
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from

to

Commission File Number: 001-32903



THE WESTERN UNION COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-4531180
(I.R.S. Employer
Identification No.)

7001 EAST BELLEVIEW AVENUE
Denver, Colorado 80237
(Address of principal executive offices)

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

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

<u>Title of each class</u>	<u>Trading symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 Par Value	WU	The New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐

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

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

As of October 26, 2020, 411,120,751 shares of the registrant's common stock were outstanding.

THE WESTERN UNION COMPANY

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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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues	\$ 1,258.5	\$ 1,306.9	\$ 3,563.2	\$ 3,984.4
Expenses:				
Cost of services	721.7	768.6	2,067.3	2,330.0
Selling, general, and administrative	251.6	340.9	755.7	946.9
Total expenses	973.3	1,109.5	2,823.0	3,276.9
Operating income	285.2	197.4	740.2	707.5
Other income/(expense):				
Gain on divestitures of businesses (Note 4)	—	—	—	524.6
Interest income	0.5	1.1	2.9	4.2
Interest expense	(28.2)	(36.2)	(90.4)	(114.5)
Other income/(expense), net	3.5	(0.1)	3.4	2.1
Total other income/(expense), net	(24.2)	(35.2)	(84.1)	416.4
Income before income taxes	261.0	162.2	656.1	1,123.9
Provision for income taxes	32.4	27.2	88.9	201.0
Net income	\$ 228.6	\$ 135.0	\$ 567.2	\$ 922.9
Earnings per share:				
Basic	\$ 0.56	\$ 0.32	\$ 1.38	\$ 2.14
Diluted	\$ 0.55	\$ 0.32	\$ 1.37	\$ 2.13
Weighted-average shares outstanding:				
Basic	411.6	423.3	412.5	430.3
Diluted	414.6	426.8	415.5	433.0

See Notes to Condensed Consolidated Financial Statements.

THE WESTERN UNION COMPANY**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
(Unaudited)
(in millions)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net income	\$ 228.6	\$ 135.0	\$ 567.2	\$ 922.9
Other comprehensive income, net of reclassifications and tax (Note 11):				
Unrealized gains on investment securities	7.1	5.8	32.3	28.7
Unrealized gains/(losses) on hedging activities	(18.2)	14.5	(16.6)	12.5
Defined benefit pension plan adjustments	2.3	2.3	6.7	6.7
Total other comprehensive income/(loss)	(8.8)	22.6	22.4	47.9
Comprehensive income	<u>\$ 219.8</u>	<u>\$ 157.6</u>	<u>\$ 589.6</u>	<u>\$ 970.8</u>

See Notes to Condensed Consolidated Financial Statements.

THE WESTERN UNION COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in millions, except per share amounts)

	September 30, 2020	December 31, 2019
Assets		
Cash and cash equivalents	\$ 1,251.4	\$ 1,450.5
Settlement assets	3,589.4	3,296.7
Property and equipment, net of accumulated depreciation of \$656.9 and \$616.5, respectively	156.0	186.9
Goodwill	2,566.6	2,566.6
Other intangible assets, net of accumulated amortization of \$1,025.9 and \$961.5, respectively	449.3	494.9
Other assets	814.5	762.9
Total assets	<u>\$ 8,827.2</u>	<u>\$ 8,758.5</u>
Liabilities and stockholders' equity/(deficit)		
Liabilities:		
Accounts payable and accrued liabilities	\$ 457.2	\$ 601.9
Settlement obligations	3,589.4	3,296.7
Income taxes payable	926.5	1,019.7
Deferred tax liability, net	171.7	152.1
Borrowings	3,036.5	3,229.3
Other liabilities	578.8	498.3
Total liabilities	<u>8,760.1</u>	<u>8,798.0</u>
Commitments and contingencies (Note 8)		
Stockholders' equity/(deficit):		
Preferred stock, \$1.00 par value; 10 shares authorized; no shares issued	—	—
Common stock, \$0.01 par value; 2,000 shares authorized; 411.0 shares and 418.0 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	4.1	4.2
Capital surplus	874.9	841.2
Accumulated deficit	(625.3)	(675.9)
Accumulated other comprehensive loss	(186.6)	(209.0)
Total stockholders' equity/(deficit)	<u>67.1</u>	<u>(39.5)</u>
Total liabilities and stockholders' equity/(deficit)	<u>\$ 8,827.2</u>	<u>\$ 8,758.5</u>

See Notes to Condensed Consolidated Financial Statements.

THE WESTERN UNION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities		
Net income	\$ 567.2	\$ 922.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	46.3	56.5
Amortization	123.2	134.2
Gain on divestitures of businesses, excluding transaction costs (Note 4)	—	(532.1)
Other non-cash items, net	106.4	63.5
Increase/(decrease) in cash, excluding the effects of divestitures, resulting from changes in:		
Other assets	(11.5)	19.7
Accounts payable and accrued liabilities	(142.7)	67.9
Income taxes payable	(97.6)	(46.3)
Other liabilities	(5.7)	(21.0)
Net cash provided by operating activities	585.6	665.3
Cash flows from investing activities		
Payments for capitalized contract costs	(51.7)	(27.2)
Payments for internal use software	(30.1)	(27.4)
Purchases of property and equipment	(24.5)	(38.9)
Proceeds from the sale of former corporate headquarters (Note 4)	44.2	—
Proceeds from divestitures of businesses, net of cash divested (Note 4)	—	711.7
Purchases of non-settlement related investments	(4.4)	(7.2)
Proceeds from maturity of non-settlement related investments	0.4	19.8
Purchases of held-to-maturity non-settlement related investments	—	(1.3)
Proceeds from held-to-maturity non-settlement related investments	—	27.5
Other investing activities	(2.6)	—
Net cash (used in)/provided by investing activities	(68.7)	657.0
Cash flows from financing activities		
Cash dividends and dividend equivalents paid	(277.8)	(257.1)
Common stock repurchased (Note 11)	(238.0)	(483.8)
Net (repayments of)/proceeds from commercial paper	(195.0)	310.0
Principal payments on borrowings	—	(500.0)
Proceeds from exercise of options	1.7	28.0
Other financing activities	(0.7)	(0.9)
Net cash used in financing activities	(709.8)	(903.8)
Net change in cash, cash equivalents, and restricted cash	(192.9)	418.5
Cash, cash equivalents, and restricted cash at beginning of period	1,456.8	979.7
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 1,263.9</u>	<u>\$ 1,398.2</u>
Supplemental cash flow information:		
Interest paid	\$ 75.7	\$ 101.4
Income taxes paid	\$ 169.1	\$ 256.5
Cash paid for lease liabilities	\$ 38.5	\$ 36.4
Non-cash lease liabilities arising from obtaining right-of-use assets	\$ 28.2	\$ 269.1
Restricted cash at end of period (included in Other assets)	\$ 12.5	\$ 7.3

See Notes to Condensed Consolidated Financial Statements.

THE WESTERN UNION COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY/(DEFICIT)
(Unaudited)
(in millions)

	Common Stock		Capital	Accumulated	Accumulated	Total
	Shares	Amount	Surplus	Deficit	Other Comprehensive Loss	Stockholders' Equity/(Deficit)
Balance, December 31, 2019	418.0	\$ 4.2	\$ 841.2	\$ (675.9)	\$ (209.0)	\$ (39.5)
Adoption of new accounting pronouncement (Note 1)	—	—	—	(0.6)	—	(0.6)
Net income	—	—	—	176.7	—	176.7
Stock-based compensation	—	—	12.5	—	—	12.5
Common stock dividends and dividend equivalents declared (\$0.225 per share)	—	—	—	(93.3)	—	(93.3)
Repurchase and retirement of common shares	(9.2)	(0.1)	—	(235.1)	—	(235.2)
Shares issued under stock-based compensation plans	2.1	—	1.0	—	—	1.0
Other comprehensive income (Note 11)	—	—	—	—	28.7	28.7
Balance, March 31, 2020	410.9	4.1	854.7	(828.2)	(180.3)	(149.7)
Net income	—	—	—	161.9	—	161.9
Stock-based compensation	—	—	5.3	—	—	5.3
Common stock dividends and dividend equivalents declared (\$0.225 per share)	—	—	—	(93.3)	—	(93.3)
Repurchase and retirement of common shares	(0.1)	—	—	(0.6)	—	(0.6)
Shares issued under stock-based compensation plans	0.2	—	0.5	—	—	0.5
Other comprehensive income (Note 11)	—	—	—	—	2.5	2.5
Balance, June 30, 2020	411.0	4.1	860.5	(760.2)	(177.8)	(73.4)
Net income	—	—	—	228.6	—	228.6
Stock-based compensation	—	—	14.2	—	—	14.2
Common stock dividends and dividend equivalents declared (\$0.225 per share)	—	—	—	(93.3)	—	(93.3)
Repurchase and retirement of common shares	—	—	—	(0.4)	—	(0.4)
Shares issued under stock-based compensation plans	—	—	0.2	—	—	0.2
Other comprehensive loss (Note 11)	—	—	—	—	(8.8)	(8.8)
Balance, September 30, 2020	411.0	\$ 4.1	\$ 874.9	\$ (625.3)	\$ (186.6)	\$ 67.1

	Common Stock		Capital	Accumulated	Accumulated	Total
	Shares	Amount	Surplus	Deficit	Other Comprehensive Loss	Stockholders' Equity/(Deficit)
Balance, December 31, 2018	441.2	\$ 4.4	\$ 755.6	\$ (838.8)	\$ (231.0)	\$ (309.8)
Net income	—	—	—	173.1	—	173.1
Stock-based compensation	—	—	13.7	—	—	13.7
Common stock dividends (\$0.20 per share)	—	—	—	(87.4)	—	(87.4)
Repurchase and retirement of common shares	(10.2)	(0.1)	—	(184.9)	—	(185.0)
Shares issued under stock-based compensation plans	1.9	—	1.8	—	—	1.8
Other comprehensive income (Note 11)	—	—	—	—	19.4	19.4
Balance, March 31, 2019	432.9	4.3	771.1	(938.0)	(211.6)	(374.2)
Net income	—	—	—	614.8	—	614.8
Stock-based compensation	—	—	11.6	—	—	11.6
Common stock dividends (\$0.20 per share)	—	—	—	(85.5)	—	(85.5)
Repurchase and retirement of common shares	(8.3)	—	—	(161.0)	—	(161.0)
Shares issued under stock-based compensation plans	1.3	—	18.6	—	—	18.6
Other comprehensive income (Note 11)	—	—	—	—	5.9	5.9
Balance, June 30, 2019	425.9	4.3	801.3	(569.7)	(205.7)	30.2
Net income	—	—	—	135.0	—	135.0
Stock-based compensation	—	—	9.7	—	—	9.7
Common stock dividends (\$0.20 per share)	—	—	—	(84.2)	—	(84.2)
Repurchase and retirement of common shares	(6.5)	(0.1)	—	(140.5)	—	(140.6)
Shares issued under stock-based compensation plans	0.5	—	7.6	—	—	7.6
Other comprehensive income (Note 11)	—	—	—	—	22.6	22.6
Balance, September 30, 2019	419.9	\$ 4.2	\$ 818.6	\$ (659.4)	\$ (183.1)	\$ (19.7)

See Notes to Condensed Consolidated Financial Statements.

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 and through online money transfer transactions conducted and funded through websites and mobile apps marketed under the Company's brands ("westernunion.com") and transactions initiated on internet and mobile applications hosted by the Company's third-party white label or co-branded digital partners (together with westernunion.com, "Digital Money Transfer"). 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 money transfer service is provided through 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 and, in certain countries, intra-country transfers. This segment also includes money transfer transactions that can be initiated through websites and mobile devices.
- *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 and other services that have not been classified in the above segments are reported as Other, which primarily includes the Company's cash-based and electronic-based bill payment services which facilitate payments from consumers to businesses and other organizations and the Company's money order services. In May 2019, the Company sold a substantial majority of its United States based electronic bill payments services, as discussed in Note 4. The Company's other services, in addition to certain corporate costs such as costs related to strategic initiatives, including costs for the review and closing of mergers, acquisitions, and divestitures, are also included in Other. See Note 16 for further information regarding the Company's segments.

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, 2019, the amount of these net asset limitations totaled approximately \$610 million.

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

THE WESTERN UNION COMPANY

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

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.

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, 2020 and December 31, 2019 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, 2020 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, 2019.

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.

In March 2020, the World Health Organization declared the outbreak associated with a novel coronavirus a pandemic ("COVID-19"), and governments throughout the world instituted various actions such as lockdowns, stay-at-home orders, travel restrictions, and closures of non-essential businesses in an effort to reduce the spread of COVID-19. These actions negatively impacted the Company's ability to offer its services, at least temporarily, through a portion of its locations and its retail agent locations during the nine months ended September 30, 2020. Beginning in March 2020 and continuing into the second and third quarters of 2020, the Company experienced a decrease in transaction volumes from retail locations and a decrease in foreign exchange and payment services activity, which also negatively impacted revenues in these periods, partially offset by revenue growth from westernunion.com and other digital transactions. The Company believes this decrease is mainly due to economic decline and uncertainty resulting from the outbreak. The extent to which the COVID-19 outbreak continues to impact the Company's business, financial condition, results of operations or cash flows will depend on future developments, which are highly uncertain and are difficult to predict. To the extent the pandemic or the related macro-economic consequences continue, the Company could potentially experience changes in estimates, including increased credit losses or intangible asset impairments in future periods.

Recently Adopted Accounting Pronouncements

On January 1, 2020, the Company adopted a new accounting standard that 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. Additionally, the standard requires certain credit losses relating to investment securities classified as available-for-sale to be recorded through an allowance for credit losses. The Company recognized the cumulative effect of the new accounting standard as an adjustment to the January 1, 2020 balance of Accumulated deficit in the Condensed Consolidated Balance Sheets, and the adoption of the new accounting standard did not have a material impact on the Company's January 1, 2020 accumulated deficit. In accordance with the modified retrospective approach, the comparative information has not been restated and continues to be reported under accounting standards in effect for those periods. Refer to Note 10 for additional information on expected credit losses and the related disclosures.

THE WESTERN UNION COMPANY

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

2. Revenue

The Company's revenues are primarily derived from consideration paid by customers to transfer money. These revenues vary by transaction based upon factors such as channel, send and receive locations, the principal amount sent, whether the money transfer involves different send and receive currencies, the difference between the exchange rate set by the Company to the customer and the rate available in the wholesale foreign exchange market, and speed of service, as applicable. The Company also offers several other services, including foreign exchange and payment services and other bill payment services, for which revenue is impacted by similar factors. For the substantial majority of the Company's revenues, the Company acts as the principal in transactions and reports revenue on a gross basis, as the Company controls the service at all times prior to transfer to the customer, is primarily responsible for fulfilling the customer contracts, has the risk of loss, and has the ability to establish transaction prices. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

The Company recognized \$1,214.3 million and \$1,238.0 million for the three months ended September 30, 2020 and 2019, and \$3,392.5 million and \$3,788.4 million for the nine months ended September 30, 2020 and 2019, respectively, in revenues from contracts with customers. There are no material upfront costs incurred to obtain contracts with customers. Under the Company's loyalty programs, which are primarily offered in its money transfer services, the Company must fulfill loyalty program rewards earned by customers. The loyalty program redemption activity has been and continues to be insignificant to the Company's results of operations, and the Company has immaterial contract liability balances, which primarily relate to its customer loyalty programs and other services. Contract asset balances related to customers were also immaterial as of the periods presented, as the Company typically receives payment of consideration from its customers prior to satisfying performance obligations under the customer contracts. In addition to revenue generated from contracts with customers, the Company recognizes revenue from other sources, including the sale of derivative financial instruments and investment income generated on settlement assets primarily related to money transfer and money order services.

The Company analyzes its different services individually to determine the appropriate basis for revenue recognition, as further described below.

Consumer Money Transfers

For the Company's money transfer services, customers agree to the Company's terms and conditions at the time of initiating a transaction. In a money transfer, the Company has one performance obligation as the customer engages the Company to perform one integrated service which typically occurs within minutes — collect the customer's money and make funds available for payment to a designated person in the currency requested. Therefore, the Company recognizes revenue upon completion of the following: (i) the customer's acknowledgment of the Company's terms and conditions and payment information has been received by the Company, (ii) the Company has agreed to process the money transfer, (iii) the Company has provided the customer a unique transaction identification number, and (iv) funds are available to be picked up by the customer's designated receiving party. The transaction price is comprised of a transaction fee and the difference between the exchange rate set by the Company to the customer and the rate available in the wholesale foreign exchange market, as applicable, both of which are readily determinable at the time the transaction is initiated.

Foreign Exchange and Payment Services

For the Company's foreign exchange and payment services, customers agree to terms and conditions for all transactions, either at the time of initiating a transaction or signing a contract with the Company to provide payment services on the customer's behalf. In the majority of the Company's foreign exchange and payment services, the Company makes payments to the recipient to satisfy its performance obligation to the customer, and therefore, the Company recognizes revenue on foreign exchange and payment services when this performance obligation has been fulfilled. Revenues from foreign exchange and payment services are primarily comprised of the difference between the exchange rate set by the Company to the customer and the rate available in the wholesale foreign exchange market.

THE WESTERN UNION COMPANY

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

Consumer Bill Payments

The Company offers several different bill payment services that vary by considerations such as: (i) who pays the fee to the Company (consumer or biller), (ii) whether the service is offered to all potential consumers, or only to those for which the Company has a relationship with the biller, and (iii) whether the service utilizes a physical agent network offered for consumers' convenience, among other factors. The determination of which party is the Company's customer for revenue recognition purposes is based on these considerations for each of the Company's bill payment services. For all transactions, the Company's customers agree to the Company's terms and conditions, either at the time of initiating a transaction (where the consumer is determined to be the customer for revenue recognition purposes) or upon signing a contract with the Company to provide services on the biller's behalf (where the biller is determined to be the customer for revenue recognition purposes). As with consumer money transfers, customers engage the Company to perform one integrated service — collect money from the consumer and process the bill payment transaction, thereby providing the billers real-time or near real-time information regarding their customers' payments and simplifying the billers' collection efforts. In May 2019, the Company sold a substantial majority of its United States based electronic bill payments services, as discussed in Note 4.

Management has determined that the significant majority of the Company's revenue is recognized at a point in time. The following tables represent the disaggregation of revenue earned from contracts with customers by product type and region for the three and nine months ended September 30, 2020 and 2019 (in millions). The regional split of revenue shown in the tables below is based upon where transactions are initiated.

Three Months Ended September 30, 2020					
	Consumer Money Transfers	Foreign Exchange and Payment Services	Consumer Bill Payments	Other Services	Total
Regions:					
North America	\$ 414.8	\$ 23.3	\$ 17.4	\$ 14.2	\$ 469.7
Europe and Russia/CIS	358.6	30.6	0.8	0.5	390.5
Middle East, Africa, and South Asia	169.4	0.3	0.1	—	169.8
Latin America and the Caribbean	78.3	0.5	19.3	2.0	100.1
East Asia and Oceania	69.1	14.7	0.4	—	84.2
Revenues from contracts with customers	\$ 1,090.2	\$ 69.4	\$ 38.0	\$ 16.7	\$ 1,214.3
Other revenues (a)	16.3	19.7	2.9	5.3	44.2
Total revenues (b)	<u>\$ 1,106.5</u>	<u>\$ 89.1</u>	<u>\$ 40.9</u>	<u>\$ 22.0</u>	<u>\$ 1,258.5</u>
Nine Months Ended September 30, 2020					
	Consumer Money Transfers	Foreign Exchange and Payment Services	Consumer Bill Payments	Other Services	Total
Regions:					
North America	\$ 1,199.2	\$ 62.5	\$ 57.2	\$ 42.9	\$ 1,361.8
Europe and Russia/CIS	960.7	88.3	2.1	1.4	1,052.5
Middle East, Africa, and South Asia	464.0	1.1	0.2	—	465.3
Latin America and the Caribbean	217.0	1.7	58.9	6.1	283.7
East Asia and Oceania	183.7	44.4	1.1	—	229.2
Revenues from contracts with customers	\$ 3,024.6	\$ 198.0	\$ 119.5	\$ 50.4	\$ 3,392.5
Other revenues (a)	73.9	68.9	10.8	17.1	170.7
Total revenues (b)	<u>\$ 3,098.5</u>	<u>\$ 266.9</u>	<u>\$ 130.3</u>	<u>\$ 67.5</u>	<u>\$ 3,563.2</u>

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	Three Months Ended September 30, 2019				
	Consumer Money Transfers	Foreign Exchange and Payment Services	Consumer Bill Payments	Other Services	Total
Regions:					
North America	\$ 415.2	\$ 26.7	\$ 23.4	\$ 13.6	\$ 478.9
Europe and Russia/CIS	338.6	32.7	0.8	1.3	373.4
Middle East, Africa, and South Asia	164.7	0.4	0.1	—	165.2
Latin America and the Caribbean	99.2	0.8	34.2	3.9	138.1
East Asia and Oceania	64.7	17.3	0.4	—	82.4
Revenues from contracts with customers	\$ 1,082.4	\$ 77.9	\$ 58.9	\$ 18.8	\$ 1,238.0
Other revenues ^(a)	30.6	22.7	9.2	6.4	68.9
Total revenues ^(b)	<u>\$ 1,113.0</u>	<u>\$ 100.6</u>	<u>\$ 68.1</u>	<u>\$ 25.2</u>	<u>\$ 1,306.9</u>

	Nine Months Ended September 30, 2019				
	Consumer Money Transfers	Foreign Exchange and Payment Services	Consumer Bill Payments ^(c)	Other Services	Total
Regions:					
North America	\$ 1,235.0	\$ 72.1	\$ 199.6	\$ 42.2	\$ 1,548.9
Europe and Russia/CIS	1,001.6	96.2	2.3	3.2	1,103.3
Middle East, Africa, and South Asia	477.9	1.4	0.3	—	479.6
Latin America and the Caribbean	293.3	2.8	100.1	11.5	407.7
East Asia and Oceania	196.6	51.2	1.1	—	248.9
Revenues from contracts with customers	\$ 3,204.4	\$ 223.7	\$ 303.4	\$ 56.9	\$ 3,788.4
Other revenues ^(a)	78.4	68.1	30.0	19.5	196.0
Total revenues ^(b)	<u>\$ 3,282.8</u>	<u>\$ 291.8</u>	<u>\$ 333.4</u>	<u>\$ 76.4</u>	<u>\$ 3,984.4</u>

- (a) Includes revenue from the sale of derivative financial instruments, investment income generated on settlement assets primarily related to money transfer and money order services, and other sources.
- (b) Revenues from "Consumer money transfers" are included in the Company's Consumer-to-Consumer segment, revenues from "Foreign exchange and payment services" are included in the Company's Business Solutions segment, and revenues from "Consumer bill payments" and "Other services" are not included in the Company's segments and are reported as Other. See Note 16 for further information on the Company's segments.
- (c) On February 28, 2019, the Company entered into an agreement with ACI Worldwide Corp. and ACW Worldwide, Inc. to sell its United States based electronic bill payments business known as "Speedpay," and closed the transaction on May 9, 2019. Included within North America revenues are Speedpay revenues of \$125.4 million for the nine months ended September 30, 2019.

3. 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 and the unamortized compensation expense of options and restricted stock are available to acquire shares at an average market price throughout the period, and therefore, reduce the dilutive effect.

Shares excluded from the diluted earnings per share calculation under the treasury stock method, primarily due to outstanding restricted stock units and options to purchase shares of Western Union stock, as the assumed proceeds of the

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restricted stock and options per unit were above the Company's average share price during the periods and their effect was anti-dilutive, were 1.3 million and 0.5 million for the three months ended September 30, 2020 and 2019, respectively, and 1.7 million and 2.4 million for the nine months ended September 30, 2020 and 2019, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Basic weighted-average shares outstanding	411.6	423.3	412.5	430.3
Common stock equivalents	3.0	3.5	3.0	2.7
Diluted weighted-average shares outstanding	<u>414.6</u>	<u>426.8</u>	<u>415.5</u>	<u>433.0</u>

4. Divestitures

On February 28, 2019, the Company entered into an agreement with ACI Worldwide Corp. and ACW Worldwide, Inc. to sell its United States based electronic bill payments business known as "Speedpay," which had been included as a component of Other in the Company's segment reporting. The Company received approximately \$750 million and recorded a pre-tax gain on the sale of approximately \$523 million, which is included in Gain on divestitures of businesses in the accompanying Condensed Consolidated Statements of Income, in the all-cash transaction that closed on May 9, 2019. Speedpay revenues and direct operating expenses included in the Company's results were \$125.4 million and \$98.2 million, respectively, for the nine months ended September 30, 2019.

On May 6, 2019, the Company completed the sale of Paymap Inc. ("Paymap"), which provides electronic mortgage bill payment services, for contingent consideration and immaterial cash proceeds received at closing. The Company recorded an immaterial pre-tax gain related to this sale during the nine months ended September 30, 2019.

In the first quarter of 2020, the Company sold its former corporate headquarters and recorded an immaterial pre-tax net gain on the sale. The proceeds from this sale have been included in Cash flows from investing activities within the Company's Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2020.

5. Restructuring-Related Expenses

On August 1, 2019, the Company's Board of Directors approved a plan to change the Company's operating model and improve its business processes and cost structure by reorganizing the Company's senior management, including those managers reporting to the Chief Executive Officer, reducing its headcount, and consolidating various facilities. The Company expects to incur approximately \$150 million of total expenses through 2020, with approximately \$110 million related to severance and employee-related benefits and approximately \$40 million related to costs associated with the relocation of various operations to other Company facilities, facility closures, lease terminations, consulting, and other expenses. Substantially all of these expenses are expected to be paid in cash. The foregoing figures are the Company's estimates and are subject to change as the plan is anticipated to be completed by the end of 2020.

While certain of the expenses may be identifiable to the Company's segments, primarily to the Company's Consumer-to-Consumer segment, the expenses are not included in the measurement of segment operating income provided to the Chief Operating Decision Maker ("CODM") for purposes of performance assessment and resource allocation. These expenses are therefore excluded from the Company's segment operating income results. These expenses are specific to this initiative; however, the types of expenses related to this initiative are similar to expenses that the Company has previously incurred and can reasonably be expected to incur in the future.

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The following table summarizes the activity for the nine months ended September 30, 2020 for expenses related to the restructuring accruals, which are included in Accounts payable and accrued liabilities in the Company's Condensed Consolidated Balance Sheets as of September 30, 2020, and the total expenses incurred since the inception of the restructuring plan (in millions):

	Severance and Related Employee Benefits	Facility Relocations and Closures, Consulting, and Other	Total
Balance, December 31, 2019	\$ 71.2	\$ 2.1	\$ 73.3
Expenses (a)	9.4	15.4	24.8
Cash payments	(48.4)	(14.2)	(62.6)
Non-cash benefits/(charges) (a)	0.2	(1.6)	(1.4)
Balance, September 30, 2020	\$ 32.4	\$ 1.7	\$ 34.1
Total expenses incurred-to-date	\$ 107.4	\$ 32.9	\$ 140.3

(a) Non-cash benefits/(charges) include non-cash write-offs and accelerated depreciation of right-of-use assets and leasehold improvements and a non-cash benefit for adjustments to stock compensation for awards forfeited by employees. These amounts have been removed from the liability balance in the table above as they do not impact the restructuring accruals.

The following table presents restructuring-related expenses as reflected in the Condensed Consolidated Statements of Income (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of services	\$ 0.8	\$ 33.9	\$ 2.5	\$ 33.9
Selling, general, and administrative	8.3	57.6	22.3	65.0
Total expenses, pre-tax	\$ 9.1	\$ 91.5	\$ 24.8	\$ 98.9
Total expenses, net of tax	\$ 7.4	\$ 71.7	\$ 22.1	\$ 77.7

6. Leases

The Company leases real properties for use as administrative and sales offices, in addition to transportation, office, and other equipment. The Company determines if a contract contains a lease arrangement at the inception of the contract. For leases in which the Company is the lessee, leases are classified as either finance or operating, with classification affecting the pattern of expense recognition. Operating lease right-of-use ("ROU") assets are initially measured at the present value of lease payments over the lease term plus initial direct costs, if any. If a lease does not provide a discount rate and the rate cannot be readily determined, an incremental borrowing rate is used to determine the future lease payments. Lease and variable non-lease components within the Company's lease agreements are accounted for separately. The Company has no material leases in which the Company is the lessor.

The Company's leasing arrangements are classified as operating leases, for which expense is recognized on a straight-line basis. As of September 30, 2020 and December 31, 2019, total ROU assets were \$192.8 million and \$199.7 million, respectively, and operating lease liabilities were \$236.9 million and \$242.3 million, respectively. The ROU assets and operating lease liabilities are included in Other assets and Other liabilities, respectively, in the Company's Condensed Consolidated Balance Sheets. Cash paid for operating lease liabilities is recorded as Cash flows from operating activities in the Company's Condensed Consolidated Statements of Cash Flows. Operating lease costs, which are included in Total expenses in the Company's Condensed Consolidated Statements of Income, were \$13.2 million and \$13.6 million for the three months ended September 30, 2020 and 2019, respectively, and \$39.2 million and \$42.9 million for the nine months

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ended September 30, 2020 and 2019, respectively. Short-term and variable lease costs were not material for the three and nine months ended September 30, 2020 and 2019.

The Company's leases have remaining terms from less than 1 year to 11 years. Certain of these leases contain escalation provisions and/or renewal options, giving the Company the right to extend the lease by up to 10 years. However, a significant majority of these options are not reflected in the calculation of the ROU asset and operating lease liability due to uncertainty surrounding the likelihood of renewal.

The following table summarizes the weighted-average lease terms and discount rates for operating lease liabilities:

	September 30, 2020		September 30, 2019
Weighted-average remaining lease term (in years)	7.3		7.6
Weighted-average discount rate	5.9 %		6.6 %

The following table represents maturities of operating lease liabilities as of September 30, 2020 (in millions):

Due within 1 year	\$	51.9
Due after 1 year through 2 years		45.0
Due after 2 years through 3 years		37.8
Due after 3 years through 4 years		33.3
Due after 4 years through 5 years		29.2
Due after 5 years		91.7
Total lease payments		288.9
Less imputed interest		(52.0)
Total operating lease liabilities	\$	236.9

7. 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, 2019.

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The following tables present the Company's assets and liabilities which are measured at fair value on a recurring basis, by balance sheet line item (in millions):

September 30, 2020	Fair Value Measurement Using		Total
	Level 1	Level 2	Fair Value
Assets:			
Cash and cash equivalents:			
Measured at fair value through net income:			
Money market funds	\$ 100.0	\$ —	\$ 100.0
Settlement assets:			
Measured at fair value through net income:			
Money market funds	16.1	—	16.1
Measured at fair value through other comprehensive income (net of expected credit losses recorded through net income):			
State and municipal debt securities	—	1,331.3	1,331.3
State and municipal variable-rate demand notes	—	712.5	712.5
Corporate and other debt securities	—	81.6	81.6
United States government agency mortgage-backed securities	—	56.7	56.7
Other assets:			
Derivatives	—	294.7	294.7
Total assets	\$ 116.1	\$ 2,476.8	\$ 2,592.9
Liabilities:			
Other liabilities:			
Derivatives	\$ —	\$ 258.2	\$ 258.2
Total liabilities	\$ —	\$ 258.2	\$ 258.2

December 31, 2019	Fair Value Measurement Using		Total
	Level 1	Level 2	Fair Value
Assets:			
Settlement assets:			
Measured at fair value through net income:			
Money market funds	\$ 24.6	\$ —	\$ 24.6
Measured at fair value through other comprehensive income:			
State and municipal debt securities	—	1,257.8	1,257.8
State and municipal variable-rate demand notes	—	276.1	276.1
United States government agency mortgage-backed securities	—	67.2	67.2
Corporate debt securities	—	52.4	52.4
Other United States government agency debt securities	—	34.9	34.9
United States Treasury securities	10.0	—	10.0
Other assets:			
Derivatives	—	204.5	204.5
Total assets	\$ 34.6	\$ 1,892.9	\$ 1,927.5
Liabilities:			
Other liabilities:			
Derivatives	\$ —	\$ 159.5	\$ 159.5
Total liabilities	\$ —	\$ 159.5	\$ 159.5

No material non-recurring fair value adjustments or transfers between Level 1 and Level 2 measurements were recorded during the three and nine months ended September 30, 2020 and 2019.

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Other Fair Value Measurements

The carrying amounts for many of the Company's financial instruments, including certain cash and cash equivalents, settlement cash and cash equivalents, and settlement receivables and obligations approximate fair value due to their short maturities. The Company's borrowings are classified as Level 2 within the valuation hierarchy, and the aggregate fair value of these borrowings was based on quotes from multiple banks. 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. As of September 30, 2020, the carrying value and fair value of the Company's borrowings were \$3,036.5 million and \$3,253.7 million, respectively (see Note 13). As of December 31, 2019, the carrying value and fair value of the Company's borrowings were \$3,229.3 million and \$3,372.2 million, respectively.

8. Commitments and Contingencies

Letters of Credit and Bank Guarantees

The Company had approximately \$370 million in outstanding letters of credit and bank guarantees as of September 30, 2020 primarily held in connection with safeguarding consumer funds, lease arrangements, and certain agent agreements. The significant majority of the Company's letters of credit and bank guarantees have 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 losses 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 losses may have been incurred for each of the matters described below.

For those matters that the Company believes there is at least a reasonable possibility that a loss or additional losses may have been incurred and can reasonably estimate the loss or potential loss, the reasonably possible potential litigation losses in excess of the Company's recorded liability for probable and estimable losses was approximately \$30 million as of September 30, 2020. For the remaining matters, management is unable to provide a meaningful estimate of the possible loss or range of loss because, among other reasons: (i) the proceedings are in preliminary stages; (ii) specific damages have not been sought; (iii) damage claims are unsupported and/or unreasonable; (iv) there is uncertainty as to the outcome of pending appeals or motions; (v) there are significant factual issues to be resolved; or (vi) novel legal issues or unsettled legal theories are being asserted.

The outcomes of legal actions are unpredictable and subject to significant uncertainties, and it is inherently difficult to determine whether any loss is probable or even possible. It is also inherently difficult to estimate the amount of any loss and there may be matters for which a loss is probable or reasonably possible but not currently estimable. Accordingly, actual losses may be in excess of the established liability or the range of reasonably possible loss.

Shareholder Derivative Action

On January 16, 2020, Stanley Lieblein filed a shareholder derivative complaint in the Court of Chancery of the State of Delaware naming the Company's President and Chief Executive Officer, certain current and former directors, and a former executive officer as individual defendants and the Company as a nominal defendant. Mr. Lieblein had previously filed a shareholder derivative action asserting related claims in the United States District Court for the District of Colorado,

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which was subsequently consolidated with multiple pending related derivative actions. Following the filing of multiple amended complaints, the United States Court of Appeals for the Tenth Circuit affirmed dismissal of the consolidated derivative action on April 16, 2019 on the ground that the plaintiffs did not have standing to proceed on behalf of the Company without making a demand on the Company's board of directors. The consolidated derivative action is described in further detail in Part I, Item I, *Financial Statements*, Note 8, Commitments and Contingencies in the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2019.

On August 1, 2019, Mr. Lieblein made a written demand on the Company's board of directors to investigate and address alleged misconduct related to the Company's anti-fraud and anti-money laundering ("AML") compliance programs, including certain alleged misconduct at issue in the consolidated derivative action. The Company's board of directors formed a special committee to evaluate Mr. Lieblein's demand together with a related shareholder demand. The special committee's investigation is ongoing. Mr. Lieblein alleges that he filed the January 16, 2020 complaint prior to the completion of the special committee's investigation because of concerns regarding the statute of limitations on some of the claims asserted. Mr. Lieblein has agreed to stay the action until December 31, 2020, pending completion of the special committee's investigation.

The complaint filed by Mr. Lieblein on January 16, 2020 includes allegations that the director and officer defendants declined to implement effective anti-fraud and AML compliance systems after receiving numerous red flags indicating prolonged willful illegality, condoned executive officers' obstruction of efforts by various regulators to impose an effective compliance system on the Company, approved executive compensation packages for management that were not aligned with development of effective anti-fraud and AML compliance programs, allowed management to fail to timely report known or likely impropriety by Company employees or agents to regulatory authorities, failed to require management to adopt a risk assessment for all very high risk areas, refused to remedy the board's oversight of executive officers, and, in effect, refused Mr. Lieblein's shareholder demand and related request for tolling agreements.

It also includes allegations that the officer defendants declined to ensure that the Company implemented effective anti-fraud and AML compliance programs after receiving red flags that those programs were inadequate, allowed Company agents to willfully ignore anti-fraud and AML recording and reporting requirements for a prolonged period, opposed efforts by various regulators to implement effective anti-fraud and AML compliance programs, caused the Company to fail to comply with its obligations under settlements with regulators, and knowingly exposed the Company to criminal and civil sanctions. Due to the nature of this matter and the early stage of the proceedings, the Company cannot predict the outcome or potential impact of the matter.

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. On January 9, 2018, plaintiff filed a motion requesting decisions on its pending motion to approve the settlement and motion for attorneys' fees, costs, and incentive award. On August 31, 2018, the Court issued an order approving the settlement, in which the Court modified the class definition slightly and ordered the parties to provide additional notice to the class. An appeal relating to the Court's order was taken by an objector, and this appeal was dismissed on April 13, 2020. The Company and its insurance carrier have funded the settlement and, on October 5, 2020, the Court entered the final order and judgment in the case.

In October 2015, Consumidores Financieros Asociación Civil para su Defensa, an Argentinian consumer association, filed a purported class action lawsuit in Argentina's National Commercial Court No. 19 against the Company's subsidiary Western Union Financial Services Argentina S.R.L. ("WUFSA"). The lawsuit alleges, among other things, that WUFSA's

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fees for money transfers sent from Argentina are excessive and that WUFSA does not provide consumers with adequate information about foreign exchange rates. The plaintiff is seeking, among other things, an order requiring WUFSA to reimburse consumers for the fees they paid and the foreign exchange revenue associated with money transfers sent from Argentina, plus punitive damages. The complaint does not specify a monetary value of the claim or a time period. In November 2015, the Court declared the complaint formally admissible as a class action. The notice of claim was served on WUFSA in May 2016, and in June 2016 WUFSA filed a response to the claim and moved to dismiss it on statute of limitations and standing grounds. In April 2017, the Court deferred ruling on the motion until later in the proceedings. The process for notifying potential class members has been completed and the case proceeded to the evidentiary stage. On June 4, 2020, the case was stayed because the consumer association that filed the lawsuit no longer had the registration needed to assert its claims on behalf of the alleged class. The case will be stayed until (i) the Attorney-General instructs the Prosecutor to continue to litigate the claims on behalf of the plaintiff (during the time the registration of Consumidores Financieros before the Secretary of Commerce remains suspended); or (ii) the parties report to the Court that the plaintiff recovered its legal capacity. Due to the stage of this matter, the Company is unable to predict the outcome or the possible loss or range of loss, if any, associated with this matter. WUFSA intends to defend itself vigorously.

On April 26, 2018, the Company, its subsidiary, Western Union Financial Services, Inc., its President and Chief Executive Officer, and various “Doe Defendants” (purportedly including Western Union officers, directors, and agents) were named as defendants in a purported class action lawsuit asserting claims for alleged violations of civil Racketeer Influenced and Corrupt Organizations Act and the Colorado Organized Crime Act, civil theft, negligence, unjust enrichment, and conversion under the caption Frazier et al. v. The Western Union Company et al., Civil Action No. 1:18-cv-00998-KLM (D. Colo.). The complaint alleges that, during the purported class period of January 1, 2004 to the present, and based largely on the admissions and allegations relating to the United States Department of Justice, Federal Trade Commission, Financial Crimes Enforcement Network, and State Attorneys General Settlements, as disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, the defendants engaged in a scheme to defraud customers through Western Union’s money transfer system. The plaintiffs filed an amended complaint on July 17, 2018. The amended complaint is similar to the original complaint, although it adds additional named plaintiffs and additional counts, including claims on behalf of putative California, Florida, Georgia, Illinois, and New Jersey subclasses for alleged violations of the California Unfair Competition Law, the Florida Deceptive and Unfair Trade Practices Act, the Georgia Fair Business Practices Act, the Illinois Consumer Fraud and Deceptive Business Practices Act, and the New Jersey Consumer Fraud Act. On August 28, 2018, the Company and the other defendants moved to stay the action in favor of individual arbitrations with the named plaintiffs, which defendants contend are contractually required. On March 27, 2019, the Court granted that motion and stayed the action pending individual arbitrations with the named plaintiffs. To date, no such individual arbitration requests have been filed. On August 27, 2020, the Court issued an order requiring that the parties indicate whether the case should remain administratively closed, subject to reopening, or that the parties file dismissal papers stating that the case may be terminated from the Court’s docket. That same day, Plaintiffs filed a Notice of Dismissal, indicating that they had dismissed the action and that the case may be terminated from the Court’s docket.

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.

9. 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, 2020 and 2019 totaled \$14.5 million for both periods, and \$40.0 million and \$41.9 million for the nine months ended September 30, 2020 and 2019, respectively.

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10. Settlement Assets and Obligations

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):

	September 30, 2020
Settlement assets:	
Cash and cash equivalents	\$ 345.7
Receivables from agents and Business Solutions customers	1,107.2
Less: Allowance for credit losses	(45.6)
Receivables from agents and Business Solutions customers, net	1,061.6
Investment securities	2,182.1
Total settlement assets	\$ 3,589.4
Settlement obligations:	
Money transfer, money order, and payment service payables	\$ 2,740.4
Payables to agents	849.0
Total settlement obligations	\$ 3,589.4
	December 31, 2019
Settlement assets:	
Cash and cash equivalents	\$ 368.2
Receivables from agents and Business Solutions customers, net	1,230.1
Investment securities	1,698.4
Total settlement assets	\$ 3,296.7
Settlement obligations:	
Money transfer, money order, and payment service payables	\$ 2,571.5
Payables to agents	725.2
Total settlement obligations	\$ 3,296.7

Receivables from agents represent funds collected by such agents, but in transit to the Company, and were \$992.1 million as of September 30, 2020. Cash received by Western Union agents generally becomes available to the Company within one week after initial receipt by the agent. Western Union has a large and diverse agent base, thereby reducing the credit risk of the Company from any one agent. The Company performs ongoing credit evaluations of its agents' financial condition and credit worthiness.

Receivables from Business Solutions customers arise from cross-currency payment transactions in the Business Solutions segment. Business Solutions receivables totaled \$69.5 million as of September 30, 2020. Receivables occur when funds have been paid out to a beneficiary but not yet received from the customer. Collection of these receivables ordinarily occurs within a few days. To mitigate risk associated with potential Business Solutions customer defaults, the Company performs credit reviews on an ongoing basis.

On January 1, 2020, the Company adopted a new accounting standard related to the estimation of the allowance for credit losses, as discussed in Note 1. However, due to the short-term nature of the Company's receivables and the Company's historical and expected collections practice, the adoption did not have a material impact on the Company's financial position or results of operations.

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The Company separately establishes and monitors an allowance for credit losses related to receivables from agents and Business Solutions customers. The Company estimates the allowance based on its historical collections experience, adjusted for current conditions and forecasts of future economic conditions, including those related to COVID-19. Given the short-term nature of these receivables, the Company does not expect the impact of forecasted economic conditions on its allowance for credit loss to be significant. The Company has estimated credit losses based on information known as of September 30, 2020.

The following table summarizes activity in the allowance for credit losses on receivables from agents and Business Solutions customers (in millions):

	Agents	Business Solutions Customers
Allowance for credit losses as of January 1, 2020	\$ 20.4	\$ 4.5
Current period provision for expected credit losses (a)	28.3	2.1
Write-offs charged against the allowance	(8.0)	(2.5)
Recoveries of amounts previously written off	1.8	—
Impacts of foreign currency exchange rates and other	(1.6)	0.6
Allowance for credit losses as of September 30, 2020	\$ 40.9	\$ 4.7

(a) Provision does not include losses from chargebacks or fraud associated with transactions initiated through the Company's electronic channels, as these losses are not credit related.

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 2057. These securities may be used by the Company for short-term liquidity needs and held for short periods of time. Investment securities are exposed to market risk due to changes in interest rates and credit risk. 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 regulatory requirements.

The Company's investment securities are classified as available-for-sale and recorded at fair value. Western Union regularly monitors credit risk and attempts to mitigate its exposure by investing in highly-rated securities and through investment diversification.

Unrealized gains on available-for-sale securities are excluded from earnings and presented as a component of accumulated other comprehensive loss, net of related deferred taxes. Available-for-sale securities with a fair value below the amortized cost basis are evaluated on an individual basis to determine whether the impairment is due to credit-related factors or noncredit-related factors. Factors that could indicate a credit loss exists include but are not limited to: (i) negative earnings performance, (ii) credit rating downgrades, or (iii) adverse changes in the regulatory or economic environment of the asset. Any impairment that is not credit-related is excluded from earnings and presented as a component of accumulated other comprehensive loss, net of related deferred taxes, unless the Company intends to sell the impaired security or it is more likely than not that the Company will be required to sell the security before recovering its amortized cost basis. Credit-related impairments are recognized immediately as an adjustment to earnings, regardless of whether the Company has the ability or intent to hold the security to maturity, and are limited to the difference between fair value and the amortized cost basis. As of and for the three and nine months ended September 30, 2020, the Company's allowance for credit losses and provision for credit losses on its available-for-sale securities were immaterial.

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

September 30, 2020	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/(Losses)
Cash and cash equivalents:					
Money market funds	\$ 100.0	\$ 100.0	\$ —	\$ —	\$ —
Settlement assets:					
Cash and cash equivalents:					
Money market funds	16.1	16.1	—	—	—
Available-for-sale securities:					
State and municipal debt securities ^(a)	1,263.2	1,331.3	68.2	(0.1)	68.1
State and municipal variable-rate demand notes	712.5	712.5	—	—	—
Corporate and other debt securities	80.4	81.6	1.2	—	1.2
United States government agency mortgage-backed securities	55.0	56.7	1.7	—	1.7
Total available-for-sale securities	2,111.1	2,182.1	71.1	(0.1)	71.0
Total investment securities	<u>\$ 2,227.2</u>	<u>\$ 2,298.2</u>	<u>\$ 71.1</u>	<u>\$ (0.1)</u>	<u>\$ 71.0</u>
December 31, 2019	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/(Losses)
Settlement assets:					
Cash and cash equivalents:					
Money market funds	\$ 24.6	\$ 24.6	\$ —	\$ —	\$ —
Available-for-sale securities:					
State and municipal debt securities ^(a)	1,227.4	1,257.8	31.0	(0.6)	30.4
State and municipal variable-rate demand notes	276.1	276.1	—	—	—
United States government agency mortgage-backed securities	66.3	67.2	0.9	—	0.9
Corporate debt securities	52.3	52.4	0.1	—	0.1
Other United States government agency debt securities	34.9	34.9	—	—	—
United States Treasury securities	9.8	10.0	0.2	—	0.2
Total available-for-sale securities	1,666.8	1,698.4	32.2	(0.6)	31.6
Total investment securities	<u>\$ 1,691.4</u>	<u>\$ 1,723.0</u>	<u>\$ 32.2</u>	<u>\$ (0.6)</u>	<u>\$ 31.6</u>

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

The following summarizes the contractual maturities of available-for-sale securities within Settlement assets as of September 30, 2020 (in millions):

	Fair Value
Due within 1 year	\$ 174.8
Due after 1 year through 5 years	702.8
Due after 5 years through 10 years	470.2
Due after 10 years	834.3
Total	<u>\$ 2,182.1</u>

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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 \$15.0 million, \$2.0 million, and \$695.5 million were included in the categories "Due after 1 year through 5 years," "Due after 5 years through 10 years," and "Due after 10 years," respectively, in the table above.

In addition, from time to time, the Company has made advances to its agents. We generally owe settlement funds payable to these agents that offset these advances. These amounts advanced to agents are included within Other assets in the accompanying Condensed Consolidated Balance Sheets. As of September 30, 2020, amounts advanced to agents were \$124.4 million, and the related allowance for credit losses was immaterial.

11. Stockholders' Equity/(Deficit)

Accumulated Other Comprehensive Loss

The following table details reclassifications out of Accumulated other comprehensive loss ("AOCL") and into Net income. All amounts reclassified from AOCL affect the line items as indicated below and the amounts in parentheses indicate decreases to Net income in the Condensed Consolidated Statements of Income.

Income for the period (in millions)	Income Statement Location	Amounts Reclassified from AOCL to Net Income			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2020	2019	2020	2019
Accumulated other comprehensive loss components:					
Gains/(losses) on investment securities:					
Available-for-sale securities	Revenues	\$ —	\$ —	\$ 0.9	\$ 0.6
Income tax expense	Provision for income taxes	—	—	(0.2)	(0.2)
Total reclassification adjustments related to investment securities, net of tax		—	—	0.7	0.4
Gains/(losses) on cash flow hedges:					
Foreign currency contracts	Revenues	(3.6)	6.1	7.2	9.6
Interest rate contracts	Interest expense	(0.1)	—	(0.4)	—
Income tax expense	Provision for income taxes	—	(0.1)	(0.1)	(0.1)
Total reclassification adjustments related to cash flow hedges, net of tax		(3.7)	6.0	6.7	9.5
Amortization of components of defined benefit plans:					
Actuarial loss	Other income/(expense), net	(2.9)	(2.7)	(9.0)	(8.1)
Income tax benefit	Provision for income taxes	0.6	0.4	2.3	1.4
Total reclassification adjustments related to defined benefit plans, net of tax		(2.3)	(2.3)	(6.7)	(6.7)
Total reclassifications, net of tax		<u>\$ (6.0)</u>	<u>\$ 3.7</u>	<u>\$ 0.7</u>	<u>\$ 3.2</u>

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The following tables summarize the components of AOCL, net of tax on the accompanying Condensed Consolidated Balance Sheets were as follows (in millions):

	Investment Securities	Hedging Activities	Foreign Currency Translation	Defined Benefit Pension Plan	Total
As of December 31, 2019	\$ 24.7	\$ (3.6)	\$ (101.2)	\$ (128.9)	\$ (209.0)
Unrealized gains	7.2	27.3	—	—	34.5
Tax expense	(1.1)	(0.3)	—	—	(1.4)
Amounts reclassified from AOCL into earnings, net of tax	(0.4)	(6.3)	—	2.3	(4.4)
As of March 31, 2020	30.4	17.1	(101.2)	(126.6)	(180.3)
Unrealized gains/(losses)	24.6	(15.1)	—	—	9.5
Tax benefit/(expense)	(4.8)	0.1	—	—	(4.7)
Amounts reclassified from AOCL into earnings, net of tax	(0.3)	(4.1)	—	2.1	(2.3)
As of June 30, 2020	49.9	(2.0)	(101.2)	(124.5)	(177.8)
Unrealized gains/(losses)	8.5	(22.1)	—	—	(13.6)
Tax benefit/(expense)	(1.4)	0.2	—	—	(1.2)
Amounts reclassified from AOCL into earnings, net of tax	—	3.7	—	2.3	6.0
As of September 30, 2020	\$ 57.0	\$ (20.2)	\$ (101.2)	\$ (122.2)	\$ (186.6)

	Investment Securities	Hedging Activities	Foreign Currency Translation	Defined Benefit Pension Plan	Total
As of December 31, 2018	\$ (1.1)	\$ 7.4	\$ (101.2)	\$ (136.1)	\$ (231.0)
Unrealized gains	16.8	4.4	—	—	21.2
Tax benefit/(expense)	(3.8)	0.9	—	—	(2.9)
Amounts reclassified from AOCL into earnings, net of tax	—	(1.4)	—	2.5	1.1
As of March 31, 2019	11.9	11.3	(101.2)	(133.6)	(211.6)
Unrealized gains/(losses)	13.0	(3.9)	—	—	9.1
Tax benefit/(expense)	(2.7)	0.1	—	—	(2.6)
Amounts reclassified from AOCL into earnings, net of tax	(0.4)	(2.1)	—	1.9	(0.6)
As of June 30, 2019	21.8	5.4	(101.2)	(131.7)	(205.7)
Unrealized gains	7.2	20.8	—	—	28.0
Tax expense	(1.4)	(0.3)	—	—	(1.7)
Amounts reclassified from AOCL into earnings, net of tax	—	(6.0)	—	2.3	(3.7)
As of September 30, 2019	\$ 27.6	\$ 19.9	\$ (101.2)	\$ (129.4)	\$ (183.1)

Cash Dividends Paid

The Company's Board of Directors declared quarterly cash dividends of \$0.225 per common share for each of the first three quarters of 2020, representing \$277.4 million in total dividends. Of this amount, \$92.5 million was paid on September 30, 2020, \$92.5 million was paid on June 30, 2020, and \$92.4 million was paid on March 31, 2020. The Company's Board of Directors declared quarterly cash dividends of \$0.20 per common share for each of the first three quarters of 2019, representing \$257.1 million in total dividends. Of this amount, \$84.2 million was paid on September 30, 2019, \$85.5 million was paid on June 28, 2019, and \$87.4 million was paid on March 29, 2019.

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Share Repurchases

During the nine months ended September 30, 2020 and 2019, 8.5 million and 24.4 million shares were repurchased for \$217.4 million and \$475.2 million, respectively, excluding commissions, at an average cost of \$25.45 and \$19.48, respectively. These amounts represent shares authorized by the Board of Directors for repurchase under publicly announced authorizations. During the first quarter of 2020, the Company temporarily paused and has not resumed share repurchases, and as of September 30, 2020, \$782.6 million remains available under the share repurchase authorization approved by the Company's Board of Directors through December 31, 2021. 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 publicly announced authorizations and shares withheld from employees to cover tax withholding obligations on restricted stock units that have vested.

12. 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, and other currencies, related to forecasted revenues and 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, primarily from customer derivatives, arising from its cross-currency Business Solutions payment 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 has used derivatives to (i) minimize its exposures related to changes in foreign currency exchange rates and interest rates, and (ii) facilitate cross-currency Business Solutions payments by writing derivatives to customers.

The Company executes derivatives with established financial institutions; the substantial majority of these financial institutions have a credit rating of "A-" or higher from a major credit rating agency. Customer derivatives written by the Company's Business Solutions operations primarily involve 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, while also monitoring 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.

Foreign Currency Derivatives

The Company's policy is to use longer duration 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, 2020, these 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 and thus time value is excluded from the assessment of effectiveness. The initial value of the excluded components is amortized into Revenues within the Company's Condensed Consolidated Statements of Income.

The Company also uses short duration foreign currency forward contracts, generally with maturities ranging from a few days 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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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, 2020 and December 31, 2019 were as follows (in millions):

	September 30, 2020
Contracts designated as hedges:	
Euro	\$ 253.0
Canadian dollar	64.5
British pound	35.8
Other ^(a)	74.4
Contracts not designated as hedges:	
Euro	\$ 349.0
British pound	89.6
Indian rupee	71.6
Mexican peso	49.9
Canadian dollar	42.8
Australian dollar	40.9
Japanese yen	31.4
Russian ruble	25.3
Other ^(a)	157.3
	December 31, 2019
Contracts designated as hedges:	
Euro	\$ 391.9
Canadian dollar	99.0
British pound	57.2
Australian dollar	36.1
Swiss franc	28.9
Other ^(a)	50.9
Contracts not designated as hedges:	
Euro	\$ 289.0
Canadian dollar	110.3
British pound	78.1
Indian rupee	61.0
Mexican peso	52.3
Japanese yen	37.7
Australian dollar	35.2
Brazilian real	32.5
Other ^(a)	145.6

(a) Comprised of exposures to various currencies; none of these individual currency exposures is greater than \$25 million.

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

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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. Foreign exchange revenues from the total portfolio of positions were \$76.9 million and \$88.2 million for the three months ended September 30, 2020 and 2019, respectively, and \$234.4 million and \$257.1 million for the nine months ended September 30, 2020 and 2019, respectively. None of the derivative contracts used in Business Solutions operations are designated as accounting hedges and the majority of these derivative contracts have a duration at inception of less than one year.

The aggregate equivalent United States dollar notional amount of derivative customer contracts held by the Company in its Business Solutions operations was approximately \$7.5 billion as of both September 30, 2020 and December 31, 2019. The significant majority of customer contracts are written in the following currencies: the United States dollar, the euro, and the Canadian dollar.

Interest Rate Hedging

From time to time, 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, variable rate payments in order to manage its overall exposure to interest rate fluctuations. 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. Interest expense in the Condensed Consolidated Statements of Income has been adjusted to include the effects of interest accrued on the swaps.

On November 15, 2019, the Company terminated its interest rate swaps designated as fair value hedges in connection with the repayment of \$324.9 million of aggregate principal amount unsecured notes in the fourth quarter of 2019 and received cash of \$0.9 million. Therefore, as of September 30, 2020 and December 31, 2019, the Company did not have any interest rate swaps designated as fair value hedges.

Balance Sheet

The following table summarizes the fair value of derivatives reported in the Company's Condensed Consolidated Balance Sheets as of September 30, 2020 and December 31, 2019 (in millions):

		Derivative Assets			Derivative Liabilities	
		Fair Value			Fair Value	
	Balance Sheet Location	September 30, 2020	December 31, 2019	Balance Sheet Location	September 30, 2020	December 31, 2019
Derivatives designated as hedges:						
Foreign currency cash flow hedges	Other assets	\$ 5.2	\$ 21.0	Other liabilities	\$ 8.7	\$ 4.8
Total derivatives designated as hedges		\$ 5.2	\$ 21.0		\$ 8.7	\$ 4.8
Derivatives not designated as hedges:						
Business Solutions operations - foreign currency ^(a)	Other assets	\$ 283.1	\$ 182.0	Other liabilities	\$ 246.7	\$ 151.0
Foreign currency	Other assets	6.4	1.5	Other liabilities	2.8	3.7
Total derivatives not designated as hedges		\$ 289.5	\$ 183.5		\$ 249.5	\$ 154.7
Total derivatives		\$ 294.7	\$ 204.5		\$ 258.2	\$ 159.5

- (a) 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 changes in the Company's derivative assets and liabilities that may not directly align with the performance in the underlying derivatives business.

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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.

The following tables summarize the gross and net fair value of derivative assets and liabilities as of September 30, 2020 and December 31, 2019 (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, 2020					
Derivatives subject to a master netting arrangement or similar agreement	\$ 108.3	\$ —	\$ 108.3	\$ (99.2)	\$ 9.1
Derivatives that are not or may not be subject to master netting arrangement or similar agreement	186.4				
Total	<u>\$ 294.7</u>				
December 31, 2019					
Derivatives subject to a master netting arrangement or similar agreement	\$ 95.3	\$ —	\$ 95.3	\$ (74.7)	\$ 20.6
Derivatives that are not or may not be subject to master netting arrangement or similar agreement	109.2				
Total	<u>\$ 204.5</u>				

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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, 2020					
Derivatives subject to a master netting arrangement or similar agreement	\$ 213.7	\$ —	\$ 213.7	\$ (99.2)	\$ 114.5
Derivatives that are not or may not be subject to master netting arrangement or similar agreement	44.5				
Total	<u>\$ 258.2</u>				
December 31, 2019					
Derivatives subject to a master netting arrangement or similar agreement	\$ 121.8	\$ —	\$ 121.8	\$ (74.7)	\$ 47.1
Derivatives that are not or may not be subject to master netting arrangement or similar agreement	37.7				
Total	<u>\$ 159.5</u>				

Income Statement

Cash Flow and Fair Value Hedges

The effective portion of the change in fair value of derivatives that qualify as cash flow hedges is recorded in AOCL in the Company's Condensed Consolidated Balance Sheets. Generally, amounts are recognized in income when the related forecasted transaction affects earnings.

The following table presents the pre-tax amount of unrealized gains/(losses) recognized in other comprehensive income from cash flow hedges for the three and nine months ended September 30, 2020 and 2019 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Foreign currency derivatives ^(a)	\$ (22.1)	\$ 20.8	\$ (9.9)	\$ 21.3

(a) Gains/(losses) of \$(1.6) million and \$(0.6) million for the three months ended September 30, 2020 and 2019, respectively, and \$1.2 million and \$1.1 million for the nine months ended September 30, 2020 and 2019, respectively, represent amounts excluded from the assessment of effectiveness that were recognized in other comprehensive income, for which an amortization approach is applied.

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The following tables present the location and amounts of pre-tax gains/(losses) from fair value and cash flow hedging relationships recognized in the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2020 and 2019 (in millions):

	Three Months Ended September 30,			
	2020		2019	
	Revenues	Interest Expense	Revenues	Interest Expense
Total amounts presented in the Condensed Consolidated Statements of Income in which the effects of fair value or cash flow hedges are recorded	\$ 1,258.5	\$ (28.2)	\$ 1,306.9	\$ (36.2)
The effects of fair value and cash flow hedging:				
Gain/(loss) on fair value hedges:				
Interest rate derivatives:				
Hedged items	—	—	—	0.2
Gain/(loss) on cash flow hedges:				
Foreign currency derivatives:				
Gains/(losses) reclassified from AOCL into earnings	(3.6)	—	6.1	—
Amount excluded from effectiveness testing recognized in earnings based on an amortization approach	2.4	—	3.0	—
Amount excluded from effectiveness testing recognized in earnings based on changes in fair value	—	—	0.5	—
Interest rate derivatives:				
Gains/(losses) reclassified from AOCL into earnings	—	(0.1)	—	—
	Nine Months Ended September 30,			
	2020		2019	
	Revenues	Interest Expense	Revenues	Interest Expense
Total amounts presented in the Condensed Consolidated Statements of Income in which the effects of fair value or cash flow hedges are recorded	\$ 3,563.2	\$ (90.4)	\$ 3,984.4	\$ (114.5)
The effects of fair value and cash flow hedging:				
Gain/(loss) on fair value hedges:				
Interest rate derivatives:				
Hedged items	—	—	—	(0.7)
Derivatives designated as hedging instruments	—	—	—	1.0
Gain/(loss) on cash flow hedges:				
Foreign currency derivatives:				
Gains/(losses) reclassified from AOCL into earnings	7.2	—	9.6	—
Amount excluded from effectiveness testing recognized in earnings based on an amortization approach	8.7	—	8.1	—
Amount excluded from effectiveness testing recognized in earnings based on changes in fair value	—	—	2.8	—
Interest rate derivatives:				
Gains/(losses) reclassified from AOCL into earnings	—	(0.4)	—	—

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Undesignated Hedges

The following table presents the location and amount of pre-tax net gains/(losses) from undesignated hedges in the Condensed Consolidated Statements of Income on derivatives for the three and nine months ended September 30, 2020 and 2019 (in millions):

Derivatives ^(a)	Location	Three Months Ended September 30,		Nine Months Ended September 30,	
		2020	2019	2020	2019
Foreign currency derivatives ^(b)	Selling, general, and administrative	\$ (1.9)	\$ 20.2	\$ 24.2	\$ 27.8
Foreign currency derivatives	Revenues	—	0.8	—	1.0
Total gain/(loss)		<u>\$ (1.9)</u>	<u>\$ 21.0</u>	<u>\$ 24.2</u>	<u>\$ 28.8</u>

- (a) 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.
- (b) 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 derivative activity as displayed above and included in Selling, general, and administrative in the Condensed Consolidated Statements of Income, were \$1.4 million and \$(23.4) million for the three months ended September 30, 2020 and 2019, respectively, and \$(46.6) million and \$(38.5) million for the nine months ended September 30, 2020 and 2019, respectively.

All cash flows associated with derivatives are included in Cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows.

Based on September 30, 2020 foreign exchange rates, an accumulated other comprehensive pre-tax loss of \$8.8 million related to the foreign currency forward contracts is expected to be reclassified into Revenues within the next 12 months.

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13. Borrowings

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

	September 30, 2020	December 31, 2019
Commercial paper ^(a)	\$ 50.0	\$ 245.0
Notes:		
3.600% notes due 2022 ^(b)	500.0	500.0
4.250% notes due 2023 ^(b)	300.0	300.0
2.850% notes due 2025 ^(b)	500.0	500.0
6.200% notes due 2036 ^(b)	500.0	500.0
6.200% notes due 2040 ^(b)	250.0	250.0
Term loan facility borrowing (effective rate of 1.4%)	950.0	950.0
Total borrowings at par value	3,050.0	3,245.0
Debt issuance costs and unamortized discount, net	(13.5)	(15.7)
Total borrowings at carrying value ^(c)	<u>\$ 3,036.5</u>	<u>\$ 3,229.3</u>

- (a) Pursuant to the Company's commercial paper program, the Company 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 the Company's revolving credit facility. The commercial paper notes may have maturities of up to 397 days from date of issuance. The Company's commercial paper borrowings as of September 30, 2020 had a weighted-average annual interest rate of approximately 0.3% and a weighted-average term of approximately 1 day.
- (b) The difference between the stated interest rate and the effective interest rate is not significant.
- (c) As of September 30, 2020, the Company's weighted-average effective rate on total borrowings was approximately 3.6%.

The following summarizes the Company's maturities of notes and term loan at par value as of September 30, 2020 (in millions):

Due within 1 year	\$ 35.6
Due after 1 year through 2 years	547.5
Due after 2 years through 3 years	383.1
Due after 3 years through 4 years	783.8
Due after 4 years through 5 years	500.0
Due after 5 years	750.0

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

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

14. Income Taxes

The Company's provision for income taxes for the three and nine months ended September 30, 2020 and 2019 is based on the estimated annual effective tax rate, in addition to discrete items. The Company's effective tax rates on pre-tax income were 12.4% and 16.8% for the three months ended September 30, 2020 and 2019, respectively, and 13.5% and 17.9% for the nine months ended September 30, 2020 and 2019, respectively. The decrease in the Company's effective tax rate for the three and nine months ended September 30, 2020 compared to the prior periods was primarily due to higher prior period domestic pre-tax income due to the sales of the Speedpay and Paymap businesses, partially offset by increased discrete expenses in the current period. The Company derives its pre-tax income from both foreign and domestic sources. 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.

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 during the period in the facts and circumstances (i.e. new information) surrounding a tax issue 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, 2020 and December 31, 2019 was \$294.4 million and \$293.9 million, respectively, excluding interest and penalties. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$283.9 million and \$283.4 million as of September 30, 2020 and December 31, 2019, 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 \$0.8 million and \$1.2 million of interest and penalties during the three months ended September 30, 2020 and 2019, respectively, and \$1.5 million and \$4.5 million during the nine months ended September 30, 2020 and 2019, respectively. The Company has accrued \$28.6 million and \$27.1 million for the payment of interest and penalties as of September 30, 2020 and December 31, 2019, 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 Company's United States federal income tax returns since 2017 are eligible to be examined. The Internal Revenue Service commenced an examination of the Company's U.S. consolidated income tax returns for 2017 and 2018 in the current quarter. The anticipated completion date of the examination cannot be estimated at this time.

15. Stock-Based Compensation Plans

For the three months ended September 30, 2020 and 2019, the Company recognized stock-based compensation expense of \$14.2 million and \$9.7 million, respectively, resulting from stock options, restricted stock units, performance-based restricted stock units and deferred stock units in the Condensed Consolidated Statements of Income. For the nine

THE WESTERN UNION COMPANY

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

months ended September 30, 2020 and 2019, the Company recognized stock-based compensation expense of \$32.0 million and \$35.0 million, respectively.

During the nine months ended September 30, 2020, the Company granted 0.5 million options at a weighted-average exercise price of \$26.20 and 2.5 million performance-based restricted stock units and restricted stock units at a weighted-average grant date fair value of \$25.87. As of September 30, 2020, the Company had 4.9 million outstanding options at a weighted-average exercise price of \$19.13, of which 3.8 million options were exercisable at a weighted-average exercise price of \$18.40. The Company had 6.9 million outstanding performance-based restricted stock units (based on target performance) and restricted stock units at a weighted-average grant date fair value of \$20.86 as of September 30, 2020.

16. Segments

As described in Note 1, the Company classifies its business into two segments: Consumer-to-Consumer 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 CODM in allocating resources and assessing performance.

The Consumer-to-Consumer operating segment facilitates money transfers between two consumers. The Company's multi-currency money transfer service is provided through 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 primarily related to generating, managing, and maintaining agent relationships and localized marketing activities. The Company includes Digital Money Transfer transactions in its regions, including transactions from the Company's arrangements with financial institutions and other third parties to enable such entities to offer money transfer services to their own customers under their brands. By means of common processes and systems, these regions, including Digital Money Transfer transactions, create an interconnected network for consumer transactions, thereby constituting one global Consumer-to-Consumer money transfer business and one operating segment.

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 and other services that have not been classified in the above segments are reported as Other, which primarily includes the Company's cash-based and electronic-based bill payment services which facilitate payments from consumers to businesses and other organizations and the Company's money order services. In May 2019, the Company sold a substantial majority of its United States based electronic bill payments services, as discussed in Note 4.

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.

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, 2020 and 2019 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues:				
Consumer-to-Consumer	\$ 1,106.5	\$ 1,113.0	\$ 3,098.5	\$ 3,282.8
Business Solutions	89.1	100.6	266.9	291.8
Other ^(a)	62.9	93.3	197.8	409.8
Total consolidated revenues	<u>\$ 1,258.5</u>	<u>\$ 1,306.9</u>	<u>\$ 3,563.2</u>	<u>\$ 3,984.4</u>
Operating income:				
Consumer-to-Consumer	\$ 272.4	\$ 263.8	\$ 695.1	\$ 747.3
Business Solutions	9.4	16.7	24.6	35.8
Other ^(a)	12.5	8.4	45.3	23.3
Total segment operating income ^(b)	294.3	288.9	765.0	806.4
Restructuring-related expenses (Note 5)	(9.1)	(91.5)	(24.8)	(98.9)
Total consolidated operating income	<u>\$ 285.2</u>	<u>\$ 197.4</u>	<u>\$ 740.2</u>	<u>\$ 707.5</u>

(a) Other primarily includes the Company's cash-based and electronic-based bill payment services which facilitate payments from consumers to businesses and other organizations and the Company's money order services. In May 2019, the Company sold a substantial majority of its United States based electronic bill payments services, as discussed in Note 4. Speedpay revenues and direct operating expenses included in the Company's results were \$125.4 million and \$98.2 million, respectively, for the nine months ended September 30, 2019. Paymap revenues and direct operating expenses included in the Company's results were \$5.3 million and \$2.2 million, respectively, for the nine months ended September 30, 2019.

(b) In the first quarter of 2020, the Company changed its expense allocation method so that its corporate data center and network engineering information technology expenses are allocated based on a percentage of relative revenue. In 2019, these costs had been allocated based in part on a percentage of relative transactions. The Company believes that an allocation method based fully on relative revenue presents a more representative view of segment profitability, as certain of the Company's services, particularly some of its bill payment services and its money order services, have much lower revenues per transaction than the Company's other services. Further, these technology expenses are becoming increasingly based on data storage utilized and less based on the number of transactions processed. For the three and nine months ended September 30, 2019, this change would have decreased Consumer-to-Consumer operating income and increased Other operating income by \$13.0 million and \$37.8 million, respectively. Business Solutions was not materially impacted by the change in the allocation method.

THE WESTERN UNION COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2.

The following discussion should be read in conjunction with the condensed consolidated financial statements and the notes to those statements included elsewhere in this report on Form 10-Q. 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," "targets," "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, 2019. 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 downturns and trade disruptions, 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 other events, such as public health emergencies, epidemics, or pandemics such as COVID-19, civil unrest, war, terrorism, or natural disasters, 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; political conditions and related actions, including trade restrictions and government sanctions, 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; 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 the integration of acquired businesses and technologies into our Company, divestitures, and the failure to realize anticipated financial benefits from these transactions, and events requiring us to write down our goodwill; decisions to change our business mix; our ability to realize the anticipated benefits from restructuring-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; 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; changes in tax laws or their interpretation, any subsequent regulation, and potential related state income tax impacts, and unfavorable resolution of tax contingencies; adverse rating actions by credit rating agencies; 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 abroad, affecting us, our agents, or their subagents, or the banks with which we or our agents maintain bank accounts needed to provide our services, including related to anti-money laundering regulations, anti-fraud measures, our licensing arrangements, customer due diligence, agent and subagent due diligence, registration and monitoring requirements, consumer protection requirements, remittances, and immigration; liabilities, increased costs or loss of business and unanticipated developments resulting from governmental investigations and consent agreements with or enforcement actions by regulators; liabilities resulting from litigation, including class-action lawsuits and similar matters, and regulatory enforcement actions, including costs, expenses, settlements, and judgments; failure to comply with regulations and evolving industry standards regarding consumer privacy, data use, the transfer of personal data between jurisdictions, and information security with respect to the General Data Protection Regulation in the European Union ("EU") and the California Consumer Privacy Act; failure to comply with the Dodd-Frank Wall Street Reform and Consumer Protection 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 in the United States and abroad related to consumer protection and derivative transactions; effects of unclaimed property laws or their interpretation or the enforcement thereof; 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: 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 two business segments:

- *Consumer-to-Consumer* - Our Consumer-to-Consumer operating segment facilitates money transfers between two consumers, primarily through a network of third-party agents. Our multi-currency money transfer service is provided through 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 and, in certain countries, intra-country transfers. This segment also includes money transfer transactions that can be initiated through websites and mobile devices.
- *Business Solutions* - Our 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 and other services that have not been classified in the above segments are reported as Other, which primarily includes our cash-based and electronic-based bill payment services which facilitate payments from consumers to businesses and other organizations and our money order services. Our other services, in addition to certain corporate costs such as costs related to strategic initiatives, including costs for the review and closing of mergers, acquisitions, and divestitures, are also included in Other. Additional information on our segments is further described in the Segment Discussion below.

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, 2020 compared to the same periods in 2019. 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 have been eliminated. The below information has been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP") unless otherwise noted. 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.

In March 2020, the World Health Organization declared the outbreak associated with a novel coronavirus a pandemic ("COVID-19"), and governments throughout the world instituted various actions such as lockdowns, stay-at-home orders, travel restrictions, and closures of non-essential businesses in an effort to reduce the spread of COVID-19. These actions negatively impacted our ability to offer our services, at least temporarily, through a portion of our locations and our retail agent locations during the nine months ended September 30, 2020. Beginning in March 2020 and continuing into the second and third quarters of 2020, we experienced a decrease in transaction volumes from retail locations and a decrease in foreign exchange and payment services activity, which also negatively impacted revenues in these periods, partially offset by revenue growth from westernunion.com and other digital transactions, as further described below. We believe this decrease is mainly due to economic decline and uncertainty resulting from the outbreak. While the duration and severity of this pandemic and the related impacts are uncertain, we expect that our results of operations in the fourth quarter of 2020 will continue to be negatively impacted by these effects. Further, we expect that to the extent the pandemic or the related macro-economic consequences continue, we will continue to experience negative impacts on our results of operations, including the potential for increased credit losses or intangible asset impairments in future periods.

Our revenues and operating income for the three and nine months ended September 30, 2020 were negatively impacted by fluctuations in the United States dollar compared to foreign currencies. Fluctuations in the United States dollar compared to foreign currencies, net of the impact of foreign currency hedges, resulted in a reduction to revenues of \$41.1 million and \$134.8 million for the three and nine months ended September 30, 2020, respectively, relative to the corresponding periods in the prior year. Included within these amounts are impacts related to the strengthening of the dollar against the Argentine peso, which resulted in a reduction to revenues of \$39.2 million and \$106.9 million for the three and nine months ended September 30, 2020, respectively, relative to the corresponding periods in the prior year. Fluctuations in the United States dollar compared to foreign currencies negatively impacted operating income by \$10.1 million and \$38.7 million for the three and nine months ended September 30, 2020, respectively, relative to the corresponding periods in the prior year. Included within these amounts are impacts related to the strengthening of the dollar against the Argentine peso, which resulted in a reduction to operating income of \$7.6 million and \$19.9 million for the three and nine months ended September 30, 2020, respectively, relative to the corresponding periods in the prior year.

On February 28, 2019, we entered into an agreement with ACI Worldwide Corp. and ACW Worldwide, Inc. to sell our United States based electronic bill payments business known as "Speedpay," which had been included as a component of Other in our segment reporting. We received approximately \$750 million and recorded a pre-tax gain on the sale of approximately \$523 million in the second quarter of 2019 in the all-cash transaction that closed on May 9, 2019. Speedpay revenues and direct operating expenses included in our results were \$125.4 million and \$98.2 million, respectively, for the nine months ended September 30, 2019.

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The following table sets forth our consolidated results of operations for the three and nine months ended September 30, 2020 and 2019:

(in millions, except per share amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Revenues	\$ 1,258.5	\$ 1,306.9	(4)%	\$ 3,563.2	\$ 3,984.4	(11)%
Expenses:						
Cost of services	721.7	768.6	(6)%	2,067.3	2,330.0	(11)%
Selling, general, and administrative	251.6	340.9	(26)%	755.7	946.9	(20)%
Total expenses	973.3	1,109.5	(12)%	2,823.0	3,276.9	(14)%
Operating income	285.2	197.4	44 %	740.2	707.5	5 %
Other income/(expense):						
Gain on divestitures of businesses	—	—		—	524.6	(a)
Interest income	0.5	1.1	(57)%	2.9	4.2	(32)%
Interest expense	(28.2)	(36.2)	(22)%	(90.4)	(114.5)	(21)%
Other income/(expense), net	3.5	(0.1)	(a)	3.4	2.1	63 %
Total other income/(expense), net	(24.2)	(35.2)	(31)%	(84.1)	416.4	(a)
Income before income taxes	261.0	162.2	61 %	656.1	1,123.9	(42)%
Provision for income taxes	32.4	27.2	19 %	88.9	201.0	(56)%
Net income	\$ 228.6	\$ 135.0	69 %	\$ 567.2	\$ 922.9	(39)%
Earnings per share:						
Basic	\$ 0.56	\$ 0.32	75 %	\$ 1.38	\$ 2.14	(36)%
Diluted	\$ 0.55	\$ 0.32	72 %	\$ 1.37	\$ 2.13	(36)%
Weighted-average shares outstanding:						
Basic	411.6	423.3		412.5	430.3	
Diluted	414.6	426.8		415.5	433.0	

(a) Calculation not meaningful.

Revenues Overview

Transaction volume is the primary generator of revenue in our businesses. Revenues are primarily derived from consideration paid by customers to transfer money. These revenues vary by transaction based upon factors such as channel, send and receive locations, the principal amount sent, whether the money transfer involves different send and receive currencies, the difference between the exchange rate we set to the customer and the rate available in the wholesale foreign exchange market, and speed of service, as applicable. We also offer several other services, including foreign exchange and payment services and other bill payment services, for which revenue is impacted by similar factors.

Due to the significance of 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 for consolidated revenues. We have also disclosed the impact of divestitures on our revenues in the table below. Additionally, due to the significance of our Consumer-to-Consumer segment to our overall results, we have also provided constant currency results for our Consumer-to-Consumer segment revenues. Constant currency results assume foreign revenues are translated from foreign currencies to the United States dollar, net of the effect of foreign currency hedges, at rates consistent with those in the same period of the prior year. Constant currency measures and measures that exclude the impact of divestitures are non-GAAP financial measures and are provided so that revenue can be viewed without the effect of fluctuations in foreign currency exchange rates and divestitures of our businesses, which is consistent with how management evaluates our revenue results and trends. We believe that these measures provide management and investors with information about revenue results and trends that eliminates currency volatility and divestitures, thereby providing greater clarity regarding, and increasing the comparability of, our underlying results and trends. These disclosures are 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, 2020 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 following table sets forth our consolidated revenue results for the three and nine months ended September 30, 2020 and 2019:

(dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Revenues, as reported - (GAAP)	\$ 1,258.5	\$ 1,306.9	(4)%	\$ 3,563.2	\$ 3,984.4	(11)%
Foreign currency impact ^(a)			3 %			4 %
Divestitures impact ^(b)			— %			3 %
Revenue change, constant currency adjusted and excluding divestitures - (Non-GAAP)			(1)%			(4)%

(a) Fluctuations in the United States dollar compared to foreign currencies, net of the impact of foreign currency hedges, resulted in a reduction to revenues of \$41.1 million and \$134.8 million for the three and nine months ended September 30, 2020, respectively, when compared to foreign currency rates in the prior year periods. Included within this amount is an impact related to the strengthening of the dollar against the Argentine peso, which resulted in a reduction to revenues of \$39.2 million and \$106.9 million for the three and nine months ended September 30, 2020, respectively, when compared to foreign currency rates in the prior year periods.

(b) In May 2019, we sold a substantial majority of our United States based electronic bill payments services. Speedpay revenues included in our results were \$125.4 million for the nine months ended September 30, 2019. Paymap Inc. ("Paymap"), which we sold in May 2019, provides electronic mortgage bill payment services, and related revenues included in our results were \$5.3 million for the nine months ended September 30, 2019.

For the three and nine months ended September 30, 2020, GAAP revenues decreased when compared to the corresponding periods in the prior year, including as a result of the impacts from the worldwide actions related to COVID-19. For the three and nine months ended September 30, 2020, we experienced a decrease in transaction volumes from retail locations in our Consumer-to-Consumer segment, partially offset by growth in digital transactions, including from white label partnerships. The spread between transaction and revenue growth in our Consumer-to-Consumer segment was attributable to mix, primarily growth in our digital white label partnerships, which have a lower revenue per transaction than Western Union branded transactions. Fluctuations in the exchange rates between the United States dollar and foreign currencies negatively impacted revenue by 3% and 4% for the three and nine months ended September 30, 2020, respectively. Additionally, GAAP revenues decreased for the nine months ended September 30, 2020, when compared to the corresponding period in the prior year, due to the divestitures of the Speedpay and Paymap businesses during the second quarter of 2019. The decrease in revenues constant currency adjusted and excluding divestitures (Non-GAAP) for the three and nine months ended September 30, 2020 was primarily the result of the impacts from the worldwide actions related to COVID-19, as discussed above.

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 continue to focus on and 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, and enhancements designed to improve consumer protection. 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.

Restructuring-Related Expenses

On August 1, 2019, our Board of Directors approved a plan to change our operating model and improve our business processes and cost structure by reorganizing our senior management, including those managers reporting to our chief executive officer, reducing our headcount, and consolidating various facilities. We expect to incur approximately \$150 million of total expenses through 2020, with approximately \$110 million related to severance and employee-related benefits and approximately \$40 million related to costs associated with the relocation of various operations to other Company facilities, facility closures, lease terminations, consulting, and other expenses. Substantially all of these expenses

are expected to be paid in cash. We expect the plan to generate expense savings of at least \$50 million in 2020 and approximately \$100 million in 2021. The foregoing figures are our estimates and are subject to change.

For the three and nine months ended September 30, 2020, we incurred \$9.1 million and \$24.8 million, respectively, of expenses related to this plan. For the three and nine months ended September 30, 2020, \$0.8 million and \$2.5 million, respectively, are included within Cost of services and \$8.3 million and \$22.3 million, respectively, are included within Selling, general, and administrative in the Condensed Consolidated Statements of Income. For the three and nine months ended September 30, 2019, we incurred \$91.5 million and \$98.9 million, respectively, of expenses related to this plan. For the three and nine months ended September 30, 2019, \$33.9 million is included within Cost of services, and \$57.6 million and \$65.0 million, respectively, are included within Selling, general, and administrative in the Condensed Consolidated Statements of Income. Refer to Part I, Item 1, *Financial Statements*, Note 5, Restructuring-Related Expenses for further discussion.

These expenses are specific to this initiative; however, the types of expenses related to this initiative are similar to expenses that we have previously incurred and can reasonably be expected to incur in the future.

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, 2020. Cost of services decreased for the three and nine months ended September 30, 2020 compared to the corresponding periods in the prior year due to a decrease in agent commissions in our Consumer-to-Consumer money transfer business, which generally vary with revenues, including due to fluctuations in the exchange rate between the United States dollar and foreign currencies, a decrease in restructuring-related expenses, and a decrease in employee-related expenses, including as a result of reduced hiring, partially offset by an increase in credit losses. For the nine months ended September 30, 2020 when compared to the corresponding period in the prior year, the decrease in Cost of services was also due to the Speedpay divestiture during the second quarter of 2019.

Selling, General, and Administrative

Selling, general, and administrative expenses decreased for the three and nine months ended September 30, 2020 compared to the corresponding periods in the prior year due to decreases in employee-related expenses, including incentive compensation and as a result of reduced hiring and savings from our restructuring plan, and a decrease in restructuring-related expenses. In addition, for the nine months ended September 30, 2020, Selling, general, and administrative expenses also decreased due to reduced marketing costs and decreases in costs related to strategic initiatives, including for the review and closing of mergers, acquisitions, and divestitures, partially offset by the strengthening of the United States dollar against foreign currencies.

Total Other Income/Expense, Net

Total other income/expense, net during the nine months ended September 30, 2019 was impacted by the non-recurring gain on the sale of our United States based electronic bill payments business known as Speedpay. In addition, total other income/expense, net during the three and nine months ended September 30, 2020 compared to the corresponding periods in the prior year benefited from a reduction in interest expense driven by a lower weighted-average interest rate on our outstanding debt.

Income Taxes

Our provision for income taxes for the three and nine months ended September 30, 2020 and 2019 is based on the estimated annual effective tax rate, in addition to discrete items. Our effective tax rates on pre-tax income were 12.4% and 16.8% for the three months ended September 30, 2020 and 2019, respectively, and 13.5% and 17.9% for the nine months ended September 30, 2020 and 2019, respectively. The decrease in our effective tax rate for the three and nine months ended September 30, 2020 compared to the prior periods was primarily due to higher prior period domestic pre-tax income

due to the sales of the Speedpay and Paymap businesses, partially offset by increased discrete expenses in the current period.

We have established contingency reserves for a variety of material, known tax exposures. As of September 30, 2020, the total amount of tax contingency reserves was \$310.9 million, including accrued interest and penalties, net of related items. 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.

Earnings Per Share

During the three months ended September 30, 2020 and 2019, basic earnings per share were \$0.56 and \$0.32, respectively, and diluted earnings per share were \$0.55 and \$0.32, respectively. During the nine months ended September 30, 2020 and 2019, basic earnings per share were \$1.38 and \$2.14, respectively, and diluted earnings per share were \$1.37 and \$2.13, 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, 2020 and 2019, there were 1.3 million and 0.5 million, respectively, and for the nine months ended September 30, 2020 and 2019, there were 1.7 million and 2.4 million, respectively, of shares excluded from the diluted earnings per share calculation under the treasury stock method, primarily due to outstanding restricted stock units and options to purchase shares of Western Union stock, as the assumed proceeds of the restricted stock and options per unit were above our weighted-average share price during the periods and their effect was anti-dilutive.

Earnings per share for the three and nine months ended September 30, 2020 compared to the corresponding periods in the prior year were impacted by the previously described factors impacting net income and a lower number of shares outstanding. Earnings per share for the nine months ended September 30, 2019 were impacted by the gain on the sale of Speedpay in the second quarter of 2019. The lower number of shares outstanding is due to stock repurchases exceeding stock issuances related to our 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 segments addresses a different combination of consumer groups, distribution networks, and services offered. Our segments are Consumer-to-Consumer and Business Solutions.

During the three and nine months ended September 30, 2020, we incurred \$9.1 million and \$24.8 million, respectively, of restructuring-related expenses, and we incurred \$91.5 million and \$98.9 million, respectively, during the three and nine months ended September 30, 2019, as further discussed above. While certain of these expenses may be identifiable to our segments, primarily to our Consumer-to-Consumer segment, they have been excluded from the measurement of segment operating income provided to the Chief Operating Decision Maker for purposes of assessing segment performance and decision making with respect to resource allocation.

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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, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Consumer-to-Consumer	88 %	85 %	87 %	83 %
Business Solutions	7 %	8 %	7 %	7 %
Other	5 %	7 %	6 %	10 %
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

In the first quarter of 2020, we changed our expense allocation method so that our corporate data center and network engineering information technology expenses are allocated based on a percentage of relative revenue. In 2019, these costs had been allocated based in part on a percentage of relative transactions. We believe that an allocation method based fully on relative revenue presents a more representative view of segment profitability, as certain of our services, particularly some of our bill payment services and our money order services, have much lower revenues per transaction than our other services. Further, these technology expenses are becoming increasingly based on data storage utilized and less based on the number of transactions processed. For the three and nine months ended September 30, 2019, this change would have decreased Consumer-to-Consumer operating income and increased Other operating income by \$13.0 million and \$37.8 million, respectively. Business Solutions was not materially impacted by the change in the allocation method.

Consumer-to-Consumer Segment

The following table sets forth our Consumer-to-Consumer segment results of operations for the three and nine months ended September 30, 2020 and 2019:

(dollars and transactions in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Revenues	\$ 1,106.5	\$ 1,113.0	(1)%	\$ 3,098.5	\$ 3,282.8	(6)%
Operating income	\$ 272.4	\$ 263.8	3 %	\$ 695.1	\$ 747.3	(7)%
Operating income margin	25 %	24 %		22 %	23 %	
Key indicator:						
Consumer-to-Consumer transactions	77.3	73.0	6 %	212.1	215.6	(2)%

Our Consumer-to-Consumer money transfer service, including our online money transfer transactions conducted and funded through websites and mobile apps marketed under our brands (“westernunion.com”) and transactions initiated on internet and mobile applications hosted by our third-party white label or co-branded digital partners (together with westernunion.com, “Digital Money Transfer”) is provided through 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 primarily related to generating, managing, and maintaining agent relationships and localized marketing activities. We include Digital Money Transfer transactions in our regions, including transactions from our arrangements with financial institutions and other third parties to enable such entities to offer money transfer services to their own customers under their brands. By means of common processes and systems, these regions, including Digital Money Transfer transactions, create an interconnected network for consumer transactions, thereby constituting one global Consumer-to-Consumer money transfer business and one operating segment.

The geographic split for transactions and revenue in the table that follows, including Digital Money Transfer transactions, is determined based upon the region where the money transfer is initiated. Included in each region’s transaction and revenue percentages in the tables below are Digital Money Transfer transactions for the three and nine months ended September 30, 2020 and 2019. Where reported separately in the discussion below, Digital Money Transfer, and its subset westernunion.com, consist of 100% of the transactions conducted and funded through those respective channels.

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The table below sets forth revenue and transaction changes by geographic region compared to the same period in the prior year. Consumer-to-Consumer segment constant currency revenue growth/(decline) is a non-GAAP financial measure, as further discussed in Revenues Overview above.

	Three Months Ended September 30, 2020				Nine Months Ended September 30, 2020			
	Revenue Growth/ (Decline), as Reported - (GAAP)	Foreign Exchange Translation Impact	Constant Currency Revenue Growth/ (Decline) ^(a) - (Non-GAAP)	Transaction Growth/ (Decline)	Revenue Growth/ (Decline), as Reported - (GAAP)	Foreign Exchange Translation Impact	Constant Currency Revenue Growth/ (Decline) ^(a) - (Non-GAAP)	Transaction Growth/ (Decline)
Consumer-to-Consumer regional growth/(decline):								
North America (United States & Canada) ("NA")	0 %	(1)%	1 %	1 %	(3)%	(1)%	(2)%	(4)%
Europe and Russia/CIS ("EU & CIS")	3 %	2 %	1 %	24 %	(4)%	0 %	(4)%	10 %
Middle East, Africa, and South Asia ("MEASA")	2 %	0 %	2 %	15 %	(3)%	(1)%	(2)%	5 %
Latin America and the Caribbean ("LACA") ^(b)	(21)%	(13)%	(8)%	(21)%	(26)%	(11)%	(15)%	(23)%
East Asia and Oceania ("APAC")	4 %	(1)%	5 %	(6)%	(6)%	0 %	(6)%	(12)%
Total Consumer-to-Consumer growth/(decline):	(1)%	(1)%	0 %	6 %	(6)%	(2)%	(4)%	(2)%
Digital Money Transfer ^(c)	45 %	(1)%	46 %	96 %	39 %	(1)%	40 %	80 %
westernunion.com ^(c)	33 %	1 %	32 %	53 %	27 %	0 %	27 %	40 %

- (a) Constant currency revenue growth assumes that revenues denominated in foreign currencies are translated to the United States dollar, net of the effect of foreign currency hedges, at rates consistent with those in the corresponding prior period.
- (b) Our LACA region results were impacted by the strengthening of the United States dollar against the Argentine peso, in addition to an increase in local currency revenue per transaction, primarily due to inflation.
- (c) Digital Money Transfer revenues have been included in the regions above. As noted above, westernunion.com is a subset of Digital Money Transfer and is included in the regions and Digital Money Transfer revenues.

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, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Consumer-to-Consumer revenue as a percentage of segment revenue:				
NA	38 %	38 %	39 %	38 %
EU & CIS	33 %	32 %	32 %	32 %
MEASA	16 %	15 %	16 %	15 %
LACA	7 %	9 %	7 %	9 %
APAC	6 %	6 %	6 %	6 %

Digital Money Transfer, which is included in the regional percentages above, represented approximately 21% and 14% of our Consumer-to-Consumer revenues for the three months ended September 30, 2020 and 2019, respectively, and 20% and 13% for the nine months ended September 30, 2020 and 2019, respectively.

Our consumers transferred \$26.9 billion and \$22.4 billion in Consumer-to-Consumer principal for the three months ended September 30, 2020 and 2019 of which \$25.5 billion and \$20.6 billion related to cross-border principal for the same corresponding periods described above, respectively. Our consumers transferred \$69.4 billion and \$65.5 billion in Consumer-to-Consumer principal for the nine months ended September 30, 2020 and 2019, of which \$65.3 billion and \$60.2 billion related to cross-border principal for the same corresponding periods described above, respectively.

Revenues

Consumer-to-Consumer money transfer revenue decreased 1% and transactions increased 6% for the three months ended September 30, 2020 compared to the corresponding period in the prior year, and revenue decreased 6% and transactions declined 2% for the nine months ended September 30, 2020 compared to the corresponding period in the prior year, including as a result of the impacts from the worldwide actions related to COVID-19. For both periods, revenues were impacted by a decrease in transaction volumes from retail locations, partially offset by growth in digital transactions, including from white label partnerships. The spread between transaction and revenue growth was attributable to mix, primarily growth in our digital white label partnerships, which have a lower revenue per transaction than Western Union branded transactions. Fluctuations in the United States dollar compared to foreign currencies, net of the impact of foreign currency hedges, negatively impacted revenue by 1% and 2% for the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in the prior year. Constant currency revenue was flat and decreased 4% for the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in the prior year.

Revenues compared to the prior year were negatively impacted by COVID-19, which caused governments around the world to institute various protective measures in an effort to slow the spread of the virus. These measures, which include lockdowns, stay-at-home orders, travel restrictions, and closures of non-essential businesses, negatively impacted our ability to offer services through some of our retail agent locations across all of our regions. The COVID-19 outbreak and associated public health measures also resulted in a decline in economic activity that negatively impacted our revenues for the three and nine months ended September 30, 2020. In the later part of March 2020, we started to experience a decrease in Consumer-to-Consumer transactions as a result of COVID-19. This decline was caused by decreases in transactions from our retail business and was partially offset by growth in Digital Money Transfer transactions, including transactions initiated through westernunion.com. We believe that our growth in Digital Money Transfer transactions was due, in part, to shifts in consumer behavior to send money through digital channels, including as a result of COVID-19. The significant majority of agent locations that had been closed as a result of COVID-19 have resumed offering our services as of September 30, 2020, although certain of our retail locations remain closed.

In our Consumer-to-Consumer regions, the decrease in NA revenue for the nine months ended September 30, 2020 compared to the corresponding period in the prior year was primarily the result of declines in money transfers sent and received in the United States. Revenues in the EU & CIS and MEASA regions for the three and nine months ended September 30, 2020 compared to the corresponding periods in the prior year were impacted by transaction declines in retail money transfers, partially offset by transaction growth from Digital Money Transfer, including white label partnerships. For the three and nine months ended September 30, 2020, the revenue decreases in LACA, which generates a higher proportion of revenues from retail locations compared to our other regions, were primarily due to transaction declines caused by continued COVID-19-related government protective measures, including agent location closures in the region. For the three and nine months ended September 30, 2020 compared to the corresponding periods in the prior year, westernunion.com revenues, which have been included in the regions as described above, were negatively impacted by net price reductions.

We expect that total Consumer-to-Consumer revenues in the fourth quarter of 2020 will continue to be negatively impacted by the effects of COVID-19. The duration and severity of the pandemic as well as the responses of government authorities to the pandemic, the macro economic consequences, and the impacts on consumer behavior are uncertain. We expect that our results will continue to be adversely impacted as long as such factors persist.

We have historically implemented price reductions or price increases throughout many of our global corridors. We will likely continue to implement price changes 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. Price increases may adversely affect transaction volumes, as consumers may not use our services if we fail to price them appropriately.

Operating Income

Consumer-to-Consumer operating income increased 3% for the three months ended September 30, 2020 compared to the corresponding period in the prior year due to decreases in employee-related expenses, including incentive compensation and as a result of reduced hiring and savings from our restructuring plan, partially offset by increased allocations of certain information technology expenses, as previously discussed, and an increase in credit losses. For the nine months ended September 30, 2020, Consumer-to-Consumer operating income decreased 7% compared to the corresponding period in the prior year due to the decrease in revenues, increased allocations of certain information technology expenses, an increase in credit losses, and the strengthening of the United States dollar against certain foreign currencies, partially offset by decreases in employee-related expenses, as described above, and a decrease in marketing costs.

Business Solutions

The following table sets forth our Business Solutions segment results of operations for the three and nine months ended September 30, 2020 and 2019:

(dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Revenues	\$ 89.1	\$ 100.6	(11)%	\$ 266.9	\$ 291.8	(9)%
Operating income	\$ 9.4	\$ 16.7	(44)%	\$ 24.6	\$ 35.8	(31)%
Operating income margin	11 %	17 %		9 %	12 %	

Revenues

Business Solutions revenue decreased 11% and 9% for the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in the prior year, primarily due to a decline in payment services activity, generally across all geographic regions. For the three months ended September 30, 2020, revenues also decreased due to a decline in hedging activity. We believe these decreases were due to a downturn in economic conditions and trade, which primarily resulted from the effects of COVID-19. Fluctuations in the exchange rates between the United States dollar and foreign currencies positively impacted revenue by 2% and negatively impacted revenue by 1% for the three and nine months ended September 30, 2020, respectively. We expect that Business Solutions revenues in the fourth quarter of 2020 will continue to be negatively impacted by the effects of COVID-19, and to the extent the COVID-19 pandemic or the related macro-economic consequences continue, our results will continue to be adversely impacted.

Operating Income

For the three and nine months ended September 30, 2020, operating income and operating income margin decreased when compared to the corresponding periods in the prior year due to the impact of revenue declines, as discussed above, partially offset by a reduction in employee-related expenses.

Other

Other primarily consists of our cash-based bill payments businesses in Argentina and the United States, in addition to our money order services. As previously described, we entered into an agreement on February 28, 2019 to sell Speedpay and closed the transaction on May 9, 2019. Speedpay revenues and direct operating expenses included in our results were \$125.4 million and \$98.2 million, respectively, for the nine months ended September 30, 2019.

On May 6, 2019, we completed the sale of Paymap for contingent consideration and immaterial cash proceeds received at closing. Paymap revenues and direct operating expenses included in our results were \$5.3 million and \$2.2 million, respectively, for the nine months ended September 30, 2019.

The following table sets forth Other results for the three and nine months ended September 30, 2020 and 2019:

(dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Revenues	\$ 62.9	\$ 93.3	(33)%	\$ 197.8	\$ 409.8	(52)%
Operating income	\$ 12.5	\$ 8.4	49 %	\$ 45.3	\$ 23.3	94 %
Operating income margin	20 %	9 %		23 %	6 %	

Revenues

Other revenue decreased 33% and 52% for the three and nine months ended September 30, 2020, compared to the corresponding periods in the prior year due to declines in our cash-based bill payments services offered at retail locations and the strengthening of the United States dollar against the Argentine peso. For the nine months ended September 30, 2020 when compared to the corresponding period in the prior year, the decrease in other revenue was primarily due to the impact of the sale of Speedpay in the second quarter of 2019. The decrease in revenue for the three and nine months ended September 30, 2020 was partially offset by an increase in local currency revenue per transaction, primarily due to inflation.

We believe that Other revenues will continue to be negatively impacted by the effects of COVID-19 to the extent the pandemic or the related macro-economic consequences continue, as we may continue to experience decreases in our cash-based bill payments services.

Operating Income

Other operating income increased for the three and nine months ended September 30, 2020 compared to the corresponding periods in the prior year due to the change in allocated information technology expenses, as previously discussed, partially offset by a decrease in revenues from our cash-based bill payments services. For the nine months ended September 30, 2020 compared to the corresponding period in the prior year, Other operating income was also impacted by a decrease in revenues, net of a reduction in direct expenses from the Speedpay and Paymap divestitures, and a decrease in costs related to strategic initiatives, including for the review and closing of mergers, acquisitions, and divestitures.

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 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. The annual payments resulting from the United States tax reform legislation enacted in 2017 (the “Tax Act”) include amounts related to the United States taxation of certain previously undistributed earnings of foreign subsidiaries. These payments are typically due in the second quarter of each year through 2025; however, due to the Coronavirus Aid, Relief, and Economic Security Act signed into law on March 27, 2020, the due date for the 2020 payment was extended and payment was made in July 2020.

Our future cash flows could be impacted by a variety of factors, some of which are out of our control. These factors include, but are not limited to, changes in economic conditions, especially those impacting migrant populations and including as a result of COVID-19 related impacts, changes in income tax laws or the status of income tax audits, including the resolution of outstanding tax matters, and the settlement or resolution of legal contingencies. The duration and severity of COVID-19 and related impacts are uncertain, but we believe we are taking appropriate measures to attempt to address liquidity-related considerations by evaluating, monitoring, and assessing the creditworthiness and credit risk ratings of our agents and customers.

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: (i) 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, (ii) other legal or regulatory restrictions, including statutory or formalized minimum net worth requirements, and (iii) restrictions on transferring assets outside of the countries where these assets are located.

Assuming that our operations are not significantly affected by the COVID-19 pandemic for a protracted period, we currently believe we have adequate liquidity to meet our business needs, including payments under our debt and other obligations, through our existing cash balances, our ability to generate cash flows through operations, and our \$1.5 billion revolving credit facility ("Revolving Credit Facility"), which expires in January 2025 and supports our commercial paper program. Our commercial paper program enables us to issue unsecured commercial paper notes in an amount not to exceed \$1.5 billion outstanding at any time, reduced to the extent of any borrowings outstanding on our Revolving Credit Facility. As of September 30, 2020, we had no outstanding borrowings on our Revolving Credit Facility and \$50.0 million of outstanding borrowings on the commercial paper program.

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 made available from our international subsidiaries. These decisions can influence our overall tax rate and impact our total liquidity. 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.

Cash and Investment Securities

As of September 30, 2020 and December 31, 2019, we had cash and cash equivalents of \$1,251.4 million and \$1,450.5 million, respectively. 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.

Investment securities, classified within Settlement assets on the Condensed Consolidated Balance Sheets, were \$2.2 billion and \$1.7 billion as of September 30, 2020 and December 31, 2019, 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, 2020, all investments with a single issuer and each individual security represented less than 10% of our investment securities portfolio.

Cash Flows from Operating Activities

Cash provided by operating activities decreased to \$585.6 million during the nine months ended September 30, 2020, from \$665.3 million in the corresponding period in the prior year, primarily as a result of the timing of accruals and payments related to our restructuring plan, increased incentive and other employee benefit payments, and timing of payments to our vendors, partially offset by lower income tax payments and an increase in operating income. Cash provided by operating activities can be impacted by changes to our consolidated net income, in addition to fluctuations in our working capital balances, among other factors.

Financing Resources

As of September 30, 2020, we have outstanding borrowings at par value of \$3,050.0 million. The majority of these outstanding borrowings consist of unsecured fixed-rate notes with maturities ranging from 2022 to 2040. Our borrowings also include our floating rate term loan.

Our Revolving Credit Facility provides for unsecured financing facilities in an aggregate amount of \$1.5 billion, including a \$250.0 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 is also payable quarterly at an annual rate of 15 basis points on the total facility, regardless of usage. Both the interest rate margin and facility fee percentage are based on certain of our credit ratings.

The purpose of our Revolving Credit Facility, which is diversified through a group of 19 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 \$1.5 billion is approximately 11%. As of September 30, 2020, 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. 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 \$50.0 million of commercial paper borrowings outstanding as of September 30, 2020. Our commercial paper borrowings as of September 30, 2020 had a weighted-average annual interest rate of approximately 0.3% and a weighted-average term of approximately 1 day. During the nine months ended September 30, 2020, the average commercial paper balance outstanding was \$229.3 million, and the maximum balance outstanding was \$690.0 million. Proceeds from our commercial paper borrowings were used for general corporate purposes and working capital needs.

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.

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 and tax obligations 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. For additional information, please refer to Part II, Item 5, *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities* in our Annual Report on Form 10-K for the year ended December 31, 2019.

Capital Expenditures

The total aggregate amount paid for contract costs, purchases of property and equipment, and purchased and developed software was \$106.3 million and \$93.5 million for the nine months ended September 30, 2020 and 2019, 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, 2020 and 2019, 8.5 million and 24.4 million shares were repurchased for \$217.4 million and \$475.2 million, respectively, excluding commissions, at an average cost of \$25.45 and \$19.48, respectively. During the first quarter of 2020, we temporarily paused and have not resumed share repurchases, and as of September 30, 2020, \$782.6 million remains available under the share repurchase authorization approved by our Board of Directors through December 31, 2021.

Our Board of Directors declared quarterly cash dividends of \$0.225 per common share in each of the first three quarters of 2020, representing \$277.4 million in total dividends.

Debt Service Requirements

Our 2020 and future debt service requirements will include payments on all outstanding indebtedness, including any borrowings under our commercial paper program.

2017 United States Federal Tax Liability

The Tax Act imposed a tax on certain of our previously undistributed foreign earnings. This tax charge, combined with our other 2017 United States taxable income and tax attributes, resulted in a 2017 United States federal tax liability of approximately \$800 million, of which approximately \$604 million remained as of September 30, 2020. We have elected to pay this liability in periodic installments through 2025. Under the terms of the law, we are required to pay the remaining installment payments as summarized in Contractual Obligations located in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the year ended December 31, 2019. These payments have affected and will continue to adversely affect our cash flows and liquidity and may adversely affect future share repurchases.

Restructuring Activities

As previously discussed, on August 1, 2019, our Board of Directors approved a plan to change our operating model and improve our business processes and cost structure by reorganizing our senior management, including those managers reporting to our Chief Executive Officer, reducing our headcount, and consolidating various facilities. As of September 30, 2020, the accrual balance related to our restructuring plan was approximately \$34 million. We plan to pay these restructuring accruals, and any additional restructuring accruals, using our existing cash balances and cash generated from operations.

Off-Balance Sheet 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, results of operations, liquidity, capital expenditures, or capital resources.

Other Commercial Commitments

We had approximately \$370 million in outstanding letters of credit and bank guarantees as of September 30, 2020 primarily held in connection with safeguarding consumer funds, lease arrangements, and certain agent agreements. The significant majority of our letters of credit and bank guarantees have 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, 2020, our total amount of unrecognized income tax benefits was \$321.5 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 Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the year ended December 31, 2019, for which there were no material changes, included:

- Income taxes, including income tax contingencies
- Derivative financial instruments
- Other intangible assets
- Goodwill
- Legal contingencies

In our Annual Report on Form 10-K for the year ended December 31, 2019, we disclosed that the fair value of the Business Solutions reporting unit was sensitive to changes in projections for revenue growth rates and EBITDA margins, quantified the decrease in the projected revenue growth rate that would result in the fair value of the reporting unit approximating its carrying value, and described key factors impacting our ability to achieve the projected revenue growth and EBITDA margins. In addition, we are monitoring the development of COVID-19 and evaluating the impact it may have on our Business Solutions reporting unit's fair value. The reporting unit's fair value continues to be sensitive to changes in projected revenue growth rates and EBITDA margins, which are impacted by these same factors. As of September 30, 2020, the Business Solutions reporting unit had goodwill of \$532.0 million.

Recent Accounting Pronouncements

Refer to Part I, Item 1, *Financial Statements*, Note 1, Business and Basis of Presentation for further discussion.

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 substantial majority of our agents in United States dollars, euros, or Mexican pesos, 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, and agent settlements occur within a few days in most instances. 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 available in the wholesale foreign exchange market, 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, 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 bill payment, money transfer, and other operations in Argentina, which together represented less than 5% of our total consolidated revenues for the three and nine months ended September 30, 2020 and 2019. The strengthening of the United States dollar against the Argentine peso has had adverse impacts on our historical results of operations and cash flows, as our Argentine peso-denominated revenue and operating income have been reduced when translated into United States dollars for inclusion in our financial statements. During the third quarter of 2019, the Argentine government imposed restrictions that limit the transfer of cash outside of the country. While we manage our working capital balances to have minimal net monetary assets denominated in the Argentine peso, further policy restrictions could cause our cash and cash equivalents held in the Argentine peso to increase in future periods, including as a result of cash flows generated by our operations. Therefore, the continued devaluation of the Argentine peso could adversely affect our results of operations, and limits on repatriating excess cash balances could adversely affect future distributions of excess cash from Argentina or increase the costs of these repatriations.

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 majority of these derivative contracts have a duration at inception of 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.

As of December 31, 2019, 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 \$45 million, based on our forecast of unhedged exposure to foreign currency at that date. As of September 30, 2020, we were continuing to evaluate our foreign currency denominated revenues and expenses for the next twelve months, which we expect could change materially due to the effects of COVID-19. There are inherent limitations in this sensitivity analysis, primarily due to the following assumptions: (i) foreign exchange rate movements are linear and instantaneous, (ii) fixed exchange rates between certain currency pairs are retained, (iii) the unhedged exposure is static, and (iv) 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, 2020 of approximately \$3.1 billion. Approximately \$1.7 billion of these assets bear interest at floating 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/(deficit) on our Condensed Consolidated Balance Sheets.

As of September 30, 2020, we had a total of approximately \$1.0 billion of borrowings subject to floating interest rates. Interest on \$950.0 million borrowed under our Term Loan Facility is calculated using a selected LIBOR rate plus an interest rate margin of 125 basis points. Borrowings of \$50.0 million under our commercial paper program mature in such a short period that the financing is also effectively floating rate.

We review our overall exposure to floating and fixed rates by evaluating our net asset or liability position and the duration of each individual position. 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). From time to time, we use interest rate swaps designated as hedges to vary the percentage of fixed to floating rate debt, subject to market conditions. As of September 30, 2020, our weighted-average effective rate on total borrowings was approximately 3.6%. For further detail on our variable rate borrowings, see risk factor "*We have substantial debt and other obligations that could restrict our operations*" in Part I, Item 1A, *Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2019.

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 that are sensitive to interest rate fluctuations, net of the impact of hedges, on September 30, 2020. The same 100 basis point increase/decrease in interest rates, if applied to our cash and investment balances on September 30, 2020 that bear interest at floating rates, would result in an offsetting increase/decrease to pre-tax income for the next twelve months of approximately \$17 million. There are inherent limitations in the sensitivity analysis presented, primarily due to the assumptions that interest rate changes would be instantaneous and consistent across all geographies in which our interest-bearing assets are held and our liabilities are payable. 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 commercial paper borrowings that may be outstanding in future periods.

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. While we have experienced some delays in our collections from agents in connection with COVID-19 agent location closures and other impacts, we believe we are taking appropriate measures to attempt to address liquidity-related considerations by evaluating, monitoring, and assessing the creditworthiness and credit risk ratings of our agents. These delays have been largely temporary as certain agents were not able to remit settlement funds to us during lockdowns or other stay-at-home orders. In addition, we are exposed to losses directly from consumer transactions, particularly through our electronic channels, where transactions are originated through means other than cash and are therefore 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: (i) derivatives written by us, primarily to our customers, and (ii) 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 extended 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 have been approximately 2% or less of our consolidated revenues in all periods presented.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information under Risk Management in Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations* 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 defined by Rules 13a-15(e) and 15d-15(e) within the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2020, 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, 2020, 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

On August 1, 2019, our Board of Directors approved a restructuring plan to change our operating model and improve our cost structure by reducing our headcount and transitioning functions, including certain technology and accounting areas, to existing Company facilities and third-party providers. Accordingly, we have experienced and may continue to experience significant turnover in these functions during the duration of these transition activities. Management believes it is taking the necessary steps to monitor and maintain appropriate internal control over financial reporting during this period of change.

There were no other 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 control over financial reporting.

Review Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of The Western Union Company

Results of Review of Interim Financial Statements

We have reviewed the condensed consolidated balance sheet of The Western Union Company (the Company) as of September 30, 2020, the related condensed consolidated statements of income, comprehensive income, and stockholders' equity/(deficit) for the three-month and nine-month periods ended September 30, 2020 and 2019, the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2020 and 2019, and the related notes (collectively referred to as the "condensed consolidated interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements 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) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2019, the related consolidated statements of income/(loss), comprehensive income/(loss), cash flows, and stockholders' equity/(deficit) for the year then ended, and the related notes and schedule (not presented herein); and in our report dated February 20, 2020, we expressed an unqualified audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2019, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial statements 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 PCAOB, 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.

/s/ Ernst & Young LLP

Denver, Colorado
October 29, 2020

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this Item 1 is incorporated herein by reference to the discussion in Part I, Item 1, *Financial Statements*, Note 8, Commitments and Contingencies.

Item 1A. Risk Factors

There have been no material changes to the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2019, except as described below.

The COVID-19 pandemic is ongoing and has negatively impacted our business, and the extent to which it will further impact our business depends on future developments, which are highly uncertain and difficult to predict. The effects of the pandemic have had, and could continue to have, a material adverse effect on our business, financial condition, results of operations, and cash flows.

The global spread of the coronavirus (COVID-19) has created significant macroeconomic uncertainty, volatility, and disruption. In response, many governments implemented policies intended to stop or slow the further spread of the disease, such as lockdowns, shelter-in-place orders, or restricted movement guidelines, and these measures may remain in place for a significant period of time, or be reinstated again in the future. These policies have resulted in lower consumer and commercial activity across many markets and the closure of Western Union locations and agent locations in certain areas. As a result, customers have experienced and may continue to experience reduced access to retail agent locations due to localized response policies. Additionally, as money transfer services offered through our retail agent locations contribute a majority of our Consumer-to-Consumer revenue, our business has been and may continue to be negatively impacted by these temporary closures to a greater extent than others in our industry who are not as reliant on retail locations. We experienced declines in our Consumer-to-Consumer transactions from retail locations in each of the first three quarters of 2020, compared to the corresponding periods in the prior year, which we believe is mainly due to economic uncertainty and increased unemployment resulting from the outbreak. Further, a continued global economic downturn, including continued high unemployment, may continue to result from lower consumer and commercial activity and may continue to negatively impact our transaction volumes. While the duration and severity of this pandemic and related impacts are uncertain, we expect that our results of operations in future periods may also be negatively impacted by COVID-19.

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

The extent to which the COVID-19 outbreak continues to impact our business, financial condition, results of operations or cash flows will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and geographic spread of the outbreak, its severity, the occurrence of additional “waves” or periods of increased spread of COVID-19 in key markets in which we operate, the availability and effectiveness of a vaccine, the actions to contain the virus or treat its impact, including new or additional restrictions imposed by federal, state, and local governments, its effects on consumer behavior and demand, its effects on migrants and immigration patterns and regulations, how quickly and to what extent normal economic and operating conditions can resume and be sustained, and our ability to adapt to changing conditions. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of its global economic impact, including any recession, economic downturn, changes in customer behavior or demand, or increased unemployment that has occurred or may occur in the future.

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

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, 2020:

Period	Total Number of Shares Purchased ^(a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(b)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
July 1 - 31	11,949	\$ 21.19	—	\$ 782.6
August 1 - 31	4,170	\$ 23.00	—	\$ 782.6
September 1 - 30	5,793	\$ 23.41	—	\$ 782.6
Total	21,912	\$ 22.12	—	

- (a) These amounts represent both shares authorized by our 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. For the three months ended September 30, 2020, there were no share repurchases under a publicly announced authorization.
- (b) On February 28, 2019, our Board of Directors authorized \$1.0 billion of common stock repurchases through December 31, 2021, of which \$782.6 million remained available as of September 30, 2020. 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 or furnished herewith and incorporated herein by reference.

EXHIBIT INDEX

Exhibit Number	Description
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	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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: October 29, 2020

By: /s/ Hikmet Ersek

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

Date: October 29, 2020

By: /s/ Raj Agrawal

Raj Agrawal
Chief Financial Officer (Principal Financial Officer)

Date: October 29, 2020

By: /s/ Mark Hinsey

Mark Hinsey
Chief Accounting Officer and Controller
(Principal Accounting Officer)

Letter from Ernst & Young LLP Regarding Unaudited Interim Financial Information

The Board of Directors and Stockholders of The Western Union Company

We are aware of the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-234014) of The Western Union Company, and
- (2) Registration Statement (Form S-8 Nos. 333-137665 and 333-204183) pertaining to The Western Union Company 2006 Long-Term Incentive Plan, The Western Union Company 2006 Non-Employee Director Equity Compensation Plan, The Western Union Company Supplemental Incentive Savings Plan, and The Western Union Company 2015 Long-Term Incentive Plan;

of our report dated October 29, 2020, relating to the unaudited condensed consolidated interim financial statements of The Western Union Company that are included in its Form 10-Q for the quarter ended September 30, 2020.

/s/ Ernst & Young LLP

Denver, Colorado
October 29, 2020

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Hikmet Ersek, certify that:

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

Date: October 29, 2020

/s/ HIKMET ERSEK

Hikmet Ersek
President and Chief Executive Officer

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Raj Agrawal, certify that:

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

Date: October 29, 2020

/s/ RAJ AGRAWAL

Raj Agrawal
Chief Financial Officer

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

The certification set forth below is being submitted in connection with the Quarterly Report of The Western Union Company on Form 10-Q for the period ended September 30, 2020 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Hikmet Ersek and Raj Agrawal certify that, to the best of each of their knowledge:

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

Date: October 29, 2020

/s/ HIKMET ERSEK

Hikmet Ersek
President and Chief Executive Officer

Date: October 29, 2020

/s/ RAJ AGRAWAL

Raj Agrawal
Chief Financial Officer
