

Western Union CO
Form 10-Q
August 03, 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 June 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 July 31, 2016, 487,733,527 shares of the registrant's common stock were outstanding.

1

Table of Contents

THE WESTERN UNION COMPANY

INDEX

	PAGE NUMBER
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income for the three and six months ended June 30, 2016 and 2015</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>36</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>54</u>
Item 4. <u>Controls and Procedures</u>	<u>54</u>
<u>Review Report of Independent Registered Public Accounting Firm</u>	<u>55</u>
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>56</u>
Item 1A. <u>Risk Factors</u>	<u>61</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>62</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>62</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>62</u>
Item 5. <u>Other Information</u>	<u>62</u>

Item 6. Exhibits

62

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Transaction fees	\$961.3	\$988.3	\$1,880.3	\$1,936.9
Foreign exchange revenues	378.8	362.1	724.3	700.1
Other revenues	35.6	33.2	68.8	67.5
Total revenues	1,375.7	1,383.6	2,673.4	2,704.5
Expenses:				
Cost of services	821.9	799.4	1,601.3	1,571.2
Selling, general and administrative	293.5	333.4	553.2	610.2
Total expenses	1,115.4	1,132.8	2,154.5	2,181.4
Operating income	260.3	250.8	518.9	523.1
Other income/(expense):				
Interest income	0.7	2.5	1.6	5.4
Interest expense	(41.0)	(43.1)	(81.5)	(84.9)
Derivative gains, net	1.4	—	1.9	1.0
Other income/(expense), net	1.1	(3.3)	(0.9)	(5.1)
Total other expense, net	(37.8)	(43.9)	(78.9)	(83.6)
Income before income taxes	222.5	206.9	440.0	439.5
Provision for income taxes	16.9	17.6	48.7	46.3
Net income	\$205.6	\$189.3	\$391.3	\$393.2
Earnings per share:				
Basic	\$0.42	\$0.37	\$0.79	\$0.76
Diluted	\$0.42	\$0.36	\$0.79	\$0.75
Weighted-average shares outstanding:				
Basic	490.3	515.2	495.1	518.1
Diluted	493.0	519.8	498.1	522.5
Cash dividends declared per common share	\$0.16	\$0.155	\$0.32	\$0.31

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		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Net income	\$205.6	\$189.3	\$391.3	\$393.2
Other comprehensive income/(loss), net of tax (Note 7):				
Unrealized gains/(losses) on investment securities	3.5	(6.8)	6.7	(5.8)
Unrealized gains/(losses) on hedging activities	10.7	(38.2)	(27.1)	2.4
Foreign currency translation adjustments	(1.8)	(1.7)	(4.1)	(4.3)
Defined benefit pension plan adjustments	1.7	1.3	3.4	3.1
Total other comprehensive income/(loss)	14.1	(45.4)	(21.1)	(4.6)
Comprehensive income	\$219.7	\$143.9	\$370.2	\$388.6

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)

	June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$1,162.6	\$ 1,315.9
Settlement assets	3,357.1	3,308.7
Property and equipment, net of accumulated depreciation of \$568.8 and \$538.2, respectively	221.7	231.8
Goodwill	3,162.4	3,163.8
Other intangible assets, net of accumulated amortization of \$931.2 and \$884.4, respectively	701.5	705.0
Other assets (Note 1)	789.6	724.0
Total assets	\$9,394.9	\$ 9,449.2
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$512.4	\$ 606.6
Settlement obligations	3,357.1	3,308.7
Income taxes payable	213.2	211.5
Deferred tax liability, net	268.1	272.6
Borrowings (Note 1)	3,228.5	3,215.9
Other liabilities	501.2	429.0
Total liabilities	8,080.5	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; 488.0 shares and 502.4 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	4.9	5.0
Capital surplus	597.3	566.5
Retained earnings	877.2	977.3
Accumulated other comprehensive loss	(165.0)	(143.9)
Total stockholders' equity	1,314.4	1,404.9
Total liabilities and stockholders' equity	\$9,394.9	\$ 9,449.2

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE WESTERN UNION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)

	Six Months Ended		
	June 30,		
	2016		2015
Cash flows from operating activities			
Net income	\$ 391.3		\$ 393.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	36.3		32.6
Amortization	95.2		94.2
Other non-cash items, net	42.3		24.9
Increase/(decrease) in cash resulting from changes in:			
Other assets	9.2		(57.6)
Accounts payable and accrued liabilities	(99.5)		(23.1)
Income taxes payable	5.3		10.9
Other liabilities	5.5		(9.4)
Net cash provided by operating activities	485.6		465.7
Cash flows from investing activities			
Capitalization of contract costs	(60.0)		(74.7)
Capitalization of purchased and developed software	(21.3)		(20.8)
Purchases of property and equipment	(27.4)		(26.9)
Purchases of non-settlement related investments	(34.9)		(100.0)
Proceeds from maturity of non-settlement related investments	11.0		—
Purchases of held-to-maturity non-settlement related investments	(26.5)		—

Proceeds from held-to-maturity non-settlement related investments	2.0		—	
Net cash used in investing activities	(157.1)	(222.4)
Cash flows from financing activities				
Cash dividends paid	(157.4)	(160.0)
Common stock repurchased (Note 7)	(334.0)	(313.8)
Proceeds from exercise of options and other	9.6		77.8	
Net cash used in financing activities	(481.8)	(396.0)
Net change in cash and cash equivalents	(153.3)	(152.7)
Cash and cash equivalents at beginning of period	1,315.9		1,783.2	
Cash and cash equivalents at end of period	\$	1,162.6	\$	1,630.5
Supplemental cash flow information:				
Interest paid	\$	78.4	\$	81.7
Income taxes paid	\$	50.6	\$	42.5

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.

7

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 June 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 June 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 June 30, 2016 and 2015, there were 3.3 million and 1.5 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 six months ended June 30, 2016 and 2015, there were 4.6 million and 5.2 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic weighted-average shares outstanding	490.3	515.2	495.1	518.1
Common stock equivalents	2.7	4.6	3.0	4.4
Diluted weighted-average shares outstanding	493.0	519.8	498.1	522.5

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):

June 30, 2016	Fair Value Measurement Using		Assets/ Liabilities at Fair Value
	Level 1	Level 2	
Assets:			
Settlement assets:			
State and municipal debt securities	\$ —	\$ 1,015.0	\$ —\$ 1,015.0
State and municipal variable rate demand notes	—	237.5	— 237.5
Corporate and other debt securities	—	45.6	— 45.6
Other assets:			
Derivatives	—	428.9	— 428.9
Total assets	\$ —	\$ 1,727.0	\$ —\$ 1,727.0
Liabilities:			
Derivatives	\$ —	\$ 339.2	\$ —\$ 339.2
Total liabilities	\$ —	\$ 339.2	\$ —\$ 339.2
December 31, 2015	Fair Value Measurement Using		Assets/ Liabilities at Fair Value
	Level 1	Level 2	
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 six months ended June 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 June 30, 2016, the carrying value and fair value of the Company's borrowings was \$3,228.5 million and \$3,340.3 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 June 30, 2016, the carrying value and fair value of the Company's foreign corporate debt securities was \$35.4 million and \$35.5 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 \$80 million in outstanding letters of credit and bank guarantees as of June 30, 2016. The letters of credit and bank guarantees are primarily held in connection with 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 United States 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 compliance programs along the United States 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 the Company's compliance programs, which the Company 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 anti-money laundering ("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 appointed pursuant to the Southwest Border Agreement related to WUFSI's AML compliance program, 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. Primary recommendations may also be re-classified as secondary recommendations.

The Amendment provides that if WUFSI is unable to implement an effective AML compliance program along the U.S. and Mexico border, as determined by the Monitor and subject to limited judicial review, within the timeframes for implementing the Monitor's primary recommendations, the State may, within 180 days after the Monitor delivers a final report on the primary recommendations finding such noncompliance, and subsequent to any judicial review of the Monitor's findings, elect one, and only one, of the following remedies: (i) assert a willful and material breach of the Southwest Border Agreement and pursue remedies under the Southwest Border Agreement, which could include initiating civil or criminal actions; or (ii) require WUFSI to pay (a) \$50 million plus (b) \$1 million per primary recommendation or group of primary recommendations that WUFSI fails to implement successfully (collectively, the "Primary Period Remedies"). There are currently more than 70 primary recommendations and groups of primary recommendations.

The Amendment also provides that if the Monitor concludes that WUFSI has implemented an effective AML compliance program along the U.S. and Mexico border within the timeframes for implementing the Monitor's primary recommendations, the State cannot pursue either of the Primary Period Remedies above, except that the State may require WUFSI to pay \$1 million per primary recommendation or group of primary recommendations that WUFSI fails to implement successfully.

The Company submitted its implementation of all of the primary recommendations to the Monitor for review prior to October 31, 2015. On June 29, 2016, the Monitor provided notice to the Company and the State that the Monitor had determined that (i) the Company had successfully implemented all of the primary recommendations, and (ii) the Company 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 of the Primary Period Remedies listed above.

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.

Additionally, under the Amendment, if the Monitor determined that WUFSI has implemented an effective AML compliance program along the U.S. and Mexico border but had not implemented some of the Monitor's secondary recommendations or groups of secondary recommendations that were originally classified as primary recommendations or groups of primary recommendations on the date of the Amendment, the State may have required WUFSI to pay \$500,000 per such secondary recommendation or group of recommendations. As noted above, however, all primary recommendations have been successfully implemented by the Company. As a result, there are no secondary recommendations or groups of secondary recommendations that were originally classified as primary recommendations or groups of primary recommendations on the date of the Amendment.

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 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.

Table of Contents

THE WESTERN UNION COMPANY

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

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 the Company has successfully implemented the secondary recommendations and has an effective AML compliance program, and, accordingly, whether the State will pursue the Secondary Period Remedy.

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. Due to the investigative stage of the matter and the fact that no criminal charges or civil claims have been brought, the Company is unable to predict the outcome of the government's investigation, or reasonably estimate the possible loss or range of loss, if any, which could be associated with the resolution of any possible charges or claims that may be brought against the Company. Should such charges or claims be brought, the Company could face significant fines, 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.

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.). Due to the investigative stage of the matter and the fact that no criminal charges or civil claims have been brought, the Company is unable to predict the outcome of the government's investigation, or reasonably estimate the possible loss or range of loss, if any, which could be associated with the resolution of any possible charges or claims that may be brought against the Company. Should such charges or claims be brought, the Company could face significant fines, 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)

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. Due to the investigative stage of the matter and the fact that no criminal charges or civil claims have been brought, the Company is unable to predict the outcome of the government's investigation, or reasonably estimate the possible loss or range of loss, if any, which could be associated with the resolution of any possible charges or claims that may be brought against the Company. Should such charges or claims be brought, the Company could face significant fines, 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.

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. The Company has received additional subpoenas from the USAO-SDFL and the Broward County, Florida Sheriff's Office relating to the investigation, including a federal grand jury subpoena issued by the USAO-SDFL on March 14, 2014, seeking information about 33 agent locations in Costa Rica such as ownership and operating agreements, SARs and AML compliance and BSA filings for the period January 1, 2008 to November 27, 2013. Subsequently, the USAO-SDFL served the Company with seizure warrants requiring the Company to seize all money transfers sent from the United States to two agent locations located in Costa Rica for a 10-day period beginning in late March 2014. On July 8, 2014, the government served a grand jury subpoena calling for records relating to transactions sent from the United States to Nicaragua and Panama between September 1, 2013 and October 31, 2013. Further, the government recently served Western Union with a subpoena calling for data relating to transactions sent and received by 43 Nicaraguan agents from October 1, 2008 to October 31, 2013 and transactions sent from the United States to the Bahamas, Peru, Dominican Republic, and Haiti from September 1, 2013 to January 2, 2014 and certain documents relating to those agents. The government also 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, and the Bahamas (in addition to 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. Due to the investigative stage of the matter and the fact that no criminal charges or civil

claims have been brought, the Company is unable to predict the outcome of the government's investigation, or reasonably estimate the possible loss or range of loss, if any, which could be associated with the resolution of any possible charges or claims that may be brought against the Company. Should such charges or claims be brought, the Company could face significant fines, 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)

Other Matters

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 WUFSI as a defendant. On April 25, 2011, the Company and WUFSI filed a motion to dismiss the breach of fiduciary duty and declaratory relief claims. WUFSI 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)

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. The FTC recently 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. The Company is in discussions with the FTC and is seeking to reach an appropriate resolution of this matter. The Company has accrued \$15 million toward a proposed resolution based upon facts and circumstances known to the Company at this time. 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. The FTC staff has advised the Company that it has been directed to 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 disgorgement 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)

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. 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 June 30, 2016 and 2015 totaled \$17.1 million and \$17.2 million, respectively, and \$32.7 million and \$32.9 million for the six months ended June 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	\$895.5	\$1,075.7
Receivables from selling agents and Business Solutions customers	1,163.5	1,070.4
Investment securities	1,298.1	1,162.6
	\$3,357.1	\$3,308.7
Settlement obligations:		
Money transfer, money order and payment service payables	\$2,453.7	\$2,428.5
Payables to agents	903.4	880.2
	\$3,357.1	\$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 six months ended June 30, 2016 and 2015 were \$1.2 billion and \$7.8 billion,

respectively. The decline in proceeds from the sale and maturity of available-for-sale securities for the six months ended June 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):

June 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)	\$ 993.2	\$1,015.0	\$ 22.4	\$ (0.6)	\$ 21.8
State and municipal variable rate demand notes	237.5	237.5	—	—	—
Corporate and other debt securities	44.9	45.6	0.7	—	0.7
	1,275.6	1,298.1	23.1	(0.6)	22.5
Other assets:					
Held-to-maturity securities:					
Foreign corporate debt securities	35.4	35.5	0.1	—	0.1
	\$ 1,311.0	\$ 1,333.6	\$ 23.2	\$ (0.6)	\$ 22.6
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 June 30, 2016 (in millions):

	Fair Value
Due within 1 year	\$ 157.5
Due after 1 year through 5 years	578.1
Due after 5 years through 10 years	327.8
Due after 10 years	234.7
	\$ 1,298.1

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 \$2.9 million, \$20.0 million and \$214.6 million are included in the "Due after 1 year through 5 years" "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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Unrealized gains on investment securities, beginning of period	\$11.0	\$9.9	\$7.8	\$8.9
Unrealized gains/(losses)	6.2	(9.6)	12.2	(7.3)
Tax (expense)/benefit	(2.3)	3.6	(4.4)	2.7
Reclassification of gains into "Other revenues"	(0.7)	(1.2)	(1.8)	(1.8)
Tax expense related to reclassifications	0.3	0.4	0.7	0.6
Net unrealized gains/(losses) on investment securities	3.5	(6.8)	6.7	(5.8)
Unrealized gains on investment securities, end of period	\$14.5	\$3.1	\$14.5	\$3.1
Unrealized gains on hedging activities, beginning of period	\$3.6	\$89.2	\$41.4	\$48.6
Unrealized gains/(losses)	20.1	(19.8)	(6.2)	38.4
Tax (expense)/benefit	0.2	0.4	2.3	(2.7)
Reclassification of gains into "Transaction fees"	(7.5)	(14.2)	(18.2)	(25.5)
Reclassification of gains into "Foreign exchange revenues"	(3.4)	(5.9)	(7.8)	(10.3)
Reclassification of losses into "Interest expense"	0.9	0.9	1.8	1.8
Tax expense related to reclassifications	0.4	0.4	1.0	0.7
Net unrealized gains/(losses) on hedging activities	10.7	(38.2)	(27.1)	2.4
Unrealized gains on hedging activities, end of period	\$14.3	\$51.0	\$14.3	\$51.0
Foreign currency translation adjustments, beginning of period	\$(68.3)	\$(51.8)	\$(66.0)	\$(49.2)
Foreign currency translation adjustments	(0.6)	(1.7)	(3.9)	(4.3)
Tax expense	(1.2)	—	(0.2)	—
Net foreign currency translation adjustments	(1.8)	(1.7)	(4.1)	(4.3)
Foreign currency translation adjustments, end of period	\$(70.1)	\$(53.5)	\$(70.1)	\$(53.5)
Defined benefit pension plan adjustments, beginning of period	\$(125.4)	\$(125.4)	\$(127.1)	\$(127.2)
Reclassification of losses into "Cost of services"	2.6	2.8	5.3	5.7
Tax benefit related to reclassifications and other	(0.9)	(1.5)	(1.9)	(2.6)
Net defined benefit pension plan adjustments	1.7	1.3	3.4	3.1
Defined benefit pension plan adjustments, end of period	\$(123.7)	\$(124.1)	\$(123.7)	\$(124.1)
Accumulated other comprehensive loss, end of period	\$(165.0)	\$(123.5)	\$(165.0)	\$(123.5)

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 both the first and second quarters of 2016, representing \$157.4 million in total dividends. Of this amount, \$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 both the first and second quarters of 2015, representing \$160.0 million in total dividends. Of this amount, \$79.5 million was paid on June 30, 2015 and \$80.5 million was paid on March 31, 2015.

On July 14, 2016, the Company's Board of Directors declared a quarterly cash dividend of \$0.16 per common share payable on September 30, 2016.

Share Repurchases

During the six months ended June 30, 2016 and 2015, 16.9 million and 15.0 million shares were repurchased for \$317.5 million and \$306.3 million, respectively, excluding commissions, at an average cost of \$18.81 and \$20.47, respectively. These amounts represent shares authorized by the Board of Directors for repurchase under the publicly announced authorizations. As of June 30, 2016, \$394.3 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 June 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 June 30, 2016 were as follows (in millions):

Contracts designated as hedges:

Euro	\$373.6
British pound	139.9
Canadian dollar	99.9
Australian dollar	45.8
Swiss franc	42.1
Other	81.8

Contracts not designated as hedges:

Euro	\$215.6
British pound	72.8
Canadian dollar	54.8
Australian dollar	47.7
Singapore dollar	35.6
Indian rupee	28.9
Other (a)	153.9

(a) Comprised of exposures to 21 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 June 30, 2016 was approximately \$6.0 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 June 30, 2016 and December 31, 2015. Of this aggregate notional amount held at June 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 June 30, 2016 and December 31, 2015 (in millions):

	Derivative Assets			Derivative Liabilities		
	Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
		June 30, 2016	December 31, 2015		June 30, 2016	December 31, 2015
Derivatives — hedges:						
Interest rate fair value hedges	Other assets	\$ 19.6	\$ 7.6	Other liabilities	\$ 0.2	\$ —
Foreign currency cash flow hedges	Other assets	36.8	59.7	Other liabilities	8.5	2.4
Total		\$ 56.4	\$ 67.3		\$ 8.7	\$ 2.4
Derivatives — undesignated:						
Business Solutions operations — foreign currency (a)	Other assets	\$ 368.2	\$ 326.1	Other liabilities	\$ 325.8	\$ 277.1
Foreign currency	Other assets	4.3	2.9	Other liabilities	4.7	4.2
Total		\$ 372.5	\$ 329.0		\$ 330.5	\$ 281.3
Total derivatives		\$ 428.9	\$ 396.3		\$ 339.2	\$ 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 June 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
June 30, 2016					
Derivatives subject to a master netting arrangement or similar agreement	\$ 260.2	\$	—\$ 260.2	\$ (158.2)	\$ 102.0
Derivatives that are not or may not be subject to master netting arrangement or similar agreement	168.7				
Total	\$ 428.9				

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
June 30, 2016					
Derivatives subject to a master netting arrangement or similar agreement	\$ 186.2	\$	—\$ 186.2	\$ (158.2)	\$ 28.0
Derivatives that are not or may not be subject to master netting arrangement or similar agreement	153.0				
Total	\$ 339.2				
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 six months ended June 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 June 30, 2016 and 2015 (in millions):

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	Income Statement Location	Income Statement Location
Amount	Amount	Amount