on certain of the Company's credit ratings and will increase or decrease in the event of certain upgrades or downgrades in the Company's credit ratings.

In addition to the payment of interest, the Company is required to make certain periodic amortization payments with respect to the outstanding principal of the term loans commencing after the second anniversary of the closing of the Term Loan Facility. The final maturity date of the Term Loan Facility is April 11, 2021.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

10. Income Taxes

The Company's effective tax rates on pre-tax income for the three months ended September 30, 2016 and 2015 were 9.6% and 12.5%, respectively, and 10.6% and 11.3% for the nine months ended September 30, 2016 and 2015, respectively. The decreases in the Company's effective tax rates for the three and nine months ended September 30, 2016 compared to the respective prior periods were primarily due to the combined effects of various discrete items, including changes in tax contingency reserves, and the tax-related effects of an accrual for the FTC matter, as further described in Note 4, partially offset by smaller tax planning benefits in the current periods and an increase in higher-taxed earnings compared to lower-taxed foreign earnings. For the year ended December 31, 2015, 103% of the Company's pre-tax income was derived from foreign sources, and the Company currently expects that approximately 99% of the Company's pre-tax income will be derived from foreign sources for the year ending December 31, 2016. Certain portions of the Company's foreign source income are subject to United States federal and state income tax as earned due to the nature of the income, and dividend repatriations of the Company's foreign source income are generally subject to United States federal and state income tax.

Uncertain Tax Positions

The Company has established contingency reserves for a variety of material, known tax exposures. The Company's tax reserves reflect management's judgment as to the resolution of the issues involved if subject to judicial review or other settlement. While the Company believes its reserves are adequate to cover reasonably expected tax risks, there can be no assurance that, in all instances, an issue raised by a tax authority will be resolved at a financial cost that does not exceed its related reserve. With respect to these reserves, the Company's income tax expense would include (i) any changes in tax reserves arising from material changes in the facts and circumstances (i.e., new information) surrounding a tax issue during the period and (ii) any difference from the Company's tax position as recorded in the financial statements and the final resolution of a tax issue during the period. Such resolution could materially increase or decrease income tax expense in the Company's consolidated financial statements in future periods and could impact operating cash flows.

Unrecognized tax benefits represent the aggregate tax effect of differences between tax return positions and the amounts otherwise recognized in the Company's consolidated financial statements, and are reflected in "Income taxes payable" in the Condensed Consolidated Balance Sheets. The total amount of unrecognized tax benefits as of September 30, 2016 and December 31, 2015 was \$92.0 million and \$105.6 million, respectively, excluding interest and penalties. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$81.9 million and \$96.8 million as of September 30, 2016 and December 31, 2015, respectively, excluding interest and penalties.

The Company recognizes interest and penalties with respect to unrecognized tax benefits in "Provision for income taxes" in its Condensed Consolidated Statements of Income, and records the associated liability in "Income taxes payable" in its Condensed Consolidated Balance Sheets. The Company recognized \$0.2 million and \$1.1 million in interest and penalties during the three months ended September 30, 2016 and 2015, respectively, and \$2.7 million and \$2.1 million during the nine months ended September 30, 2016 and 2015, respectively. The Company has accrued \$19.4 million and \$17.0 million for the payment of interest and penalties as of September 30, 2016 and December 31, 2015, respectively.

The Company and its subsidiaries file tax returns for the United States, for multiple states and localities, and for various non-United States jurisdictions, and the Company has identified the United States as its major tax jurisdiction, as the income tax imposed by any one foreign country is not material to the Company. The United States federal income tax returns of First Data, which include the Company, are eligible to be examined for 2005 and 2006. The Company's United States federal income tax returns since the Spin-off (other than 2012) are also eligible to be examined.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The United States Internal Revenue Service ("IRS") completed its examination of the United States federal consolidated income tax returns of First Data for 2003 and 2004, which included the Company, and issued a Notice of Deficiency in December 2008. In December 2011, the Company reached an agreement with the IRS resolving substantially all of the issues related to the Company's restructuring of its international operations in 2003 ("IRS Agreement"). As a result of the IRS Agreement, the Company expects to make cash payments of approximately \$190 million, plus additional accrued interest, of which \$94.1 million has been paid as of September 30, 2016. A substantial majority of these payments were made in the year ended December 31, 2012. The Company expects to pay the remaining amount in 2017. The IRS completed its examination of the United States federal consolidated income tax returns of First Data, which include the Company's 2005 and pre-Spin-off 2006 taxable periods and issued its report on October 31, 2012 ("FDC 30-Day Letter"). Furthermore, the IRS completed its examination of the Company's United States federal consolidated income tax returns for the 2006 post-Spin-off period through 2009 and issued its report also on October 31, 2012 ("WU 30-Day Letter"). Both the FDC 30-Day Letter and the WU 30-Day Letter propose tax adjustments affecting the Company, some of which are agreed and some of which are unagreed. Both First Data and the Company filed their respective protests with the IRS Appeals Division on November 28, 2012 related to the unagreed proposed adjustments. During the three months ended September 30, 2016, the Company reached an agreement in principle with the IRS concerning its unagreed adjustments and adjusted its reserves accordingly.

As of September 30, 2016, no provision has been made for United States federal and state income taxes on certain of the Company's outside tax basis differences, which primarily relate to accumulated foreign earnings of approximately \$6.5 billion, which have been reinvested and are expected to continue to be reinvested outside the United States indefinitely. Over the last several years, such earnings have been used to pay for the Company's international acquisitions and operations and provide initial Company funding of global principal payouts for Consumer-to-Consumer and Business Solutions transactions. Upon distribution of those earnings to the United States in the form of actual or constructive dividends, the Company would be subject to United States income taxes (subject to an adjustment for foreign tax credits), state income taxes and possible withholding taxes payable to various foreign countries. Such taxes could be significant. Determination of this amount of unrecognized United States deferred tax liability is not practicable because of the complexities associated with its hypothetical calculation.

Tax Allocation Agreement with First Data

The Company and First Data each are liable for taxes imposed on their respective businesses both prior to and after the Spin-off. If such taxes have not been appropriately apportioned between First Data and the Company, subsequent adjustments may occur that may impact the Company's financial condition or results of operations.

Also under the Tax Allocation Agreement, with respect to taxes and other liabilities that result from a final determination that is inconsistent with the anticipated tax consequences of the Spin-off (as set forth in the private letter ruling and relevant tax opinion) ("Spin-off Related Taxes"), the Company will be liable to First Data for any such Spin-off Related Taxes attributable solely to actions taken by or with respect to the Company. In addition, the Company will also be liable for half of any Spin-off Related Taxes (i) that would not have been imposed but for the existence of both an action by the Company and an action by First Data or (ii) where the Company and First Data each take actions that, standing alone, would have resulted in the imposition of such Spin-off Related Taxes. The Company may be similarly liable if it breaches certain representations or covenants set forth in the tax allocation agreement. If the Company is required to indemnify First Data for taxes incurred as a result of the Spin-off being taxable to First Data, it likely would have a material adverse effect on the Company's business, financial condition and results of

operations. First Data generally will be liable for all Spin-off Related Taxes, other than those described above.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

11. Stock Compensation Plans

For the three and nine months ended September 30, 2016, the Company recognized stock-based compensation expense of \$9.8 million and \$31.8 million, respectively, resulting from stock options, restricted stock units, performance-based restricted stock units and bonus/deferred stock units in the Condensed Consolidated Statements of Income. For the three and nine months ended September 30, 2015, the Company recognized stock-based compensation expense of \$10.4 million and \$32.3 million, respectively.

During the nine months ended September 30, 2016, the Company granted 0.6 million options at a weighted-average exercise price of \$18.19 and 3.5 million performance-based restricted stock units and restricted stock units at a weighted-average grant date fair value of \$16.92. As of September 30, 2016, the Company had 8.2 million outstanding options at a weighted-average exercise price of \$17.48, of which 6.2 million options were exercisable at a weighted-average exercise price of \$17.68. The Company had 7.4 million performance-based restricted stock units (based on target performance) and restricted stock units at a weighted-average grant date fair value of \$16.61 as of September 30, 2016. The majority of stock units do not provide for the payment of dividend equivalents. For those units, their value is reduced by the net present value of the foregone dividend equivalent payments.

12. Segments

As previously described in Note 1, the Company classifies its businesses into three segments: Consumer-to-Consumer, Consumer-to-Business and Business Solutions. Operating segments are defined as components of an enterprise that engage in business activities, about which separate financial information is available that is evaluated regularly by the Company's chief operating decision maker in deciding where to allocate resources and in assessing performance.

The Consumer-to-Consumer operating segment facilitates money transfers between two consumers. The Company's money transfer service is viewed by the Company as one interconnected global network where a money transfer can be sent from one location to another, around the world. The segment includes five geographic regions whose functions are limited to generating, managing and maintaining agent relationships and localized marketing activities. The Company includes its online money transfer services initiated through Western Union branded websites ("westernunion.com") in its regions. By means of common processes and systems, these regions, including westernunion.com, create an interconnected network for consumer transactions, thereby constituting one global Consumer-to-Consumer money transfer business and one operating segment.

The Consumer-to-Business operating segment facilitates bill payments from consumers to businesses and other organizations, including utilities, auto finance companies, mortgage servicers, financial service providers, government agencies and other businesses.

The Business Solutions operating segment facilitates payment and foreign exchange solutions, primarily cross-border, cross-currency transactions, for small and medium size enterprises and other organizations and individuals. All businesses that have not been classified in the above segments are reported as "Other" and include the Company's money order and other services.

Corporate costs, including stock-based compensation and other overhead, are allocated to the segments primarily based on a percentage of the segments' revenue compared to total revenue.

Table of Contents

THE WESTERN UNION COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following table presents the Company's reportable segment results for the three and nine months ended September 30, 2016 and 2015 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Consumer-to-Consumer:				
Transaction fees	\$791.4	\$820.4	\$2,337.0	\$2,412.7
Foreign exchange revenues	290.3	276.1	825.2	789.1
Other revenues	17.2	16.4	49.9	50.9
	1,098.9	1,112.9	3,212.1	3,252.7
Consumer-to-Business:				
Transaction fees	149.4	154.1	447.6	457.1
Foreign exchange and other revenues	6.3	6.0	18.4	18.7
	155.7	160.1	466.0	475.8
Business Solutions:				
Foreign exchange revenues	85.3	90.6	264.6	266.0
Transaction fees and other revenues	11.9	10.6	32.6	30.8
	97.2	101.2	297.2	296.8
Other:				
Total revenues	26.0	25.0	75.9	78.4
Total consolidated revenues	\$1,377.8	\$1,399.2	\$4,051.2	\$4,103.7
Operating income/(loss):				
Consumer-to-Consumer (a)	\$257.1	\$283.3	\$723.7	\$780.1
Consumer-to-Business (b)	14.2	26.2	54.8	49.3
Business Solutions	3.4	(2.7)	10.9	(1.0)
Other	3.6	(2.3)	7.8	(0.8)
Total consolidated operating income	\$278.3	\$304.5	\$797.2	\$827.6

(a) For the three and nine months ended September 30, 2016, Consumer-to-Consumer operating income included \$15 million and \$30 million, respectively, for accruals related to the FTC matter, described further in Note 4.

For the nine months ended September 30, 2015, Consumer-to-Business operating income included \$35.3 million of (b) expenses related to a settlement agreement between the Consumer Financial Protection Bureau and one of the Company's subsidiaries, Paymap, Inc.

Table of Contents

THE WESTERN UNION COMPANY
MANAGEMENT'S
DISCUSSION
AND ANALYSIS
OF FINANCIAL
CONDITION
AND RESULTS
OF OPERATIONS

Item 2.

This report on Form 10-Q contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as "expects," "intends," "anticipates," "believes," "estimates," "guides," "provides guidance," "provides outlook" and other similar expressions or future or conditional verbs such as "may," "will," "should," "would," "could," and "might" are intended to identify such forward-looking statements. Readers of the Form 10-Q of The Western Union Company (the "Company," "Western Union," "we," "our" or "us") should not rely solely on the forward-looking statements and should consider all uncertainties and risks discussed in the "Risk Factors" section and throughout the Annual Report on Form 10-K for the year ended December 31, 2015. The statements are only as of the date they are made, and the Company undertakes no obligation to update any forward-looking statement.

Possible events or factors that could cause results or performance to differ materially from those expressed in our forward-looking statements include the following: (i) events related to our business and industry, such as: changes in general economic conditions and economic conditions in the regions and industries in which we operate, including global economic and trade downturns, or significantly slower growth or declines in the money transfer, payment service, and other markets in which we operate, including downturns or declines related to interruptions in migration patterns, or non-performance by our banks, lenders, insurers, or other financial services providers; failure to compete effectively in the money transfer and payment service industry, including among other things, with respect to price, with global and niche or corridor money transfer providers, banks and other money transfer and payment service providers, including electronic, mobile and Internet-based services, card associations, and card-based payment providers, and with digital currencies and related protocols, and other innovations in technology and business models; deterioration in customer confidence in our business, or in money transfer and payment service providers generally; our ability to adopt new technology and develop and gain market acceptance of new and enhanced services in response to changing industry and consumer needs or trends; changes in, and failure to manage effectively, exposure to foreign exchange rates, including the impact of the regulation of foreign exchange spreads on money transfers and payment transactions; any material breach of security, including cybersecurity, or safeguards of or interruptions in any of our systems or those of our vendors or other third parties; cessation of or defects in various services provided to us by third-party vendors; mergers, acquisitions and integration of acquired businesses and technologies into our Company, and the failure to realize anticipated financial benefits from these acquisitions, and events requiring us to write down our goodwill; political conditions and related actions in the United States and abroad which may adversely affect our business and economic conditions as a whole, including interruptions of United States or other government relations with countries in which we have or are implementing significant business relationships with agents or clients; failure to manage credit and fraud risks presented by our agents, clients and consumers; failure to maintain our agent network and business relationships under terms consistent with or more advantageous to us than those currently in place, including due to increased costs or loss of business as a result of increased compliance requirements or difficulty for us, our agents or their subagents in establishing or maintaining relationships with banks needed to conduct our services; decisions to change our business mix; changes in tax laws, or their interpretation, and

unfavorable resolution of tax contingencies; adverse rating actions by credit rating agencies; our ability to realize the anticipated benefits from productivity and cost-savings and other related initiatives, which may include decisions to downsize or to transition operating activities from one location to another, and to minimize any disruptions in our workforce that may result from those initiatives; our ability to protect our brands and our other intellectual property rights and to defend ourselves against potential intellectual property infringement claims; our ability to attract and retain qualified key employees and to manage our workforce successfully; material changes in the market value or liquidity of securities that we hold; restrictions imposed by our debt obligations; (ii) events related to our regulatory and litigation environment, such as: liabilities or loss of business resulting from a failure by us, our agents or their subagents to comply with laws and regulations and regulatory or judicial interpretations thereof, including laws and regulations designed to protect consumers, or detect and prevent money laundering, terrorist financing, fraud and other illicit activity; increased costs or loss of business due to regulatory initiatives and changes in laws, regulations and industry practices and standards, including changes in interpretations in the United States and globally, affecting us, our agents or their subagents, or the banks with which we or our agents maintain bank accounts needed to provide our services,

Table of Contents

including related to anti-money laundering regulations, anti-fraud measures, customer due diligence, agent and subagent due diligence, registration and monitoring requirements, and consumer protection requirements; liabilities or loss of business and unanticipated developments resulting from governmental investigations and consent agreements with or enforcement actions by regulators, including those associated with compliance with or failure to comply with the settlement agreement with the State of Arizona, as amended; the potential impact on our business from the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), as well as regulations issued pursuant to it and the actions of the Consumer Financial Protection Bureau and similar legislation and regulations enacted by other governmental authorities related to consumer protection; liabilities resulting from litigation, including class-action lawsuits and similar matters, including costs, expenses, settlements and judgments; failure to comply with regulations and evolving industry standards regarding consumer privacy and data use and security; effects of unclaimed property laws; failure to maintain sufficient amounts or types of regulatory capital or other restrictions on the use of our working capital to meet the changing requirements of our regulators worldwide; changes in accounting standards, rules and interpretations or industry standards affecting our business; and (iii) other events, such as: adverse tax consequences from our spin-off from First Data Corporation; catastrophic events; and management's ability to identify and manage these and other risks.

Overview

We are a leading provider of money movement and payment services, operating in three business segments: Consumer-to-Consumer - The Consumer-to-Consumer operating segment facilitates money transfers between two consumers, primarily through a network of third-party agents. Our multi-currency, real-time money transfer service is viewed by us as one interconnected global network where a money transfer can be sent from one location to another, around the world. Our money transfer services are available for international cross-border transfers - that is, the transfer of funds from one country to another - and, in certain countries, intra-country transfers - that is, money transfers from one location to another in the same country. This segment also includes money transfer transactions that can be initiated through websites and mobile devices.

Consumer-to-Business - The Consumer-to-Business operating segment facilitates bill payments from consumers to businesses and other organizations, including utilities, auto finance companies, mortgage servicers, financial service providers, government agencies and other businesses. The significant majority of the segment's revenue was generated in the United States during all periods presented, with the remainder primarily generated in Argentina.

Business Solutions - The Business Solutions operating segment facilitates payment and foreign exchange solutions, primarily cross-border, cross-currency transactions, for small and medium size enterprises and other organizations and individuals. The majority of the segment's business relates to exchanges of currency at spot rates, which enable customers to make cross-currency payments. In addition, in certain countries, we write foreign currency forward and option contracts for customers to facilitate future payments.

All businesses that have not been classified in the above segments are reported as "Other" and include our money order and other services, in addition to costs for the review and closing of acquisitions.

Corporate costs, including stock-based compensation and other overhead, are allocated to the segments primarily based on a percentage of the segments' revenue compared to total revenue.

Table of Contents

Results of Operations

The following discussion of our consolidated results of operations and segment results refers to the three and nine months ended September 30, 2016 compared to the same periods in 2015. The results of operations should be read in conjunction with the discussion of our segment results of operations, which provide more detailed discussions concerning certain components of the Condensed Consolidated Statements of Income. All significant intercompany accounts and transactions between our segments were eliminated and the below information has been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP"). All amounts provided in this section are rounded to the nearest tenth of a million, except as otherwise noted. As a result, the percentage changes and margins disclosed herein may not recalculate precisely using the rounded amounts provided.

Our revenues and operating income for the three and nine months ended September 30, 2016 were negatively impacted by the strengthening of the United States dollar compared to foreign currencies. The strengthening of the United States dollar compared to foreign currencies, net of the impact of foreign currency hedges, resulted in a reduction to revenues for the three and nine months ended September 30, 2016 of \$52.1 million and \$158.4 million, respectively, and negatively impacted operating income by \$21.9 million and \$62.3 million, respectively, relative to the corresponding periods in the prior year.

Additionally, our operating income for the three and nine months ended September 30, 2016 was impacted by \$15 million and \$30 million, respectively, for accruals related to the United States Federal Trade Commission (the "FTC") matter described further in Part II, Item I, Legal Proceedings, and our operating income for the nine months ended September 30, 2015 was impacted by \$35.3 million of expenses related to restitution, penalties, and other costs as a result of a settlement agreement between the Consumer Financial Protection Bureau and one of our subsidiaries, Paymap, Inc., which operates solely in the United States (the "Paymap Settlement Agreement"). The accruals associated with the FTC matter and the charges related to the Paymap Settlement Agreement have been included within our Consumer-to-Consumer and Consumer-to-Business segments, respectively, and both items have been reflected within "Selling, general and administrative" expenses in our Condensed Consolidated Statements of Income. There can be no assurance that we will reach an agreement with the FTC. Should we enter into a settlement agreement with the FTC, or if the FTC files a complaint against us, we could be required to make significant restitution and other payments and changes to our programs, any of which separately or combined could have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

The following table sets forth our consolidated results of operations for the three and nine months ended September 30, 2016 and 2015.

(in millions, except per share amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Revenues:						
Transaction fees	\$960.4	\$994.9	(3)%	\$2,840.7	\$2,931.8	(3)%
Foreign exchange revenues	381.5	372.3	2 %	1,105.8	1,072.4	3 %
Other revenues	35.9	32.0	12 %	104.7	99.5	5 %
Total revenues	1,377.8	1,399.2	(2)%	4,051.2	4,103.7	(1)%
Expenses:						
Cost of services	822.9	817.2	1 %	2,424.2	2,388.4	1 %
Selling, general and administrative	276.6	277.5	0 %	829.8	887.7	(7)%
Total expenses	1,099.5	1,094.7	0 %	3,254.0	3,276.1	(1)%
Operating income	278.3	304.5	(9)%	797.2	827.6	(4)%
Other income/(expense):						
Interest income	1.1	3.0	(64)%	2.7	8.4	(68)%
Interest expense	(41.4)	(42.2)	(2)%	(122.9)	(127.1)	(3)%
Derivative gains, net	0.3	1.4	(76)%	2.2	2.4	(8)%
Other income/(expense), net	1.7	(1.3)	(a)	0.8	(6.4)	(a)
Total other expense, net	(38.3)	(39.1)	(2)%	(117.2)	(122.7)	(4)%
Income before income taxes	240.0	265.4	(10)%	680.0	704.9	(4)%
Provision for income taxes	23.1	33.1	(30)%	71.8	79.4	(9)%
Net income	\$216.9	\$232.3	(7)%	\$608.2	\$625.5	(3)%
Earnings per share:						
Basic	\$0.45	\$0.46	(2)%	\$1.24	\$1.21	2 %
Diluted	\$0.44	\$0.45	(2)%	\$1.23	\$1.20	3 %
Weighted-average shares outstanding:						
Basic	487.0	509.6		492.4	515.3	
Diluted	490.3	513.2		495.5	519.4	

(a) Calculation not meaningful.

Table of Contents

Revenues overview

For the three and nine months ended September 30, 2016 compared to the corresponding periods in the prior year, consolidated revenues decreased 2% and 1%, respectively. This was primarily due to the strengthening of the United States dollar compared to foreign currencies, which negatively impacted revenue by 4% for both the three and nine months ended September 30, 2016, net of the impact of foreign currency hedges. This decrease was partially offset by transaction growth of 2% and 3% in our Consumer-to-Consumer segment for the three and nine months ended September 30, 2016, respectively.

Fluctuations in the exchange rate between the United States dollar and other currencies, net of the impact of foreign currency hedges, resulted in a reduction to revenues for the three and nine months ended September 30, 2016 of \$52.1 million and \$158.4 million, respectively, relative to the corresponding periods in the prior year, as discussed earlier. Foreign currency hedges benefited revenues by \$11.5 million and \$37.5 million for the three and nine months ended September 30, 2016, respectively. We use foreign currency forwards to hedge certain foreign exchange impacts on our forecasted revenues. To the extent these derivatives are effective in managing our foreign exchange risk, we reflect the hedge impact in revenues in the period the hedged revenues are recorded.

Operating expenses overview

Enhanced regulatory compliance

The financial services industry, including money services businesses, continues to be subject to increasingly strict legal and regulatory requirements, and we regularly review our compliance programs. In connection with these reviews, and in light of growing and rapidly evolving regulatory complexity and heightened attention of, and increased dialogue with, governmental and regulatory authorities related to our compliance activities, we have made, and continue to make enhancements to our processes and systems designed to detect and prevent money laundering, terrorist financing, and fraud and other illicit activity, along with enhancements to improve consumer protection related to the Dodd-Frank Act and similar regulations outside the United States, and other matters. In coming periods, we expect these enhancements will continue to result in changes to certain of our business practices and increased costs. Some of these changes have had, and we believe will continue to have, an adverse effect on our business, financial condition and results of operations.

Cost of services

Cost of services primarily consists of agent commissions, which represented approximately 60% of total cost of services for both the three and nine months ended September 30, 2016. Cost of services increased for both the three and nine months ended September 30, 2016 compared to the corresponding periods in the prior year due to increased technology expenses and increased bank fees in our United States electronic bill payments, partially offset by a decrease in agent commissions, which generally fluctuate with revenues.

Selling, general and administrative

For the three months ended September 30, 2016 compared to the corresponding period in the prior year, selling, general and administrative expenses remained flat due to reductions in employee compensation costs and a decrease in amortization expense in our Business Solutions segment, offset by an accrual related to the FTC matter, as described earlier. For the nine months ended September 30, 2016 compared to the corresponding period in the prior year, selling, general and administrative expenses decreased due to the Paymap Settlement Agreement of \$35.3 million that

was recorded in the second quarter of 2015 and reductions in employee compensation and other costs, partially offset by accruals related to the FTC matter, as described earlier. Additionally, for both periods presented, the strengthening of the United States dollar compared to foreign currencies resulted in a positive impact on the translation of our expenses.

Operating income

Consolidated operating income decreased 9% and 4% during the three and nine months ended September 30, 2016, respectively, compared to the corresponding periods in the prior year as a result of the changes in revenue and operating expenses described above. The strengthening of the United States dollar compared to foreign currencies, net of the impact of foreign currency hedges, negatively impacted operating income by approximately 8% for both the three and nine months ended September 30, 2016 compared to the corresponding periods in the prior year.

Table of Contents

Total other expense, net

For the three and nine months ended September 30, 2016 compared to the corresponding periods in the prior year, total other expense, net decreased by 2% and 4%, respectively, due to lower interest expense primarily related to lower average debt balances outstanding. Average debt balances outstanding were \$3,226.0 million and \$3,611.2 million for the three months ended September 30, 2016 and 2015, respectively, and \$3,225.4 million and \$3,682.3 million for the nine months ended September 30, 2016 and 2015, respectively. The decrease in average debt balances outstanding during the three and nine months ended September 30, 2016 compared to the corresponding periods in the prior year was primarily due to the repayment of \$250 million of our notes in August 2015 and \$250 million of our notes in December 2015.

Income taxes

Our effective tax rates on pre-tax income were 9.6% and 12.5% for the three months ended September 30, 2016 and 2015, respectively, and 10.6% and 11.3% for the nine months ended September 30, 2016 and 2015, respectively. The decreases in our effective tax rates for the three and nine months ended September 30, 2016 compared to the respective prior periods were primarily due to the combined effects of various discrete items, including changes in tax contingency reserves, and the tax-related effects of an accrual for the FTC matter, as described earlier, partially offset by smaller tax planning benefits in the current periods and an increase in higher-taxed earnings compared to lower-taxed foreign earnings.

We continue to benefit from a significant proportion of profits being foreign-derived and generally taxed at lower rates than our combined federal and state tax rates in the United States. For the year ended December 31, 2015, 103% of our pre-tax income was derived from foreign sources, and we currently expect that approximately 99% of our pre-tax income will be derived from foreign sources for the year ending December 31, 2016. Our foreign pre-tax income is subject to tax in multiple foreign jurisdictions, virtually all of which have statutory income tax rates lower than the United States. While the income tax imposed by any one foreign country is not material to us, our overall effective tax rate could be adversely affected by changes in tax laws, both foreign and domestic. Certain portions of our foreign source income are subject to United States federal and state income tax as earned due to the nature of the income, and dividend repatriations of our foreign source income are generally subject to United States federal and state income tax.

We have established contingency reserves for a variety of material, known tax exposures. As of September 30, 2016, the total amount of tax contingency reserves was \$100.6 million, including accrued interest and penalties, net of related items, and reflects a reduction of \$13.1 million recognized during the three months ended September 30, 2016 related to the effect of an agreement in principle reached with the United States Internal Revenue Service, as described in Part I, Item 1, Financial Statements, Note 10, "Income Taxes." Our tax reserves reflect our judgment as to the resolution of the issues involved if subject to judicial review or other settlement. While we believe that our reserves are adequate to cover reasonably expected tax risks, there can be no assurance that, in all instances, an issue raised by a tax authority will be resolved at a financial cost that does not exceed our related reserve. With respect to these reserves, our income tax expense would include (i) any changes in tax reserves arising from material changes in facts and circumstances (i.e. new information) surrounding a tax issue during the period and (ii) any difference from our tax position as recorded in the financial statements and the final resolution of a tax issue during the period. Such resolution could materially increase or decrease income tax expense in our consolidated financial statements in future periods and could impact our operating cash flows.

Table of Contents

Earnings per share

During the three months ended September 30, 2016 and 2015, basic earnings per share were \$0.45 and \$0.46, respectively, and diluted earnings per share were \$0.44 and \$0.45, respectively. During the nine months ended September 30, 2016 and 2015, basic earnings per share were \$1.24 and \$1.21, respectively, and diluted earnings per share were \$1.23 and \$1.20, respectively. Outstanding options to purchase Western Union stock and unvested shares of restricted stock are excluded from basic shares outstanding. Diluted earnings per share reflects the potential dilution that could occur if outstanding stock options at the presented dates are exercised and shares of restricted stock have vested. For the three months ended September 30, 2016 and 2015, there were 2.4 million and 7.1 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation under the treasury stock method as their effect was anti-dilutive. For the nine months ended September 30, 2016 and 2015, there were 3.9 million and 5.8 million, respectively, of outstanding options to purchase shares of Western Union stock excluded from the diluted earnings per share calculation under the treasury stock method as their effect was anti-dilutive.

Earnings per share for both the three and nine months ended September 30, 2016 compared to the corresponding periods in the prior year was impacted by lower weighted-average shares outstanding, partially offset by the previously described factors impacting net income. The lower number of shares outstanding was due to stock repurchases exceeding stock issuances related to the Company's stock compensation programs.

Segment Discussion

We manage our business around the consumers and businesses we serve and the types of services we offer. Each of our three segments addresses a different combination of consumer groups, distribution networks and services offered. Our segments are Consumer-to-Consumer, Consumer-to-Business and Business Solutions. Businesses and services not considered part of these segments are categorized as "Other."

The following table sets forth the components of segment revenues as a percentage of the consolidated totals for the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Consumer-to-Consumer	80 %	80 %	79 %	79 %
Consumer-to-Business	11 %	11 %	12 %	12 %
Business Solutions	7 %	7 %	7 %	7 %
Other	2 %	2 %	2 %	2 %
	100 %	100 %	100 %	100 %

Table of Contents

Consumer-to-Consumer Segment

The table below sets forth our Consumer-to-Consumer segment results of operations for the three and nine months ended September 30, 2016 and 2015.

(dollars and transactions in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Revenues:						
Transaction fees	\$791.4	\$820.4	(4)%	\$2,337.0	\$2,412.7	(3)%
Foreign exchange revenues	290.3	276.1	5 %	825.2	789.1	5 %
Other revenues	17.2	16.4	5 %	49.9	50.9	(2)%
Total revenues	\$1,098.9	\$1,112.9	(1)%	\$3,212.1	\$3,252.7	(1)%
Operating income	\$257.1	\$283.3	(9)%	\$723.7	\$780.1	(7)%
Operating income margin	23	% 25	%	23	% 24	%
Key indicator:						
Consumer-to-Consumer transactions	67.8	66.6	2 %	199.2	194.1	3 %

We view our Consumer-to-Consumer money transfer service as one interconnected global network where a money transfer can be sent from one location to another, around the world. The segment includes five geographic regions whose functions are limited to generating, managing and maintaining agent relationships and localized marketing activities. We include our online money transfer services initiated through Western Union branded websites ("westernunion.com") in our regions. By means of common processes and systems, these regions, including westernunion.com, create an interconnected network for consumer transactions, thereby constituting one global Consumer-to-Consumer money transfer business and one operating segment.

Significant allocations are made in determining the transaction and revenue changes under the regional view in the table that follows. The geographic split for transactions and revenue, including transactions initiated through westernunion.com, is determined based upon the region where the money transfer is initiated and the region where the money transfer is paid. For transactions originated and paid in different regions, we split the transaction count and revenue between the two regions, with each region receiving 50%. For money transfers initiated and paid in the same region, 100% of the transactions and revenue are attributed to that region. Included in each region's transaction and revenue percentages in the tables below are transactions initiated through westernunion.com for the three and nine months ended September 30, 2016. Regional results for the three and nine months ended September 30, 2015 have also been adjusted to include transactions initiated through westernunion.com. Prior to January 1, 2016, we reported westernunion.com initiated transactions as a separate region with 100% of the corresponding transactions and revenue attributed to that region. Where reported separately in the discussion below, westernunion.com consists of 100% of the transactions and revenue that are initiated through westernunion.com, regardless of where the transactions are paid out.

Table of Contents

Due to the significance of our Consumer-to-Consumer segment to our overall results and the effect that foreign exchange fluctuations against the United States dollar can have on our reported revenues, constant currency results have been provided in the table below. Constant currency results assume foreign revenues are translated from foreign currencies to the U.S. dollar, net of the effect of foreign currency hedges, at rates consistent with those in the prior year. Constant currency is a non-GAAP financial measure and is provided so that revenue can be viewed without the effect of fluctuations in foreign currency exchange rates, which is consistent with how management evaluates our revenue results and trends. We believe that this measure provides management and investors with information about operating results and trends that eliminates currency volatility and provides greater clarity regarding, and increases the comparability of, our underlying results and trends. This constant currency disclosure is provided in addition to, and not as a substitute for, the percentage change in revenue on a GAAP basis for the three and nine months ended September 30, 2016 compared to the corresponding periods in the prior year. Other companies may calculate and define similarly labeled items differently, which may limit the usefulness of this measure for comparative purposes.

The table below sets forth revenue and transaction changes by geographic region compared to the corresponding periods in the prior year:

	Three Months Ended September 30, 2016				Nine Months Ended September 30, 2016			
	Revenue Growth/(Decline) as Reported - (GAAP)	Exchange Translation Impact	Constant Currency Revenue Growth/(Decline) (a) - (Non-GAAP)	Transaction Growth/(Decline) (b)	Revenue Growth/(Decline) as Reported - (GAAP)	Exchange Translation Impact	Constant Currency Revenue Growth/(Decline) (a) - (Non-GAAP)	Transaction Growth/(Decline) (b)
Consumer-to-Consumer regional growth/(decline):								
North America	6 %	(1)%	7 %	7 %	5 %	(1)%	6 %	7 %
Europe and CIS	(2)%	(3)%	1 %	2 %	(3)%	(3)%	0 %	3 %
Middle East and Africa	(10)%	(2)%	(8)%	(9)%	(6)%	(2)%	(4)%	(6)%
Asia Pacific ("APAC")	(4)%	(1)%	(3)%	(5)%	(4)%	(3)%	(1)%	(4)%
Latin America and the Caribbean ("LACA")	3 %	(5)%	8 %	12 %	(1)%	(6)%	5 %	12 %
Total Consumer-to-Consumer growth/(decline):	(1)%	(2)%	1 %	2 %	(1)%	(2)%	1 %	3 %
westernunion.com (b)	26 %	(2)%	28 %	29 %	20 %	(2)%	22 %	26 %

(a) Constant currency revenue growth assumes that revenues denominated in foreign currencies are translated to the U.S. dollar, net of the effect of foreign currency hedges, at rates consistent with those in the prior periods.

(b) Westernunion.com revenues have also been included in each region, as described earlier.

The table below sets forth regional revenues as a percentage of our Consumer-to-Consumer revenue for the three and nine months ended September 30, 2016 and 2015.

Three Months Ended September	Nine Months Ended September
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	30,		30,
	2016	2015	2016
Consumer-to-Consumer revenue as a percentage of segment revenue:			2015
North America	29%	27%	28%
Europe and CIS	26%	26%	26%
Middle East and Africa	19%	21%	20%
APAC	14%	15%	15%
LACA	12%	11%	11%

Westernunion.com, which is included in the regional percentages above, represented approximately 8% of our Consumer-to-Consumer revenue for both the three and nine months ended September 30, 2016. Westernunion.com represented approximately 6% of our Consumer-to-Consumer revenue for both the three and nine months ended September 30, 2015.

Table of Contents

Our consumers transferred \$20.3 billion and \$20.9 billion in Consumer-to-Consumer principal for the three months ended September 30, 2016 and 2015, respectively, of which \$18.4 billion and \$18.9 billion related to cross-border principal, for the corresponding periods described above. Our consumers transferred \$59.8 billion and \$61.2 billion in Consumer-to-Consumer principal for the nine months ended September 30, 2016 and 2015, respectively, of which \$54.2 billion and \$55.2 billion related to cross-border principal, for the corresponding periods described above.

Consumer-to-Consumer segment revenues

Consumer-to-Consumer money transfer revenue decreased 1% for both the three and nine months ended September 30, 2016, compared to the corresponding periods in the prior year, on transaction growth of 2% and 3% for the three and nine months ended September 30, 2016, respectively. The strengthening of the United States dollar compared to foreign currencies, net of the impact of foreign currency hedges, negatively impacted revenue by 2% for both the three and nine months ended September 30, 2016.

Fluctuations in the exchange rate between the United States dollar and other currencies, net of the impact of foreign currency hedges, resulted in a reduction to revenues of \$25.3 million and \$78.8 million for the three and nine months ended September 30, 2016, respectively, relative to the corresponding periods in the prior year. Foreign currency hedges benefited revenues by \$11.5 million and \$37.5 million for the three and nine months ended September 30, 2016, respectively.

Our North America region experienced increased revenue of 6% and 5% for the three and nine months ended September 30, 2016, compared to the corresponding periods in the prior year, respectively, and transaction growth of 7% for both the three and nine months ended September 30, 2016. The increase in revenue was primarily due to transaction growth in our United States outbound services, including our United States to Mexico and Latin America corridors.

Our Europe and CIS region experienced decreased revenue of 2% and 3% for the three and nine months ended September 30, 2016, compared to the corresponding periods in the prior year, and transaction growth of 2% and 3%, respectively. Fluctuations in the exchange rate between the United States dollar and the euro and other currencies, net of the impact of foreign currency hedges, negatively impacted revenue by 3% for both the three and nine months ended September 30, 2016. For the three months ended September 30, 2016, revenue was negatively impacted by declines in Turkey, offset by growth in Greece and price increases implemented in certain corridors. For the nine months ended September 30, 2016, revenue was also negatively impacted by declines in Russia, partially offset by growth in Germany.

Our Middle East and Africa region experienced decreased revenue of 10% and 6% for the three and nine months ended September 30, 2016, compared to the corresponding periods in the prior year, and transaction declines of 9% and 6%, respectively. Fluctuations in the exchange rate between the United States dollar and other currencies negatively impacted revenue by 2% for both the three and nine months ended September 30, 2016, respectively. Declines in oil-producing countries, which generally accelerated in the three months ended September 30, 2016, negatively impacted revenue growth for both the three and nine months ended September 30, 2016 compared to the corresponding periods in the prior year.

Our APAC region experienced decreased revenue of 4% for both the three and nine months ended September 30, 2016, compared to the corresponding periods in the prior year, and transaction declines of 5% and 4% for the three and nine months ended September 30, 2016, respectively. Fluctuations in the exchange rate between the United States dollar and other currencies, net of the impact of foreign currency hedges, negatively impacted revenue by 1% and 3% for the three and nine months ended September 30, 2016, respectively. Declines in transactions originated in oil-producing countries, as discussed above, also contributed to revenue declines in India for the three and nine months ended September 30, 2016 and in the Philippines for the nine months ended September 30, 2016.

Our LACA region experienced increased revenue of 3% for the three months ended September 30, 2016 and decreased revenue of 1% for the nine months ended September 30, 2016, compared to the corresponding periods in the prior year, and transaction growth of 12% for both the three and nine months ended September 30, 2016.

Fluctuations in the exchange rate between the United States dollar and other currencies, primarily the Argentine peso,

negatively impacted revenue by 5% and 6% for the three and nine months ended September 30, 2016, respectively. Price reductions implemented in Argentina also negatively impacted revenue, partially offset by growth from transactions originated in the United States, as discussed above.

Foreign exchange revenues in our Consumer-to-Consumer segment increased 5% for both the three and nine months ended September 30, 2016, compared to the corresponding periods in the prior year, primarily due to increases in foreign exchange spreads. For the nine months ended September 30, 2016, these increases were largely offset by corresponding reductions in transaction fees.

Table of Contents

We have historically implemented and will likely continue to implement price reductions from time to time in response to competition and other factors. Price reductions generally reduce margins and adversely affect financial results in the short term and may also adversely affect financial results in the long term if transaction volumes do not increase sufficiently. Consumer-to-Consumer net pricing changes had a minimal effect on segment revenue for the nine months ended September 30, 2016.

Operating income

Consumer-to-Consumer operating income declined 9% and 7% for the three and nine months ended September 30, 2016, respectively, compared to the corresponding periods in the prior year. Results for the three and nine months ended September 30, 2016 were negatively impacted by the strengthening of the United States dollar compared to foreign currencies. Results for the three and nine months ended September 30, 2016 were also negatively impacted by the FTC matter, as described earlier, and increased technology expenses, partially offset by reductions in employee compensation. Operating margins in the segment were also impacted by these factors.

Consumer-to-Business Segment

The table below sets forth our Consumer-to-Business segment results of operations for the three and nine months ended September 30, 2016 and 2015. To assist in an understanding of the comparable nine-month period's results, we are including additional line items in the table below reflecting Consumer-to-Business operating income and operating income margin excluding the effect of the \$35.3 million of expenses related to the Paymap Settlement Agreement that were recorded in the second quarter of 2015. Operating income, excluding Paymap Settlement Agreement and operating income margin, excluding Paymap Settlement Agreement, are non-GAAP financial measures and are used by management in evaluating the operating income results and trends of our Consumer-to-Business segment. We believe that, by adjusting operating income and operating income margin to exclude the effects of significant charges associated with the settlement of litigation that can impact operating trends, management and investors are provided with measures that increase the comparability of our underlying operating results. This disclosure is provided in addition to, and not as a substitute for, operating income and operating income margin on a GAAP basis.

(dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Revenues:						
Transaction fees	\$149.4	\$154.1	(3)%	\$447.6	\$457.1	(2)%
Foreign exchange and other revenues	6.3	6.0	4 %	18.4	18.7	(2)%
Total revenues	\$155.7	\$160.1	(3)%	\$466.0	\$475.8	(2)%
Operating income — (GAAP)	\$14.2	\$26.2	(46)%	\$54.8	\$49.3	11 %
Paymap Settlement Agreement	—	—		—	35.3	
Operating income, excluding Paymap Settlement Agreement — (Non-GAAP)	\$14.2	\$26.2		\$54.8	\$84.6	
Operating income margin — (GAAP)	9	% 16	%	12	% 10	%
Operating income margin, excluding Paymap Settlement Agreement — (Non-GAAP)	9	% 16	%	12	% 18	%

Revenues

For the three and nine months ended September 30, 2016 compared to the corresponding periods in the prior year, Consumer-to-Business revenue decreased 3% and 2%, respectively. This was primarily due to declines related to foreign currency translation in our bill payments in Argentina and declines in our United States cash-based bill payments, partially offset by increases in our United States electronic bill payments. The strengthening of the United

States dollar against the Argentine peso negatively impacted our Consumer-to-Business revenue growth by 14% for both the three and nine months ended September 30, 2016.

Table of Contents

Operating income

For both the three and nine months ended September 30, 2016 compared to the corresponding periods in the prior year, operating income was negatively impacted by changes in customer mix and increased bank fees in our United States electronic bill payments. For the nine months ended September 30, 2016 compared to the corresponding period in the prior year, operating income was also impacted by the Paymap Settlement Agreement that was recorded in the second quarter of 2015 and increased technology expenses. The changes in operating margins in the segment were also due to these factors.

Business Solutions

The following table sets forth our Business Solutions segment results of operations for the three and nine months ended September 30, 2016 and 2015.

(dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Revenues:						
Foreign exchange revenues	\$85.3	\$90.6	(6)%	\$264.6	\$266.0	(1)%
Transaction fees and other revenues	11.9	10.6	12 %	32.6	30.8	6 %
Total revenues	\$97.2	\$101.2	(4)%	\$297.2	\$296.8	0 %
Operating income/(loss)	\$3.4	\$(2.7)	(a)	\$10.9	\$(1.0)	(a)
Operating income/(loss) margin	4 %	(3)%		4 %	0 %	

(a) Calculation not meaningful.

Revenues

For the three months ended September 30, 2016 compared to the corresponding period in the prior year, Business Solutions revenue decreased 4%. For the nine months ended September 30, 2016 compared to the corresponding period in the prior year, Business Solutions revenue was flat. Fluctuations in the exchange rate between the United States dollar and other currencies negatively impacted revenue growth by 4% for both the three and nine months ended September 30, 2016.

Operating income/(loss)

For the three and nine months ended September 30, 2016, operating income was generated as compared to operating losses in the corresponding periods in the prior year as a result of amortization expenses recorded in the comparable periods in the prior year related to the termination of a partner relationship contract. For the nine months ended September 30, 2016, operating income was also positively impacted by reductions in employee compensation costs.

Table of Contents

Other

The following table sets forth Other results for the three and nine months ended September 30, 2016 and 2015.

(dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Revenues	\$26.0	\$25.0	4 %	\$75.9	\$78.4	(3)%
Operating income/(loss)	\$3.6	\$(2.3)	(a)	\$7.8	\$(0.8)	(a)

(a) Calculation not meaningful.

Revenues

For the three and nine months ended September 30, 2016 compared to the corresponding periods in the prior year, Other revenue increased 4% and decreased 3%, respectively. For the three months ended September 30, 2016 compared to the corresponding period in the prior year, Other revenue increased primarily due to increases in our money order business. For the nine months ended September 30, 2016 compared to the corresponding period in the prior year, Other revenue decreased due to declines in our prepaid services, partially offset by increases in our money order business.

Operating income/(loss)

For the three and nine months ended September 30, 2016, Other operating income was generated, as compared to operating losses in the corresponding periods in the prior year, due to increased investment income and other revenues in our money order business and a reduction of expenses in our prepaid services.

Table of Contents

Capital Resources and Liquidity

Our primary source of liquidity has been cash generated from our operating activities, primarily from net income and fluctuations in working capital. Our working capital is affected by the timing of interest payments on our outstanding borrowings and timing of income tax payments, among other items. The significant majority of our interest payments are due in the second and fourth quarters which results in a decrease in the amount of cash provided by operating activities in those quarters and a corresponding increase to the first and third quarters.

Our future cash flows could be impacted by a variety of factors, some of which are out of our control, including changes in economic conditions, especially those impacting migrant populations and changes in income tax laws or the status of income tax audits, including the resolution of outstanding tax matters.

Substantially all of our cash flows from operating activities have been generated from subsidiaries. Most of these cash flows are generated from our regulated subsidiaries. Our regulated subsidiaries may transfer all excess cash to the parent company for general corporate use, except for assets subject to legal or regulatory restrictions, including: (1) requirements to maintain cash and other qualifying investment balances, free of any liens or other encumbrances, related to the payment of certain of our money transfer and other payment obligations and (2) other legal or regulatory restrictions, including statutory or formalized net worth requirements.

We believe we have adequate liquidity to meet our business needs, service our debt obligations, pay dividends, and repurchase shares through our existing cash balances and our ability to generate cash flows through operations. To help ensure availability of our worldwide cash where needed, we utilize a variety of planning and financial strategies, including decisions related to the amounts, timing and manner by which cash is repatriated or otherwise made available from our international subsidiaries. These decisions can influence our overall tax rate and impact our total liquidity.

We also have the capacity to borrow up to \$1.65 billion in the aggregate under our revolving credit facility ("Revolving Credit Facility"), which supports borrowings under our \$1.5 billion commercial paper program and expires in September 2020. As of September 30, 2016, we had no outstanding borrowings under our Revolving Credit Facility or commercial paper program.

Cash and Investment Securities

As of both September 30, 2016 and December 31, 2015, we had cash and cash equivalents of \$1.3 billion. Approximately \$650 million and \$950 million was held by our foreign entities as of September 30, 2016 and December 31, 2015, respectively. Our ongoing cash management strategies to fund our business needs could cause United States and foreign cash balances to fluctuate.

Repatriating foreign earnings to the United States would, in many cases, result in significant tax obligations because most of these earnings have been taxed at relatively low foreign tax rates compared to our combined federal and state tax rate in the United States. Over the last several years, such earnings have been used to pay for our international acquisitions and operations and provide initial Company funding of global principal payouts for Consumer-to-Consumer and Business Solutions transactions. We regularly evaluate, taking tax consequences and other factors into consideration, our United States cash requirements and also the potential uses of cash internationally to determine the appropriate level of dividend repatriations of our foreign source income.

In many cases, we receive funds from money transfers and certain other payment services before we settle the payment of those transactions. These funds, referred to as "Settlement assets" on our Condensed Consolidated Balance Sheets, are not used to support our operations. However, we earn income from investing these funds. We maintain a portion of these settlement assets in highly liquid investments, classified as "Cash and cash equivalents" within "Settlement assets," to fund settlement obligations.

Table of Contents

Investment securities, classified within "Settlement assets," were \$1.1 billion and \$1.2 billion as of September 30, 2016 and December 31, 2015, respectively, and consist primarily of highly-rated state and municipal debt securities, including fixed rate term notes and variable rate demand notes. The substantial majority of our investment securities are held in order to comply with state licensing requirements in the United States and are required to have credit ratings of "A-" or better from a major credit rating agency.

Investment securities are exposed to market risk due to changes in interest rates and credit risk. We regularly monitor credit risk and attempt to mitigate our exposure by investing in highly-rated securities and diversifying our investment portfolio. Our investment securities are also actively managed with respect to concentration. As of September 30, 2016, all investments with a single issuer and each individual security were less than 10% of our investment securities portfolio.

Cash Flows from Operating Activities

Cash provided by operating activities increased to \$821.9 million during the nine months ended September 30, 2016, from \$804.2 million in the comparable period in the prior year. Cash provided by operating activities is impacted by changes to our consolidated net income, in addition to fluctuations in our working capital balances, among other factors.

Financing Resources

On April 11, 2016, we entered into a term loan agreement, which matures in April 2021, providing for an unsecured delayed draw term loan facility in an aggregate amount of \$575 million (the "Term Loan Facility"). As of September 30, 2016, we had no outstanding borrowings under the Term Loan Facility. In October 2016, we borrowed \$575 million under the Term Loan Facility and used the proceeds, in addition to cash, including cash generated from operations, and proceeds from commercial paper borrowings to repay our notes due in October 2016 ("2016 Notes").

The Term Loan Facility contains covenants, subject to certain exceptions, that, among other things, limit or restrict our ability to sell or transfer assets or merge or consolidate with another company, grant certain types of security interests, incur certain types of liens, impose restrictions on subsidiary dividends, enter into sale and leaseback transactions, incur certain subsidiary level indebtedness, or use proceeds in violation of anti-corruption or anti-money laundering laws. The Term Loan Facility requires us to maintain a consolidated adjusted EBITDA interest coverage ratio of greater than 3:1 for each period of four consecutive fiscal quarters. The Term Loan Facility also contains customary representations, warranties and events of default.

Generally, interest under the Term Loan Facility is calculated using a selected LIBOR rate plus an interest rate margin of 150 basis points. The interest rate margin is based on certain of our credit ratings and will increase or decrease in the event of certain upgrades or downgrades in our credit ratings.

In addition to the payment of interest, we are required to make certain periodic amortization payments with respect to the outstanding principal of the term loans commencing after the second anniversary of the closing of the Term Loan Facility. The final maturity date of the Term Loan Facility is April 11, 2021.

Our Revolving Credit Facility expires in September 2020 and provides for unsecured financing facilities in an aggregate amount of \$1.65 billion, including a \$250 million letter of credit sub-facility. Interest due under the Revolving Credit Facility is fixed for the term of each borrowing and is payable according to the terms of that borrowing. Generally, interest is calculated using a selected LIBOR rate plus an interest rate margin of 110 basis

points. A facility fee of 15 basis points is also payable quarterly on the total facility, regardless of usage. Both the interest rate margin and facility fee percentage are based on certain of our credit ratings.

Table of Contents

The purpose of our Revolving Credit Facility, which is diversified through a group of 18 participating institutions, is to provide general liquidity and to support our commercial paper program, which we believe enhances our short-term credit rating. The largest commitment from any single financial institution within the total committed balance of \$1.65 billion is approximately 11%. As of and during the nine months ended September 30, 2016, we had no outstanding borrowings under our Revolving Credit Facility. If the amount available to borrow under the Revolving Credit Facility decreased, or if the Revolving Credit Facility were eliminated, the cost and availability of borrowing under the commercial paper program may be impacted.

Pursuant to our commercial paper program, we may issue unsecured commercial paper notes in an amount not to exceed \$1.5 billion outstanding at any time, reduced to the extent of borrowings outstanding on our Revolving Credit Facility in excess of \$150 million. Our commercial paper borrowings may have maturities of up to 397 days from date of issuance. Interest rates for borrowings are based on market rates at the time of issuance. We had no commercial paper borrowings outstanding as of September 30, 2016. During the three and nine months ended September 30, 2016, the average commercial paper balance outstanding was \$13.0 million and \$12.6 million, respectively, and the maximum balance outstanding was \$267.0 million for both periods. Proceeds from our commercial paper borrowings were used for general corporate purposes and working capital needs.

As of September 30, 2016, we have outstanding borrowings at par value of \$3,230.3 million. The substantial majority of these outstanding borrowings consist of unsecured fixed-rate notes and associated swaps with maturities ranging from 2016 to 2040.

Cash Priorities

Liquidity

Our objective is to maintain strong liquidity and a capital structure consistent with investment-grade credit ratings. We have existing cash balances, cash flows from operating activities, access to the commercial paper markets and our Revolving Credit Facility available to support the needs of our business.

Capital Expenditures

The total aggregate amount paid for contract costs, purchases of property and equipment and purchased and developed software was \$177.0 million and \$206.7 million for the nine months ended September 30, 2016 and 2015, respectively. Amounts paid for new and renewed agent contracts vary depending on the terms of existing contracts as well as the timing of new and renewed contract signings. Other capital expenditures during these periods included investments in our information technology infrastructure and purchased and developed software.

Share Repurchases and Dividends

During the nine months ended September 30, 2016 and 2015, 20.9 million and 21.4 million shares were repurchased for \$402.2 million and \$431.2 million, respectively, excluding commissions, at an average cost of \$19.22 and \$20.12 per share, respectively. As of September 30, 2016, \$309.7 million remained available under a share repurchase authorization approved by our Board of Directors through December 31, 2017.

Our Board of Directors declared quarterly cash dividends of \$0.16 per common share in each of the first three quarters of 2016, representing \$235.1 million in total dividends.

Debt Service Requirements

Our 2016 and future debt service requirements will include payments on all outstanding indebtedness including any borrowings under our commercial paper program.

Our ability to grow the business, make investments in our business, make acquisitions, return capital to shareholders, including through dividends and share repurchases, and service our debt will depend on our ability to continue to generate excess operating cash through our operating subsidiaries and to continue to receive dividends from those operating subsidiaries, our ability to obtain adequate financing and our ability to identify acquisitions that align with our long-term strategy.

Table of Contents

Off-Balance Sheet Arrangements

Other than facility and equipment leasing arrangements, we have no material off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Other Commercial Commitments

We had approximately \$180 million in outstanding letters of credit and bank guarantees as of September 30, 2016 that are primarily held in connection with safeguarding consumer funds, lease arrangements, and certain agent agreements. The letters of credit and bank guarantees have expiration dates through 2021, with many having a one-year renewal option. We expect to renew the letters of credit and bank guarantees prior to expiration in most circumstances.

As of September 30, 2016, our total amount of unrecognized income tax benefits was \$111.4 million, including associated interest and penalties. The timing of related cash payments for substantially all of these liabilities is inherently uncertain because the ultimate amount and timing of such liabilities are affected by factors which are variable and outside our control.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements and accompanying notes. Actual results could differ from those estimates. Our Critical Accounting Policies and Estimates disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" in our 2015 Annual Report on Form 10-K, for which there were no material changes, included:

- Income taxes
- Derivative financial instruments
- Other intangible assets
- Goodwill
- Legal contingencies

Table of Contents

Risk Management

We are exposed to market risks arising from changes in market rates and prices, including changes in foreign currency exchange rates and interest rates and credit risk related to our agents and customers. A risk management program is in place to manage these risks.

Foreign Currency Exchange Rates

We provide our services primarily through a network of agent locations in more than 200 countries and territories. We manage foreign exchange risk through the structure of the business and an active risk management process. We currently settle with the majority of our agents in United States dollars or euros, requiring those agents to obtain local currency to pay recipients, and we generally do not rely on international currency markets to obtain and pay illiquid currencies. However, in certain circumstances, we settle in other currencies. The foreign currency exposure that does exist is limited by the fact that the majority of transactions are paid by the next day after they are initiated. To mitigate this risk further, we enter into short duration foreign currency forward contracts, generally with maturities from a few days up to one month, to offset foreign exchange rate fluctuations between transaction initiation and settlement. We also have exposure to certain foreign currency denominated cash and other asset and liability positions and may utilize foreign currency forward contracts, typically with maturities of less than one year at inception, to offset foreign exchange rate fluctuations on these positions. In certain consumer money transfer, bill payment and Business Solutions transactions involving different send and receive currencies, we generate revenue based on the difference between the exchange rate set by us to the consumer or business and the rate at which we or our agents are able to acquire the currency, helping to provide protection against currency fluctuations. We attempt to promptly buy and sell foreign currencies as necessary to cover our net payables and receivables which are denominated in foreign currencies.

We use longer-term foreign currency forward contracts to help mitigate risks associated with changes in foreign currency exchange rates on revenues denominated primarily in the euro, and to a lesser degree the British pound, Canadian dollar, Australian dollar, Swiss franc, and other currencies. We use contracts with maturities of up to 36 months at inception to mitigate some of the impact that changes in foreign currency exchange rates could have on forecasted revenues, with a targeted weighted-average maturity of approximately one year. We believe the use of longer-term foreign currency forward contracts provides predictability of future cash flows from our international operations.

We have additional foreign exchange risk and associated foreign exchange risk management requirements due to the nature of our Business Solutions business. The majority of this business' revenue is from exchanges of currency at spot rates, which enable customers to make cross-currency payments. In certain countries, this business also writes foreign currency forward and option contracts for our customers to facilitate future payments. The duration of these derivative contracts at inception is generally less than one year. Business Solutions aggregates its foreign exchange exposures arising from customer contracts, including the derivative contracts described above, and hedges the resulting net currency risks by entering into offsetting contracts with established financial institution counterparties.

Table of Contents

As of December 31, 2015, a hypothetical uniform 10% strengthening or weakening in the value of the United States dollar relative to all other currencies in which our net income is generated would have resulted in a decrease/increase to pre-tax annual income of approximately \$25 million based on our 2016 forecast of Consumer-to-Consumer unhedged exposure to foreign currency at that date. As of September 30, 2016, the exposure for the next twelve months is not materially different based on our forecast of unhedged exposure to foreign currency. There are inherent limitations in this sensitivity analysis, primarily due to the following assumptions: (a) that foreign exchange rate movements are linear and instantaneous, (b) that fixed exchange rates between certain currency pairs are retained, (c) that the unhedged exposure is static, and (d) that we would not hedge any additional exposure. As a result, the analysis is unable to reflect the potential effects of more complex market changes that could arise, which may positively or negatively affect income.

Interest Rates

We invest in several types of interest bearing assets, with a total value as of September 30, 2016 of \$3.0 billion. Approximately \$2.2 billion of these assets bear interest at floating rates and are therefore sensitive to changes in interest rates. These assets primarily include cash in banks, money market instruments, and state and municipal variable rate securities and are included in our Condensed Consolidated Balance Sheets within "Cash and cash equivalents" and "Settlement assets." To the extent these assets are held in connection with money transfers and other related payment services awaiting redemption, they are classified as "Settlement assets." Earnings on these investments will increase and decrease with changes in the underlying short-term interest rates.

The remainder of our interest bearing assets primarily consists of highly-rated state and municipal debt securities which are fixed rate term notes. These investments may include investments made from cash received from our money order services, money transfer business, and other related payment services awaiting redemption classified within "Settlement assets" in the Condensed Consolidated Balance Sheets. As interest rates rise, the fair value of these fixed-rate interest-bearing securities will decrease; conversely, a decrease to interest rates would result in an increase to the fair values of the securities. We have classified these investments as available-for-sale within "Settlement assets" in the Condensed Consolidated Balance Sheets, and accordingly, recorded these instruments at their fair value with the net unrealized gains and losses, net of the applicable deferred income tax effect, being added to or deducted from our "Total stockholders' equity" on our Condensed Consolidated Balance Sheets.

As of September 30, 2016, a total of \$975.0 million of our fixed-rate borrowings at par value are effectively floating rate debt through interest rate swap agreements, changing this fixed-rate debt to LIBOR-based floating rate debt, with weighted-average spreads of approximately 200 basis points above LIBOR. In October 2016, we borrowed \$575 million under our Term Loan Facility and used the proceeds, in addition to cash, including cash generated from operations, and proceeds from commercial paper borrowings in October 2016 to repay our 2016 Notes. Generally, interest under the Term Loan Facility is calculated using a selected LIBOR rate plus an interest rate margin of 150 basis points, and borrowings under our commercial paper program mature in such a short period that the financing is effectively floating rate.

We review our overall exposure to floating and fixed rates by evaluating our net asset or liability position in each, also considering the duration of the individual positions. We manage this mix of fixed versus floating exposure in an attempt to minimize risk, reduce costs and improve returns. Our exposure to interest rates can be modified by changing the mix of our interest bearing assets as well as adjusting the mix of fixed versus floating rate debt. The latter is accomplished primarily through the use of interest rate swaps and the decision regarding terms of any new debt issuances (i.e., fixed versus floating). We use interest rate swaps designated as hedges to increase the percentage of floating rate debt, subject to market conditions. As of September 30, 2016, our weighted-average effective rate on

total borrowings was approximately 5.0%.

A hypothetical 100 basis point increase/decrease in interest rates would result in a decrease/increase to pre-tax income for the next twelve months of approximately \$10 million based on borrowings, net of the impact of hedges, on September 30, 2016 that are sensitive to interest rate fluctuations. The same 100 basis point increase/decrease in interest rates, if applied to our cash and investment balances on September 30, 2016 that are sensitive to interest rate fluctuations, would result in an offsetting increase/decrease to pre-tax income for the next twelve months of approximately \$22 million. There are inherent limitations in the sensitivity analysis presented, primarily due to the assumption that interest rate changes would be instantaneous. As a result, the analysis is unable to reflect the potential effects of more complex market changes, including changes in credit risk regarding our investments, which may positively or negatively affect income. In addition, the mix of fixed versus floating rate debt and investments and the level of assets and liabilities will change over time, including the impact from borrowings under our Term Loan Facility and commercial paper borrowings that may be outstanding in future periods, as discussed above. We will also be further impacted by changes to future interest rates as we refinance our debt or by reinvesting proceeds from the sale or maturity of our investments.

Table of Contents

Credit Risk

To manage our exposures to credit risk with respect to investment securities, money market fund investments, derivatives and other credit risk exposures resulting from our relationships with banks and financial institutions, we regularly review investment concentrations, trading levels, credit spreads and credit ratings, and we attempt to diversify our investments among global financial institutions.

We are also exposed to credit risk related to receivable balances from agents in the money transfer, walk-in bill payment and money order settlement process. We perform a credit review before each agent signing and conduct periodic analyses of agents and certain other parties we transact with directly. In addition, we are exposed to credit risk directly from consumer transactions particularly through our electronic channels, where transactions are originated through means other than cash, and therefore are subject to "chargebacks," insufficient funds or other collection impediments, such as fraud, which are anticipated to increase as electronic channels become a greater proportion of our money transfer business.

We are exposed to credit risk in our Business Solutions business relating to: (a) derivatives written by us to our customers and (b) the extension of trade credit when transactions are paid to recipients prior to our receiving cleared funds from the sending customers. For the derivatives, the duration of these contracts at inception is generally less than one year. The credit risk associated with our derivative contracts increases when foreign currency exchange rates move against our customers, possibly impacting their ability to honor their obligations to deliver currency to us or to maintain appropriate collateral with us. For those receivables where we have offered trade credit, collection ordinarily occurs within a few days. To mitigate the risk associated with potential customer defaults, we perform credit reviews of the customer on an ongoing basis, and, for our derivatives, we may require certain customers to post or increase collateral.

Our losses associated with bad debts have been approximately 1% of our consolidated revenues in all periods presented.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information under the caption "Risk Management" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report is incorporated herein by reference.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of the Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of our controls and procedures related to our reporting and disclosure obligations as of September 30, 2016, which is the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer have concluded that, as of September 30, 2016, the disclosure controls and procedures were effective to ensure that information required to be disclosed by us, including our consolidated subsidiaries, in the reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported, as applicable, within the time periods specified in the rules and forms of the Securities and Exchange Commission, and are designed to ensure that information required to be disclosed by us in the reports that we file or submit is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required

disclosure.

Changes in Internal Control over Financial Reporting

There were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

55

Table of Contents

Review Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of The Western Union Company

We have reviewed the condensed consolidated balance sheet of The Western Union Company (the Company) as of September 30, 2016, the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2016 and 2015, and the related condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2016 and 2015. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The Western Union Company as of December 31, 2015, and the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 19, 2016. In our opinion, the accompanying condensed consolidated balance sheet of The Western Union Company as of December 31, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Denver, Colorado
November 1, 2016

Table of Contents

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

United States Department of Justice Investigations

On March 20, 2012, the Company was served with a federal grand jury subpoena issued by the United States Attorney's Office for the Central District of California ("USAO-CDCA") seeking documents relating to Shen Zhou International ("US Shen Zhou"), a former Western Union agent located in Monterey Park, California. The principal of US Shen Zhou was indicted in 2010 and in December 2013, pled guilty to one count of structuring international money transfers in violation of United States federal law in U.S. v. Zhi He Wang (SA CR 10-196, C.D. Cal.). Concurrent with the government's service of the subpoena, the government notified the Company that it is a target of an ongoing investigation into structuring and money laundering. Since March 20, 2012, the Company has received additional subpoenas from the USAO-CDCA seeking additional documents relating to US Shen Zhou, materials relating to certain other former and current agents and other materials relating to the Company's anti-money laundering ("AML") compliance policies and procedures. The government has interviewed several current and former Western Union employees and has served grand jury subpoenas seeking testimony from several current and former employees. The government's investigation is ongoing and the Company may receive additional requests for information as part of the investigation. The Company has provided and continues to provide information and documents to the government.

In March 2012, the Company was served with a federal grand jury subpoena issued by the United States Attorney's Office for the Eastern District of Pennsylvania ("USAO-EDPA") seeking documents relating to Hong Fai General Contractor Corp. (formerly known as Yong General Construction) ("Hong Fai"), a former Western Union agent located in Philadelphia, Pennsylvania. Since March 2012, the Company has received additional subpoenas from the USAO-EDPA seeking additional documents relating to Hong Fai. The government's investigation is ongoing and the Company may receive additional requests for information as part of the investigation. The Company has provided and continues to provide information and documents to the government. The government has interviewed several current and former Western Union employees. In March 2016, the government filed a criminal complaint against the principal of Hong Fai General Contractor Corp. and in June 2016, he pled guilty to one count of mail fraud, two counts of transporting illegal aliens and one count of tax evasion in violation of United States federal law in U.S. v. Yong Quan Zheng (2:16-cr-00212-AB E. D. Pa.).

On November 25, 2013, the Company was served with a federal grand jury subpoena issued by the United States Attorney's Office for the Middle District of Pennsylvania ("USAO-MDPA") seeking documents relating to complaints made to the Company by consumers anywhere in the world relating to fraud-induced money transfers since January 1, 2008. Concurrent with the government's service of the subpoena, the government notified the Company that it is the subject of the investigation. Since November 25, 2013, the Company has received additional subpoenas from the USAO-MDPA seeking documents relating to certain Western Union agents and Western Union's agent suspension and termination policies. The government has interviewed several current and former employees and has served grand jury subpoenas seeking testimony from several current and former employees. The government has indicated that it believes Western Union failed to timely terminate or suspend certain Western Union agents who allegedly paid or forwarded thousands of fraud-induced transactions sent from the United States to various countries from at least 2008 to 2012. The government's investigation is ongoing and the Company may receive additional requests for information as part of the investigation. The Company has provided and continues to provide information and documents to the

government.

57

Table of Contents

On March 6, 2014, the Company was served with a federal grand jury subpoena issued by the United States Attorney's Office for the Southern District of Florida ("USAO-SDFL") seeking a variety of AML compliance materials, including documents relating to the Company's AML, Bank Secrecy Act ("BSA"), Suspicious Activity Report ("SAR") and Currency Transaction Report procedures, transaction monitoring protocols, BSA and AML training programs and publications, AML compliance investigation reports, compliance-related agent termination files, SARs, BSA audits, BSA and AML-related management reports and AML compliance staffing levels. The subpoena also calls for Board meeting minutes and organization charts. The period covered by the subpoena is January 1, 2007 to November 27, 2013. Since March 6, 2014, the Company has received seizure warrants and additional subpoenas from the USAO-SDFL seeking documents relating to certain Western Union agents in, and certain transactions to, specified countries. The government advised the Company that it is investigating concerns the Company was aware there were gaming transactions being sent to Panama, Nicaragua, Haiti, Philippines, Vietnam, the Dominican Republic, Peru, Antigua, the Bahamas, and Costa Rica and that the Company failed to take proper steps to stop the activity. The government has also notified the Company that it is a target of the investigation. The government has interviewed several current and former Western Union employees. The government's investigation is ongoing and the Company may receive additional requests for information or seizure warrants as part of the investigation. The Company has provided and continues to provide information and documents to the government.

The Company anticipates entering into discussions with the United States Department of Justice to potentially resolve the four investigations described immediately above. Due to the stage of these matters and the fact that no criminal charges or civil claims have been brought, the Company is unable to predict the outcome of these matters, or reasonably estimate the possible loss or range of loss, if any, which could be associated with the potential resolution of these matters or with any possible charges or claims that may be brought against the Company in connection with them. Should such charges or claims be brought, or should the Company reach a resolution of these matters with the United States Department of Justice, the Company could face significant fines, payments, damage awards or regulatory consequences which could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

Table of Contents

Federal Trade Commission Investigation

The Company has had discussions with the United States Federal Trade Commission (the "FTC") regarding the Company's consumer protection and anti-fraud programs. On December 12, 2012, the Company received a civil investigative demand from the FTC requesting that the Company produce (i) all documents relating to communications with the monitor (the "Monitor") appointed pursuant to the agreement and settlement (the "Southwest Border Agreement") Western Union Financial Services, Inc. entered into with the State of Arizona on February 11, 2010, as amended, including information the Company provided to the Monitor and any reports prepared by the Monitor; and (ii) all documents relating to complaints made to the Company by consumers anywhere in the world relating to fraud-induced money transfers since January 1, 2011. On April 15, 2013, the FTC filed a petition in the United States District Court for the Southern District of New York requesting an order to compel production of the requested documents. On June 6, 2013, the Court granted in part and denied in part the FTC's request. On August 14, 2013, the FTC filed a notice of appeal. On August 27, 2013, Western Union filed a notice of cross-appeal. On February 21, 2014, the Company received another civil investigative demand from the FTC requesting the production of all documents relating to complaints made to the Company by or on behalf of consumers relating to fraud-induced money transfers that were sent from or received in the United States since January 1, 2004, except for documents that were already produced to the FTC in response to the first civil investigative demand. On October 7, 2014, the United States Court of Appeals for the Second Circuit entered a summary order reversing in part and vacating and remanding in part the June 6, 2013 order entered by the United States District Court for the Southern District of New York. On October 22, 2014, the Company received another civil investigative demand issued by the FTC requesting documents and information since January 1, 2004 relating to the Company's consumer fraud program, its policies and procedures governing agent termination, suspension, probation and reactivation, its efforts to comply with its 2005 agreement with 47 states and the District of Columbia regarding consumer fraud prevention, and complaints made to the Company by or on behalf of consumers concerning fraud-induced money transfers that were sent to or from the United States, excluding complaint-related documents that were produced to the FTC in response to the earlier civil investigative demands. The civil investigative demand also seeks various documents concerning approximately 720 agents, including documents relating to the transactions they sent and paid and the Company's investigations of and communications with them. On July 31, 2015, the Company received another civil investigative demand requesting documents and information relating to the total number of agent and subagent locations in 13 countries annually since 2010, the average and median dollar values for money transfers sent anywhere in the world annually since 2010, copies of the Company's anti-fraud programs, know your agent policy, know your customer policy, representative agent contracts, transaction data, background investigation documents and fraud complaints associated with four agents in Greece, Peru and Mexico and consumer fraud reports not already produced to the FTC. The Company has responded to each of the civil investigative demands it has received from the FTC and may receive additional civil investigative demands. In the second quarter of 2016, the FTC advised the Company of its view that the Company violated Section 5 of the Federal Trade Commission Act and the Telemarketing Sales rule by failing to take timely, appropriate, and effective measures to mitigate fraud in the processing of money transfers sent by consumers. Since that time, the Company has engaged in discussions with the FTC seeking to reach an appropriate resolution of this matter. The FTC staff has advised the Company that it believes that the Company bears responsibility for principal amounts of what it alleges to be hundreds of millions of dollars in fraud-induced money transfers, or a multiple thereof based on the FTC's belief that fraud-induced money transfers are underreported by consumers, dating back to 2004. The Company strongly disagrees with the FTC's assertions regarding its potential liability and any scope thereof, but has continued to engage in discussions with the FTC in an effort to reach an appropriate resolution of this matter. As of September 30, 2016, the Company adjusted its accrual to \$30 million, based on its recent offer towards a proposed resolution and upon other facts and circumstances known to the Company. Due to the stage of the discussions, the Company is unable to predict the possible range of additional loss exceeding the amount already accrued for this matter. There can be no assurance that the Company will reach an agreement with the FTC and the

amount of any loss ultimately incurred in relation to this matter may be substantially higher than the amount currently accrued. The FTC staff has advised the Company that it will request authority from the FTC to file a complaint against the Company in United States federal court if it is not able to reach an agreement with the Company. Should the Company enter into a settlement agreement with the FTC, or if the FTC files a complaint against the Company, the Company could be required to make significant restitution and/or other payments and changes to its programs, any of which separately or combined could have a material adverse effect on the Company's business, financial condition and results of operations. If the FTC files a complaint against the Company, the Company intends to defend itself vigorously.

Table of Contents

Other Governmental Investigations

Since 2011, Western Union has received several civil investigative demands from a group of state attorneys general in connection with an investigation into the adequacy of the Company's consumer protection efforts. The civil investigative demands sought information and documents relating to money transfers sent from the United States to certain countries, consumer fraud complaints that the Company has received and the Company's procedures to help identify and prevent fraudulent transfers. The Company has provided and continues to provide information and documents to the attorneys general. Due to the stage of the investigation, the Company is unable to predict the outcome of the investigation, or reasonably estimate the possible loss or range of loss, if any, which could be associated with any possible civil claims that might be brought by one or more of the states. Should such claims be brought, the Company could face significant fines, damage awards, or regulatory consequences, or compulsory changes in our business practices, that could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

Shareholder Actions

On January 13, 2014, Natalie Gordon served the Company with a Verified Shareholder Derivative Complaint and Jury Demand that was filed in District Court, Douglas County, Colorado naming the Company's President and Chief Executive Officer, one of its former executive officers, one of its former directors, and all but one of its current directors as individual defendants, and the Company as a nominal defendant. The complaint asserts claims for breach of fiduciary duty and gross mismanagement against all of the individual defendants and unjust enrichment against the President and Chief Executive Officer and the former executive officer based on allegations that between February 12, 2012 to October 30, 2012, the individual defendants made or caused the Company to issue false and misleading statements or failed to make adequate disclosures regarding the effects of the Southwest Border Agreement, including regarding the anticipated costs of compliance with the Southwest Border Agreement, potential effects on business operations, and Company projections. Plaintiff also alleges that the individual defendants caused or allowed the Company to lack requisite internal controls, caused or allowed financial statements to be misstated, and caused the Company to be subject to the costs, expenses and liabilities associated with City of Taylor Police and Fire Retirement System v. The Western Union Company, et al., a lawsuit that was subsequently renamed and dismissed. Plaintiff further alleges that the Company's President and Chief Executive Officer and the former executive officer received excessive compensation based on the allegedly inaccurate financial statements. On March 12, 2014, the Court entered an order granting the parties' joint motion to stay proceedings in the case during the pendency of certain of the shareholder derivative actions described below.

Table of Contents

In 2014, Stanley Lieblein, R. Andre Klein, City of Cambridge Retirement System, Mayar Fund Ltd, Louisiana Municipal Police Employees' Retirement System, MARTA/ATU Local 732 Employees Retirement Plan, and The Police Retirement System of St. Louis filed shareholder derivative complaints in the United States District Court for the District of Colorado (or were removed to the United States District Court for the District of Colorado) naming the Company's President and Chief Executive Officer and certain current and former directors and a former executive officer as individual defendants, and the Company as a nominal defendant. On January 5, 2015, the court entered an order consolidating the actions and appointing City of Cambridge Retirement System and MARTA/ATU Local 732 Employees Retirement Plan as co-lead plaintiffs. On February 4, 2015, co-lead plaintiffs filed a verified consolidated shareholder derivative complaint naming the Company's President and Chief Executive Officer, two of its former executive officers and all but two of its current directors as individual defendants, and the Company as a nominal defendant. The consolidated complaint asserts separate claims for breach of fiduciary duty against the director defendants and the officer defendants, claims against all of the individual defendants for violations of section 14(a) of the Securities Exchange Act of 1934 ("Exchange Act"), corporate waste and unjust enrichment, and a claim against the former executive officer for breach of fiduciary duties for insider selling and misappropriation of information. The breach of fiduciary duty claim against the director defendants includes allegations that they declined to implement an effective anti-money laundering compliance system after receiving numerous red flags indicating prolonged willful illegality, obstructed the Southwest Border Monitor's efforts to impose effective compliance systems on the Company, failed to take action in response to alleged Western Union management efforts to undermine the Monitor, reappointed the same directors to the Audit Committee and Corporate Governance and Public Policy Committees constituting a majority of those committees between 2006 and 2014, appointed a majority of directors to the Compliance Committee who were directly involved in overseeing the alleged misconduct as members of the Audit Committee and the Corporate Governance and Public Policy Committee, caused the Company to materially breach the Southwest Border Agreement, caused the Company to repurchase its stock at artificially inflated prices, awarded the Company's senior executives excessive compensation despite their responsibility for the Company's alleged willful non-compliance with state and federal anti-money laundering laws, and failed to prevent the former executive officer from misappropriating and profiting from nonpublic information when making allegedly unlawful stock sales. The breach of fiduciary duty claim against the officer defendants includes allegations that they caused the Company and allowed its agents to ignore the recording and reporting requirements of the Bank Secrecy Act and parallel anti-money laundering laws and regulations for a prolonged period of time, authorized and implemented anti-money laundering policies and practices that they knew or should have known to be inadequate, caused the Company to fail to comply with the Southwest Border Agreement and refused to implement and maintain adequate internal controls. The claim for violations of section 14(a) of the Exchange Act includes allegations that the individual defendants caused the Company to issue proxy statements in 2012, 2013 and 2014 containing materially incomplete and inaccurate disclosures - in particular, by failing to disclose the extent to which the Company's financial results depended on the non-compliance with AML requirements, the Board's awareness of the regulatory and criminal enforcement actions in real time pursuant to the 2003 Consent Agreement with the California Department of Financial Institutions and that the directors were not curing violations and preventing misconduct, the extent to which the Board considered the flood of increasingly severe red flags in their determination to re-nominate certain directors to the Audit Committee between 2006 and 2010, and the extent to which the Board considered ongoing regulatory and criminal investigations in awarding multi-million dollar compensation packages to senior executives. The corporate waste claim includes allegations that the individual defendants paid or approved the payment of undeserved executive and director compensation based on the illegal conduct alleged in the consolidated complaint, which exposed the Company to civil liabilities and fines. The corporate waste claim also includes allegations that the individual defendants made improper statements and omissions, which forced the Company to expend resources in defending itself in *City of Taylor Police and Fire Retirement System v. The Western Union Company, et al.*, a lawsuit that was subsequently renamed and dismissed, authorized the repurchase of over \$1.565 billion of the Company's stock at prices they knew or recklessly were aware, were artificially inflated, failed to maintain sufficient internal controls over the Company's marketing and sales

process, failed to consider the interests of the Company and its shareholders, and failed to conduct the proper supervision. The claim for unjust enrichment includes allegations that the individual defendants derived compensation, fees and other benefits from the Company and were otherwise unjustly enriched by their wrongful acts and omissions in managing the Company. The claim for breach of fiduciary duties for insider selling and misappropriation of information includes allegations that the former executive sold Company stock while knowing material, nonpublic information that would have significantly reduced the market price of the stock. On March 16, 2015, the defendants filed a motion to dismiss the consolidated complaint. On March 31, 2016, the Court entered an order granting the defendants' collective motion to dismiss without prejudice, denying as moot a separate motion to dismiss that was filed by the former executive officer, and staying the order for 30 days, within which plaintiffs may file an amended complaint that cures the defects noted in the order. On May 2, 2016, co-lead plaintiffs filed a verified amended consolidated shareholder derivative complaint naming the Company's President and Chief Executive Officer, eight of its current directors (including the Company's President and Chief Executive Officer, who also serves as a director) and one of its former directors as individual defendants, and the Company as a nominal defendant. The amended complaint, among other things, drops the claims against the former executive officer named in the prior complaint, realleges and narrows the breach of fiduciary duty claims, and drops the remaining claims. On June 15, 2016, defendants filed a motion to dismiss the amended consolidated shareholder derivative complaint. On August 1, 2016, plaintiffs filed an opposition to the motion to dismiss. On September 1, 2016, defendants filed a reply brief in support of the motion to dismiss.

Table of Contents

All of the actions described above under "Shareholder Actions" are in a preliminary stage and the Company is unable to predict the outcome, or reasonably estimate the possible loss or range of loss, if any, which could be associated with these actions. The Company and the named individuals intend to vigorously defend themselves in all of these matters.

Other Matters

On March 12, 2014, Jason Douglas filed a purported class action complaint in the United States District Court for the Northern District of Illinois asserting a claim under the Telephone Consumer Protection Act, 47 U.S.C. § 227, et seq., based on allegations that since 2009, the Company has sent text messages to class members' wireless telephones without their consent. During the first quarter of 2015, the Company's insurance carrier and the plaintiff reached an agreement to create an \$8.5 million settlement fund that will be used to pay all class member claims, class counsel's fees and the costs of administering the settlement. The agreement has been signed by the parties and, on November 10, 2015, the Court granted preliminary approval to the settlement. The Company accrued an amount equal to the retention under its insurance policy in previous quarters and believes that any amounts in excess of this accrual will be covered by the insurer. However, if the Company's insurer is unable to or refuses to satisfy its obligations under the policy or the parties are unable to reach a definitive agreement or otherwise agree on a resolution, the Company's financial condition, results of operations, and cash flows could be adversely impacted. As the parties have reached an agreement in this matter, the Company believes that the potential for additional loss in excess of amounts already accrued is remote.

On February 10, 2015, Caryn Pincus filed a purported class action lawsuit in the United States District Court for the Southern District of Florida against Speedpay, Inc. ("Speedpay"), a subsidiary of the Company, asserting claims based on allegations that Speedpay imposed an unlawful surcharge on credit card transactions and that Speedpay engages in money transmission without a license. The complaint requests certification of a class and two subclasses generally comprised of consumers in Florida who made a payment through Speedpay's bill payment services using a credit card and were charged a surcharge for such payment during the four-year and five-year periods prior to the filing of the complaint through the date of class certification. On April 6, 2015, Speedpay filed a motion to dismiss the complaint. On April 23, 2015, in response to the motion to dismiss, Pincus filed an amended complaint that adds claims (1) under the Florida Civil Remedies for Criminal Practices Act, which authorizes civil remedies for certain criminal conduct; and (2) for violation of the federal Racketeer Influenced and Corrupt Organizations Act ("RICO"). On May 15, 2015, Speedpay filed a motion to dismiss the amended complaint. On October 6, 2015, the Court entered an order denying Speedpay's motion to dismiss. On October 20, 2015, Speedpay filed an answer to the amended complaint. On December 1, 2015, Pincus filed a second amended complaint that revised her factual allegations, but added no new claims. On December 18, 2015, Speedpay filed an answer to the second amended complaint. On May 20, 2016, Speedpay filed a motion for judgment on the pleadings as to Pincus' Florida Civil Remedies for Criminal Practices Act and federal RICO claims. On June 7, 2016, Pincus filed an opposition to Speedpay's motion for judgment on the pleadings. On June 17, 2016, Speedpay filed a reply brief in support of the motion. On October 28, 2016, Pincus filed a motion seeking class certification. The motion seeks the certification of a class consisting of "All (i) persons in Florida (ii) who paid Speedpay, Inc. a fee for using Speedpay, Inc.'s electronic payment services (iii) during the five year period prior to the filing of the complaint in this action through the present." As this action is in a preliminary stage, the Company is unable to predict the outcome, or the possible loss or range of loss, if any, which could be associated with this action. Speedpay intends to vigorously defend itself in this matter.

In addition to the principal matters described above and the matters described in Part I, Item 1, Financial Statements, Note 4, "Commitments and Contingencies," the Company is a party to a variety of other legal matters that arise in the

normal course of the Company's business. While the results of these other legal matters cannot be predicted with certainty, management believes that the final outcome of these matters will not have a material adverse effect either individually or in the aggregate on the Company's financial condition, results of operations, or cash flows.

Item 1A. Risk Factors

There have been no material changes to the risk factors described in our 2015 Annual Report on Form 10-K.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth stock repurchases for each of the three months of the quarter ended September 30, 2016:

Period	Total Number of Shares Purchased*	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	Remaining Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (In millions)
July 1 - 31	398,240	\$ 19.86	392,900	\$ 386.5
August 1 - 31	3,306,432	\$ 21.07	3,299,000	\$ 317.0
September 1 - 30	389,873	\$ 20.48	359,779	\$ 309.7
Total	4,094,545	\$ 20.89	4,051,679	

These amounts represent both shares authorized by the Board of Directors for repurchase under a publicly announced authorization, as described below, as well as shares withheld from employees to cover tax withholding obligations on restricted stock units that have vested.

On February 10, 2015, the Board of Directors authorized \$1.2 billion of common stock repurchases through December 31, 2017, of which \$309.7 million remained available as of September 30, 2016. In certain instances, **management has historically and may continue to establish prearranged written plans pursuant to Rule 10b5-1. A Rule 10b5-1 plan permits us to repurchase shares at times when we may otherwise be unable to do so, provided the plan is adopted when we are not aware of material non-public information.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See "Exhibit Index" for documents filed herewith and incorporated herein by reference.

Table of Contents

SIGNATURES

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

The Western Union Company (Registrant)

Date: November 1,
2016

By: /s/ Hikmet Ersek

Hikmet Ersek
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 1,
2016

By: /s/ Rajesh K. Agrawal

Rajesh K. Agrawal
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: November 1,
2016

By: /s/ Amintore T.X. Schenkel

Amintore T.X. Schenkel
Senior Vice President, Chief Accounting Officer and Controller (Principal Accounting
Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
12	Computation of Ratio of Earnings to Fixed Charges
15	Letter from Ernst & Young LLP Regarding Unaudited Interim Financial Information
31.1	Certification of Chief Executive Officer of The Western Union Company Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer of The Western Union Company Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

65