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WELLS FARGO MERCHANT SERVICES, LLC
(A Joint Venture)
Financial Statements
December 31, 2014 and 2013
(Dollars in thousands, unless otherwise noted)

(9) Guarantees and Reserve for Merchant Credit Losses

Under the card companies' rules, when a merchant processor acquires card transactions, it has certain liabilities for the transactions. This liability arises from disputes between cardholders and merchants due to the cardholders' dissatisfaction with merchandise quality or the merchants' service, which are not resolved with the merchant. In such cases, the transactions are "charged back" to the respective merchants and the related purchase amounts are refunded to the cardholders by the card issuer. If the merchant does not fund the refund due to insolvency, bankruptcy or other extraneous reasons, the Company, in certain circumstances is liable for the full amount of the transaction. This liability is considered a guarantee under FASB ASC 460, *Guarantees*.

The Company's legal obligation under these rules is to settle any individual chargeback for which an individual merchant fails to fulfill as noted above. Contractually, the maximum exposure for this obligation is the total amount of transactions processed for the preceding four month period for all merchants, which in the case of the Company is in the billions of dollars. It should be noted that the Company has not experienced material chargeback loss activity as a result of merchant processing activities and advises that caution should be used when assessing the maximum exposure described above. The Company records a provision for this estimated obligation based upon a number of factors which include historical losses, credit risk of specific customers and other relevant factors. As shown below, for the years ended December 2014 and 2013, the Company incurred aggregate merchant credit losses of \$9,229 and \$6,897, net of recoveries, on total processed volumes. The Company calculates its provision and evaluates the appropriateness of its reserves on a monthly basis.

The following is the activity related to the reserve for merchant credit losses for the years ended December 31, 2014 and 2013:

Beginning balance as of January 1, 2014	\$ 3,361
Provisions for credit loss	10,375
Charge-offs, net of recoveries of \$387	(9,229)
Ending balance as of December 31, 2014	<u>\$ 4,507</u>
Beginning balance as of January 1, 2013	\$ 3,338
Provisions for credit loss	6,920
Charge-offs, net of recoveries of \$334	(6,897)
Ending balance as of December 31, 2013	<u>\$ 3,361</u>

(10) Subsequent Events

The Company has evaluated the subsequent events from the balance sheet date through February 19, 2015, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.