Exhibit B

Johnson County

Proposal for
Bank Depository Services
RFP # 2019-905

MARCH 25, 2019

FIRST FINANCIAL BANK
Member FDIC

Original

Cover Letter
Johnson County RFP

First Financial Bank
Background Information
Required Forms

Scope of Work

Proposal Worksheet

Sample Monthly and
Account Analysis Statements

Sample Safekeeping and Collateral
Agreements and
Related Reports & Notices

Treasury Management
Product Overview, User Guides

Service Agreements

March 25, 2019

Johnson County Purchasing
Donna White
1102 E Kilpatrick, Suite B
Cleburne, Texas 76031

RE: RFP – 2019-905 FOR BANK DEPOSITORY CONTRACT FOR JOHNSON COUNTY

Dear Ms. White:

First Financial Bank respectfully submits the enclosed proposal to continue providing Bank Depository Services to Johnson County. First Financial is a full service, nationally chartered bank with a rich history of providing financial services to businesses and public entities of all sizes. We operate in multiple regions across Texas each with its own board of directors, making decisions based on the needs of the communities in which we live and serve.

We are currently serving over 200 public entities with depository services. We strive to build life-long relationships by providing first class service with personal attention. First Financial Bank's proposal will remain in effect for 180 days after submission**. A cashier's check in the amount of $ 416,000.00 is enclosed as our good faith guarantee.**

First Financial will prepare a monthly account analysis statement to document transaction volumes and bank services*. First Financial offers the following incentives for the County:

Comprehensive Treasury Management Products
FREE bank stock checks and deposit slips**
Choose from two (2) pricing Strategies:
Compensating Balances or Flat Monthly Fee

As Vice President and Assistant Chief Operations Officer, I am authorized to commit First Financial Bank to provide the services stated in this proposal. If you need further information or clarification on any item, please feel free to call or send an email. My direct phone number is 817-202-3182, my cell phone number is 325-627-3740, and my email address is jmendez@ffin.com

Warmest Regards,

John Mendez
Vice President and Assistant Chief Operations Officer
First Financial Bank, N.A.
Cleburne Region

* Merchant Services, Lockbox Services and RemitPlus Express fees are billed separately.
** Provided the order is placed through the Bank's provider.

County of Johnson, Texas

Ralph McBroom, C.P.M.
Purchasing Agent
ramcbroom@johnsoncountytx.org

RFP 2019-905 Bank Depository

3-15-2019

Addendum #1

Proposals are due by March 25, 2019

1. **Answers to questions**
2. **Revised RFP deleting insurance requirements**

This addendum must be signed and the original and one (1) copy must be returned with Bid

Name and Address of Company:

_____

_____

_____

Email Address _____

Authorized Representative

Signature_____

Name_____

Title _____

Tel. No_____

Fax _____

County of Johnson, Texas

Ralph McBroom, C.P.M.
Purchasing Agent
ramcbroom@johnsoncountytx.org

Statement

Responses to questions:

1. Will the Tax office and General County Funds need to be considered for FDIC coverage separately or are they combined using the same tax ID? **We use the same ID.**

2. The Bid discusses additional insurance coverage that is unusual in nature compared to bids we are normally a party to. What types of scenarios would this insurance be relied upon to help us determine how to accommodate this request? **The insurance requirements have been deleted from the RFP.**

3. Can we please get information regarding your current activity on accounts (activity levels of ach debit and credits, paper checks/deposits, wires, etc?) **The Tax Office initiates on average at least one ACH disbursement a week and at least three at end of month. Each file has multiple recipients. Deposits are made by remote deposit file and armed courier daily in five accounts. The Treasurer's Office makes check deposits daily via remote deposit and cash is carried to the bank daily.**

4. Is there any additional reporting requirements, daily monitoring, special handling, etc. for the Tax Office accounts? **We monitor the property tax account daily especially during peak months. This special monitoring is due to the fact that deposits are unusually large and bank collateral is a concern.**

5. Is it possible to schedule a call with Scott Porter to discuss tax accounts? **It is not possible. Questions should have been asked at the Pre-Bid meeting.**

6. Does the County currently have self admin of their online banking? If so what are you able to do for yourself? **The County Treasurer is the self admin for banking for Johnson County. When changes are necessary, the County Treasurer will submit the appropriate forms to the bank requesting these changes.**

7. How many online users will you need to have set up? **Approximately 20.**

8. What online banking services do you use and do you use them on all or majority of your bank accts (ex. wires, Remote Deposit Capture (RDC) -if yes on RDC, then how many Remote Deposit Capture Machines do you need, internal transfers, ACH, stop payments, etc.) **Import ACH transactions from property tax software for disbursement, stop payments, and daily remote deposit files. Internal transfers are very common in the Treasurer's Office. We have one RDC machine and its sole purpose is remote check deposits.**

9. What are the limits per user/per day that you'd need us to accommodate related to wires & RDC? **Wires received could be as high as $30 million + in a day and remote deposit files could be the same. Wires received could be as high as $5,000,000.00 and remote deposits could be approximately $500,000.00 depending on the time of year.**

10. What limits will you need related to ACH files as far as per file/per week? **The Tax Office initiates on average at least one ACH disbursement a week and at least three at end of month. Each file has multiple recipients. Our highest ACH amount this last year was over $65 million. The Treasurer's Office initiates on average at least 12 ACH disbursements per month. Each file has multiple recipients. We average approximately $2,000,000.00 per month for ACH disbursements.**

11. For ACH Debit Transactions how is the transaction authorized by the customer? What type of transaction will need to be debited via ach? **The Tax Office pushes all of our ACH transactions and does not have any pulled.**

12. How often do you have to make updates to online banking users (add/delete/change)? **Very seldom**

13. Do you use merchant services (debit/credit card terminals) and if so, how many terminals do you have? **We do not involve our bank with our credit card functions.**

14. Are there certain bookkeeping programs you use today that you upload your bank information to (QuickBooks, etc.). **No**

15. Do you utilize electronic statements and notices; or do you require paper statements/notices on all accounts? **Electronic statements, notices and images are required.**

16. Is it a requirement or simply preference for the Interest rate to be required to the TBill; can it be tied to the banks stated rate + basis points? **For consistency in reviewing RFP's, we must use the 91-Day T-Bill rate. However, any other options can be considered if included in the bank response.**

17. Page 2 of the RFP requests the proposal to include "This RFP …" then, Page 14 provides formatting instructions. Is the County requesting the Bank to include the RFP as prepared by the County to be included in our bid? The complete RFP should be submitted with the completed forms.

18. Page 15 of the RFP requests financial statements to be placed in a separate envelope marked "confidential." The Bank's financials are published on our website. Would the County accept a web address to review financials rather than the printed version packaged separately? The printed financial statements should be submitted in a separate envelope.

County of Johnson, Texas

Ralph McBroom, C.P.M.
Purchasing Agent
ramcbroom@johnsoncountytx.org

RFP 2019-905 Bank Depository

3-18-2019

Addendum #2

Proposals are due by March 25, 2019

1. **Qualification to answer for question 6.**

This addendum must be signed and the original and one (1) copy must be returned with Bid

Name and Address of Company:

First Financial Bank, N.A.

200 Ridgeway

Cleburne, Texas 76033

Email Address jmendez@ffin.com

Authorized Representative

Signature_____

John Mendez

Name_____

VP & Asst Chief of Ops

Title _____

817-202-3182

Tel. No_____

817-641-1603

Fax _____

County of Johnson, Texas

Ralph McBroom, C.P.M.
Purchasing Agent
ramcbroom@johnsoncountytx.org

Statement

Qualification for answer to question 6:

6. It should be qualified that the Treasurer is not the administrator for banking for the Tax Office. When changes are necessary to the Tax Office accounts they are handled by the Tax Office directly with the bank.

REQUEST FOR PROPOSAL

Bank Depository

JOHNSON COUNTY

RFP 2019-905
MANDATORY PRE-BID: March 5, 2019 at 10:00 AM CST
DUE DATE: March 25, 2019 at 2:00 PM CST

Johnson County
1102 E. Kilpatrick, Ste B
Cleburne, TX 76031
(817) 556-6384
www.johnsoncountytx.org

INSTRUCTIONS/TERMS OF CONTRACT:

SUBMISSION OF PROPOSALS: **Five (5) complete sets** of all proposal documents (original and four (4) copies) shall be sealed and submitted as vendor's response to:

Johnson County Purchasing
Donna White
1102 E. Kilpatrick, Suite B
Cleburne, Texas 76031

Sealed proposals shall be received no later than: 2:00 P.M., March 25, 2019.

All prospective bidders interested in submitting a proposal are requested to attend a pre-bid meeting, scheduled for March 5, 2019 at 10:00 A.M. at the Historic Courthouse 2 N. Main, Room 104, Cleburne, TX 76033, per Texas Local Government Code 262.0256.

All written questions must be submitted not later than 5:00 P.M., March 13, 2019.

MARK ENVELOPE: RFP 2019-905 FOR BANK DEPOSITORY CONTRACT FOR JOHNSON COUNTY.

LATE PROPOSALS: Proposals received in the County Purchasing Department after submission deadline will be considered void and unacceptable. Johnson County is not responsible for lateness or non-delivery by mail service/carrier, etc., and the date/time stamp in the Purchasing Department shall be the official time of receipt.

PROPOSAL SHALL INCLUDE: This RFP and all additional documents submitted. Each proposal shall be place in a sealed envelope, **signed by a person having authority to bind the firm in a contract** and marked clearly on the outside as directed in the COVER SHEET. FACSIMILE TRANSMITTALS SHALL NOT BE ACCEPTED.

The enclosed Request for Proposal and accompanying Specifications are for the vendor's convenience in submitting an offer for the enclosed referenced products and/or services for Johnson County.

Johnson County appreciates vendor's time and effort in preparing this proposal. Vendors are invited to attend.

If vendor does not wish to submit a proposal at this time, but wishes to remain on the vendor list for this commodity, please submit a "No Offer" by the same time and at the same location as stated in the COVER SHEET. If a response is not received in the form of a "Proposal", "Bid" or "No Offer", vendor shall be removed from the vendor list. For the vendor's convenience, a "No Offer" response is acceptable by fax. If vendor wishes to be removed from the vendor list, or to change contact information and/or to be added to the vendor list for another commodity, please contact the Johnson County Purchasing Department. Include as much of the following information as possible when making such a request: Company Name, Representative, Address,

Telephone Number, Fax Number and commodity and/or service provided.

Awards are usually made in a Regular Session of the Johnson County Commissioners' Court, following the proposal opening. Results will be sent to those who submitted a proposal.

IT IS UNDERSTOOD that the Commissioners' Court of Johnson County, Texas reserves the right to reject any or all proposals as it may deem to be in the best interests of Johnson County. Receipt of any proposal shall under no circumstances obligate Johnson County to accept the lowest dollar submission. The award of the contract shall be made to the responsible vendor, whose proposal is determined to be the lowest evaluated offer resulting from negotiation, taking into consideration the relative importance of price and the other evaluation factors set forth in the request for proposals. Johnson County also reserves the right to award all or part of a proposal unless otherwise stated in the specifications.

FUNDING: Funds for payment have been provided through the Johnson County budget approved by the Commissioners Court for this fiscal year only. State of Texas statutes prohibit the obligation and expenditure of public funds beyond the fiscal year for which a budget has been approved. Therefore, anticipated orders or other obligations that may arise past the end of the current Johnson County fiscal year shall be subject to budget approval.

ALTERING PROPOSALS: Any interlineations, alteration, or erasure made before opening time must be initialed by the signer of the proposal, guaranteeing authenticity.

WITHDRAWAL OF PROPOSAL: A proposal may not be withdrawn or canceled by the vendor without the permission of the County for a period of ninety (90) days following the date designated for the opening of proposals, and vendor so agrees upon submittal of vendor's proposal. Proposals may be withdrawn at any time prior to the official opening by notifying the Johnson County Purchasing Department in writing.

PROPOSALS WILL BE received and publicly acknowledged at the location, date and time stated in the COVER SHEET. Vendors, their representatives and interested persons may be present. ***The proposals shall be received and acknowledged only so as to avoid disclosure of the contents to competing vendors and kept secret during negotiations.*** However, all submissions shall be open for public inspection after the contract is awarded, except for trade secrets, financial information, and other confidential information contained in the proposal and identified as such by vendor. As applicable, submit a minimum of one copy of confidential information, sealed and marked as confidential with submission.

PERMITS: All construction related permits, fees, and licenses required by any government entity or agency are the responsibility of the vendor and shall be a part of the proposal.

SALES TAX: Johnson County is exempt by law from payment of Texas Sales Tax and Federal Excise Tax; therefore the proposal shall not include sales taxes. Tax exemption certificates will be executed by the Johnson County Purchasing Department.

CONTRACT: This proposal, accompanying documents, and any negotiated terms, when

properly accepted by the Johnson County Commissioners' Court, shall constitute a contract equally binding between the successful vendor and Johnson County. Prices shall remain firm for the entire contract period. No different or additional terms will become a part of the contract with the exception of Change Orders.

A request for redetermination of the contract terms requires a minimum of thirty (30) days written notice, prior to the end of the contract period. All requests shall be written form and shall include supporting documents. Johnson County reserves the right to accept or reject any/all of the price redetermination as it deems to be in the best interest of the County.

CHANGE ORDERS: No oral statement of any person shall modify or otherwise change, or affect the terms, conditions, or specifications stated in the resulting contract. All change orders to the contract SHALL be made in writing to the Johnson County Purchasing Department, who shall submit change order to the Johnson County Commissioners' Court for approval. No item, service, etc. on change orders shall be acted upon before it has been approved by the Johnson County Commissioners' Court.

CONFLICT OF INTEREST: No public official shall have interest in this contract except in accordance with Vernon's Texas Codes Annotated, Local Government Code Title 5, Subtitle C, Chapter 171. State Law (CHAPTER 176 of the Local Government Code) requires the filing of a CONFLICT OF INTEREST QUESTIONNAIRE by certain individuals and businesses.

ETHICS: The vendor and/or vendor's representatives shall not offer nor accept gifts or anything of value, nor enter into any business arrangement with any employee, official or agent of Johnson County.

EXCEPTION/SUBSTITUTIONS: All proposals meeting the intent of this request for proposal will be considered for negotiations. Vendors taking exception to the specifications, or offering substitutions, shall state these exceptions in the section provided or by attachment as part of the submission. If offering other than specification, vendor must certify article offered is equivalent to specifications. When offering other than specified brand, vendor shall submit as part of the RFP, specifications, illustrations, and complete descriptive literature. The absence of such a list shall indicate that the vendor has not taken exception(s) and the vendor shall be responsible for performing in strict accordance with the specifications of the RFP. Johnson County Commissioners' Court reserves the right to accept any and all or none of the exception(s)/substitution(s) it deems to be in the best interest of the County.

DESCRIPTIONS: Whenever an article or material is defined or used in the RFP specifications by describing a proprietary product or by using the name of a manufacturer, model number, or make, the term "or equal" if not inserted, shall be implied. Any reference to specified article or material shall be understood as descriptive, NOT restrictive, and is used to indicate type and quality level desired for comparison purposes unless otherwise noted. Proposals must be submitted on units of quantity specified, extended, and totaled. In the event of discrepancies in extension, the unit prices shall govern.

ADDENDUM: Any interpretations, corrections or changes to this RFP and Specifications will

be made by addendum, unless otherwise stated. Issuing authority of addendum shall be the Commissioners' Court and/or the Purchasing Department. Addendum will be mailed, emailed, or faxed to all that are known to have received a copy of the RFP. Vendors shall acknowledge receipt of all addenda and include receipt and response to addenda with submission.

PROPOSAL MUST COMPLY with all federal, state, county and local laws concerning the type of article and/or service being offered.

DESIGN, STRENGTH, QUALITY of materials and workmanship must conform to the highest standards of manufacturing and engineering practice.

ALL HARDWARE, OR ANY OTHER ITEM offered in this proposal must be new and unused, unless otherwise specified, in first-class condition and of current manufacture.

MINIMUM STANDARDS FOR RESPONSIBLE PROSPECTIVE vendors: A prospective vendor must affirmatively demonstrate vendor's responsibility. A prospective vendor must meet the following requirements:

1. Have adequate financial resources, or the ability to obtain such resources as required;
2. Be able to comply with the required or proposed delivery schedule;
3. Have a satisfactory record of performance;
4. Have a satisfactory record of integrity and ethics; and,
5. Be otherwise qualified and eligible to receive an award.

Johnson County may request representation and other information sufficient to determine vendor's ability to meet the minimum standards listed above.

VENDOR SHALL PROVIDE with this response, all documentation required by this RFP. Failure to provide this information may result in rejection of submission.

SUCCESSFUL VENDOR SHALL defend, indemnify and save harmless Johnson County and all its officers, agents and employees from all suits, actions, or other claims of any character, name and description brought for or on account of any injuries or damages received or sustained by any person, persons, or property on account of any negligent act or fault of the successful vendor, or of any agent, employee, subcontractor or supplier in the execution of, or performance under, any contract which may result from proposal award. Successful vendor shall pay any judgment with costs, which may be obtained, against Johnson County growing out of such injury or damages.

TERMINATION OF CONTRACT: This contract shall remain in effect until contract expires, delivery/completion and acceptance of products and/or performance of services ordered or until terminated by either party with a thirty (30) days written notice prior to any cancellation. The successful vendor must state therein the reasons for such cancellation. Johnson County reserves the right to award canceled contract to next best vendor as it deems to be in the best interest of the County.

TERMINATION FOR DEFAULT: Johnson County reserves the right to enforce the performance of this contract in any manner prescribed by law or deemed to be in the best interest of the County in the event of breach or default of this contract. Johnson County reserves the right to terminate the contract immediately in the event the successful vendor fails to:

1. Meet delivery or completion schedules;
2. Otherwise perform in accordance with the accepted submission;

Breach of contract or default authorizes the County to award to another vendor, purchase elsewhere and charge the full increase in cost to the defaulting vendor.

REPRESENTATIVE SUBMITTING OFFER affirms that they are duly authorized to execute this contract, that this company, corporation, firm partnership or individual has not prepared this bid in collusion with any other vendor, unless clearly outlined, and further affirms that the contents hereof have not been communicated by the undersigned or by any employee or agent to any other vendor or to any other persons engaged in this type of business prior to the official opening of this offer. And further, that the manager, secretary or other agent or officer signing this bid is not and has not been for the past six months directly nor indirectly concerned in any pool or agreement or combination to control the price of supplies, services or equipment bid on, or to influence any person to bid or not to bid thereon.

The undersigned declares that the amount and nature of the materials to be furnished is understood and that the nature of this offer is in strict accordance with the conditions set forth in this document and is a part of the proposal, and that there will at no time be a misunderstanding as to the intent of the specifications or conditions to be overcome or pleaded after the proposals are opened.

PATENTS/COPYRIGHTS: The successful vendor agrees to protect Johnson County from claims involving infringements of patents and/or copyrights.

CONTRACT ADMINISTRATOR: **The contract administrator, Purchasing Agent, will serve as sole liaison between the Johnson County Commissioners Court and affected Johnson County Departments and the successful vendor. Unless directly outlined in this specification the vendor shall consider no one but the Contract Administrator authorized to communicate, by any means, information or suggestions regarding or resembling this RFP throughout the proposal process.** The Contract Administrator has been designated the responsibility to ensure compliance with contract requirements, such as but not limited to, acceptance, inspection and delivery. The County will not pay for work, equipment or supplies, which it deems unsatisfactory. Vendors will be given a reasonable opportunity to correct deficiencies before termination. This however, shall in no way be construed as negating the basis for termination for non-performance.

TESTING: Testing and/or samples may be requested by Johnson County prior to proposal award. Any sample that fails testing may be considered as not complying with County's

specifications and such a situation will be sufficient reason to reject an offer. Samples and/or testing, when required, shall be furnished free of expense to the County.

PURCHASE ORDER: Johnson County shall generate a purchase order(s) to the successful vendor(s). The Purchase Order number must appear on all itemized invoices and/or packing slips. Johnson County will not be held responsible for any orders/services placed/delivered without a valid current purchase order approved by the Johnson County Purchasing Department.

PACKING SLIPS or other suitable shipping documents shall accompany each special order shipment and shall include:

(a) Name and address of successful vendor;
(b) Name and address of receiving department and/or location;
(c) Johnson County Purchase Order number; and,
(d) Descriptive information of the materials shipped or services rendered, including item numbers, serial numbers, quantities, number of containers and package numbers, address/location of services rendered, as applicable.

Unless otherwise indicated, items will be new, unused, and in first class condition in containers suitable for damage-free shipment and storage.

INVOICES must show all information as stated above, and will be issued for each purchase order.

PAYMENTS are processed upon receipt of invoice and after the Contract Administrator has determined that the items have been received in good condition, that all terms have been met, and that no unauthorized substitutions have been made. All payments must be approved in the regular meetings of the Commissioners Court, in accordance with the State of Texas Prompt Payment Act, Chapter 2251, Government Code VTCA. Successful vendor(s) is required to pay subcontractors within ten (10) days. **The Johnson County Commissioners' Court meets in Regular Session every second and fourth Monday of each month. Late invoices will be paid on the next Regular Session of Johnson County Commissioners' Court with no additional charges to Johnson County. Only original invoices will be accepted.** In the case of a holiday being on the day of Regular Session, court is held on the next scheduled business day.

EQUIPMENT/GOODS/SERVICES supplied under this contract shall be subject to the County's approval. Item(s) found defective or not meeting specifications shall be picked up and replaced by the successful vendor within one (1) week after notification at no expense to the County. If item(s) is not picked up within one (1) week after notification, the item(s) will become a donation to the County for disposition.

WARRANTY: Successful vendor shall warrant that all equipment/goods/services shall conform to the proposed specifications and/or all warranties stated in the Uniform Commercial Code and be free from all defects in material, workmanship and title.

REMEDIES: The successful vendor and Johnson County agree that both parties have all rights, duties, and remedies available as stated in the Uniform Commercial Code.

VENUE: This agreement will be governed and construed according to the laws of the State of Texas. This agreement is performable in Johnson County, Texas.

ASSIGNMENT: The successful vendor shall not sell, assign, transfer or convey any contract resulting from this RFP, in whole or in part, without the prior written consent of Johnson County.

SILENCE OF SPECIFICATION: The apparent silence of these specifications as to any detail or to the apparent omission from it of a detailed description concerning any point, shall be regarded as meaning that only the best commercial practices are to prevail. All interpretations of these specifications shall be made on the basis of this statement.

BOND REQUIREMENTS: If applicable, a Bid Bond may be required. Pursuant to the provisions of Section 262.032 (a) of the Texas Local Government Code, if the contract contemplated by this request is for proposal for the construction of public works, or will be under a contract exceeding $ 100,000.00, Johnson County may require the vendor to execute a good and sufficient bid bond in the amount of five percent (5%) of the total contract price. Said bond shall be executed with a surety company authorized to do business in the State of Texas.

If applicable, a Performance Bond shall be required. Pursuant to the provisions of Section 262.032 (b) of the Texas Local Government Code, within thirty (30) days of the date of the signing of a contract or issuance of a purchase order following the acceptance of a proposal by Johnson County Commissioners' Court, the successful vendor shall furnish a performance bond to Johnson County for the full amount of the contract if the contract exceeds $ 50,000.00. Such bond shall be for the purpose of insuring the faithful performance of the work in accordance with the plans, specifications and contract documents associated with the contract.

If applicable, a Payment Bond (Bond for Labor and Material) shall be required. Pursuant to the provisions of V.A.T.S., Article 5160 and Government Code 2253, if the amount of the contract awarded to the successful vendor exceeds $ 50,000.00, then said successful vendor shall execute a payment bond in the amount of the contract, solely for the protection and use of payment bond beneficiaries with awarded vendor, all claimants supplying labor and material in the performance of the work provided for in said contract, for use of each such claimant.

REQUIRED PROVISIONS

THE FOLLOWING REQUIRED PROVISIONS IN THE FORM SET FORTH BELOW SHALL BE SET FORTH AND SHALL BE INCORPORATED INTO ANY CONTRACT OR AGREEMENT EXECUTED BY COUNTY AND THE SELECTED PROPOSER.

1. This Agreement will be governed by and construed according to the laws of the State of Texas. Venue for any action or claim arising out of the Agreement must be in the state district courts in Johnson County, Texas or the federal district courts in Dallas County,

Texas. Any provision stating that County agrees to waive any right to trial by jury is hereby deleted.

2. Limitations for the right to bring an action, regardless of form, shall be governed by the laws of the State of Texas, Texas Civil Practice and Remedies Code §16.070, as amended, and any provision to the contrary is hereby deleted.

3. Under Texas law, a contract with a governmental entity that contains a claim against future revenues is void; therefore, any term which provides for such a claim is hereby deleted. Johnson County will, upon request of a party to the contract, certify the funds available to fulfill the terms of this Agreement.

4. The Parties agree that under the Constitution and laws of the State of Texas, Johnson County cannot enter into an agreement whereby Johnson County agrees to indemnify or hold harmless any other party; therefore, all references of any kind to Johnson County indemnifying and holding harmless any individuals or entities for any reason whatsoever are hereby deleted.

5. The Parties agree and understand that County is a political subdivision of the State of Texas, and therefore has certain governmental immunity, sovereign immunity and limitations on liability, and that County's general liability and vehicle insurance coverage is with the Texas Association of Counties Risk Pool and said insurance coverage is limited to the statutory maximum limits of the Texas Tort Claims Act; therefore, any provisions to the contrary are hereby deleted. The Parties agree and understand that County does not waive any of its common law, statutory or constitutional defenses to which it may be entitled.

6. The Parties agree and understand that County will not agree to waive any rights and remedies available to County under the Uniform Commercial Code ("UCC") as codified and set forth in the Texas Business and Commerce Code effective as of September 1, 2014; therefore, any provision to the contrary is hereby deleted.

7. The Parties agree and understand that County will not agree to be responsible for any sales tax, use tax, or any other taxes, fees, fines or penalties that may be imposed, levied or assessed by any federal, state or local government or agency which relates to the Agreement, the equipment or its use; therefore, any provision to the contrary is hereby deleted.

8. The Parties agree and understand that County will provide statutory workers compensation for its employees; however, County does not agree to include a waiver of subrogation, and therefore any provisions to the contrary are hereby deleted.

9. Pursuant to Texas Government Code Section 2251.021 and this Agreement, a payment by a governmental entity under a contract is overdue on the 31st day after the later of:
    a. the date the governmental entity receives the goods under the contract;

b. the date the performance of the service under the contract is completed; or
c. the date the governmental entity receives an invoice for the goods or service.

Pursuant to Texas Government Code Section 2251.021 and this Agreement, a payment begins to accrue interest on the date the payment becomes overdue. The rate of interest that accrues on an overdue payment is the rate in effect on September 1 of the fiscal year in which the payment becomes overdue. The rate in effect on September 1 is equal to the sum of: (1) one percent; and (2) the prime rate as published in the Wall Street Journal on the first day of July of the preceding fiscal year that does not fall on a Saturday or Sunday. Interest on an overdue payment stops accruing on the date the governmental entity or vendor mailed or electronically transmits the payment. Therefore, all provisions to the contrary are hereby deleted.

10. No officer, member or employee of County, and no member of its governing body and no other public officials of the governing body of the locality or localities in which the project is situated or being carried out who exercises any functions or responsibilities in the review or approval of the undertaking or carrying out of this project shall participate in any decision relating to this Agreement which affects his/her personal interest, have any personal or pecuniary interest, direct or indirect, in this Agreement or the proceeds thereof.

11. To the extent, if any, that any provision in this Agreement is in conflict with Texas Government Code §552.001 *et seq.*, as amended (the "Public Information Act"), the same shall be of no force and effect. Furthermore, it is expressly understood and agreed that Johnson County, its officers and employees may request advice, decisions and opinions of the Attorney General of the State of Texas in regard to the application of the Public Information Act to any software, or any part thereof, or other items or data furnished to Johnson County whether or not the same are available to the public. It is further understood that Johnson County, its officers and employees shall have the right to rely on the advice, decisions and opinions of the Attorney General, and that Johnson County, its officers and employees shall have no liability or obligations to Contractor for the disclosure to the public, or to any person or persons, of any software, or a part thereof, or other items or data furnished to Johnson County by Contractor in reliance on any advice, decision or opinion of the Attorney General of the State of Texas.

12. Services and products provided under the Agreement shall be provided in accordance with all applicable state and federal laws.

13. The parties understand and agree that under the Constitution and laws of the State of Texas, public property is exempt from forced sales and liens may not attach thereto.

14. It is understood and agreed that Johnson County will not be subject to arbitration;

therefore, any paragraph or provision requiring arbitration, is hereby deleted.

15. Johnson County shall be responsible for the acts or failure to act of its employees, agents or servants, provided; however, its responsibility shall be subject to the terms, provisions and limitations of the Constitution and laws of the State of Texas, including the Texas Tort Claims Act.

16. Execution of the contract by Contractor certifies compliance with all terms, provisions, and requirements of Titles VI and VII, civil Rights Act of 1964, the Americans with Disabilities Act of 1990, and any other Federal, State, local or other anti-discriminatory act, law, statute, or regulation, in the performance of this contract, and will not discriminate against any child or youth, client, employee or applicant for employment because of race, creed, religion, age, sex, color, national or ethnic origin, handicap, or any other illegal discriminatory basis or criteria.

17. The Contractor certifies that pursuant to Section 231.006 of the Texas Family Code that the individual or business entity named in this contract is not ineligible to receive the specified payment(s) and acknowledges that this contract may be terminated and payment may be withheld if this certification is inaccurate. The Contractor states that it is not ineligible to receive State or Federal funds due to child support arrearages.

18. The parties agree and understand that these Required Provisions are to clarify, limit, modify or delete terms and provisions of the Agreement and in the event of any conflict between the terms and provisions of these Require Provisions and other terms and provisions tendered to Johnson County in the Agreement or other documents, these Required Provisions shall control and amend the contractual provisions of the Agreement and any provision to the contrary is hereby deleted.

Vendor shall provide the following with bid submission:

1. References of any city and/or county agencies currently doing business with vendor along with outside firms. Provide entity name, contact name, address, telephone number, and/or email address;
2. Completed W9 Form; and,
3. Other documentation as may be specified within this proposal.

ANY QUESTIONS relating to this Request for Proposal and Specification(s) shall be directed to Ralph McBroom, C.P.M., Purchasing Agent, in writing by fax at (817) 556-6385 or by email at PUR@johnsoncountytx.org.

RFP 2019-905: BANK DEPOSITORY

SPECIFICATIONS

It is the intent of Johnson County to execute a contract with one or more banks desiring to be designated as the Johnson County Depository Bank. Any proposing bank must have one or more branch locations within the boundaries of Johnson County. The contract will include Johnson County Public Monies, including but not limited to, County and District Clerk Trust Court Registry Funds, funds held by Johnson County Community Supervision and Corrections Department and funds held by the Johnson County Tax Assessor Collector. By returning the Bid Worksheet, Bank acknowledges that it understands the Texas Local Government Code (LGC), Chapter 116.000 through 116.155 that pertain to the managing and safekeeping of County funds and will comply with these statutes. The Bank acknowledges that it understands the Revised Civil Statutes of Texas, as revised by the LGC, Chapter 117.000 through 117.124 that pertain to depositories, certain trust funds and court registry funds held in trust by the County and will comply with these statutes. In this document the statutes will be referred to as the "Code".

TERM: The Bank Depository contract will be effective for a period of four (4) years. If a timed deposit maturity extends beyond the expiration date of the depository contract, the Bank will pledge sufficient securities required by law for public funds to Johnson County to provide for the maturity of the time deposit. The contract shall allow the bank to negotiate new terms of the contract for the final two (2) years of the four (4) year contract as established in §116.021 (b) of the Local Government Code of the State of Texas. On expiration of the contract, the contract may be renewed for two (2) years under terms negotiated by the Commissioners Court. On the renewal of a contract, the county may negotiate new interest rates and terms with the bank for the next two years in the same way and subject to the same conditions as provided by §116.021 (b) of the Local Government Code of the State of Texas.

EVALUATION CRITERIA: The award of the contract shall be made to the responsible proposer whose proposal is determined to be the lowest evaluated offer resulting from negotiations, taking into consideration the relative importance of price and other factors set forth in the Request for Proposals in accordance with the Texas Local Government Code, Chapter 262. The evaluation criteria will be grouped into percentage factors as follows:

20% Proposer's past and prospective financial condition

40% Proposer's ability to meet service requirements

20% Proposer's total cost of services

20% Net rate of return on County funds

Discussions may be conducted with responsible proposers who submit proposals determined to be reasonably susceptible of being selected for award. All proposers will be accorded fair and equal treatment with respect to any opportunity for discussion and revision of proposals. Revisions to proposals may be permitted after submission and before award for the purpose of obtaining best and final offers as determined to be in the best interest of Johnson County.

SUBMITTALS: Submittals shall take the form of a bound 8 ½ inch by 11 inch proposal with a Table of Contents and all pages numbered. Each section shall be clearly identified and tabbed as listed below. For proper comparison and evaluation, Johnson County requests that proposals follow the format outlined below.

Tab 1 - Cover Letter - A brief introductory letter of representation. Include contact person's name, e-mail address and identify person who has authority to sign a contract of behalf of your firm.

Tab 2 – Depository Background Information - This section should include a description of the proposer experience with other services similar to the one described herein.

a. Submit background information including principle place of business, length of existence, breadth of experience and expertise, management structure, and any other information that demonstrates relative qualifications and experience.

b. Statements – Proposal must include a statement of the paid up capital stock and the permanent surplus of the applicant bank. Also, a statement of the financial condition of the bank must be included along with the good faith check required herein.

c. Cashier's or Certified Check – Each application must be accompanied by a cashier's check or a certified check for $416,000 as guarantee of the good faith on the part of the proposer as more fully described in the section Good Faith Guarantee.

d. Project Manager – Identify the proposed Project Manager and include a resume. Also include an organization chart of the proposed Management Team including key personnel and their specific roles.

e. All forms as required herein.

Tab 3 – Scope of Work - A summary statement identifying your firm's understanding of the services desired and the manner in which coordination and the exchange of information for a successful contract will be assured between all parties. Include the proposed approach and/or methodology to deliver services and any proposed value added services your firm proposes to offer to Johnson County.

TENTATIVE SCHEDULE:

The tentative schedule for the Request of Proposal process is as follows:

Pre-Proposal Meeting	March 5, 2019
Question Deadline	March 13, 2019
Receive Proposals	March 25, 2019
RFP Award	April 22, 2019
Contract Approval	May 13, 2019

SUBMITTING FINANCIAL STATEMENTS: All banks wishing to be designated as a Depository must include as part of the Bid the Bank's Annual Financial reports for the past two (2) years. Bank must provide a statement containing the amount of the Banks' paid-up capital stock and permanent surplus as listed on the Bank's UBPR (Uniformed Bank Performance report). Financial Statement shall be submitted in a separate envelope marked "Confidential: Financial Statement."

The County has available for examination, statements and other information of past County Depositories. The information is voluminous; copies can be provided upon request for a reasonable charge, but because of the man hours that would be required to duplicate statements, etc., the County would urge bidders to examine same by contacting the County Treasurer or County Auditors' offices. This information is available for examination by bidders, but County expressly makes no representation that the County deposits will continue at the same level of previous years, or that the character of deposits will follow the same or similar patterns of previous years.

GOOD FAITH GUARANTEE: **Depository Bid Only** – Bank must submit with the Bid Worksheet a certified cashier's check for $416,000.00 (one-half of the one percent of the County's audited revenue for 2018; LGC 116.023, and one –half of one per cent of the average daily balances of the County and District Clerks' Trust Accounts; LGC 117.021) payable to Johnson County as a guarantee of good faith. The check will be held by the County until the Depository Bank is selected and the securities have been pledged.

AMOUNT TO BE PLEDGED: The initial amount of securities to be pledged against Johnson County funds shall be adequate to fully collateralize the funds of Johnson County according to the laws of the State of Texas and shall continuously remain as such. At the time of execution of the depository contract, this amount is expected to be between $25,000,000.00 and $30,000,000.00. These securities are to cover funds belonging to the County, funds deposited by the Tax Assessor-collector, Johnson County Community Supervision and Trust Funds controlled by the County Clerk and the District Clerk. The amount is subject to change as deposits fluctuate, peaking during tax season, November throughout the end of February. Changes in the amount of securities pledged require the approval of the Johnson County Treasurer and/or County Auditor. Securities pledged must be held at a Third Party bank approved by the Commissioner's Court or at the Federal Reserve Bank, Dallas, Texas in Johnson County's Public Funds Collateral Account.

If selected as Depository, vendor shall agree to provide, within fifteen (15) days: Pledged securities in the amount provided by law under Texas LGC, Sec. 116.054, but limited to United States Government Bonds, Notes and Bills; United States Agencies; Federal Housing Administration Bonds; Federal National Mortgage Association Bonds; and Municipal Securities bearing Moody's "AA" or better rating. The pledged securities apply not only to County operating Funds, but also to any trust funds in which the County Clerk and/or District Clerk of Johnson County have duties.

The bank must be the true and legal owner of all securities to be pledged to the County. The securities must be free and clear of all liens, claims or pledges for any other purpose. The County will not accept any security acquired by the ban under a repurchase agreement.

As stated in Code Section 116.023, "**if a bank is selected as a depository and does not provide the required bond, the County shall retain the amount of the check as liquidated damages.**"

COLLATERAL: The depository Bank must include, as part of their bid, an explanation of how the bank intends to ensure, on a monthly basis, that sufficient collateral is pledged to protect covered accounts. In addition, detailed monthly pledged collateral-to deposit report is required from the Depository Bank. This report shall contain security descriptions, par value/current face and current market value and will be submitted no later than the third business day of each month. The report may be faxed or electronically submitted directly to the Treasurer's Office. However, the original document must follow.

In compliance with Government Code, Section 2257.104 and to compensate for increases or decreases in County deposits and fluctuation of market value of pledged collateral, **the minimum market values of collateral shall be 103% of County deposits.**

The Depository Bank must propose how it will value pledged securities. The County at any time may investigate the value of any of the securities that may be pledged by the Bank. The full cooperation of the Bank will be required in such instance.

INVESTMENTS MADE OUTSIDE DEPOSITORY: Johnson County reserves the right to make external investments according to the Laws of the State of Texas and the Investment Policy of Johnson County.

In compliance with Govt. Code 2256.005 of the Public Funds Investment Act, all offers will be required to comply with Johnson County Investment Policy and execute an "Agreement in Principal" (AIP) with the County. In addition to addressing the requirements of this notice to offertory, vendors are certainly encouraged to propose alternative approaches that may further enhance operational or financial success.

INTEREST AND INTEREST RATE: Variable interest rate bids and fixed interest rate bids on accounts and certificates of deposit shall be quoted by the Bank. Johnson County reserves the

right to select the rate most favorable to the County any time during the term of the contract, subject to banking laws.

INTEREST BEARING ACCOUNTS: Johnson County will have accounts established under these specifications for disbursing checks. Wire transfers, ACH transfers, internal bank transfers, deposits and/or remote deposits will also be made from these accounts. These accounts may vary during the duration of the contract, and accounts may be added, changed, and/or closed as the need arises with notice to the bank.

MERCHANT SERVICES: The Depository Bank will process taxpayer credit or debit card payment transactions upon request of the County. The Depository Bank must offer a merchant service program that will automatically handle the convenience fee whereas the County is not assessed any monthly interchange fees associated with processing of credit and debit card transactions.

PAYMENT OF SERVICES: Bank will specify fees required for services. Banking services not detailed on the Bid Worksheet will be provided at no cost to the County.

CONTACT PERSON: Bank will specify an Officer of the Bank who will be responsible for attending to inquiries, requests for services, and daily activities regarding the managing of Johnson County accounts.

APPLICANT BANKS submitting a proposal and are not located within the city limits of the County Seat, the city of Cleburne, must include in the submission a guarantee of daily pickup and delivery services to all County offices in the city of Cleburne at no cost to the County.

SERVICES REQUIRED

The Depository Bank shall provide on-line access to the County for daily reporting on fund balances, managing controlled disbursements, collected and ledger balances, detailed debits and credits, stop payments request, confirmations and detail debits and credits. Attach product description and sample reports of the on-line access available. **Banks should be prepared to provide the Treasurer's office an opportunity to physically work with this technology before the bid is awarded.**

Monthly account analysis reports will be provided for each account and on a total account basis. The account analysis will contain, at a minimum, the following;

a. daily average ledger balance
b. average collected balance
c. price levels for each activity
d. earnings allowance
e. daily average float
f. reserve requirements
g. monthly volumes by type

A sample account analysis format must be provided as part of the bid.

STATEMENTS: Monthly account statements will be provided with all corresponding checks, debit and credit memos, and/or optical images of the front and back of checks, debit and credit memos, deposited items, etc. The statement shall, at a minimum, include the number of checks, deposits and deposit items posted, daily ledger balances, average daily ledger balance for the month, average daily collected balance for the month and other items on which charges are based. Such statements shall be provided within five (5) working days after calendar month-end.

DAYLIGHT OVERDRAFT PROVISIONS: The RFP should include any Bank policy regarding daylight overdraft charges and/or handling fees.

CASH OVERDRAFTS: For the purposes of determining cash overdrafts, the daily cash balance in all County accounts will be added together and if a negative balance occurs, the County's account is considered to be over-drafted. An applicable insufficient funds fee may then be charged in the analysis.

STOP PAYMENTS: The Bank shall offer Stop Payment services through online access for the County Treasurer and/or their assignee and the Tax Assessor-Collector and/or their assignee for Tax Assessor-Collector accounts. The Bank shall be required to process stop payments on verbal instructions from the County Treasurer and/or their assignee and the Tax Assessor-Collector and/or their assignee for Tax Assessor-Collector accounts with follow-up written confirmation.

STALE DATED CHECKS: The Bank will agree not to honor stale dated checks on Johnson County accounts that are not endorsed by the County, as acceptable, after the County has delivered to the Bank an approved canceled list from the records of Commissioners' Court.

PAYROLL DIRECT DEPOSIT: Bank must provide the capability for the County to utilize "Direct Deposit" payroll processing, allowing employees to select the bank of their choice, and the option to pay utilizing a Payroll Card, if the County were to mandate all County employees to use Direct Deposit Pay.

ACH TRANSACTION: Bank must provide for acceptance of Automated Clearing House (ACH) credits and debits. Bank is required to provide detailed information of any and all ACH transactions.

WIRE TRANSFERS: Bank must provide the ability to send wire transfers on an automated and/or manual basis; and also provide the ability to receive wire transfers. Bank must provide the ability to restrict outgoing wire transfers (debits) to only those authorized.

STANDARD DISBURSEMENT SERVICES: Standard disbursing services for all accounts are required to include the payment of all County checks upon presentation.

POSITIVE PAY: Bank will provide a means for the County to upload disbursed check information that will be compared to checks that are presented to the Bank for clearing. Any discrepancies shall be cleared by an authorized County employee before checks are paid by the Bank. Any applicable costs shall be quoted.

STANDARD DEPOSIT SERVICES: The Bank will guarantee immediate credit on all wire transfers, ACH transactions and Government checks upon receipt and all other checks based on the Bank's availability schedule. All deposits received before the Bank's established deadline will be credited daily.

ACCOUNT RECONCILIATION: The County requires a monthly bank account reconciliation plan for all accounts (See Appendix I). If available or on request, the Bank will provide a magnetic tape or CD-Disc of all checks that have cleared all County accounts. This tape or CD shall be in a format that is compatible with the County's reconciliation program.

AUTOMATIC OVERNIGHT INVESTMENT FACILITY: It is requested that funds in all accounts be pooled and automatically invested on an overnight or weekend basis. The Bank will allocate the pro-rated share of total interest to each account based on each account's balance.

CASH MANAGEMENT: The County will require cash management advice on updated and recent developments in cash management procedures and products as they become available.

Vendors are invited to propose additional cash management services that are not specified herein.

EXPENSE ALLOWANCE: State the dollar amount, if any, the Bank will be willing to provide for expenses incurred due to changing depository banks. (For example: checks, deposit slips, endorsement stamps)

OTHER SERVICES: As described on the Bid Worksheet, the Bank will acknowledge services provided and attendant fees for such.

ADDITIONAL INFORMATION:

The following are Johnson County's two largest bank accounts and their monthly average collect balances for calendar year 2018:

	General 6198	Tax Office 5409
January	$ 25,870,898.26	$ 30,025,827.96
February	$ 29,553,519.45	$ 14,937,522.97
March	$ 27,429,439.50	$ 1,649,469.15
April	$ 24,161,811.13	$ 1,287,285.80
May	$ 22,112,836.77	$ 901,679.81
June	$ 18,264,458.89	$ 795,440.28
July	$ 16,651,237.35	$ 772,900.65
August	$ 11,977,573.55	$ 867,677.93
September	$ 10,181,572.01	$ 756,777.55
October	$ 10,768,452.89	$ 1,060,536.96
November	$ 11,339,683.22	$ 3,478,598.11
December	$ 12,016,791.42	$ 17,175,196.92

The following is a list of bank accounts for Johnson County with balances as of 12/31/2018:

Bank Acct #	Bank Account Name	Amount
[redacted]	General	$12,521,043.26
	Non-Interest Grant	$0.00
	Payroll Clearing	$3,961.19
	Operations Clearing	$127,483.70
	Credit Card Bank	$285,303.66
	General E2	$1,649,250.37
	Operations Clearing E2	$2,120.00
	Payroll Clearing E2	$493.76
	Jury	$2,985.50
	Bail Bonds	$876.30
	Sheriff - Fees & Fines	$63,651.20
	Sheriff - General	$5,921.27
	18th Judicial Attorney Account	$9,350.22
	County Attorney LEOSE	$1,067.13
	Adult Probation	$258,404.61
	District & County Atty Trust Acct	$26,102.17
	District & County Atty Deposit Acct	$655.65
	County Clerk - Court at Law	$88,253.26
	Juvenile Probation	$2,851.19
	County Clerk - Registry of Court	$191,967.51
	Sheriff - Inmate Commissary Fund	$280,848.82
	District Clerk - Registry of Court	$2,603,775.45
	Sheriff - Inmate Trust Fund	$115,649.66
	Constable#1	$512.93
	Constable#2	$6,939.32
	Constable#3	$2,587.17
	Constable#4	$325.98
	County Attorney Collection Acct	$60,103.96
	TOTAL	**$18,312,485.24**

TAX OFFICE ACCTS

Bank Acct#	Bank Acct Name	Amount
[redacted]	AUTO	$1,369,164.82
	AD VALORUM	$68,789,283.96
	BOAT REGISTRATION	$8,582.45
	SPECIAL INVENTORY	$1,997,700.49
	MVIE	$41,581.01
	TAX COLL. SALES TAX	$380,820.59
	TOTAL	**$72,587,133.32**

FIRST FINANCIAL BANK - BACKGROUND INFORMATION

First Financial Bank considers the opportunity to present our proposal for depository services a privilege. All of us at First Financial are committed to serving customers by embracing our Customer Service Philosophy, which is: "We build loyal, life-long relationships by providing first class service with personal attention."

When you become a customer of First Financial, you become a member of the family. We encourage open communication to build a strong working relationship. As your needs or processes change, it is our goal to come along side you and apply our technologies resulting in efficient and effective work flow for you and your staff and provide services that help minimize fees, maximize earnings and protect County assets.

As a guarantee of good faith, a Cashier's Check in the amount of $416,000 is included in our bid packet.

Today, First Financial proudly serves the depository needs of over 200 public entities.

WHAT MAKES FIRST FINANCIAL BANKSHARES UNIQUE:

- 128-year history of serving the financial needs of generations of families, professionals and business owners. We have stood tall during difficult economic times, including the Great Depression of the 1930s, the collapse of the Texas economy in the 1980s, and more recent economic difficulties.
- A "One Bank, Multiple Regions" concept that combines the best of "big bank" customer benefits and operating efficiencies with the local decision making and community involvement of a community bank.
- An unwavering commitment to providing exceptional customer service.
- Sound financial management and strong capitalization. In 2018, the Company's earnings increased for the 32nd consecutive year.
- A commitment to growth through acquisitions, new branches and expansion of services.

Today, First Financial Bankshares is recognized as one of the nation's top performing banks. In fact, Bank Director Magazine has named First Financial as one of the top 10 banks in the nation in the $5 Billion to $50 Billion asset category in each of the past 10 years.

First Financial Bank is headquartered in Abilene, Texas. Our principal offices are located at:

First Financial Bank, N.A.
400 Pine Street
Abilene, Texas 79604

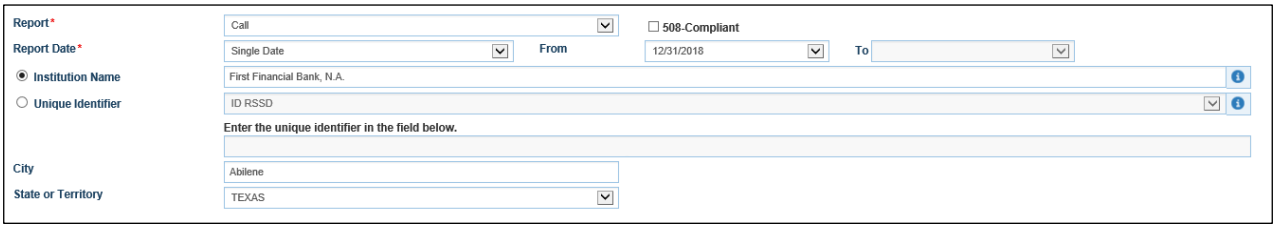
FINANCIAL INFORMATION

First Financial Bankshares, Inc. is recognized as one of the nation's most financially secure banking institutions, with assets of $7.57 billion. The Company operates multiple regional banks with 72 convenient banking locations, plus a Trust Company with seven convenient locations, all to serve customers in Texas markets stretching from Hereford in the Panhandle to Conroe and Orange in southeast Texas. First Financial Bank, N.A. is owned by First Financial Bankshares, a publicly traded company on the NASDAQ under the symbol FFIN. The paid up capital stock of the Bank is $ 5,000,000, and the permanent surplus of the Bank is $ 397,186.00.

We've included the latest 10-K report in our proposal packet for your quick and easy reference. First Financial Bank invites the County to navigate to the following URL to access all financial information including the annual audited financial statement of the Bank's parent company:

http://www1.snl.com/irweblinkx/FinancialDocs.aspx?iid=100572

Call Reports through the quarters ending December 31, 2018 and the Uniform Bank Performance Report (UBPR) are provided by navigating to the URL below, selecting the report type desired, and entering the information provided in the screen shot below:



https://cdr.ffiec.gov/Public/ManageFacsimiles.aspx

CUSTOMER SERVICE

At First Financial, we understand the importance of excellent customer service. First Financial undertook an initiative we call Customer Service First. Our perspective is to view our services and solutions "from the lens of the customer." Providing prompt and courteous service as well as assessing new technologies to broaden and enhance our offerings is part of the Customer Service First philosophy. In addition, we developed and implemented the following:

- Developed the following Motto: We build loyal, life-long relationship by providing first class service with personal attention.
- Along with this motto, we developed four Service Standards that guide every interaction we have with our customers:
  - Accuracy – We do our best to do the job right.
  - Availability – We are accessible to our customers and always ensure that their experience with us is efficient and timely.
  - Relationship – We care about the long-term success of each of our customers and strive to build trust based relationships.
  - Advice – Our customers learn from us and we are better because of the relationship.
- Required training for all employees to ensure consistent execution of these standards.
- Routinely invite authors and speakers to remind us of the importance of our initiative and to continue sharpening our skills.

We will support your ongoing operational and technical needs with a four-tiered approach.

- Full service locations with drive up and night depository capability.
- Contact information for local representatives.
- Our Treasury Management Services operations team is prepared to respond to your needs.
- Our Phone Center is open 6 days a week with extended hours.

Manned by a highly skilled team of professionals, our Phone Center has extended hours to assist customers with most questions regarding their account. Phone Center hours are Monday through Friday from 8:00 AM to 7:00 PM and on Saturday between the hours of 9:00 AM to 5:00 PM. Assistance with our Treasury Management services is provided by our support team during normal business hours by calling toll free to 877-627-7201.

PROJECT MANAGER - LOCAL CONTACTS:

John Mendez has served First Financial for 10 years as a Branch Manager in our corporate offices in Abilene, TX. He was recently promoted to Vice President and Assistant Chief Operations Officer for the

Cleburne region. John offices at our location at 200 North Ridgeway. His direct phone number is 817-202-3182 and his email address is jmendez@ffin.com.

Millie McManaway will continue to provide the County with service and support with Treasury Management services. As you know, Millie is a long time employee with expertise in managing the County's banking needs. Millie's office is close to County offices at our Ridgeway location, 200 North Ridgeway. Her direct phone number is 817-202-4186. Her email address is mmcmanaway@ffin.com.

First Financial and its employees are committed to serving the communities in which we live. It is our desire to provide the County with the best in financial services matched with excellent service and support.

REFERENCES:

First Financial currently serves over 200 public entities with depository services, including Johnson County. We offer the following references for Johnson County:

Ellis County
Length of Time Under Contract: 4 years
Contact: Cheryl Chambers, Treasurer
Email: Cheryl.chambers@co.ellis.tx.us
Phone Number: 972-825-5127

City of Cleburne
Length of Time Under Contract: 8 years
Contact: Terry Leake, Director of Finances
Email: terry.leake@cleburne.net
Phone Number: 817 645-0911

Midlothian ISD
Length of Time Under Contract: 11 Years
Contact: Jim Norris, Assistant Superintendent Finance & Operations
Email: jim_norris@misd.gs
Phone Number: 972-775-8296

APPLICATION FOR BANK DEPOSITORY

The paid up capital stock of the Bank is $ **5,000,000**, and the permanent surplus of the Bank is $ **397,186.00**.

For Depository Only - A certified cashier's check for $416,000.00 (One half of 1% of 2018 unaudited revenues of Johnson County and one half of 1% of the average daily balances of the District and County Clerk) made payable to Johnson County accompanies this bid and is tendered under the terms of the law (Local Government Code, Section 116.023) and these specifications.

John Mendez is hereby authorized to receipt for said check upon return.

First Financial Bank, N.A.
(Bidding Bank)

By: _____

The following is to be signed when check is returned to bidding bank: Received certified cashiers' check for **$ 416.000.00** for **First Financial Bank, N.A.**. (Bank)

Date: _____

By: _____

Compliance with Federal and State Laws

Certification of Eligibility (This provision applies if the anticipated contract exceeds $25,000)
By submitting a bid in response to the solicitation, Bidder certifies that at the time of submission, they are not on the Federal Government's list of suspended, ineligible, or debarred entities.
In the event of placement on the list between the time of bid submission and time of award, the Bidder will notify the Johnson County Purchasing Agent. Failure to do so may result in terminating the contract for default.

Relating to State Contracts with and Investments in Companies that Boycott Israel
Effective September 1, 2017, Contractor/Vendor verifies that it/he/she does not boycott Israel and will not boycott Israel during the term of this contract. The term "boycott Israel" is defined by Texas Government Code Section 808.001, effective September 1, 2017.

Relating to State Contracts with and Investment in Companies that do Business with Iran, Sudan, or any known foreign terrorist organizations
Effective September 1, 2017, Contractor/Vendor verifies that it/he/she does not do business with Iran, Sudan, or any known foreign terrorist organizations and will not do business with Iran, Sudan, or any known foreign terrorist organizations during the term of this contract. The term "foreign terrorist organization" is defined by Texas Government Code Section 806.001, effective September 1, 2017.

Disclosure of Interested Parties
By submitting a bid in response to the solicitation, the Bidder agrees to comply with HB 1295, Government Code 2252.908. Bidder agrees to provide Johnson County Purchasing Agent, and/or requesting department, the Certificate of Interested Parties Form 1295 as required, within ten (10) business days from notification of pending award, renewal, amended or extended contract.
Visit https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm for more information.

First Financial Bank, N.A.	**200 North Ridgeway**	**Cleburne, Texas 76033**
(Company Name)	(Address)	
	Vice President & Chief Operations Officer	**March 25, 2019**
(Signature)	(Title)	(Date)
jmendez@ffin.com		**817-202-4182**
(Email)		(Phone)

RESIDENCE CERTIFICATION

Pursuant to Texas Government Code §2252.001 *et seq.*, as amended, Johnson County requires a Residence Certification. §2252.001 *et seq.* of the Texas Government Code provides some restrictions on the awarding of governmental contracts; pertinent provisions of §2252.001 are stated below:

> (2) "Nonresident bidder" refers to a person who is not a resident.
>
> (3) "Resident bidder" refers to a person whose principal place of business is in this state, including a contractor whose ultimate parent company or majority owner has its principal place of business in this state.

☐ I certify that **First Financial Bank, N.A.** is a Resident Bidder of Texas
(Company Name)
as defined in Texas Government Code §2252.001.

☐ I certify that _____ is a Nonresident Bidder as
(Company Name)
defined in Texas Government Code §2252.001 and our principal place of business is

_____. (City and State)

Form **W-9**
(Rev. November 2017)
Department of the Treasury
Internal Revenue Service

Request for Taxpayer Identification Number and Certification

▶ Go to *www.irs.gov/FormW9* for instructions and the latest information.

Give Form to the requester. Do not send to the IRS.

Print or type. See Specific Instructions on page 3.

1 Name (as shown on your income tax return). Name is required on this line; do not leave this line blank.
First Financial Bank, N.A.

2 Business name/disregarded entity name, if different from above

3 Check appropriate box for federal tax classification of the person whose name is entered on line 1. Check only one of the following seven boxes.

☐ Individual/sole proprietor or single-member LLC ☒ C Corporation ☐ S Corporation ☐ Partnership ☐ Trust/estate

☐ Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=Partnership) ▶ _____

Note: Check the appropriate box in the line above for the tax classification of the single-member owner. Do not check LLC if the LLC is classified as a single-member LLC that is disregarded from the owner unless the owner of the LLC is another LLC that is not disregarded from the owner for U.S. federal tax purposes. Otherwise, a single-member LLC that is disregarded from the owner should check the appropriate box for the tax classification of its owner.

☐ Other (see instructions) ▶

4 Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3):

Exempt payee code (if any) _____

Exemption from FATCA reporting code (if any) _____

(Applies to accounts maintained outside the U.S.)

5 Address (number, street, and apt. or suite no.) See instructions
400 Pine Street

Requester's name and address (optional)

6 City, state, and ZIP code
Abilene, Texas 79601

7 List account number(s) here (optional)

Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on line 1 to avoid backup withholding. For individuals, this is generally your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the instructions for Part I, later. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN*, later.

Note: If the account is in more than one name, see the instructions for line 1. Also see *What Name and Number To Give the Requester* for guidelines on whose number to enter.

Social security number
			–			–				

or

Employer identification number
7	5	–	0	2	6	4	2	0	0

Part II Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me); and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding; and
3. I am a U.S. citizen or other U.S. person (defined below); and
4. The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions for Part II, later.

Sign Here | **Signature of U.S. person** ▶ [signature] | **Date** ▶ 8/15/18

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Future developments. For the latest information about developments related to Form W-9 and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/FormW9*.

Purpose of Form

An individual or entity (Form W-9 requester) who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) which may be your social security number (SSN), individual taxpayer identification number (ITIN), adoption taxpayer identification number (ATIN), or employer identification number (EIN), to report on an information return the amount paid to you, or other amount reportable on an information return. Examples of information returns include, but are not limited to, the following.

- Form 1099-INT (interest earned or paid)
- Form 1099-DIV (dividends, including those from stocks or mutual funds)
- Form 1099-MISC (various types of income, prizes, awards, or gross proceeds)
- Form 1099-B (stock or mutual fund sales and certain other transactions by brokers)
- Form 1099-S (proceeds from real estate transactions)
- Form 1099-K (merchant card and third party network transactions)
- Form 1098 (home mortgage interest), 1098-E (student loan interest), 1098-T (tuition)
- Form 1099-C (canceled debt)
- Form 1099-A (acquisition or abandonment of secured property)

Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN.

If you do not return Form W-9 to the requester with a TIN, you might be subject to backup withholding. See What is backup withholding, *later.*

SCOPE OF WORK

First Financial Bank has a long history of serving businesses and public entities in the State of Texas. We currently serve Johnson County and its staff with depository services and it is our desire to continue serving the County without interruption.

First Financial is proud of our history and proven record of service to customers and to the communities in which we operate. For the past 3 years, First Financial has conducted an annual *Day of Service*. Last year on October 8, over 800 employees state wide provided assistance and performed services in 30 locations across First Financial's footprint. Projects included meal preparation and delivery, landscaping and painting, visiting homebound individuals and continued education through the Bank's Elder Financial Exploitation Prevention Program. This event has become a tradition and one of the highlights of the year.

First Financial and its employees are committed to investing in their communities by living and working in an area they love and by filling positions on boards of directors of various non-profit organizations.

The following topics provide the specifications and are in direct response to the topics in the County's RFP:

COLLATERAL: The depository Bank must include, as part of their bid, an explanation of how the bank intends to ensure, on a monthly basis, that sufficient collateral is pledged to protect covered accounts. In addition, detailed monthly pledged collateral to deposit report is required from the Depository Bank. This report shall contain security descriptions, par value/current face and current market value and will be submitted no later than the third business day of each month. The report may be faxed or electronically submitted directly to the Treasurer's Office. However, the original document must follow.

In compliance with Government Code, Section 2257.104 and to compensate for increases or decreases in County deposits and fluctuation of market value of pledged collateral, **the minimum market values of collateral shall be 103% of County deposits.**

The Depository Bank must propose how it will value pledged securities. The County at any time may investigate the value of any of the securities that may be pledged by the Bank. The full cooperation of the Bank will be required in such instance.

First Financial will collateralize funds in excess of the FDIC insurance limit with high quality Bank-owned investment securities that are in compliance with the Texas Public Funds Collateral Act, Chapter 2257. First Financial will monitor balances daily and add securities as needed to collateralize funds at 103% of County funds held on deposit. First Financial will deliver a detailed monthly report itemizing the securities held on behalf of Johnson County. As new securities are added a Pledge Notice will be delivered.

The investment securities pledged as collateral will be securities issued and guaranteed by Government-Sponsored Agencies; such as Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC").

Frost Bank of San Antonio serves as the Bank's third party custodian of all bank owned securities. Frost will provide Pledge Notices for each security pledged on behalf of Johnson County.

We encourage the County to maintain an open line of communication enabling the Bank to adjust pledged securities when large deposits are expected.

Behind Tab 6, we have included Johnson County's Collateral Report for February 2019 as an example of the monthly report the County will continue to receive. Also included behind Tab 6 are samples of the Pledge Notice and the Authorization to Release Pledged Securities.

INVESTMENTS MADE OUTSIDE DEPOSITORY: Johnson County reserves the right to make external investments according to the Laws of the State of Texas and the Investment Policy of Johnson County.

In compliance with Govt. Code 2256.005 of the Public Funds Investment Act, all offers will be required to comply with Johnson County Investment Policy and execute an "Agreement in Principal" (AIP) with the County. In addition to addressing the requirements of this notice to offertory, vendors are certainly encouraged to propose alternative approaches that may further enhance operational or financial success.

First Financial understands the County may exercise the option to purchase investments outside of the depository contract. First Financial offers Safekeeping Services for our public entities that require custodial services.

First Financial will provide delivery instructions to the County to provide to brokers. When the County purchases of a new security through its broker, First Financial will settle the transaction. A Safekeeping receipt will be delivered to the County.

A sample Safekeeping Agreement is provided behind Tab 6 along with a sample Safekeeping Report and Receipt.

INTEREST AND INTEREST RATE: Variable interest rate bids and fixed interest rate bids on accounts and certificates of deposit shall be quoted by the Bank. Johnson County reserves the right to select the rate most favorable to the County any time during the term of the contract, subject to banking laws.

First Financial offers a full range of investment options from Interest Bearing Checking Accounts and Savings Accounts to Certificates of Deposit with varying maturity dates.

First Financial is proposing interest bearing checking accounts to Johnson County earning interest at a rate equal to 85% of the 4 week average 91 Day T-Bill rate during the prior month with a cap of 2.00%.

INTEREST BEARING ACCOUNTS: Johnson County will have accounts established under these specifications for disbursing checks. Wire transfers, ACH transfers, internal bank transfers, deposits and/or remote deposits will also be made from these accounts. These accounts may vary during the duration of the contract, and accounts may be added, changed, and/or closed as the need arises with notice to the bank.

First Financial will work with the County to open and close accounts as needed. First Financial will also structure the accounts following the County's direction.

First Financial is proposing an interest rate equal to 85% of the average 91 Day T-Bill rate during the prior month with a cap of 2.00% for all interest bearing checking accounts.

MERCHANT SERVICES: The Depository Bank will process taxpayer credit or debit card payment transactions upon request of the County. The Depository Bank must offer a merchant service program that will automatically handle the convenience fee whereas the County is not assessed any monthly interchange fees associated with processing of credit and debit card transactions.

First Financial is pleased to offer Merchant Services for businesses of all sizes and types. First Financial has partnered with TSYS, a premier provider of merchant services. Johnson County currently has Merchant Services through TSYS, a service provided for many years through First Financial Bank.

Through a partnership with eGov Strategies, TSYS provides merchant services for government entities that are uniquely designed to meet the needs of its customers. eGov Strategies offers a no-cost solution for qualifying government entities, such as Johnson County.

As the County assesses their needs for Merchant Services, we welcome the opportunity to extend services to other County offices through TSYS and eGov Strategies.

PAYMENT OF SERVICES: Bank will specify fees required for services. Banking services not detailed on the Bid Worksheet will be provided at no cost to the County.

First Financial is empowering the County to choose between two compensation plans.

Option 1 is a fee based solution. The County would pay a flat monthly fee of $500 covering most services and products used by the County, with the exception of services such as Merchant Services, Lockbox, RemitPlus Express, and Smart Safes, which are billed separately. With this option, the County would also earn interest on all deposited funds at a rate equal to 85% of the average 91 Day T-Bill rate during the prior month with a cap of 2.00%. The County has a predictable, easy to budget cost while earning interest on all accounts without having to transfer funds.

Option 2 is a targeted balance option which is a more traditional approach to bank compensation. The County would maintain balances sufficient to offset all or a portion of services fees with Earnings Credit. First Financial is proposing an Earnings Credit Rate of .85% applied to balances held in a non-interest bearing account(s) grouped under Account Analysis. To earn interest, the County would move excess funds to an interest-bearing account(s). Otherwise interest, on balances grouped under analysis where Earnings Credit is applied, is considered an expense which increases the required balances to offset bank service charges.

With either option the fees related to the services provided are the same, except in the flat fee approach, since fees are capped. Fees related to Merchant Services, Lockbox Services, RemitPlus Express, and services such as Smart Safes are not included in the flat fee solution and are billed separately.

To illustrate these options, we have included a proforma behind Tab 4 with the Proposal Worksheet.

CONTACT PERSON: Bank will specify an Officer of the Bank who will be responsible for attending to inquiries, requests for services, and daily activities regarding the managing of Johnson County accounts.

Millie McManaway will continue to serve as the County's primary contact for day-to-day operations and requests for services. As you know, Millie is a seasoned employee with expertise in managing

the County's banking needs. Millie's office is close to County offices at our Ridgeway location, 202 North Ridgeway. Her direct phone number is 817-202-4186. Her email address is mmcmanaway@ffin.com**.**

John Mendez has served First Financial for 10 years as a Branch Manager in our corporate offices in Abilene, TX. He was recently promoted to Vice President and Assistant Chief Operations Officer for the Cleburne region. John also offices at our location at 200 North Ridgeway. His direct phone number is 817-202-3182 and his email address is jmendez@ffin.com**.**

APPLICANT BANKS submitting a proposal and are not located within the city limits of the County Seat, the city of Cleburne, must include in the submission a guarantee of daily pickup and delivery services to all County offices in the City of Cleburne at no cost to the County.

First Financial offers two full service location within the City limits of Cleburne. The location addresses and hours of operation are as follows:

Main Lobby
First Financial Bank
403 North Main
Cleburne, Texas 76033
817-556-5050
Hours:
Monday – Thursday 9:00AM – 5:00PM
Friday – 9:00AM – 6:00PM

Drive Thru

403 North Main
Cleburne, Texas 76033

Hours:
Monday – Friday 7:30AM – 6:00PM
Saturday 8:00AM – 12:00PM

First Financial Bank
200 North Ridgeway
Cleburne, Texas 76033
817-556-5050
Hours:
Monday – Thursday 9:00AM – 5:00PM
Friday – 9:00AM – 6:00PM

200 North Ridgeway
Cleburne, Texas 76033

Hours:
Monday – Friday 7:30AM – 6:00PM
Saturday 8:00AM – 12:00PM

Other location in the Cleburne region include Burleson, Alvarado, Midlothian, and Waxahachie. Each location provides full service with drive through facilities and ATMs.

The ATM at the Main Street location is capable of accepting deposits.

SERVICES REQUIRED

The Depository Bank shall provide on-line access to the County for daily reporting on fund balances, managing controlled disbursements, collected and ledger balances, detailed debits and credits, stop payments request, confirmations and detail debits and credits. Attach product description and sample reports of the on-line access available. **Banks should be prepared to provide the Treasurer's office an opportunity to physically work with this technology before the bid is awarded.**

By 8:00AM each business day, Online Banking is updated with all overnight transfer activity and current day activity. Wire Transfer activity memo posts upon arrival with immediate availability to funds. Incoming ACH activity is memo posted three times during the day. First between 4:00AM and 6:00AM, then by 3:00PM, and finally by 5:00PM each business day with immediate availability of

funds. In-clearing checks are memo posted by 3:00PM daily providing the County an opportunity to review items prior to posting, and if necessary fund accounts by deposit at any First Financial Bank location or by transferring funds using Online Banking from another account by 11:00PM.

Online Banking provides authorized users:

- **Ability to view account balances online**
- **Review electronic activity as it happens – ACH deposits, debit card activity**
- **View at least 60 days of account history**
- **View images front and back**
- **Transfer funds between accounts and make loan payments**
- **Apply Principal Only payments to Loans**
- **Schedule transfers to occur on a specific date – routinely or one time**
- **View statements online for at least 18 months**
- **Create Alert Messages for email notification when prescribed condition is met**
- **Download transactions to CSV, Excel, Quicken or QuickBooks**
- **Initiate Wire Transfers until 4PM (requires Treasury Management Services agreement)**
- **Initiate Stop Payments**
- **True online E-Statement including check images**

Our Online Banking System accommodates dual control on transfers and stop payment functions.

A sample Business Online Banking form is included with Services Agreement behind Tab 8. First Financial offers Single Sign On to the Positive Pay, ACH Origination and Remote Deposit systems from Online Banking. An Online Banking User Guide with separate Wire Transfer Instructions are provided behind Tab 7.

Monthly account analysis reports will be provided for each account and on a total account basis. The account analysis will contain, at a minimum, the following;

a. daily average ledger balance
b. average collected balance
c. price levels for each activity
d. earnings allowance
e. daily average float
f. reserve requirements
g. monthly volumes by type

A sample account analysis format must be provided as part of the bid.

First Financial will prepare and account analysis statement for all transactional accounts not earning interest. The County will receive individual account statements as well as a consolidated statement to combine balances enabling the County to benefit from compensating balances to offset bank service charges on all accounts. The County can maintain balances sufficient to compensate the bank for all or a portion of the bank service charges. The County can set a peg balance in the non-interest bearing transactional account to maintain compensating balances at a specific amount. Automatic transfers will move balances above the peg balance to an interest bearing account.

We will work with the County to structure the accounts to provide the County maximum benefit by reducing fees and maximum earnings on excess balances.

Account Analysis statements are published around the 15th of each month. A sample Account Analysis statement is provided behind Tab 5.

STATEMENTS: Monthly account statements will be provided with all corresponding checks, debit and credit memos, and/or optical images of the front and back of checks, debit and credit memos, deposited

items, etc. The statement shall, at a minimum, include the number of checks, deposits and deposit items posted, daily ledger balances, average daily ledger balance for the month, average daily collected balance for the month and other items on which charges are based. Such statements shall be provided within five (5) working days after calendar month-end.

Monthly statements detailing all debit and credit transactions are prepared for all accounts, and will be available in Online Banking on the morning following the statement drop, which is the last business day of the month. Statements will reflect activity by the calendar month. Statements can be downloadable in PDF format. If the County opts for e-Statements, an e-mail notification will be delivered to the person requesting the e-Statement. Upon request a compact disk of cleared checks will be mailed to County within five (5) days after the statement drops.

DAYLIGHT OVERDRAFT PROVISIONS: The RFP should include any Bank policy regarding daylight overdraft charges and/or handling fees.

First Financial does not assess an overdraft fee when a balance falls into a negative position during the business day. By 3:00PM on each business day, First Financial will provide the County with the inclearing items that will post with night processing. By monitoring account balances the County can review items and transfer funds by 11:00PM to fund an account that is underfunded at the end of the day.

CASH OVERDRAFTS: For the purposes of determining cash overdrafts, the daily cash balance in all County accounts will be added together and if a negative balance occurs, the County's account is considered to be over-drafted. An applicable insufficient funds fee may then be charged in the analysis.

First Financial will contact the County in the event an account is overdrawn. The County will have the opportunity to transfer funds from another account or make a deposit. At the present time, overdrafts are assessed by account. In the event and account is insufficient, the overdraft fee will be charged through the analysis system.

STOP PAYMENTS: The Bank shall offer Stop Payment services through online access for the County Treasurer and/or their assignee and the Tax Assessor-Collector and/or their assignee for Tax Assessor-Collector accounts. The Bank shall be required to process stop payments on verbal instructions from the County Treasurer and/or their assignee and the Tax Assessor- Collector and/or their assignee for Tax Assessor-Collector accounts with follow-up written confirmation.

Those authorized by the County can initiate Stop Payment orders using Online Banking. The system will accommodate two layers of approval if the County requires dual control. Stop Payments placed online are immediately active and do not require written follow up.
The County can also provide Stop Payment instructions verbally. The Stop Payment order will be applied immediately; however, verbal Stop Payment order require written follow up within 14 days of the verbal order.

STALE DATED CHECKS: The Bank will agree not to honor stale dated checks on Johnson County accounts that are not endorsed by the County, as acceptable, after the County has delivered to the Bank an approved canceled list from the records of Commissioners' Court.

First Financial's Positive Pay system can screen checks for stale dates. The success is dependent up the County providing a list of issued checks or entering checks manually into the Positive Pay

system. When a check is presented for payment that is beyond 180 days or the number of days the County specifies for stale dated checks, the check will be flagged as an Exception with the reason of Stale Date. An email alert is sent to those designated by the County whenever there are Exceptions. Authorized users will connect to the Positive Pay system, review the Exception and make a Pay or Return decision.

The County can determine the number of days a check will be honored. Our Positive Pay system interacts with our teller system. If a check is presented at the teller line and it cannot be validated in the Positive Pay system, the teller will not pay the item and is instructed to refer the payee to the County.

PAYROLL DIRECT DEPOSIT: Bank must provide the capability for the County to utilize "Direct Deposit" payroll processing, allowing employees to select the bank of their choice, and the option to pay utilizing a Payroll Card, if the County were to mandate all County employees to use Direct Deposit Pay.

First Financial offers ACH Origination services for Direct Deposit payroll. Employees can bank anywhere in the United States and receive their payroll funds timely, securely, and reliably. Since the County banks with First Financial, there is no interruption, setting changes or changes to make for payroll to arrive in employees' accounts.

The County's payroll system creates an electronic file of ACH entries which is easily uploaded. We require a NACHA formatted file to arrive no later than 4:00PM just one business day before the effective date, which is payday. The effective date must be a banking day. Our system also supports the ability to create ACH entries manually.

If the County elects to require Direct Deposit for all employees, First Financial offers a Payroll Card.

PAYROLL CARDS
First Financial offers Payroll Cards branded by MasterCard. Payroll Cards are issued to employees that cannot qualify for a traditional checking account or do not want an account. The Payroll Card becomes the employees "checkless checking" account and the continued use of the card is NOT dependent upon employment by the County. A Payroll Card cardholder can receive Direct Deposit from other employers, and Direct Deposits, such as income tax refunds. Payroll Cards become an excellent employee benefit as they provide secure and timely delivery of payroll funds as well as extended purchasing power for cardholders. Payroll Cards are an excellent solution to achieve 100% participation in Direct Deposit payroll reducing the exposure of the County's bank account number.

ACH TRANSACTION: Bank must provide for acceptance of Automated Clearing House (ACH) credits and debits. Bank is required to provide detailed information of any and all ACH transactions.

First Financial will accept ACH credits and debits on behalf of the County and apply the payments to the appropriate County accounts on the effective date specified with the entry. We will also provide payment detail, called Electronic Data Interchange or EDI, that travels with the ACH entry provided the originator. We will deliver the detail on the same day the payment arrives.

If the County desires to stop certain payments, such as ACH WEB entries initiated online, our Positive Pay system can filter ACH entries based on the County's direction and apply only those

allowed. If a new ACH payment is presented an Exception is created for the County to consider for a the Pay/Return decision and to add the new entry as an approved transaction.

Whenever an originator includes payment detail with an ACH entry, such as invoice detail, it is called Electronic Data Interchange or EDI. We deliver EDI information as a text document or electronically based on the County's preference. It is delivered on the same day the electronic payment arrives.

A completed EDI request form lets us know to whom we should deliver the EDI data and the accounts to monitor for EDI. A sample EDI Request Form is provided behind Tab 8.

WIRE TRANSFERS: Bank must provide the ability to send wire transfers on an automated and/or manual basis; and also provide the ability to receive wire transfers. Bank must provide the ability to restrict outgoing wire transfers (debits) to only those authorized.

First Financial offers Wire Transfer services for those authorized by the County. Dual control is highly recommended. One person will draft the transaction while a second use logs in and approves the transfer. Approvers are required to enter a bank provided token to authenticate the payment.

Wire Transfers can be initiated through Online Banking, by phone with a prearranged PIN, or in person by those with proper authority. The Online Banking system enables users to save Wire Transfer templates for recurring wire transfers. The deadline for sending a wire through Online Banking is 4:00PM. A wire initiated at any First Financial location must be completed by 3:30PM.

Incoming Wire Transfers are posted upon arrival. First Financial can also deliver email notifications to designated County staff for both incoming and outgoing Wire Transfers.

STANDARD DISBURSEMENT SERVICES: Standard disbursing services for all accounts are required to include the payment of all County checks upon presentation.

As a full service bank, First Financial provides all standard disbursement services. Authorized County users can view front and back images of all paid items through Online Banking. First Financial will pay items drawn on the Bank upon presentment provided proper identification is presented. Employees presenting payroll checks for cashing will not be charged provided the County is participating in Positive Pay.

POSITIVE PAY: Bank will provide a means for the County to upload disbursed check information that will be compared to checks that are presented to the Bank for clearing. Any discrepancies shall be cleared by an authorized County employee before checks are paid by the Bank. Any applicable costs shall be quoted.

Positive Pay is a partnership with the County to help control and detect check fraud. First Financial encourages all businesses to subscribe to Positive Pay. The effectiveness of Positive Pay is dependent upon the County providing information about all issued checks. At a minimum, we need to know the check number and dollar amount of each issued check. By adding Payee Name match, the County can detect whenever a payee name has been altered. Our Positive Pay system is easy to use and does not require a special format. We can accept an Excel file, a Comma Separated Value (CSV) file, or fixed width file with the check number, amount, and ideally the payee name. When checks are presented for payment whether through our inclearing files or through the teller line, we will match the check

data against the County's list of issued items. If a check doesn't match the County's check data, it will be considered an exception.

Email notifications are sent to those designated by the County whenever there are Exceptions. The first notification is sent by 8:00AM and a reminder email is sent at Noon if Exceptions have not been cleared. All Exceptions must be cleared by 2:00PM otherwise the Bank will return the Exception Item.

ACH Block and ACH Filter services are also managed through the Positive Pay system. The County can choose to block all ACH activity by Standard Entry Class Code (SEC), such as internet initiated payments under the WEB SEC code, or allow specific ACH entries by adding Company IDs (required with all ACH entries) to a white list. As with check Exceptions, blocked ACH entries or entries other than those in the white list will be exceptions and presented for a pay or return decision.

We highly encourage the County to add Positive Pay as it adds a layer of security for County's funds by monitoring check and ACH activity. A Positive Pay User Guide, including screen shots, is provided behind Tab 7. Our Positive Pay service is included in our Treasury Management Services Master Agreement behind Tab 8.

Positive Pay is $10.00 per month to provide protection for all identified accounts. If the Bank needs to return an Exception Item after the 2:00PM deadline, there is a $2.00 per item cost.

STANDARD DEPOSIT SERVICES: The Bank will guarantee immediate credit on all wire transfers, ACH transactions and Government checks upon receipt and all other checks based on the Bank's availability schedule. All deposits received before the Bank's established deadline will be credited daily.

First Financial Bank provides same day credit, next day availability. In some unusual cases, we may delay the ability to withdraw funds beyond the next business day. Then, the funds will be available according to the guidelines of Federal Regulation CC. Incoming funds from Wire Transfers, ACH, U.S. Treasury checks and cash are immediately available.

First Financial accepts deposits at any branch or motorbank location during hours of operation as same day credit. Deposits made at an ATM by 8:00 PM on any banking day will be considered that day's deposit. Check deposits delivered electronically through Remote Deposit by 7:00 PM on any banking day for same day credit.

Fund transfers made in Online Banking until 11:59PM on any banking day will be considered that day's business.

ACCOUNT RECONCILIATION: The County requires a monthly bank account reconciliation plan for all accounts (See Appendix I). If available or on request, the Bank will provide a magnetic tape or CD-Disc of all checks that have cleared all County accounts. This tape or CD shall be in a format that is compatible with the County's reconciliation program.

First Financial's robust online banking system provides those authorized 24-hour access to at least 60 days of transaction history and at least 18 months of statements. Fund transfers are completed in a few clicks, including wire transfers. Our mobile banking solution provides convenient and immediate access to balance information as well as funds transfers including the ability to approve wires. An automated voice response system provides information by phone. An Online Banking Guide and Wire

Transfer Guide is provided behind Tab 7. An Online Banking Authorization Form, used to add new users or modify existing users, is provided with the Service Agreements behind Tab 8.

Reconciliation may be simplified with the ability to import transaction history in a variety of formats. Transaction history can be filtered and downloaded in formats compatible with Excel and QuickBooks using our Online Banking System. Our Positive Pay system offers paid item, issued item, and outstanding item reports that are easily downloaded into Excel. The system is also capable of exporting in BAI2 format, a common format accepted by many accounting systems for reconciliation.

In addition to immediate access to account activity, First Financial can provide images of statements, paid items, and deposits on a CD for archival and easy retrieval. It's an excellent research tool and resource for auditors. A request form is provided behind Tab 8.

AUTOMATIC OVERNIGHT INVESTMENT FACILITY: It is requested that funds in all accounts be pooled and automatically invested on an overnight or weekend basis. The Bank will allocate the pro-rated share of total interest to each account based on each account's balance.

First Financial is proposing interest bearing checking accounts as an investment option for the County. The benefit is the funds remain liquid and can be moved manually or as a prearranged automated sweep. We are proposing an interest rate equal to 85% of the 4 week average 91 Day T-Bill rate during the prior month with a cap of 2.00%. Interest is accrued daily and paid monthly.

The County can choose to maintain compensating balances in a non-interest account(s) to cover all or a portion of the Bank's service charges or the County and sweep excess funds into an interest bearing account. Or, the County can choose to earn interest on all balances and pay a flat monthly fee of $500.00. First Financial will work with the County to structure accounts in a manner that provides the County with the best option to meeting its financial goals. Fees related to Merchant Services, Lockbox Services and RemitPlus Express are billed separately not included in the $500 monthly flat fee option.

CASH MANAGEMENT: The County will require cash management advice on updated and recent developments in cash management procedures and products as they become available.

First Financial is privileged to have Andrea Smiddy-Schlagel, our Executive Vice President of Treasury Management, and Meg Romano, our Senior Vice President a Sales Manager, on staff. Both Andrea and Meg are Certified Financial Professionals and welcome the opportunity to meet with the County to discuss options to help deliver efficiencies to the County, maximize earnings and reduce expenses. First Financial continually works with its providers to update systems and stay abreast of new developments that benefit our customers.

Vendors are invited to propose additional cash management services that are not specified herein.

EXPENSE ALLOWANCE: State the dollar amount, if any, the Bank will be willing to provide for expenses incurred due to changing depository banks. (For example: checks, deposit slips, endorsement stamps)

First Financial is currently serving the County with Depository services, therefore, daily operations would continue in the new contract without interruption and without expenses as well as training on systems when moving to a new financial institution.

OTHER SERVICES: As described on the Bid Worksheet, the Bank will acknowledge services provided and attendant fees for such.

Remote Deposit

Johnson County currently uses Remote Deposit for the convenience of delivering check deposits to the bank electronically. The County may consider adding Remote Deposits in other offices to perhaps expedite check deposits. Remote Deposit virtually brings a bank teller to County offices. Remote Deposit is web-hosted and easy to use. Deposits delivered by 7:00PM on any banking day will be posted as that day's credit.

Standard fees for Remote Deposit include a monthly fee of $35.00 per month and a per item fee of $0.08 per item. Scanners are sold separately. A single feed scanner is $315 and a batch feed scanner is $593. While First Financial retains ownership of the scanners, we provide ongoing maintenance and replacement as needed. This service would be included in Option 1 flat fee pricing.

RemitPlus Express and RemitCentral

Recently, we introduced RemitPlus Express, which is a web-hosted solution to scan both checks and payment coupons in a single pass. Check deposits are delivered to the bank electronically and the payment information, such as account number and payment amount, is extracted in a separate file. The payment file is customized to import into the County's accounting system to post the payments.

RemitCentral compliments RemitPlus Express. RemitCentral gathers payment information from bill payment service providers for Johnson County receivables. The funds are delivered electronically and the payment detail is delivered through RemitCentral reducing the number of paper checks. After paper checks are scanned in RemitPlus Express, a menu option is selected to import the electronic payment detail from RemitCentral into a single accounts receivable file in order to apply all payment credits electronically.

This process expedites the payment posting and bank deposit process. RemitPlus Express is very cost effective solution. The cost is $200 per month for one workstation with additional workstations added at $50 each. The per item cost is $0.10 which is applied to every item scanned in RemitExpress Plus and imported through RemitCentral. In addition to the application and per item cost, the scanner is sold separately. RemitCentral is billed separately and not included in the flat monthly fee option.

Credit Cards

First Financial has partnered with Elan Financial Services to deliver the best in product and service. Elan's program is backed by 24/7 support and online access to transactional history and statements. Elan and First Financial understand businesses and non-profits need robust features to manage card spending, control expenses and limit liability.

Businesses and non-profits using our credit card enjoy the benefits and security such as $0 liability from VISA on unauthorized transactions (with timely notification) and $0 liability is extended to employee misuse up to $100,000, provided certain conditions are met.

For non-profits, the CommUNITY card offers a standard non-rewards program without an annual fee and a rewards program with an annual fee of $99. The CommUNITY card is a pay in full program.

Elan's long-term success and reputation weighed heavily in First Financial's selection for a credit card provider. We are pleased to offer a variety of card programs to meet the needs of consumers, business, and non-profits with features that provide convenience, security, and money saving benefits.

Lockbox Services

Lockbox Services provide convenience at efficiency to organizations that receive a high volume of payments or high dollar payments. Payments are received at a designated PO Box. Envelopes are opened and payments are deposited for time saving processing. Envelope content and images of checks are delivered based on specific needs. Remittance information is delivered for easy payment posting. Online access to images provides immediate access to incoming payments.

Lockbox Services is cost effective and time saving by reducing work load on current staff or eliminates the need to add staff for payment processing.

Lockbox Services will vary depending upon the level of service required. Fees related to Lockbox Services are billed separately and not included in the flat monthly fee option.

1st Safe and Loomis Armored Car Services

First Financial offers 1stSafe in conjunction with Loomis. A separate contract is required when implementing 1stSafe. A brochure describing the services is provided in the back cover of the bid packet.

Smart safe technology provides same day credit for all cash deposited through the safe. Cash is safely stored until the scheduled pickup by Loomis' Armored Car service. As cash is fed into the safe, it is counted and at a scheduled time each day, the totals are uploaded to Loomis' secure internet site. The deposit activity is also transmitted to the Bank for credit to your account. On a scheduled basis, Loomis will pick-up cash stored in the safe.

First Financial will coordinate implementation of a smart safe in one or more locations. The cost is based on several factors and will be negotiated through Loomis. The business is responsible for preparing the safe installation site.

With 1stSafe, you have peace of mind knowing credit for cash is provided and cash is safely stored until the next armored car pick-up. Fees related to 1st Safe are billed separately and not included in the flat monthly fee option.

OnSite Service and Support

First Finanical is proud of its Customer Service 1st program. Every employee strives to exceed our customers' expectations by providing first-class service with personal attention. I am certain the staff of Johnson County has experienced the First Financial difference. We are pleased to offer on-site support for our Treasury Management Services.

First Financial offers a comprehensive suite of Treasury Management Services. A brief description of each service is provided behind Tab 7. Behind Tab 8, we provided Online Banking and Positive Pay User Guides. These guides provide screen shots and instructions on the most popular features of each program.

We look forward to continue providing depository services to Johnson County.

RFP 2019-905: Bank Depository Contract for Johnson County

PROPOSAL WORKSHEET

Please note if this proposal is for Depository Contract:

First Financial Bank is presenting this proposal with the desire to continue serving Johnson County with depository services and negotiate a Depository Contract.

Money Market Sweep Accounts: Interest Rate MMF Interest Rate** minus **15** basis points

Interest Bearing Checking Accounts: Variable** Interest Margin minus **15** basis points

*Variable Rate = 91 Day US T-Bill Effective Rate (as determined by latest T-Bill Auction) + Margin (Based on basis points).

Example: If 91 Day US T-Bill effective rate is 2.3% and basis points are 50.0, the variable rate is 2.8%.

First Financial is proposing interest bearing checking accounts for the County as an investment option earning interest at a rate equal to 85% of the 4-week average 91 Day T-Bill rate during the prior month with a cap of 2.00%. If the County chooses our flat fee pricing strategy of $750 per month, the County would earn interest on all funds held on deposit. If the County chooses to offset all or a portion of the bank service charges, eligible for earnings credit, with balances, then the County would earn interest on the excess funds moved into an interest-bearing checking account. Either strategy enables the County to maintain funds without withdrawal restrictions.**

Certificates of Deposit - Variable Interest Rate
91 Day US T-Bill Effective Rate (as determined by latest T-Bill Auction)

First Financial does not offer a CD tied to a variable rate.

	Less than $100,000	More than $100,000
1. Maturity 7-29 days	+____basis points	+____basis points
2. Maturity 30-59 days	+____basis points	+____basis points
3. Maturity 60-89 days	+____basis points	+____basis points
4. Maturity 90- 179 days	+____basis points	+____basis points
5. Maturity 180 - 1 year	+____basis points	+____basis points
6. Maturity over 1 year	+____basis points	+____basis points

Certificates of Deposit – Fixed Interest Rate

		Term	Less than $100,000	More than $100,000
1.	Maturity 7-29 days	7-31 Day	0.10%	Not offered
2.	Maturity 30-59 days	32 – 90 Day	0.25%	0.35%
3.	Maturity 60-89 days	Not Offered		Not Offered
4.	Maturity 90-179 days	91 – 180 Day	0.70%	Not Offered
5.	Maturity 180-days-less than year	181 - 364 Day	0.75%	0.85%
6.	Maturity one year or more	12 – 17 Month	0.85%	0.90%

Rates stated above are as of March 15 and are subject to change.

Services Provided:

1) Monthly Account Analysis Fee (Individual and Group) Yes _X___ No ____ $ _**See comment below**

Comment: First Financial will provide an account analysis statement by individual account and at the group level. Analysis statements provide the information requested by the County.

First Financial is empowering the County to choose from two pricing strategies.

Option 1- All funds are held in interest bearing accounts, as they are currently. The County would pay a flat monthly fee of $500 to include all bank service charges, with the exception of fees related to Merchant Services, Lockbox Services, 1st Safe, and RemitPlus Express.

Option 2-The County would maintain balances in a non-interest checking account(s) to offset all or a portion of the fees with Earnings Credit. We are proposing an Earnings Credit Rate of .85%. Based on activity from December 2018, the required balances held in non-interest accounts to offset all fees totaled just under $9MM resulting in $31MM in excess funds. The County can opt to maintain a specific balance in the non-interest bearing account for Earnings Credit for an automated sweep or move funds manually into an interest-bearing account. The required funds will vary based on transaction volume. As in Option 1, fees related to Merchant Services, Lockbox Services, 1st Safe, and RemitPlus Express are not eligible for Earnings Credit and will be billed separately.

To illustrate both options, First Financial has prepared proformas which are included in this section.

2) Automated Balance Reporting on Daily Activity Yes _x___No___ $___0__Fee

Comment: Those authorized by the County can access balance and transaction history through Online Banking.

3) Wire Transfer Incoming Yes _X__ No ___ $_0_____Fee

Outgoing Yes _X___ No ___ $_0_____Fee

Repetitive Yes _X___ No ___ $_0_____Fee

Non-Repetitive Yes _X__ No ___ $_0_____Fee

Comment: If the County chooses Option 1, the flat monthly fee strategy, the bank service charges for incoming/outgoing wires are included.

If the County chooses Option 2, maintaining balances to offset all or a portion of the bank service charges with Earnings Credit, the bank service charge for incoming wires is $15.00. The charge for Outgoing wires initiated through Online Banking is $15.00, and the charge for outgoing wires completed in - person at the Bank are $25.00.

4) ACH Service Transfers Outgoing-Bank Yes _X_ No____
$_0___Fee

Computerized Yes _X_ No ___ $_0___Fee

Comment: ACH services are accessed through Online Banking. Only those authorized by the County will be granted access to process ACH transfers. The County can assign limits by user as well as incorporate dual control (assign drafting & approval rights) for ACH Transfers.

Under Option 1, all service fees are included. For Option 2, ACH entries the fees are as follows:

Monthly Maintenance = $35.00, Per file = $10.00, and per item = $0.10.

5) In-House Account Transfers Repetitive Yes _x No __ $_0__Fee

Non-repetitive Yes x_ No __ $_0__Fee

Computerized Yes x_ No __ $_0__Fee

Comment: Moving money between accounts at First Financial is FREE through Online Banking by those authorized by the County. The County can assign limits by user as well as incorporate dual control (assign drafting & approval rights) for transfers between accounts.

6) Account Maintenance on Accounts **Checking** Yes _x_ No __ $ __0_____ Fee

Comment: Account Maintenance is assessed through account analysis
Option 1, Account Maintenance is included in the flat monthly fee.
Option 2, Account Maintenance on checking accounts is $5.00/per account

7) Payroll Direct Deposit allowing employees to select the bank of their choice: **Yes x__ No __ $ see below_ Fee**

Comment: First Financial offers the County payroll direct deposit to their employees where ever they bank. The County can become 100% direct deposit by taking advantage of our ACH and Payroll Card services.

Option 1, Payroll Direct Deposit, is covered under the flat fee.
Option 2, Payroll Direct Deposit is, Payroll/ACH file $10/file, ACH item is $0.10/item

8) Sweep Accounts: Yes x__ No __ $ _0___ Fee

Comment: Sweep accounts are available to the County at no cost.
First Financial offers ZBA accounts and sweep arrangements between accounts held at First Financial. The account balance can be swept to $0.00 or the County can maintain a specific balance with excess funds swept to another account, such as an interest-bearing account. Also, we can schedule automated transfers to occur daily, weekly or monthly for a specific amount.

Tellers are accustomed to seeing a negative balance throughout the day for customers with ZBA accounts, especially payroll accounts that will be funded by the main operating account with night processing.

9) Furnish deposits slips, deposit books, and endorsement stamps: Yes _x_ No __ $__0____ Fee
Yes _x_ No __ $__0____ Fee

Comment: First Financial will provide the County with FREE bank stock checks and deposit slips, provided the order is placed through the Bank's provider.

10) Night depository slips, including bags: Yes N/A__ No __ $ ____ Fee

Comment: **First Financial will provide the County with night depository bags as needed.**

11) Stop Payments issued: Yes _x No __ $_0__ Fee

Comment: Under Option 1, stop payments are covered in the flat fee.
With Option 2, stop payments are $35.00 per request. Stop payments can be placed by the County's authorized users though Online Banking or in-person at any one of our locations.

12) Overdrawn Accounts: Yes_x___ No ___ $ _0_Fee
Comment: First Financial's system assesses overdrafts on an individual account basis.

13) Returned Items: Yes_x___No___ $ _0___Fee

Comment: **Option 1, Returned Items are covered under the flat fee.**
Option 2, Return Items are $3.00

14) Account Reconciliation, per Account: Yes _x_ No___ $ _0_ Fee

Paid Checks Tape per Account Yes _x_ No___ $ _0_ Fee

Check Sort Account (checks) Yes _x_ No___ $ _0_ Fee

Comment: First Financial offers the County a monthly CD containing all County accounts, statements, and images of their paid items. We also offer reconciliation per account, paid items report, outstanding items report through our Positive Pay system. Transaction reports can be exported from the Online Banking in several formats.

15) Provide safekeeping for outside purchases of securities at a Third Party Financial Institution or with the Federal Reserve Bank: Yes _X_ No__ $ _0_ Fee

Comment: First Financial uses Frost Bank of San Antonio for third party Safekeeping Services. First Financial will settle purchases by the County's broker and provided a Safekeeping receipt for the purchased security. Fees for Safekeeping are included in Option 1, while Safekeeping Fees will apply in Option 2 and eligible to offset by Earnings Credit. The fee to settle a security purchased by the County if $15.00.

16) Online Access from which Johnson County accounts will be monitored by only authorized individuals Yes _X_ No__ $ _0_ Fee

Comment: Online access will only be granted to authorized individuals appointed by the County. An Online Banking form will be completed and approved by the County for each authorized user. All users with Wire Transfer and/or ACH rights will have dual control.

17) Controlled Disbursement Accounts: Yes___ No__ $____ Fee

Comment: Although First Financial doesn't offer true Controlled Disbursement, we do offer Positive Pay provides check fraud detection. The County can elect to monitor checks and ACH activity with Positive Pay.

18) Zero-Balance Accounts: Yes _X_ No__ $ _0_ Fee

Comment: First Financial offers ZBA accounts and sweep arrangements between accounts held at First Financial.

15) Optical Images: CD ROM Yes _X_ No__ $ _0_ Fee

Paper Yes _X_ No__ $ _0_ Fee

Comment: First Financial offers monthly CD ROMs containing all the County's accounts, statement and check/deposit images. Images of statements, checks, and deposits slips are available through the Online Banking. The cost for a monthly CD is $10.00. The fee is included in the Option 1 proposed fee strategy and will be assessed through Account Analysis with the choice of Option 2.

20) Lock Box Services: Yes _X_ No ___ $ **based on** Fee
Service options

First Financial offers both an in-house solution for Lockbox Services as well as an outsourced solution. The in-house solution is through RemitPlus. The RemitPlus Express solution is web-hosed and programmed to scan checks and coupons in the same batch. The batches will accommodate single checks and coupon payments or multiple checks for a single coupon. Once the items are scanned, the result is a file to send to the bank for deposit and a file to upload into the County's system to post the credits. It is a cost effective and time saving solution. The cost is $200 per month for the first workstation and $50 for each additional workstation, then $0.10 per item scanned (check or coupon). Fees for RemitPlus Express are not eligible for Earnings Credit and will be charged separately.

Johnson County may choose to outsource Lockbox payments for which First Financial has a solution. A Dallas Post Office Box is assigned to receive County payments. Mail is picked up on the County's behalf, opened, and the payments are processed for deposit. There are many service options from which to choose, from simple mail handling and sending physical contents and check copies to the County to viewing the envelope content online and downloading images and payment files lifted from coupons or keyed from stubs. Pricing will vary based on the service provided. Outsourced payment process will be contracted and billed separately.

21) Payment for Services:

To offset the cost of services and supplies in this contract, Johnson County may elect any of the following methods:

A. PAY FOR SERVICES BY ANALYSIS BILLING.

The County may require that the bank provide a grouped and detailed analysis of all accounts on a monthly basis. This analysis should describe all charges per account with an earnings credit given to defray certain cost depending on the County's account balances. Please list the earnings credit rate that your bank is offering.

Comment: **First Financial will provide an account analysis statement by individual account and at the group level. Analysis statements provide the information requested by the County. We are proposing an Earnings Credit Rate of .85%.**

Is this earnings credit rate a floating rate and if so what is it tied to?

Comment: Earnings credit rate is .85%. ECR is not a floating rate.

Does your bank allow interest bearing checking accounts to receive an earnings credit?

Comment: **No**

What happens to any residual earnings credits? Can credits be carried forward?

Comment: Earnings credit does not carry over.

B. Direct monthly payment for services, at the unit price, indicated in the bid; or,

C. A combination of A. and B.

Comment: First Financial is empowering the County to choose from two pricing strategies. Whether the County chooses Option 1 or Option 2, Account Analysis statements will be prepared for individual accounts and consolidated into a group analysis.

Option 1- All funds are held in interest bearing accounts, as they are currently. The County would pay a flat monthly fee of $500 to include all bank service charges with the exception of fees related to Merchant Services, Lockbox Services, 1st Safe, and RemitPlus Express.

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Option 2-The County would maintain balances in a non-interest checking account(s) to offset all or a portion of the fees with Earnings Credit. We are proposing an Earnings Credit Rate of .85%. Based on activity from December 2018, the required balances held in non-interest accounts to offset all fees totaled just under $9MM resulting in $31MM in excess funds. The County can opt to maintain a specific balance in the non-interest bearing account for Earnings Credit for an automated sweep or move funds manually into an interest-bearing account. The required funds will vary based on transaction volume. As in Option 1, fees related to Merchant Services, Lockbox Services, 1st Safe, and RemitPlus Express are not eligible for Earnings Credit and will be billed separately.

To illustrate both options, First Financial has prepared proformas which are included in this section.

Johnson County is free to choose either a flat monthly fee to cover banking service charges, with the exception of those services named, or the County can choose to use Earnings Credit to pay for all or a portion of the bank service charges. The County can change payment plans during the contract period to provide the County the option that brings the most benefit to the County.

D. Any means of cost saving methods for applying cost of services not mentioned above.

Please list any charges that will not receive an earnings credit on the monthly analysis.

Fees related to Merchant Services, Lockbox Services, 1st Safe Services, and RemitPlus Express are billed directly.

Are there any additional charges for the requested collection, disbursement, investment or miscellaneous services not previously covered? If so, please describe and state the fee per unit.

Service:	Fee/Unit	Included in Option 1?
Positive Pay	$10.00 per relationship	Yes
Positive Pay Exceptions	$2.00 what Bank stands in	Yes
ACH Block/Filter	$10.00 per relationship	Yes
Remote Deposit (standard)	$35.00	Yes
Remote Deposit per item	$0.08	Yes
ACH File Reversal	$25.00	Yes
First Safe – Smart Safe	Contracted directly through Loomis	No
RemitPlus Express	$200/month + $$0.10 per item	No
Remote Deposit Scanners	Based on model	No
RemitPlus Express Scanners	Based on model	No

Other services will be negotiated at the time upon mutually agreed upon terms.

Vendor Signature and Authorization

The undersigned affirms that they are duly authorized to execute this contract, that the company, corporation, firm, partnership or individual has not prepared this Bid in collusion with any other offerer, and that the contents of this Bid as to prices, terms or conditions of said Bid have not been communicated by the undersigned nor by any employee or agent to any other person engaged in this type of business prior to the official opening of this Bid. And further, that the manager, secretary or other agent or officer signing this Bid is not and has not been for the past six months directly nor indirectly concerned in any pool or agreement or combination to control the price of supplies or to influence any person.

NAME OF BUSINESS: **First Financial Bank, N.A.**

ADDRESS: **200 Ridgeway**

CITY/STATE/ZIP: **Cleburne, Texas 76033**

OFFICE PHONE: **817-202-3182** FAX PHONE: **817-641-1603**

CELL PHONE: **325-627-3740** EMAIL: **jmendez@ffin.com**

AUTHORIZED SIGNATURE: _____

PRINTED NAME: **John Mendez**

FIRST FINANCIAL BANK NA
Member FDIC

ACCOUNT OFFICER: Austin Elser
PHONE:

REGION/BRANCH: Cleburne Ridgeway
SAMPLE MONTH: 12/31/2018

DATE PREPARED: 3/12/19
DAYS IN STATEMENT CYCLE: 31

OPTION 1

PROFORMA SUMMARY:

This proforma illustrates the benefit of the proposed compensation plan, Option 1. All funds are held in interest bearing accounts. Although the fees total nearly $49,000 (mostly due to almost $70,000 in interest paid), the County would pay a flat monthly fee of $500.

ACCOUNT ANALYSIS BALANCE, EARNINGS, & SETTLEMENT SUMMARY

AVERAGE DAILY LEDGER BALANCE					$ 40,394,865.27
LESS AVERAGE DAILY FLOAT					1,514,782.69
AVERAGE DAILY COLLECTED BALANCE					38,880,082.58
LESS REQUIRED RESERVES			10.000%		3,888,008.26
AVERAGE NET COLLECTED BALANCE					34,992,074.32
			ECR .85%		
EARNINGS ALLOWANCE	$ 34,992,074.32	AT	0.8500%		25,261.40
TOTAL SERVICES					73,983.05
EXCESS/(DEFICIT) EARNINGS ALLOWANCE					(48,721.65)
ANALYSIS SERVICE CHARGE				$500	~~$ 48,721.65~~

ANALYZED SERVICES SUMMARY

BANK SERVICES PROVIDED		ACTIVITY	UNIT PRICE		ACTIVITY CHARGE	REQUIRED COLLECTED BALANCES
Account/Transaction Services						
Account Maintenance		36	5.00	per acct	180.00	249,335.86
Regulatory Balance Charge	0.003200%	1	299.91	balances	299.91	415,435.10
Interest Paid		1	69,683.05 *	per acct/month	69,683.05	96,524,907.97
Debit Paid		1581	0.15	per item	237.15	328,500.00
Credit Posted		1298	0.50	per item	649.00	898,994.31
Items Deposited:						
On Us		1357	0.12	per item	162.84	225,565.84
Foreign Item		12564	0.15	per item	1,884.60	2,610,546.49
Stop Payment		0	35.00	per item	0.00	0.00
Statements:						
NSF Item *(Overdraft/Insufficient Funds)*		0	35.00	per item	0.00	0.00
Returned Check Items:						
Returned		13	3.00	per item	39.00	54,022.77
Credit Back		3	3.00	per item	9.00	12,466.79
Coin & Currency:						
Rolled Coin - per roll		22	0.10	per roll	2.20	3,047.44
Strapped Currency - per strap		4	0.40	per strap	1.60	2,216.32
ACH Origination						
ACH Origintation (Monthly Maint.) - standard		2	35.00	per GL set-up	70.00	96,963.95
ACH Origintation File - standard		25	10.00	per item	250.00	346,299.81
ACH Origination Item - standard		1697	0.10	per file	169.70	235,068.31
Remote Deposit Service						
Remote Deposit - standard (Monthly Maint.)		0	35.00	per scanner	0.00	0.00
Remote Deposit Item - standard		0	0.08	per item	0.00	0.00

ANALYZED SERVICES SUMMARY

BANK SERVICES PROVIDED	ACTIVITY	UNIT PRICE	ACTIVITY CHARGE		REQUIRED COLLECTED BALANCES
Account Reconciliation & Fraud Protection					
Account Reconciliation Service	0	10.00	per acct	0.00	0.00
ACH Debit Block/Filter	1	10.00	per acct	10.00	13,851.99
Positive Pay Service:					
Positive Pay (Monthly Maint.)	1	10.00	per acct	10.00	13,851.99
Positive Pay Exception Item	0	2.00	per item	0.00	0.00
Miscellaneuos Services					
Safekeeping	1	0.00	variable	0.00	0.00
CD Rom	1	10.00	per box	10.00	13,851.99
Wire Transfer					
Incoming	21	15.00	per item	315.00	436,337.76
Outgoing - Online	0	15.00	per item	0.00	0.00
Outgoing - Manual	0	25.00	per item	0.00	0.00
TOTAL SERVICES AND REQUIRED BALANCES:				73,983.05	102,481,264.71

This proforma is based on December 2018 activity.

If the County opts for additional services, we will negotiate them with mutually agreed upon terms.

*** Paid Interest is an expense when offsetting fees with Earnings Credit as shown in this illustration. The Interest quoted is the actual interest paid to the County in December resulting in a bank service charges after earnings credit to be just over $48,000.**

First Financial is offering two pricing options from which the County can choose. This proforma illustrates the benefit of Option 1, which is a flat fee pricing strategy. First Financial is proposing flat fee pricing of $500/month that includes ALL BANK SERVICE CHARGES with the exception of fees related to Merchant Services, Lockbox Services, and Remit Plus Express, which are billed separately. The County will continue to receive Analysis statements for individual accounts and a group analysis to document the transaction volumes and services provided. The County would pay the proposed flat fee of $500 AND earn interest on all accounts.

Under Option 1, First Financial is proposing to pay interest on all County funds at a rate equal to 85% of the 4-week average 91 Day T-Bill rate during the prior month with a cap of 2.00%. Based on an average daily balance of $40,394,865.27 and the proposed interest rate during December, the County would have earned approximately $68,615.94.

FIRST FINANCIAL BANK NA
Member FDIC

ACCOUNT OFFICER: Austin Elser
PHONE:

REGION/BRANCH: Cleburne Ridgeway
SAMPLE MONTH: 12/31/2018

DATE PREPARED: 3/12/19
DAYS IN STATEMENT CYCLE: 31

OPTION 2

PROFORMA SUMMARY:

This proforma illustrates Option 2 of the proposed pricing strategies. By maintaining $8,150,0000 in combined deposits in non-interest bearing accounts. All bank service fees are offset by Earnings Credit leaving $31MM in excess funds to move to an interest bearing account.

ACCOUNT ANALYSIS BALANCE, EARNINGS, & SETTLEMENT SUMMARY

AVERAGE DAILY LEDGER BALANCE					$ 8,150,000.00
LESS AVERAGE DAILY FLOAT					1,514,782.69
AVERAGE DAILY COLLECTED BALANCE					6,635,217.31
LESS REQUIRED RESERVES				10.000%	663,521.73
AVERAGE NET COLLECTED BALANCE					5,971,695.58
				ECR .85%	
EARNINGS ALLOWANCE	$	5,971,695.58	AT	0.8500%	4,311.07
TOTAL SERVICES					4,300.00
EXCESS/(DEFICIT) EARNINGS ALLOWANCE					11.07
ANALYSIS SERVICE CHARGE					$ -

ANALYZED SERVICES SUMMARY

BANK SERVICES PROVIDED		ACTIVITY	UNIT PRICE	ACTIVITY CHARGE		REQUIRED COLLECTED BALANCES
Account/Transaction Services						
Account Maintenance		36	5.00	per acct	180.00	249,335.86
Regulatory Balance Charge	0.003200%	1	299.91	balances	299.91	415,435.10
Interest Paid		1		per acct/month	0.00	0.00
Debit Paid		1581	0.15	per item	237.15	328,500.00
Credit Posted		1298	0.50	per item	649.00	898,994.31
Items Deposited:						
On Us		1357	0.12	per item	162.84	225,565.84
Foreign Item		12564	0.15	per item	1,884.60	2,610,546.49
Stop Payment		0	35.00	per item	0.00	0.00
Statements:						
NSF Item *(Overdraft/Insufficient Funds)*		0	35.00	per item	0.00	0.00
Returned Check Items:						
Returned		13	3.00	per item	39.00	54,022.77
Credit Back		3	3.00	per item	9.00	12,466.79
Coin & Currency:						
Rolled Coin - per roll		22	0.10	per roll	2.20	3,047.44
Strapped Currency - per strap		4	0.40	per strap	1.60	2,216.32
ACH Origination						
ACH Origintation (Monthly Maint.) - standard		2	35.00	per GL set-up	70.00	96,963.95
ACH Origintation File - standard		25	10.00	per item	250.00	346,299.81
ACH Origination Item - standard		1697	0.10	per file	169.70	235,068.31
Remote Deposit Service						
Remote Deposit - standard (Monthly Maint.)		0	35.00	per scanner	0.00	0.00
Remote Deposit Item - standard		0	0.08	per item	0.00	0.00

Account Reconciliation & Fraud Protection					
Account Reconciliation Service	0	10.00	per acct	0.00	0.00
ACH Debit Block/Filter	1	10.00	per acct	10.00	13,851.99
Positive Pay Service:					
Positive Pay (Monthly Maint.)	1	10.00	per acct	10.00	13,851.99
Positive Pay Exception Item	0	2.00	per item	0.00	0.00
Miscellaneuos Services					
Safekeeping	1	0.00	variable	0.00	0.00
CD Rom	1	10.00	per box	10.00	13,851.99
Wire Transfer					
Incoming	21	15.00	per item	315.00	436,337.76
Outgoing - Online	0	15.00	per item	0.00	0.00
Outgoing - Manual	0	25.00	per item	0.00	0.00
			TOTAL SERVICES AND REQUIRED BALANCES:	4,300.00	5,956,356.74

This proforma is based on December 2018 activity.
If the County opts for additional services, we will negotiate them with mutually agreed upon terms.

First Financial is offering two pricing options from which the County can choose. This proforma illustrates Option 2, which a more traditional bank pricing strategy. First Financial is proposing to offer the County an Earnings Credit Rate of .85% to offset all or a portion of the bank service charges with the exception of fees related to Merchant Services, Lockbox Services and RemitPlus Express, which are billed separately. Earnings Credit is calculated by multiplying the average collected balance, less float and 10% held for reserves, by the Earnings Credit Rate. In this illustration, the County would maintain approximately $8,150,000 in non interest bearing balances over the course of the month to have adequate Earnings Credit to offset the bank service charges eligible for earnings credit. The County will receive Analysis statements for individual accounts and a group analysis to document the transaction volumes, services provided, earnings credit and bank service charges, if there are any. Bank service charges will vary based on the balances maintained, the transaction volumes, and the services provided.

Under Option 2, the accounts under analysis would be NON-INTEREST BEARING ACCOUNTS. The County might consider using an automated sweep to move funds in excess of a set balance or move funds manually. All account balances can sweep to the main transactional account, then funds can be transferred to an interest bearing account. In December 2018, the County would have $32,224,865.27 eligible to earn interest. Based on the proposed interest rate of 85% of the average 4 Week 91 Day T-Bill rate with a cap of 2.00%, the County would have earned approximately $54,772.09 and maintained compensating balances sufficient to eliminate bank service charges eligible for earnings credit. Interest is accrued daily and paid monthly. The required balances will vary based on activity and services.

FIRST FINANCIAL BANK NA

PO Box 701, Abilene, TX 79604

Member FDIC

PLEASE EXAMINE AT ONCE

Check your statement and enclosures, and report any discrepancies within thirty (30) days. Please direct any phone inquiries regarding your accounts to (888) 588-2623. Written inquiries should be sent to the address listed, attention: Research.

**********EXCLUDE-Email
56124 5.7780 EX 0.000

Johnson County
Treasurer - General Fund
2 N Main St Rm 214
Cleburne TX 76033-5500

Date 2/28/19 Page 1
Primary Account
Enclosures 197

SUMMARY OF ACCOUNTS

Account Number	Account Description	Current Balance	Enclosures
	Interest Public Fund	45,438,973.97	197

CHECKING ACCOUNT

Account Title: Johnson County
Treasurer - General Fund

Interest Public Fund		Enclosures	197
Account Number	176198	Statement Dates	2/01/19 thru 2/28/19
Previous Balance	34,337,682.39	Days in the statement period	28
297 Deposits/Credits	21,317,310.97	Average Ledger	41,152,699.42
33 Checks/Debits	10,293,576.01	Average Collected	41,141,289.23
Monthly Maintain Fee	.00		
Interest Pd This Stmt	77,556.62		
Ending Balance	45,438,973.97	2019 Interest Paid	137,253.27

MISCELLANEOUS CREDITS

Date	Description	Amount
2/01	Transfer from to XXX6198: Conf #:5784054	301.92
2/01	Transfer from to XXX6198: Conf #:5784041	584.87
2/01	Transfer from to XXX6198: Conf #:5784057	998.06
2/01	SK FFB Abilene PPD Johnson County	403.42
2/01	INV-PAYMTS TX SEC OF STATE CTX 17560010302023 ST~820~000001216\ BPR~X~852.66~C~ACH~CTX~01~0711 00269~~~1746000089~~01~1113011	852.66
2/01	INV-PAYMTS TX ATTORNEY GEN CTX	1,346.40

STMTS03012019

*An asterisk by a check indicates the preceding check (or checks) is still outstanding or was included on a previous statement.

FIRST FINANCIAL BANK NA

PO Box 701, Abilene, TX 79604

Member FDIC

PLEASE EXAMINE AT ONCE

Check your statement and enclosures, and report any discrepancies within thirty (30) days. Please direct any phone inquiries regarding your accounts to (888) 588-2623. Written inquiries should be sent to the address listed, attention: Research.

Primary Account
Enclosures 197

Johnson County
Treasurer - General Fund
2 N Main St Rm 214
Cleburne TX 76033-5500

---------- MISCELLANEOUS CREDITS ----------

Date	Description	Amount
	Johnson County	
2/28	SK FFB Abilene	573.23
	PPD	
	Johnson County	
2/28	SK FFB Abilene	573.90
	PPD	
	Johnson County	
2/28	SK FFB Abilene	582.59
	PPD	
	Johnson County	
2/28	SK FFB Abilene	583.97
	PPD	
	Johnson County	
2/28	MISC PAYICE TREAS 310 CCD	33,272.06
	756001030701915	
	RMR*IV*JCJ2019-1-L**33272.06\	
	REF*PO*70CDCR18FIGR00131\	
2/28	MISC PAYICE TREAS 310 CCD	847,656.45
	756001030701915	
	RMR*IV*JCJ2018-12-H**847656.45	
	***L5*2298.31\	
	REF*PO*70CDCR18FIGR00131\	
2/28	Deposit #	357.50
2/28	Deposit #	363.00
2/28	Deposit #	369.00
2/28	Deposit #	382.13
2/28	Deposit #	551.30
2/28	Deposit #	660.00
2/28	Deposit #	842.80
2/28	Deposit #	2,346.60
2/28	Deposit #	2,486.25
2/28	Deposit #	4,314.50
2/28	Remote Deposit	43,370.05
2/28	Interest Deposit	77,556.62

---------- MISCELLANEOUS DEBITS ----------

Date	Description	Amount
2/01	Transfer from to	2,104.00-
	: Conf #:5782740	

STMTS03012019

*An asterisk by a check indicates the preceding check (or checks) is still outstanding or was included on a previous statement.

Deposit Slip

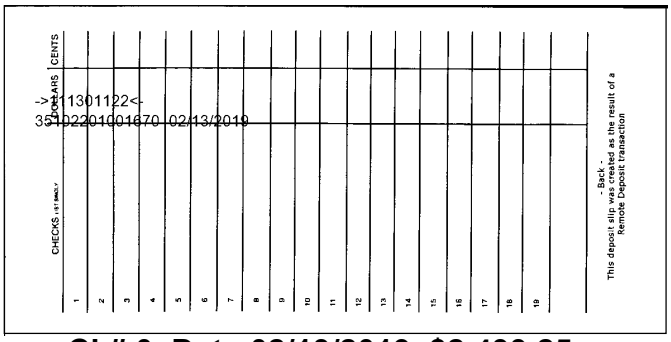
First Financial Bank

Date: 02/13/2019
Customer Name: Johnson County Treasurer
Amount: $2,433.25

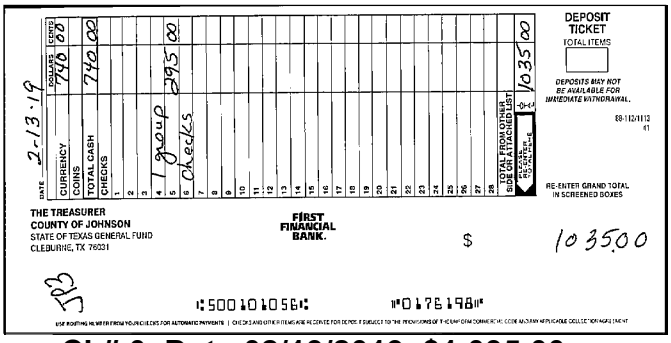
R/T: 500101726
On-Us: /176198/

This deposit slip was created as the result of a Remote Deposit transaction.
Deposits may not be available for immediate withdrawal.

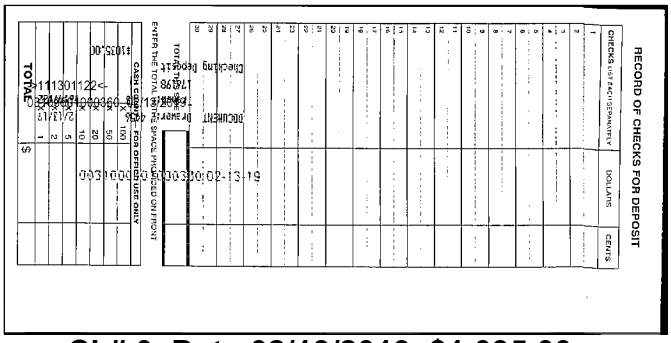
Ck# 0 Date 02/13/2019 $2,433.25



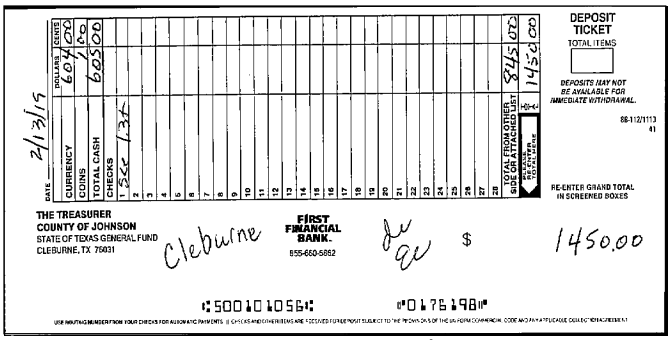
Ck# 0 Date 02/13/2019 $2,433.25



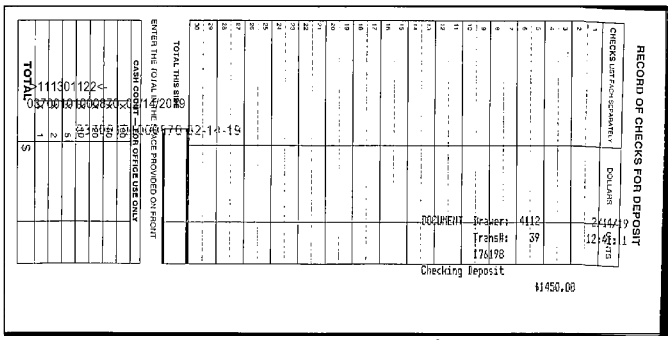
Ck# 0 Date 02/13/2019 $1,035.00



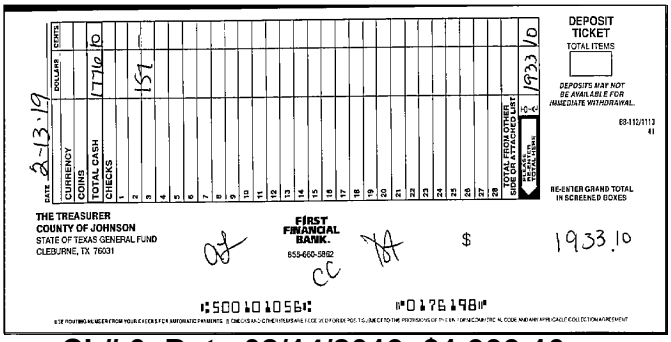
Ck# 0 Date 02/13/2019 $1,035.00



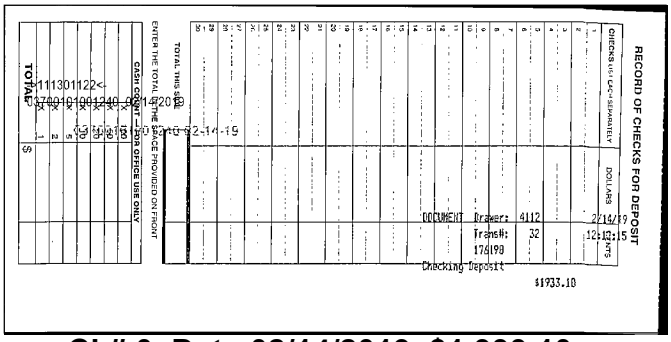
Ck# 0 Date 02/14/2019 $1,450.00



Ck# 0 Date 02/14/2019 $1,450.00



Ck# 0 Date 02/14/2019 $1,933.10



Ck# 0 Date 02/14/2019 $1,933.10

STMTS03012019

Deposit Slip

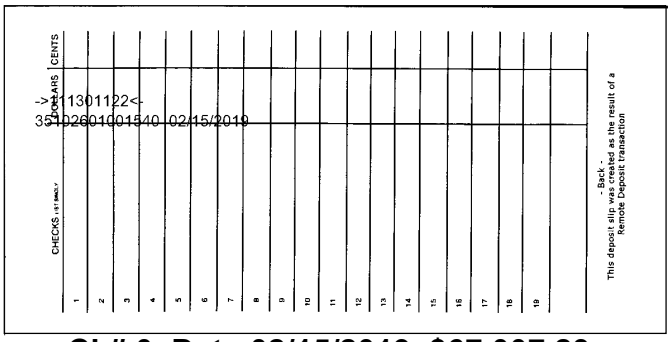
First Financial Bank

Date: 02/15/2019
Customer Name: Johnson County Treasurer
Amount: $67,007.23

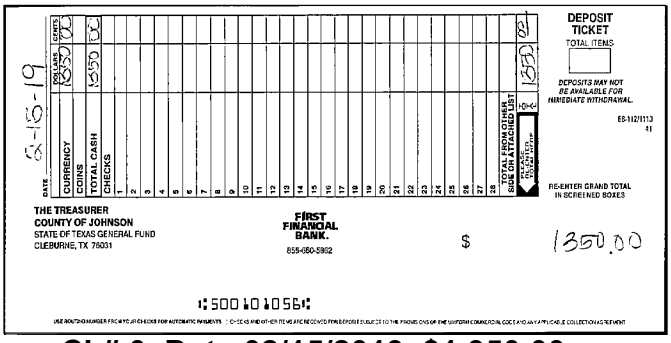
R/T: 500101726
On-Us:

This deposit slip was created as the result of a Remote Deposit transaction.
Deposits may not be available for immediate withdrawal.

Ck# 0 Date 02/15/2019 $67,007.23



Ck# 0 Date 02/15/2019 $67,007.23



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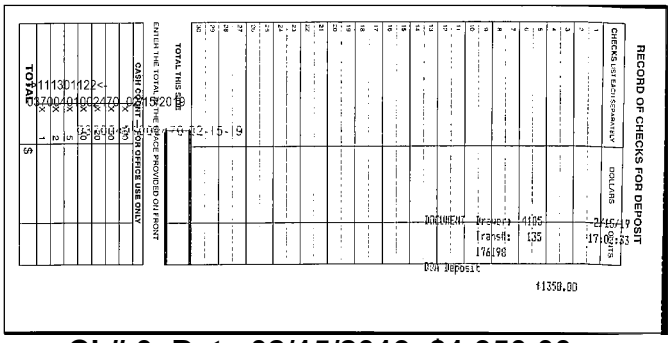
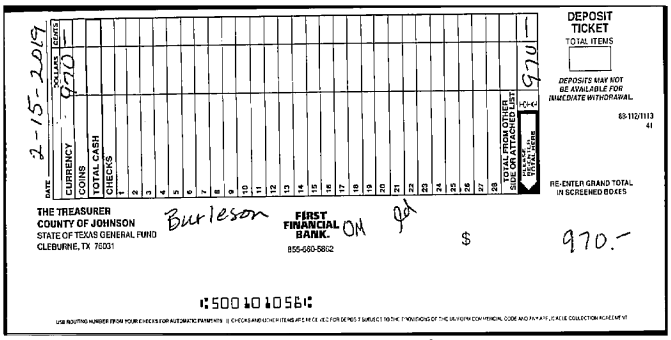
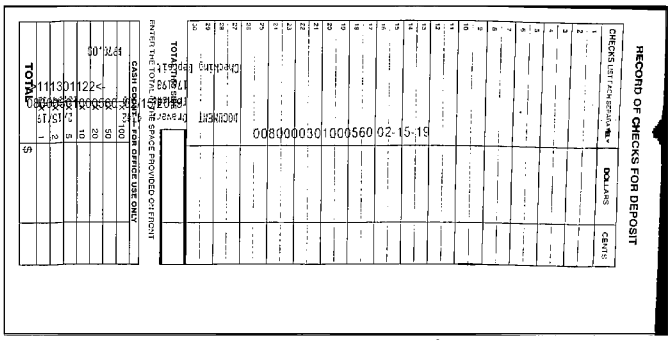


Ck# 0 Date 02/15/2019 $1,350.00



Ck# 0 Date 02/15/2019 $970.00



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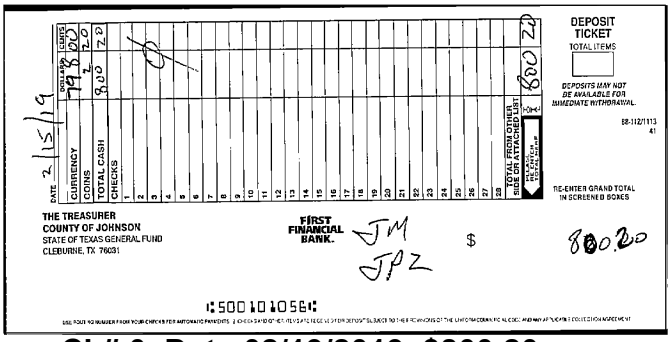

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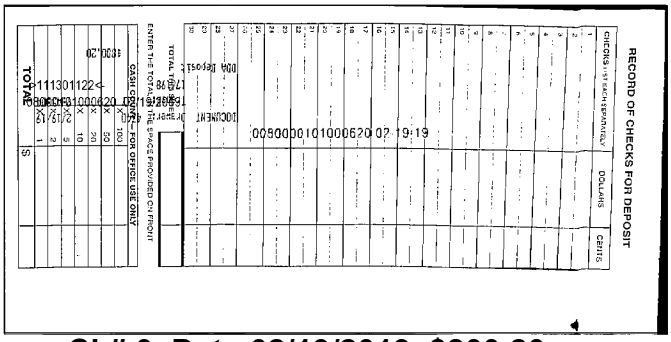

Ck# 0 Date 02/19/2019 $800.20

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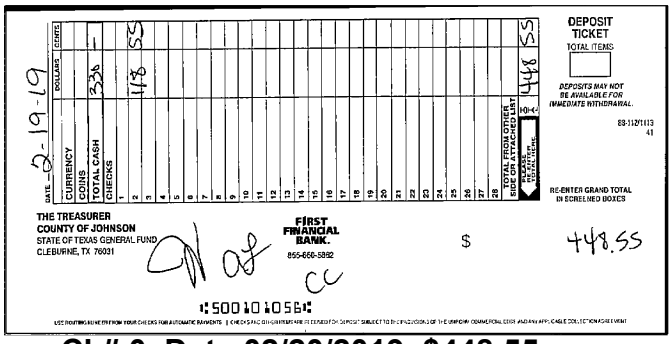

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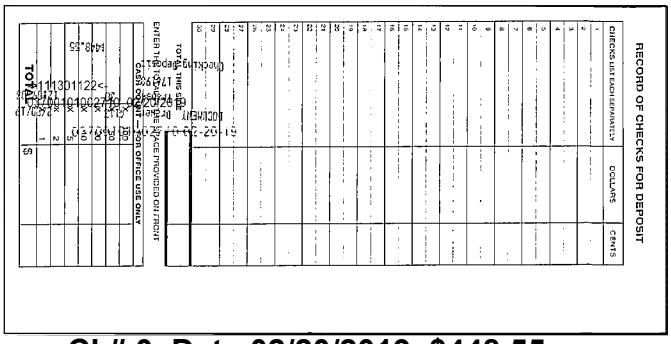

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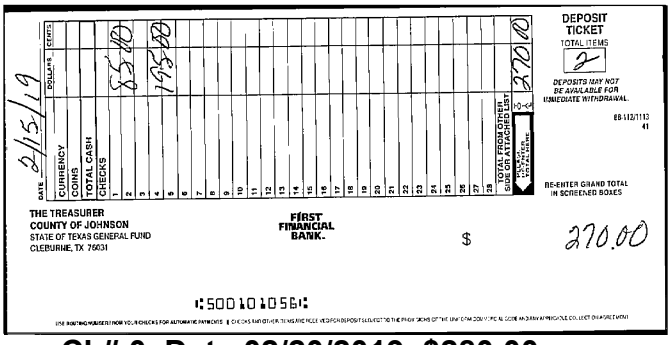

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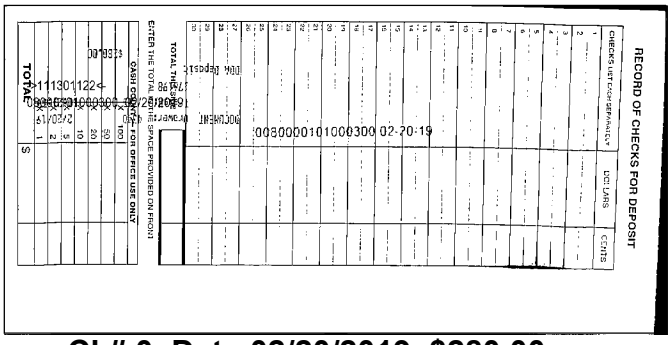

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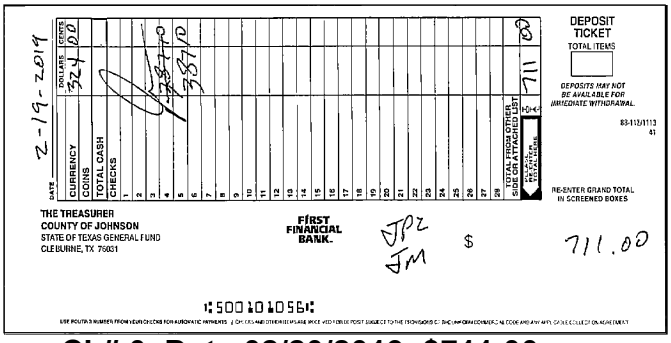

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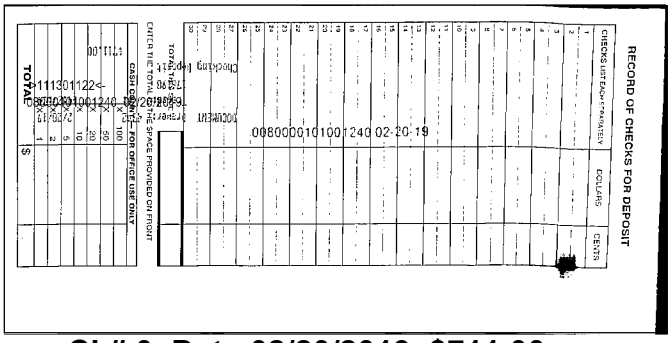

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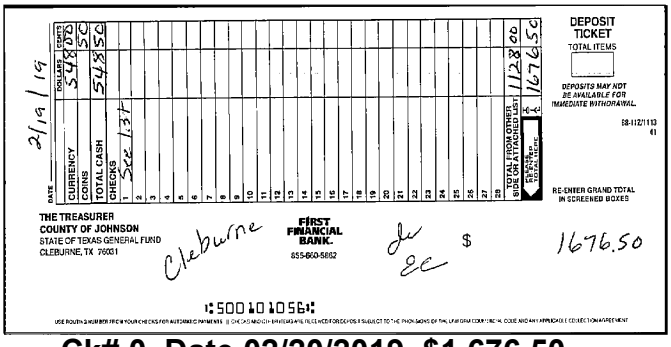
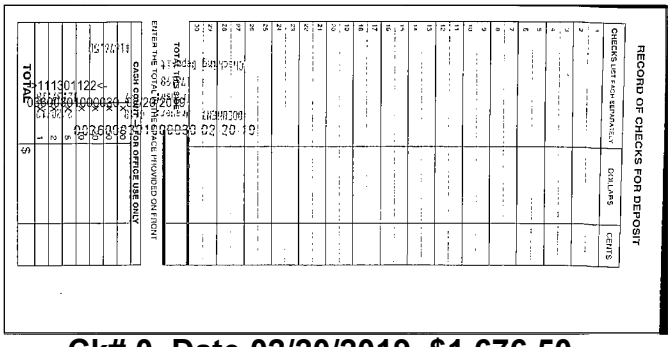
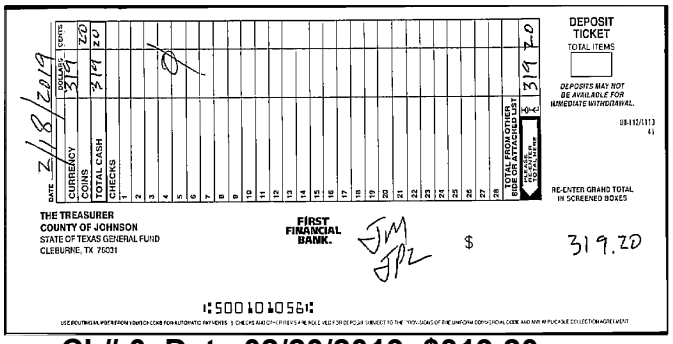


Ck# 0 Date 02/20/2019 $1,676.50



Ck# 0 Date 02/20/2019 $1,676.50



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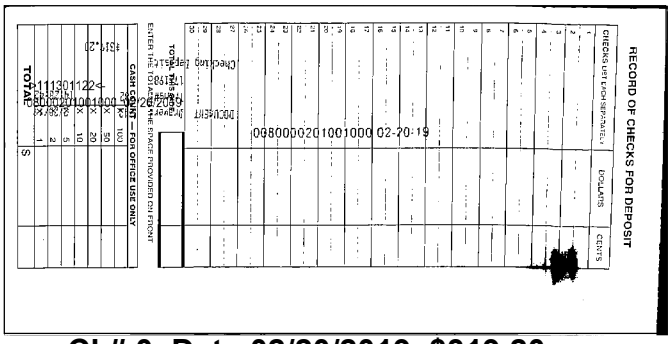
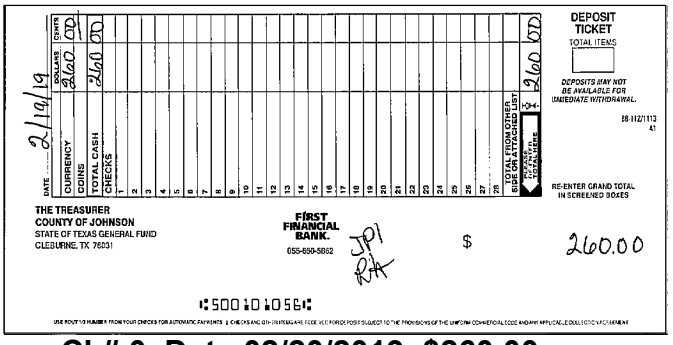
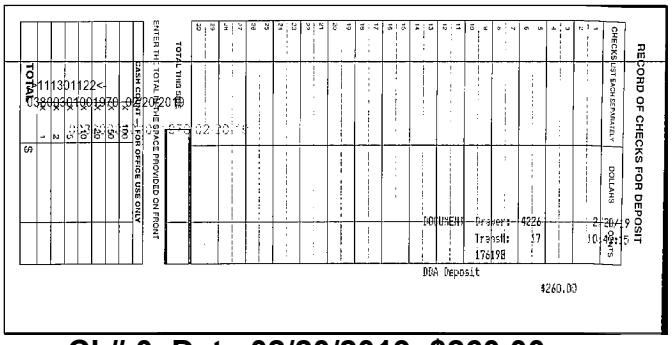


Ck# 0 Date 02/20/2019 $319.20



Ck# 0 Date 02/20/2019 $260.00



Ck# 0 Date 02/20/2019 $260.00

Deposit Slip

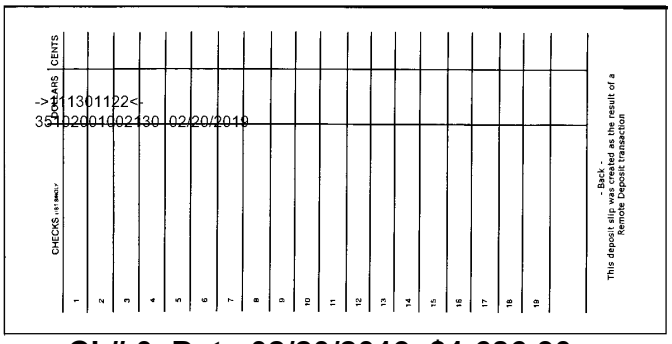
First Financial Bank

Date: 02/20/2019
Customer Name: Johnson County Treasurer
Amount: $1,686.30

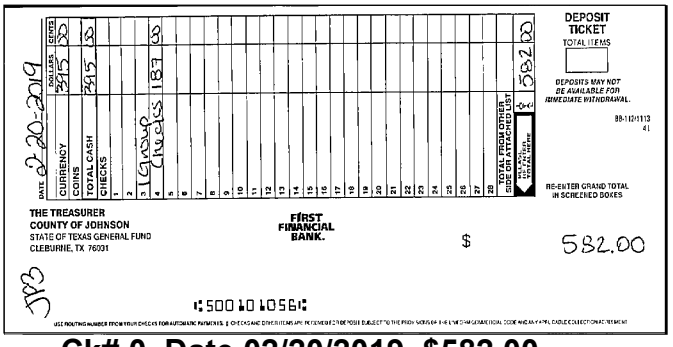
R/T: 500101726
On-Us:

This deposit slip was created as the result of a Remote Deposit transaction.
Deposits may not be available for immediate withdrawal.

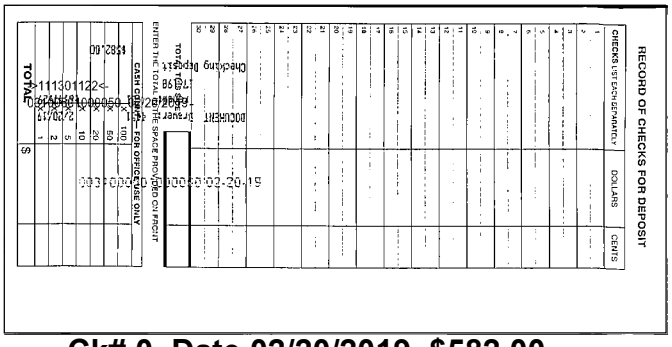
Ck# 0 Date 02/20/2019 $1,686.30



Ck# 0 Date 02/20/2019 $1,686.30



Ck# 0 Date 02/20/2019 $582.00



Ck# 0 Date 02/20/2019 $582.00

Deposit Correction

Account

We decreased your Account $ 28.00

Regarding deposit dated 02/07/2019 for $ 1,300.00

check ran twice in error

Sequence: 03600101000110 User: qutierra

Ck# 8888 Date 02/07/2019 $28.00

Deposit Correction

Johnson County
TREASURER - GENERAL FUND
2 N MAIN ST RM 214
CLEBURNE TX 76033-5500

Ck# 8888 Date 02/07/2019 $28.00

DATE PREPARED 2/15/19
DAYS IN STATEMENT CYCLE 31
Public Funds

JANUARY 2019

Johnson County
Treasurer - General Fund
2 N Main St Rm 214
Cleburne TX 76033-5500

1

GROUP SUMMARY ANALYSIS

OFFICER: Austin Elsner
PHONE NO: (817) 715-0672
BRANCH: 41

AVERAGE DAILY LEDGER BALANCE	63,002,534.51
LESS AVERAGE DAILY FLOAT	3,229,400.92
AVERAGE DAILY COLLECTED BALANCE	59,773,133.59
LESS REQUIRED RESERVES	5,977,313.22
AVERAGE NET COLLECTED BALANCE	53,795,820.37

EARNINGS ON			$53,795,820.37	
				100,855.04
SERVICE	ACTIVITY	UNIT PRICE	ACTIVITY CHARGE	REQUIRED BALANCES
Account Maintenance	36	15.0000	540.00	
Regulatory Balance Charge			276.71	
Debit Paid	1496	.1200	179.52	
Credit Posted	1502	.5000	751.00	
On-Us Item Deposited	2025	.0000	.00	
Foreign Item Deposited	18836	.0900	1,695.24	
Interest Paid			116,595.89	
NSF Item Waived	1	.0000	.00	
Returned Item	30	3.5000	105.00	
Credit Back	3	3.0000	9.00	
Rolled Coin - per roll	38	.1000	3.80	
Strapped Currency - per strap	2	.4000	.80	
Wire Transfer - Incoming	28	15.0000	420.00	
ACH Origination - standard	2	15.0000	30.00	
ACH Orig File - standard	30	5.0000	150.00	
ACH Orig Item - standard	2385	.1000	238.50	
Remote Deposit - standard	1	25.0000	25.00	
Remote Deposit Item - standard	19132	.0800	1,530.56	
Safekeeping Service	1	.0000	.00	
TOTAL SERVICES AND REQUIRED BALANCES			122,551.02	

DATE PREPARED 2/15/19
DAYS IN STATEMENT CYCLE 31
Public Funds

JANUARY 2019

Johnson County
Treasurer - General Fund
2 N Main St Rm 214
Cleburne TX 76033-5500

GROUP SUMMARY ANALYSIS

OFFICER: Austin Elsner
PHONE NO: (817) 715-0672
BRANCH: 41

AVERAGE DAILY LEDGER BALANCE	63,002,534.51	
LESS AVERAGE DAILY FLOAT	3,229,400.92	
AVERAGE DAILY COLLECTED BALANCE	59,773,133.59	
LESS REQUIRED RESERVES	5,977,313.22	
AVERAGE NET COLLECTED BALANCE	53,795,820.37	
EARNINGS ON	$53,795,820.37	100,855.04

SERVICE	ACTIVITY	UNIT PRICE	ACTIVITY CHARGE	REQUIRED BALANCES
	CURRENT MONTH NET LOSS		21,695.98-	
	CHARGES WAIVED		21,695.98-	

ACCOUNTS INCLUDED:

[redacted]

LAST PAGE

COLLATERAL SECURITY AGREEMENT

This COLLATERAL SECURITY AGREEMENT (this "Agreement") is made and entered into on the date last herein written by and between _____, hereinafter called "**Depositor**", and First Financial Bank, N.A., a national association organized under the laws of the United States and authorized by law to do banking business in the State of Texas, hereinafter called "**Bank**".

Background:

Depositor, through action of its governing body has designated **Bank** as a depository for funds of **Depositor**. During the continuation of this Agreement, **Depositor** will through appropriate actions of its governing body designate the officer, or officers, who singularly or jointly will be authorized to represent and act on behalf of **Depositor** in any and all matters of every kind arising under this Agreement. **Bank's** Deposit Contract is incorporated herein for all purposes, however to the extent that any provision therein conflicts with any provision herein, to the extent of such conflict, this Agreement will control. All funds on deposit with **Bank** to the credit of **Depositor** are required to be secured by collateral meeting the requirements of Chapter 2257 of the Texas Government Code, hereinafter referred to as the "Public Funds Collateral Act".

To perfect the security interest of **Depositor** in the collateral pledged by **Bank**, **Bank** will identify such collateral to Frost Bank, hereinafter called "**Custodian**," to be held by **Custodian** for the benefit of **Depositor**.

NOW, THEREFORE, in consideration of the foregoing, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is agreed as follows:

1.

Bank has heretofore or will immediately hereafter identify to **Custodian** Eligible Securities owned by **Bank** of sufficient amount and market value (hereinafter called the "Collateral") to adequately secure the funds of **Depositor** deposited with **Bank**. As used in this Agreement, "Eligible Securities" are as defined in the Public Funds Collateral Act, as limited by any applicable written collateral policy delivered by **Depositor** to **Bank**.

2.

As a result of this Agreement, **Bank** hereby grants to **Depositor** a security interest in the Collateral to secure the deposits held by **Bank** for **Depositor** as required by the Public Funds Collateral Act.

3.

The Collateral, including any substitute Collateral, shall be held by **Custodian** so long as **Depositor** relationship between **Depositor** and **Bank** shall continue.

4.

The total of the market value of the Collateral securing **Depositor's** funds on deposit with **Bank** will be maintained in an amount at least equal to one hundred and two percent (102%) of the aggregate value of **Depositor's** funds on deposit, plus accrued interest thereon, and reduced to the extent that such deposits are insured by an agency or instrumentality of the United States Government.

5.

Should **Bank** become insolvent, or fail to maintain adequate Collateral as required by this Agreement, or in any manner breach this Agreement with **Depositor**, **Depositor** shall give written notice of such insolvency, failure or breach to **Bank**, and **Bank** shall have ten (10) business days to cure such insolvency, failure or breach. In the event **Bank** shall fail to cure such insolvency, failure or breach within ten (10) business days, **Bank** authorizes **Depositor** (supported by proper evidence of any of the above listed circumstances), to make demand on **Custodian** to surrender control of the Collateral to the **Depositor**. In such event, **Depositor** may sell, or direct **Custodian** to sell, all or any part of the Collateral, and out of the proceeds thereof pay **Depositor** all losses sustained by it, together with its reasonable expenses incurred as a direct result of such insolvency, failure, or breach, accounting to **Bank** for the remainder, if any, of such proceeds or of the Collateral remaining unsold.

6.

Any sale of the Collateral, or any part thereof, made by (or under the direction of) **Depositor** hereunder may be either at public or private sale upon ten (10) business days prior written notice to **Bank**. **Depositor** and **Bank** shall each have the right to bid at such sale.

7.

Bank may substitute the Collateral at any time so long as the market value of the Eligible Securities being substituted is at least equal to the market value of the Eligible Securities being replaced. Such right of substitution shall remain in full force and may be exercised by **Bank** as often as it may desire, provided, however, that the aggregate market value of the Collateral pledged hereunder shall be at least equal to the amount of the Collateral required hereunder. If at any time, the aggregate market value of the Collateral identified to **Custodian** to secure **Depositor's** funds on deposit is less than one hundred and two percent (102%) of the total amount of **Depositor's** funds on deposit with **Bank, Bank** shall promptly identify to **Custodian** such additional Collateral as may be necessary to cause the market value of the Collateral to equal one hundred and two percent (102%) of the total amount of **Depositor's** funds on deposit with **Bank**. **Bank** shall be entitled to interest and earnings on the Collateral, and **Custodian** may deliver such income and earnings as directed by **Bank** without approval of **Depositor**.

8.

Bank shall deliver a copy of the "trust receipt" (as defined under the Public Funds Collateral Act) initially generated by **Custodian** to **Depositor**. Thereafter, **Bank** shall deliver monthly collateral statements to **Depositor** describing the Collateral then held by **Custodian**. With respect to additional, substitute or a reduction in the Collateral, **Bank** shall deliver a copy of the trust receipt describing such additional, substitute or released Collateral to **Depositor** within ten (10) business days of such addition, substitution, or release. All monthly statements and trust receipts which are furnished by **Bank** from time to time shall be deemed to be a part of this Agreement without further action on the part of any party.

9.

If at any time the Collateral held by **Custodian** for the benefit of **Depositor** shall have a market value in excess of the sum of one hundred and two percent (102%) of the amount of **Depositor's** funds on deposit with **Bank**, **Bank** may withdraw the excess amount of the Collateral without the consent of **Depositor**, and **Custodian** may release this amount of the Collateral (and no more) to **Bank**, taking receipt therefore, and **Custodian** shall have no further liability for the amount of the Collateral so delivered to **Bank**.

10.

Except in cases of Custodian's gross negligence or willful misconduct, Bank hereby agrees to indemnify Custodian and hold it harmless from any and all claims, liabilities, losses, actions, suits or proceedings at law or in equity (collectively, "Claims"), or any other expenses, fees or charges of any character or nature which Custodian may incur or with which it may be threatened by reason of Custodian's actions under this Agreement, including but not limited to, any Claims caused or alleged to be caused by the sole or concurrent negligence of Custodian, its employees or agents; and, in connection therewith, to indemnify Custodian against any and all expenses, including without limitation, reasonable attorneys' fees and expenses incurred by Custodian. **Custodian** may itself defend any suit brought against it and shall be equally entitled to receive reimbursement from **Bank** for its reasonable attorneys' fees, expenses, and all reasonable fees and costs incident to any appeals which may result. **Bank and Depositor agree that Custodian shall have no liability to either of them for any loss or damage that either or both may claim to have suffered or incurred, either directly or indirectly, by reason of this Agreement or any transaction or service contemplated by this Agreement, regardless of whether such loss or damage is caused or alleged to be caused by the sole or concurrent negligence of Custodian, its employees or agents, unless occasioned solely by the gross negligence or willful misconduct of Custodian.** In no event shall **Custodian** be liable for losses or delays resulting from computer malfunction, interruption of communication facilities, labor difficulties or other causes beyond **Custodian's** reasonable control or for indirect, special or consequential damages.

11.

When the relationship of **Depositor** and **Bank** shall have ceased to exist, and when **Bank** shall have properly paid out all deposits of **Depositor**, **Bank** shall give **Custodian** written notice to that effect and **Custodian** shall release the Collateral to **Bank** at its direction.

Executed by the undersigned duly authorized officers of the parties hereto to be effective as of the last date of signature below.

DEPOSITOR

By: _____ Date: _____

Printed Name: _____

Title: _____

ATTEST:

By: _____

BANK

By: _____ Date: _____

Printed Name: _____

Title: _____

ATTEST:

By: _____

Safekeeping

Code / Location	Cusip / Trans#	Description / Maturity / FAS 115	Prerefund	Pool Coupon	Moody StdPoor	Original Face Pledged Percent	Pledged Original Face Value	Pledged Par Value	Pledged Book Value	Pledged Market Value
FNBK	414964RU2	HARRIS CNTY TX MUNI UTILITY DI			A2	$600,000.00	$600,000.00	$600,000.00	$642,016.92	$636,738.00
	429363201604131	3/1/2032		4.000	AA	100.00%				
FROST NATIONAL BANK		AFS								
FNBK	613926RH9	MONTGOMERY CNTY TX MUNI UTILIT			A2	$565,000.00	$565,000.00	$565,000.00	$611,164.63	$592,701.95
	438380201607131	10/1/2032		4.000	AA	100.00%				
FROST NATIONAL BANK		AFS								
FNBK	614121TU5	MONTGOMERY TX INDEP SCH DIST			Aaa	$10,775,000.00	$1,775,000.00	$1,775,000.00	$1,824,872.86	$1,877,275.50
	502561201810300	2/15/2033		4.000	AAA	16.47%				
FROST NATIONAL BANK		AFS								
FNBK	97000QKM9	WILLIAMSON CNTY TX MUNI UTILIT			NA	$645,000.00	$645,000.00	$645,000.00	$677,327.71	$683,338.80
	429507201604141	8/1/2033		4.000	AA	100.00%				
FROST NATIONAL BANK		AFS								
FNBK	613926RJ5	MONTGOMERY CNTY TX MUNI UTILIT			A2	$295,000.00	$295,000.00	$295,000.00	$318,310.25	$308,384.15
	438379201607131	10/1/2033		4.000	AA	100.00%				
FROST NATIONAL BANK		AFS								
FNBK	776586EJ4	ROOSEVELT TX INDEP SCH DIST			NA	$500,000.00	$500,000.00	$500,000.00	$528,711.72	$530,965.00
	403635201508121	2/15/2034		4.000	AAA	100.00%				
FROST NATIONAL BANK		AFS								
FNBK	776586EK1	ROOSEVELT TX INDEP SCH DIST			NA	$525,000.00	$525,000.00	$525,000.00	$553,151.49	$556,920.00
	403634201508121	2/15/2035		4.000	AAA	100.00%				
FROST NATIONAL BANK		AFS								
37	Muni Tax Exempt - Fixed Rate						$25,135,000.00	$25,135,000.00	$25,953,750.71	$26,600,447.60
FNBK	3136A7K76	FNR 2012-92 EB				$35,000,000.00	$3,500,000.00	$1,538,156.66	$1,587,503.58	$1,554,338.68
	332894201308271	4/25/2037		3.500		10.00%				
FROST NATIONAL BANK		AFS								
FNBK	3136AXK53	FNR 2017-67 BA				$20,000,000.00	$10,000,000.00	$7,805,658.60	$7,937,726.29	$7,727,177.39
	474480201709251	9/25/2042		3.000		50.00%				
FROST NATIONAL BANK		AFS								
FNBK	3137F2ZF6	FHR 4712 PA				$21,337,000.00	$1,250,000.00	$1,068,091.01	$1,078,730.44	$1,065,754.99
	482416201712220	12/15/2045		3.000		5.86%				
FROST NATIONAL BANK		AFS								

** If no data is shown, then there are no pledges for the current period.

Safekeeping

Code / Location	Cusip / Trans#	Description / Maturity / FAS 115	Prerefund	Pool Coupon	Moody StdPoor	Original Face / Pledged Percent	Pledged Original Face Value	Pledged Par Value	Pledged Book Value	Pledged Market Value
FNBK	3136AU6D8	FNR 2017-2 JA				$29,208,000.00	$15,208,000.00	$10,464,371.13	$11,019,401.92	$11,049,394.36
	484866201801251	4/25/2053		4.500		52.07%				
FROST NATIONAL BANK		AFS								
FNBK	3137FHFM0	FHR 4821 MA				$20,000,000.00	$5,500,000.00	$5,119,398.96	$5,133,666.85	$5,177,650.04
	500675201809211	10/15/2053		3.500		27.50%				
FROST NATIONAL BANK		AFS								
FNBK	3137FHFM0	FHR 4821 MA				$23,000,000.00	$4,000,000.00	$3,723,199.24	$3,710,104.60	$3,765,563.66
	500724201809241	10/15/2053		3.500		17.39%				
FROST NATIONAL BANK		AFS								
6 CMOs - Fixed Rate							$39,458,000.00	$29,718,875.59	$30,467,133.68	$30,339,879.11
Total Pledged 43 To: CCJC		COMMISSIONERS COURT OF JOHNSON COUNTY					$64,593,000.00	$54,853,875.59	$56,420,884.39	$56,940,326.71

$920,000.00	Munis with Maturity Under 2 Years	$0.00	Other securities with Stated Maturity Under 2 Years
$24,215,000.00	Munis with Maturity Over 2 Years	$29,718,875.59	Other securities with Stated Maturity Over 2 Years

** If no data is shown, then there are no pledges for the current period.

Frost

Pledge Notification

FROST BANK
100 WEST HOUSTON STREET
SAN ANTONIO, TX 78205

For the Account of

FIRST FINANCIAL BANK

Receipt Number

Customer Number

Effective

The following securities have been pledged to:

CINCO TX MUNI UTILITY
DIST #14 REFUNDING BQ
GENERAL OBLIGATION UNLTD
CUSIP: 17239VGE2
Maturity Dt: 09/01/2027
Rate: 4.0000000
Issue Dt: 03/01/2012
Currency: USD
Face Amt: 555,000.00000
Par Amt: 555,000.00000

AUTHORIZATION TO RELEASE PLEDGE

Date: MM/DD/YYYY
Ref: Acct. XXXXXXX

Please consider this your authorization to **RELEASE PLEDGE** for the following security/securities.

CUSIP 070321FL3, 700,000.00 PAR, MAT 08/01/2022
This security has a Defeasement (cusip split) and needs to have the pledge removed.
We are replacing this pledge with:
CUSIP 66702RDS8, 475,000.00 PAR, MAT 06/01/2023
CUSIP 41450GJK0, 345,000.00 PAR, MAT 09/01/2023

Release from:

Signature_____

Thank you,

NICOLE MCPHERSON
First Financial Bank
Sr. Safekeeping Rep
nmcpherson@ffin.com
325-627-7386

SAFEKEEPING AGREEMENT

THIS SAFEKEEPING AGREEMENT (this **"Agreement"**) is entered into as of the ____ day of _____, _____, by and between FIRST FINANCIAL BANK, N.A., a national banking organization (the **"Bank"**) and _____ (the **"Depositor"**). The Bank and Depositor agree that all securities and/or other property deposited with and accepted by Bank (the **"Security"** or **"Securities"**) shall be governed by the terms and conditions set forth herein, and agree to the following:

WITNESSETH:

The Bank shall establish and maintain a custody account (the **"Account"**) for and in the name of the Depositor and hold therein all Securities deposited with or collected by the Bank in its capacity as custodian for the Account. The terms **"Security"** or **"Securities"** shall mean any negotiable or non-negotiable investment instrument(s) commonly known as a security or securities in banking custom or practice, and so long as held by the Bank, all income therefrom and all cash deposited by, or for the account of, the Depositor. The Bank agrees to open the Account and hold all Securities and other property, from time to time, deposited with or collected by the Bank for the Account, subject to the terms and conditions of this Agreement, as the same may be amended from time to time.

SECTION 1
ACCEPTANCE OF SECURITIES

(a) The Bank shall accept delivery from and on behalf of the Depositor such Securities as shall, from time to time, be acceptable to it and shall hold such Securities pursuant to the terms of this Agreement. Any Securities now held by the Bank for the Depositor under a prior safekeeping or custody agreement shall be deemed to have been deposited hereunder. The Bank shall have no responsibility to (i) determine the validity, genuineness or alteration of the Securities or related instruments delivered pursuant to the terms hereof; (ii) review the Securities; or (iii) advise the Depositor of the purchase, retention, sale, exchange, disposition, call for redemption of the Securities or related instruments.

(b) The Bank shall supply to the Depositor from time to time as mutually agreed by the Bank and the Depositor a written statement with respect to all of the Securities held in the Account. In the event that the Depositor does not inform the Bank in writing of any exceptions or objections to such statement within thirty (30) days after receipt of such statement, the Depositor shall be deemed to have approved such statement.

(c) The Bank shall segregate and identify on its books and records as belonging to the Depositor all Securities delivered by or for the account of the Depositor which are held by the Bank in the Account.

(d) The Depositor authorizes the Bank, for any Securities held hereunder, to use the services of any United States central securities depository it deems appropriate where it may hold

any of its own securities, including, but not limited to, the Depository Trust Company and the Federal Reserve Book Entry System. The term "*central securities depository*" shall also include any depository service which acts as a custodian of securities in connection with a system for the central handling of securities whereby all securities of a particular class or series of any issuer deposited within the system are treated as fungible and may be transferred by bookkeeping entry without physical delivery of security certificates. Placement by the Bank of Securities into a central securities depository or safekeeping facility neither augments nor diminishes the Bank's duties or obligations under any other paragraph of this Agreement, provided that the Bank shall have no liability for the acts or failure to act of any such central securities depository.

(e) The Bank is authorized (in its discretion) to acquire, place, hold, register and re-register the Securities in the name of the Depositor, the Bank or the Bank's nominee unless alternative and acceptable registration instructions are promptly furnished by the Depositor.

SECTION 2
COLLECTION OF INCOME

The Bank agrees to collect and receive the dividends, interest and other income from the Securities, as directed by the Depositor, and will credit the Depositor's designated deposit account or submit payment directly to Depositor for such items. Charges, if any, will be charged to the Depositor's designated deposit account or, in Bank's sole discretion, billed to Depositor. The Depositor expressly agrees that the Bank will not be liable for failure to perform this service, as it is intended merely as an aid to the Depositor and does not relieve the Depositor of its own duty to keep itself informed of information affecting its own portfolio. The Bank is hereby authorized to sign, on the Depositor's behalf, any declarations, affidavits, certificates of ownership, or other documents which are now or may hereafter be required with respect to coupons, registered interest, dividends or other income on the Securities. **THE DEPOSITOR HEREBY AGREES TO REIMBURSE, INDEMNIFY, AND HOLD HARMLESS, THE BANK, ITS OFFICERS, DIRECTORS AND EMPLOYEES FROM ANY LIABILITY, CLAIM, LOSS, DAMAGE OR EXPENSE (INCLUDING ATTORNEYS' FEES AND COURT COSTS) THAT MAY ARISE BY REASON OF THE EXECUTION OF ANY SUCH DOCUMENTS BY THE BANK.**

SECTION 3
COLLECTION OF PRINCIPAL

The Bank is authorized to collect, receive and receipt for the principal of all Securities when and as the same may mature, be redeemed, or be sold upon the order of the Depositor. The proceeds of such collections, as well as any other principal payments received for any Securities, will be credited to the Depositor's designated deposit account. The Bank will use commercially reasonable efforts to collect the Securities and other property at maturity and at dates of call for payment, but assumes no responsibility for its failure to do so and shall not be obligated to institute or participate in any legal proceedings relative thereto. The Depositor expressly agrees the Bank will not be liable for the insolvency, or default in the payment of principal or interest or in the performance, of the issuer of any Securities.

SECTION 4
WITHDRAWAL OF SECURITIES

In the event the Depositor is an individual, the Securities will be released upon the Bank's receipt of written instructions from the Depositor. In the event the Depositor is an entity, the Securities will be released upon the instructions of an Authorized Representative (as hereafter defined) of Depositor. The Depositor expressly agrees that the Bank shall not be liable for any loss, damage, or liability resulting from the Bank's actions taken in accordance with instructions given to the Bank by the Depositor or Required Number of Authorized Representatives (as hereafter defined). If the Depositor has delivered to the Bank Securities subject to a pledge, such Securities will be released only upon the receipt of (i) a written notice from the Depositor or an Authorized Representative, if requested by Bank, (ii) a written release of the pledgee, and (iii) a certificate of the Depositor certifying that the signature of the pledgee is authorized and authentic.

SECTION 5
STANDARD OF CARE

The Bank shall exercise commercially reasonable care in receiving, holding and handling the Securities. The Bank will exercise commercially reasonable care expected of a professional custodian for hire with respect to the Securities in its possession or control.

SECTION 6
DEPOSITOR DUTIES

(a) In the event the Depositor is an entity, Depositor shall provide the Bank with a written certificate in a form substantially similar to the document attached hereto as Exhibit A containing the name and specimen signatures of each person who is authorized to act and give direction on behalf of the Depositor with respect to the Account (the **"Authorized Representative"**) and the number of Authorized Representatives that are required in order to provide written authorization on behalf of the Depositor and/or to amend Exhibit A (each such number specified on Exhibit A is referred to below as the **"Required Number of Authorized Representatives"**). The Bank is authorized to act upon instructions received from the Required Number of Authorized Representatives. The Bank shall be entitled to rely upon such certificate until otherwise notified in writing by Depositor or the Required Number of Authorized Representatives. In addition, the Depositor agrees to hold the Bank harmless and without liability for any claims or losses in connection with any instructions received from the Required Number of Authorized Representatives. Exhibit A may be amended from time to time in whole or in part in accordance with instructions from the Required Number of Authorized Representatives.

(b) The Bank is further authorized to rely upon any written instructions or instructions received by any other means and identified as having been given or authorized by the Authorized Representative(s), provided that the Bank and the Depositor shall have agreed in writing upon the means of transmission and the method of identification for such instructions. Instructions received by any other means shall include verbal instructions, provided that any verbal instruction shall be promptly confirmed in writing. In the event verbal instructions are not subsequently confirmed in

writing, as provided above, the Depositor agrees to hold the Bank harmless and without liability for any claims or losses in connection with such verbal instructions. Notwithstanding the above, instructions for the withdrawal of securities "*free of payment"* shall be given only in writing, and manually signed by any such authorized persons.

(c) In the event that the Bank shall receive conflicting instructions from the Depositor regarding any particular transaction, the Bank shall have no duty to attempt to resolve such conflict; provided, however, the Bank may rely upon the instruction first received by the Bank and the Bank is hereby held harmless from all consequences of such reliance.

SECTION 7
BANK DUTIES

(a) The Bank shall receive or deliver, or shall instruct any other entity authorized to hold Securities hereunder to receive or deliver, Securities and credit or debit the Account, in accordance with written instructions from the Depositor. The Bank or such entity shall also receive in custody all stock dividends, rights and similar securities issued in connection with the Securities held hereunder, shall surrender for payment, in a timely manner, all items maturing or called for redemption and shall take such other action as the Depositor may direct in properly authorized and timely written instructions to the Bank.

(b) All cash received or held by the Bank as custodian or by any entity authorized to hold the Securities hereunder as interest, dividends, proceeds from transfer, and other payments for or with respect to the Securities shall be (i) held in an account, or (ii) in accordance with written instructions received by the Bank, remitted to the Depositor.

(c) During the Bank's regular banking hours and upon receipt of reasonable notice from the Depositor, any officer or employee of the Depositor, any independent accountant(s) selected by the Depositor and any person designated by any regulatory authority having jurisdiction over the Depositor shall be entitled to examine on the Bank's premises, the Securities held by the Bank on its premises, but only upon the Depositor's furnishing the Bank with properly authorized instructions to that effect, provided, such examination shall be consistent with the Bank's obligations of confidentiality to other parties. The Bank's costs and expenses in facilitating such examinations, including but not limited to the cost to the Bank of providing personnel in connection with examinations shall be borne by the Depositor. The Bank shall also, subject to restrictions under applicable law, seek to obtain from any entity with which the Bank maintains the physical possession of any of the Securities in the Account such records of such entity relating to the Account as may be required by the Depositor or its agents in connection with an internal examination by the Depositor of its own affairs. Upon a reasonable request from the Depositor, the Bank shall use its reasonable efforts to furnish to the Depositor such reports (or portions thereof) of the external auditors of each such entity as related directly to such entity's system of internal accounting controls applicable to its duties under its agreement with the Bank.

(d) The Bank will transmit to the Depositor upon receipt, all financial reports, stockholder communications, notices, proxies and proxy soliciting materials received from issuers

of the Securities and all information relating to exchange or tender offers received from offerors with respect to the Securities. Proxies will be executed by the registered holder if the registered holder is other than the Depositor, but the manner in which the Securities are to be voted will not be indicated. Specific instructions regarding proxies will be provided when necessary. The Bank shall not vote any of the Securities or authorize the voting of any Securities or give any consent or take any other action with respect hereto, except as provided herein. The Bank is authorized to accept and open in the Depositor's behalf all mail or communications received by it or directed to its care.

(e) In the event of tender offers, the Depositor shall mail, email or fax instructions to the Bank as to the action to be taken with respect thereto or telephone such instructions to Depositor's account administrator at the Bank, designating such instruction as being related to a tender offer. The Depositor shall deliver to the Bank, by 4:00 p.m., Abilene, Texas time on the following calendar day, written confirmation of such oral instruction. The Depositor shall hold the Bank harmless from any adverse consequences of the Depositor's use of any other method of transmitting instructions relating to a tender offer. The Depositor agrees that if it gives an instruction for the performance of an act on the past permissible date of a period established by the tender offer or for the performance of such act or that it fails to provide next day written confirmation of an oral instruction, the Depositor shall hold the Bank harmless from any adverse consequences of failing to follow said instructions.

(f) The Bank is authorized to accept and open in the Depositor's behalf all mail or communications received by it or directed to its care and upon receipt will transmit such to the Depositor.

(g) The Bank shall promptly notify the Depositor of any calls for redemption, mergers, tenders, consolidations, reorganizations, recapitalizations, or similar proceedings affecting the Securities (other than those Securities registered in the Depositor's name) held in the Account, provided notice of such proceedings appears in standard New York financial publications or a service to which the Bank subscribes. The Bank shall not be liable for late presentation of such items when the Depositor has failed to timely instruct the Bank in writing. Should any Security held in a central securities depository be called for a partial redemption by the issuer of such Security, the Bank is authorized, in its sole discretion, to allot the called portion to the respective holders in any manner it deems fair and equitable.

(h) The Bank shall present all maturing bonds and coupons for collection and is authorized to receive payment of income and principal on other items in accordance with their terms. All funds so collected shall be credited to the Account or remitted in accordance with the instructions of the Depositor.

(i) The Depositor acknowledges and agrees that the Bank shall not be liable for any loss or damage arising out of a cause beyond the Bank's control.

SECTION 8
FOREIGN SECURITIES

The Bank shall not hold Securities which are issued by foreign governments or foreign companies or for which the principal trading market is located outside the United States hereunder. Should the Bank elect to hold such securities, such activities shall be governed by a separate agreement between the Bank and the Depositor.

SECTION 9
FEES AND EXPENSES

(a) The Depositor agrees to promptly pay upon receipt of an invoice from the Bank the fees and expenses set forth therein. The fees and expenses for the services to be rendered under this Agreement have been provided to the Depositor and are incorporated herein for all purposes, and as such may be amended from time to time, effective upon 30 days' prior written notice by the Bank to the Depositor. In addition, if the Bank advances securities to the Depositor for any purpose or in the event that the Bank or its nominee shall incur or be assessed any taxes, charges, expenses, assessments, claims or liabilities in connection with the performance of its duties hereunder, except such as may arise from or be caused by the Bank's or its nominee's gross negligence or willful misconduct, Depositor shall immediately reimburse the Bank, or its nominee, for such advances, taxes, charges, expenses, assessments, claims or liabilities, or replace such Securities.

(b) The Bank may, in its sole discretion, advance funds on behalf of the Depositor which results in an overdraft if the monies held in the Account are insufficient to pay the total amount payable upon purchase of Securities as instructed. Any such overdrafts shall be deemed to be a loan made by the Bank to the Depositor payable promptly upon demand and bearing interest at the Bank's prime rate plus two percent per annum from the date incurred. Notwithstanding anything contained in this Agreement to the contrary, the Bank shall have no obligation to advance funds on behalf of the Depositor.

(c) The Bank shall have a lien on the Securities in the Account to secure payment of such fees and expenses, taxes, advances and other charges incurred under this Section 9. The Depositor agrees that the Bank's lien shall be a continuing lien and security interest in and on any Securities at any time held by or through it in accordance with this Agreement, for the benefit of the Depositor or in which the Depositor may have an interest which is then in the Bank's possession or control or in possession or control of any third party acting on the Bank's behalf. Upon failure by the Depositor to cure any overdraft amounts, or to reimburse the Bank promptly after the request for payment, the Bank may immediately and without further notice dispose of Securities to the extent necessary to obtain reimbursement. The Bank shall have all of the rights and remedies of a secured creditor under the Uniform Commercial Code as in effect in State of Texas from time to time with respect to the Securities.

(d) The Bank is hereby authorized to charge the Depositor's designated deposit account for all fees and charges incurred or assessed hereunder.

SECTION 10

INVESTMENT RESPONSIBILITY

Unless otherwise agreed in writing by the Depositor and the Bank, the Bank is under no duty to (i) advise the Depositor relative to the investment, purchase, retention, sale, or other disposition of any Securities held hereunder; (ii) supervise the Depositor's investments, purchases or sales; (iii) invest, or see to the investment of, any cash proceeds or other cash deposited hereunder and held by the Bank; or (iv) determine whether any investment or sale made for the Account by Depositor is made in conformity with Depositor's requirements or understandings. The Bank's duties hereunder are strictly ministerial in nature and are limited to those duties expressly set forth in this Agreement. Nothing in this Agreement shall be construed to impose fiduciary responsibilities on the Bank.

SECTION 11
LIMITATION OF LIABILITY & INDEMNIFICATION

The Bank undertakes to perform such duties and only such duties as are specifically set forth in this Agreement, it being expressly understood that there are no implied duties hereunder. In addition to other provisions of this Agreement, the Depositor agrees that the Bank (a) will be responsible only for the exercise of reasonable commercial standards of the banking business; (b) will not be liable for any loss or damage to the Securities when such loss or damage is due to any cause other than failure to exercise reasonable commercial standards, and in any event will not be liable for any decline in the market value of the Securities; (c) will not be considered an insurer against risk of loss, damage, destruction or decline in market value of the Securities; and (d) will not have liability to the Depositor with respect to the services rendered by the Bank pursuant to this Agreement until such time as the Securities are actually delivered to the Bank, it being understood and agreed that the Depositor bears the risk of loss with respect to shipment and delivery of the Securities to the Bank. **IN NO EVENT SHALL THE BANK BE LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY (I) DAMAGES OR EXPENSES ARISING OUT OF THE SERVICES PROVIDED HEREUNDER OTHER THAN DAMAGES WHICH RESULT FROM THE BANK'S FAILURE TO ACT IN GOOD FAITH OR IN ACCORDANCE WITH THE REASONABLE COMMERCIAL STANDARDS OF THE BANKING BUSINESS OR (II) SPECIAL OR CONSEQUENTIAL DAMAGES, EVEN IF THE BANK HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.**

In addition to any and all rights of reimbursement, indemnification, subrogation, or any other rights pursuant hereto or under law or equity, the Depositor hereby agrees, to the extent permitted by Texas law, to indemnify and hold harmless the Bank and its officers, directors, employees, agents, affiliates, subsidiaries, and parent companies (the **"indemnified parties")** from and against any and all claims, damages, losses, liabilities, costs, or expenses whatsoever (including attorneys' fees and court costs) which they may incur (or which may be claimed against them by any person or entity whatsoever) by reason of or in connection with (a) any untrue statement or alleged untrue statement of any material fact contained or incorporated by reference in the information supplied by the Depositor to the Bank or its nominee in connection with the performance of their duties under this Agreement or the related documents, or the omission or alleged omission to state in such information a material fact necessary to make such statements, in the light of circumstance under which they are or were made, not misleading; (b) any instruction

given by the Depositor to the Bank under this Agreement; or (c) the execution and delivery of this Agreement.

If any proceeding shall be brought or threatened against any indemnified party by reason of or in connection with the events described in clauses (a) through (c) above, such indemnified party shall promptly notify the Depositor in writing and the Depositor shall assume the defense thereof, including the employment of counsel satisfactory to such indemnified party and the payment of all costs of litigation. Notwithstanding the preceding sentence, such indemnified party shall have the right to employ its own counsel and to determine its own defense of such action in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment of such counsel shall have been authorized in writing by the Depositor or (ii) the Depositor, after due notice of the action, shall not have employed counsel to have charge of such defense, in either of which events the reasonable fees and expenses of counsel for such indemnified party shall be borne by the Depositor. The Depositor shall not be liable for any settlement of any such action effected without its consent. Nothing under this section is intended to limit the Depositor's payment obligations contained elsewhere in this Agreement. This section shall survive the termination of this Agreement.

SECTION 12
BANK POWER OF ATTORNEY

In addition to other rights granted to the Bank pursuant to the terms of this Agreement, the Bank is authorized and empowered in the name of and on behalf of the Depositor to execute any certificates of ownership or other instruments which are or may hereafter be required by any regulations of the United States or any state or political subdivision thereof, so that the Bank may fulfill its obligations hereunder as required in connection with any Securities.

SECTION 13
AMENDMENTS

Except as otherwise provided hereby, the parties may make amendments to this Agreement from time to time, provided that any such amendment shall be reduced to writing; *provided, however,* the Bank may, at any time, in its sole discretion amend any of the provisions of this Agreement upon thirty (30) days' prior written notice to the Depositor.

SECTION 14
SUCCESSORS & ASSIGNS

This Agreement shall be binding upon and shall inure to the benefit of the successors and assigns of the respective parties hereto.

SECTION 15
COMPLETENESS OF AGREEMENT

This Agreement, along with a copy of the fee schedule, as may be amended from time to time, delivered to Depositor, constitutes the full and complete agreement between the Bank and the Depositor, and no other understandings or agreement, whether written or oral shall bind either of the parties hereto. The headings of Sections of this Agreement are for the convenience only and have no effect on a party's responsibilities or liabilities.

SECTION 16
GOVERNING LAW

This Agreement shall be governed by the applicable laws of the State of Texas.

SECTION 17
TERMINATION

This Agreement may be terminated by either Depositor or the Bank upon at least ten (10) days prior written notice to the other. The Depositor shall have a period of thirty (30) days from the date of the last and final accounting provided by the Bank to make any objection or claim, and failure to do so within the thirty (30) day period shall be deemed by the parties hereto to constitute accord and satisfaction. As soon as practicable following the termination of this Agreement, the Bank shall deliver all Securities to the Depositor in accordance with the Depositor's written instructions.

SECTION 18
NOTICES

Other than communications between Depositor and Bank that are specifically provided for herein, any notice to be given or to be served upon any party hereto in connection with this Agreement must be in writing, and shall be given by certified or registered mail, facsimile transmission ("fax") or express courier and shall be deemed to have been given and received twenty-four (24) hours after a postage prepaid, is deposited in the United States mail. Such notices shall be given to the parties hereto at the following addresses:

If to the Bank: First Financial Bank, N.A.
Attn: Safekeeping Department
P.O. Box 701
Abilene, Texas 79604

If to the Depositor:

Any notices served by fax shall be deemed to have been given and received by the sender. Any party hereto may, at any time by giving fifteen (15) days' written notice to the other party hereto, designate any other address in substitution of the foregoing address to which such notice shall be given.

SECTION 19
MISCELLANEOUS

(a) This Agreement may be executed in any number of counterparts; each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

(b) In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

IN WITNESS WHEREOF, the parties thereto executed this Agreement as of the day and year first above-written.

BANK:	**DEPOSITOR:**
FIRST FINANCIAL BANK, N.A.	
By: _____	By: _____
Name:_____	Name:_____
Title: _____	Title: _____

Exhibit A

Safekeeping Agreement Authorized Representative(s)

Depositor (as identified in the foregoing Safekeeping Agreement) hereby designates the following persons as Authorized Representatives with respect to Depositor's Safekeeping Agreement with Bank. Each of these Authorized Representatives is authorized to deliver instructions to Bank regarding the Account, and Bank is fully entitled to act upon such instructions. Each Authorized Representative listed certifies that all of the signatures appearing hereon are true and correct. All written authorizations given by the Depositor must be signed by at least ____ Authorized Representative(s). This Exhibit A may be amended from time to time upon the authorization of at least ____ Authorized Representative(s).

_____	_____
Signature	Printed Name/Title
_____	_____
Signature	Printed Name/Title
_____	_____
Signature	Printed Name/Title
_____	_____
Signature	Printed Name/Title
_____	_____
Signature	Printed Name/Title

EXECUTED (OR REVISED) this _____ day of _____, 20____.

_____	_____
Depositor	Printed Name/Title

ACCEPTED THIS _____ DAY OF _____ 20_____.

_____
Safekeeping Representative
First Financial Bank, N.A.

First Financial Bank N.A.

Safekeeping Customer Statement

As of:

Cust No:
Acct No:
Tax ID:

Rec'd Date/ Rec't Number		.....Security Description	Face/ Curr Par/ (No.Shares)
02/22/2013	CUSIP: 0027A0Y13		
23420	Dtd: 02/21/2013	ABBEY NAT NA LLC	$3,000,000.00
	Rate: 0.0000	ABBEY NAT NA LLC	$3,000,000.00
	Mat: 11/01/2013		
12/06/2012	CUSIP: 010014DW5		
23196	Dtd: 05/15/2002	AKRON NY CENTRAL SCH DIST REFU	$250,000.00
	Rate: 4.3750	AKRON NY CENTRAL SCH DIST REFUNDING	$250,000.00
	Mat: 06/01/2014		
04/24/2013	CUSIP: 02005QW33		
23545	Dtd: 04/24/2013	GMATBK	$49,000.00
	Rate: 0.6500	GMATBK	$49,000.00
	Mat: 04/25/2016		

Rec'd Date/ Rec't Number		.....Security Description	Face/ Curr Par/ (No.Shares)
12/24/2012	CUSIP: 982616GU2		
23316	Dtd: 12/20/2012	WYANDANCH NY UNION FREE ISD	$270,000.00
	Rate: 3.5000	WYANDANCH NY UNION FREE ISD	$270,000.00
	Mat: 12/15/2014		
		Total Face:	$28,284,000.00
		Total Current Par:	$28,284,000.00

F1RST FINANCIAL BANK..
-FDIC

Date: 04/01/2015
Original Receipt:
Customer Number:
Tax ID Number:
Account Number:

********** Safekeeping Receipt**********

We acknowledge that the securities below are being held for your account.

Security: FNMA
$1,000,000.00 FNMA
$1,000,000.00 Cur Par 3136G1-7E-3 0.700000 % Due 12/26/2017
Issue Date: 12/26/2012 First Coupon Date: 06/26/2013

Number of Securities: 1

Where Held: FED

Next Interest Date: 06/26/2015

Next Interest Amount: $3,500.00

Interest Dates & Amounts
12/26.....$3,500.00
06/26 .....$3,500.00

Treasury Management Services

First Financial Bank, N.A. offers a comprehensive line of technology-based products designed to help our business and non-profit partners maximize daily cash flow, simplify financial transactions, and manage risk through the monitoring and controlling of your account balances.

The product descriptions below provide an overview of the services we offer.

Consulting Services

First Financial is quite privileged to have on staff, Meg Romano, a Certified Treasury Professional (CTP). Meg is a Senior Vice President in our Treasury Management Services department and brings years of experience working with businesses and public entities of all sizes and types. Meg regularly offers her expertise to improve cash management and processes that reduce expenses and maximize earnings.

Meg will work with you to structure accounts and implement services that meet financial goals as well as expedite payments. She welcomes the opportunity to build a working relationship with you to stay abreast of your needs as well as trends in the financial industry that deliver results.

Business Online Banking

First Financial Bank's comprehensive Business Online Banking provides balance reporting. Authorized users can access account information 24/7 from any computer with internet access. User privileges are assigned by account and feature to restrict access to information on a need to know basis.

Business Online Banking provides authorized users:

- Ability to view account balances online
- Review electronic activity as it happens – ACH deposits, debit card activity
- View at least 60 days of account history
- View images front and back – even deliver image as attachment
- Transfer funds between accounts and make loan payments
- Apply Principal Only payments to loans
- Schedule transfers to occur on a specific date – routinely or one time
- View statements online for at least 18 months
- Create Alert Messages for email notification when subscribed condition is met
- Download transactions to CSV, Excel, Quicken or QuickBooks
- Initiate Wire Transfers until 4PM (requires separate agreement)
- Initiate Stop Payments
- True online E-Statement including check images

The system accommodates dual control on transfer and stop payment functions. Our Mobile Banking App provides authorized users nearly full functionality using a tablet or smart phone with internet access. Business Online Banking is an excellent tool to monitor account balances and transfer funds quickly and easily.

Wire Transfers

Wire Transfers move funds between banks on the same day, domestically and internationally. Wire Transfers can be scheduled to occur on a routine basis or initiated on demand. Wire instructions can be delivered through Business Online Banking or by visiting any of our branch locations. A separate wire agreement is necessary to establish ongoing wire transfer needs. For wires initiated using Online Banking, First Financial Bank requires the use of a Bank provided token for an additional layer of security.

Direct Deposit via ACH and Direct Payment via ACH

The Automated Clearinghouse Network (ACH) has a proven record for delivering payments securely and efficiently for more than 30 years. The most popular ACH payment is Direct Deposit for payroll.

ACH is an excellent solution for collecting payments as well as delivering funds. With authorization, accounts are drafted and payments are received reliably and timely.

First Financial offers a web-hosted ACH Origination application to initiate transactions. The program provides a secure delivery channel for payables, including payroll, and receivables. The file format is prescribed by the National Automated Clearinghouse Association (NACHA) and is a typically a download feature within many accounting software packages. Our easy to use program offers a secure delivery channel to pass through a NACHA file or to build a list of transactions for Direct Deposit payroll (credits) and Direct Payments (debits). It is a fast, safe, and reliable way to move funds.

Payroll Cards

Payroll Cards provide a means for employers to achieve 100% participation in Direct Deposit Payroll. Some employees are unable to or do not wish to open a regular checking or savings account. The Payroll Card works like a checkless checking account for the employees and a bank account for employers. Payroll Cards can be used to distribute payroll funds, per diem payments, and expense reimbursements.

First Financial Bank, N.A. currently has over 200 companies with employees using our Payroll Cards.

Remote Deposit

Remote Deposit is one of the most innovative banking products introduced in many years. Checks can be deposited without leaving the office. Checks are scanned and the images are transmitted to the Bank through our secure, web hosted application. All deposits received by 7:00 PM on any banking day are given same day credit and next day availability, just as if the deposit was made with a teller. Once the checks are scanned and the deposit is confirmed, the original checks can be destroyed.

Positive Pay, ACH Block and ACH Filter Services

Positive Pay creates a partnership between the Bank and our customer in an effort to control check fraud. Using a web-hosted Positive Pay program, an issued check file is uploaded or individual check information is keyed into the system. When checks are presented for payment (at the teller line or from the cash letter), we will match them against the issued items for check number, amount, and payee name. When a check is presented that is not listed or does not match what was delivered, an email notification is sent. If the item is presented at the teller line, a call for approval to pay the item will be made. Exceptions are reviewed within the Positive Pay system for a pay or return decision. Returned items require a reason, which is selected from drop down menu options. Positive Pay is an excellent way to protect funds and avoid losses.

Our Positive Pay system also supports ACH block and filter services. Block all ACH activity, particularly debit activity, or build a list of originators from which ACH activity is allowed. For example, a routine insurance payment can be allowed to post, but all other debit and or credit transactions are blocked. Approved originators are added to a list to allow those incoming transactions and any other ACH activity would be considered an exception. ACH exceptions are managed just as check exceptions. An email notification is delivered and exceptions are reviewed and marked to pay or return.

Positive Pay is highly recommended to protect funds for all businesses and most public fund organizations are requesting this service

Statement on CD

After a statement cycles, images of the front and back of each paid item, deposit slip, paper adjustment, and statement is stored on a compact disc and delivered by mail. One compact disc can store images for more than one account, depending on volume. Each compact disc is labeled and contains the viewing software.

Data can be sorted by any field: serial number, date, dollar amount. Data can be exported in several formats, such as delimited text file or Excel. The compact disc of images enables customers to archive statement information compactly and conduct research quickly.

Business and Consumer Credit Cards

First Financial introduced a program to meet the credit card needs of our consumer and business customers. Businesses can choose from a variety of programs from a VISA Business Card with an extended 0% introductory rate to Business Rewards programs including points and cash back options.

For businesses needing a credit line in excess of $25,000 and need a pay in full each month, we offer our VISA Company Card or the VISA CommUNITY Card for non-profit entities.

First Financial has partnered with Elan Financial Services to deliver the best in product and service. Elan's program is backed by 24/7 support and online access to transactional history and statements. Elan and First Financial understand businesses and non-profits need robust features to manage card spending, control expenses and limit liability.

Businesses and non-profits using our credit card enjoy the benefits and security such as $0 liability from VISA on unauthorized transactions (with timely notification) and $0 liability is extended to employee misuse up to $100,000, provided certain conditions are met.

Elan's long-term success and reputation weighed heavily in First Financial's selection for a credit card provider. We are pleased to offer a variety of card programs to meet the needs of consumers, business, and non-profits with features that provide convenience, security, and money saving benefits.

Merchant Services

First Financial Bank partners with TSYS, a premier provider of merchant services, for credit card processing. Through TSYS, we offer a suite of products and services using traditional terminals, mobile, gateway and wireless solutions.

With TSYS and the support from First Financial Bank, N.A., merchants are assured of receiving outstanding customer support and dependable credit card processing. Highlights include:

- Month to month service, no contract required
- Competitive Rates, no hidden fees, no monthly minimums
- Easy application process
- 24/7 Help Desk support
- Online Reporting
- Automated Chargeback process

Merchant services provides retail businesses, non-profit organizations, public entities, and service providers the ability to offer more payment options for their customers, resulting in convenience and guaranteed funds.

TSYS provides a separate monthly statement to document activity and charges related to merchant services.

RemitPlus Express

First Financial is a reseller of RemitPlus Express, a powerful in-house lockbox solution. In a single pass, checks and coupons are scanned resulting in a file to upload the credits for payments into billing solutions and a file to send to the bank for the check deposit.

In addition, RemitPlus Express includes RemitCentral. RemitCentral connects with leading bill pay service providers and provides payment information electronically, reducing the number of check payments. Payment credits are received electronically and RemitCentral delivers the payment detail.

RemitPlus Express is a web-hosted solution fully supported by the RemitPlus team. Images of checks and coupons are automatically stored for three years providing an excellent research tool. RemitPlus Express is an excellent solution for processing payments that include coupons or envelopes that have account/member numbers and payment amounts.

Municipalities, churches, medical offices, and property management companies have experiences the benefits offered by RemitPlus Express.

Lockbox Services

Lockbox Services provide convenience at efficiency to organizations that receive a high volume of payments or high dollar payments. Payments are received at a designated PO Box. Envelopes are opened and payments are deposited for time saving processing. Envelope content and images of checks are delivered based on specific needs. Remittance information is delivered for easy payment posting. Online access to images provides immediate access to incoming payments.

Lockbox Services is cost effective and time saving by reducing work load on current staff or eliminates the need to add staff for payment processing.

1st Safe and Loomis Armored Car Service

First Financial offers 1stSafe in conjunction with Loomis. A separate contract is required when implementing 1stSafe. A brochure describing the services is provided in the back cover of the bid packet.

Smart safe technology provides same day credit for all cash deposited through the safe. Cash is safely stored until the scheduled pickup by Loomis' Armored Car service. As cash is fed into the safe, it is counted and at a scheduled time each day, the totals are uploaded to Loomis' secure internet site. The deposit activity is also transmitted to the Bank for credit to your account. On a scheduled basis, Loomis will pick-up cash stored in the safe.

First Financial will coordinate implementation of a smart safe in one or more locations. The cost is based on several factors and will be negotiated through Loomis. The business is responsible for preparing the safe installation site.

With 1stSafe, you have peace of mind knowing credit for cash is provided and cash is safely stored until the next armored car pick-up.

FIRST FINANCIAL BANK
MEMBER FDIC

WELCOME

TO ONLINE BANKING!

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Getting Started

Welcome to Online Banking with First Financial Bank! Whether at home or at the office, from a mobile phone, tablet or laptop, we strive to make your online banking experience easy and convenient.

You can navigate this guide by clicking a topic or feature in the Table of Contents. Each section provides an overview and steps to help you during the online banking process. If you have additional questions, contact us at 855.660.5862.

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Getting Started

New User Enrollment

If you're new to Online Banking with First Financial, you need to complete the enrollment process the first time that you log in. Once you complete these few quick steps, you'll be on your way to banking everywhere you go!

1. Type www.ffin.com into your browser and click the "Enroll in Online Banking" link.
2. Fill out the Online Banking Enrollment Form with the required information and click the **Submit Enrollment** button.

Note: The details that you provide are verified by comparing them to your contact information in our system. If the information does not match, call us at 855.660.5862 to update your profile.

3. A confirmation message appears. You are given a temporary password to use during your first-time login. Memorize the password and click the "Click Here" link to be redirected to the First Financial Home page.
4. Enter your new login ID and click the **Log In** button.
5. Choose the contact method that allows First Financial to reach you immediately with a Secure Access Code (SAC). This numbered code is only valid for a short time, and if it expires, you need to request a new one. If you close your browser before receiving the SAC, you can log in again and select the
   I already have a Secure Access Code button.
6. Enter the SAC and click the **Submit** button.
7. Choose whether to register your device for future logins. If you click the **Register Device** button, you will never need to request SACs from that device.

Note: For additional security, we strongly suggest that you do not register your devices.

8. Review the Online Banking Services Agreement on the Disclaimers page and click the **I Accept** button to agree to the terms and conditions.
9. A view-only profile page appears. Review the information and click the **Submit** button.
10. Change your password by using your old temporary password.
11. Congratulations! You have successfully logged in to Online Banking! If you have any questions or concerns, call us at 855.660.5862.

Getting Started

Logging In

After your first-time enrollment, logging in is easy and only requires your login ID and password. If you are logging in using a device that you have not previously registered, you need to request a Secure Access Code (SAC).

1. Click the **Login** button.
2. Enter your username and password.
3. Click the **Sign In** button.

> **Note**: If you enter an incorrect password too many times, your account will be temporarily locked. Call us at 855.660.5862 for assistance.

Logging Off

For your security, you should always log off when you finish your online banking session. We may also log you off due to inactivity.

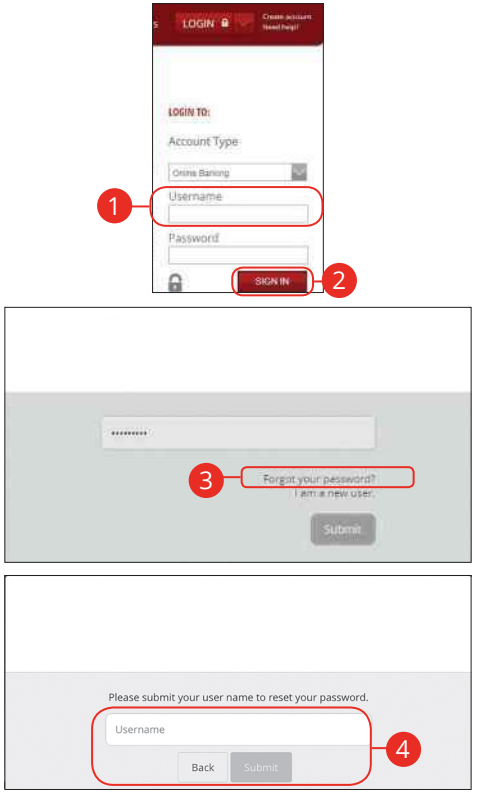
1. Click the **Log Off** tab in the navigation menu.

2. Close your internet browser.

Getting Started

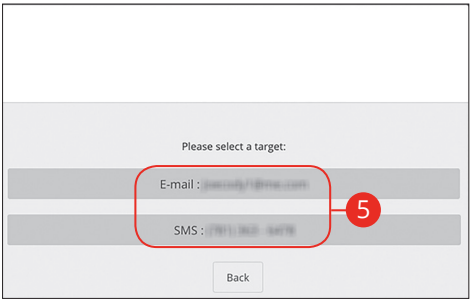
Resetting A Forgotten Password

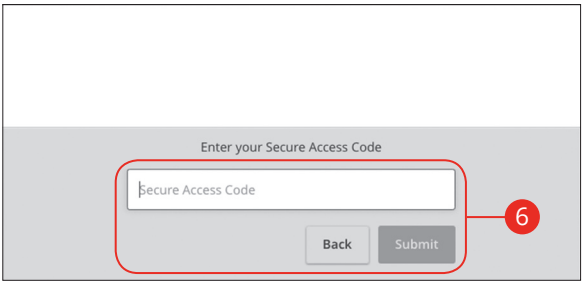
If you happen to forget your password, you can easily reestablish a new one from the First Financial Home page—no need to call us!

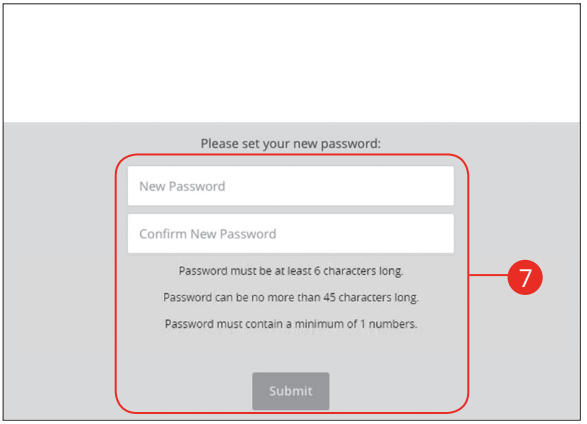


1. Enter your username.
2. Click the **Sign In** button.
3. Click the"Forgot Password?" link.
4. Enter your login ID and click the **Submit** button.

Note: You may not be able to change your password if your account is locked or if you are resetting your password from an unregistered device.





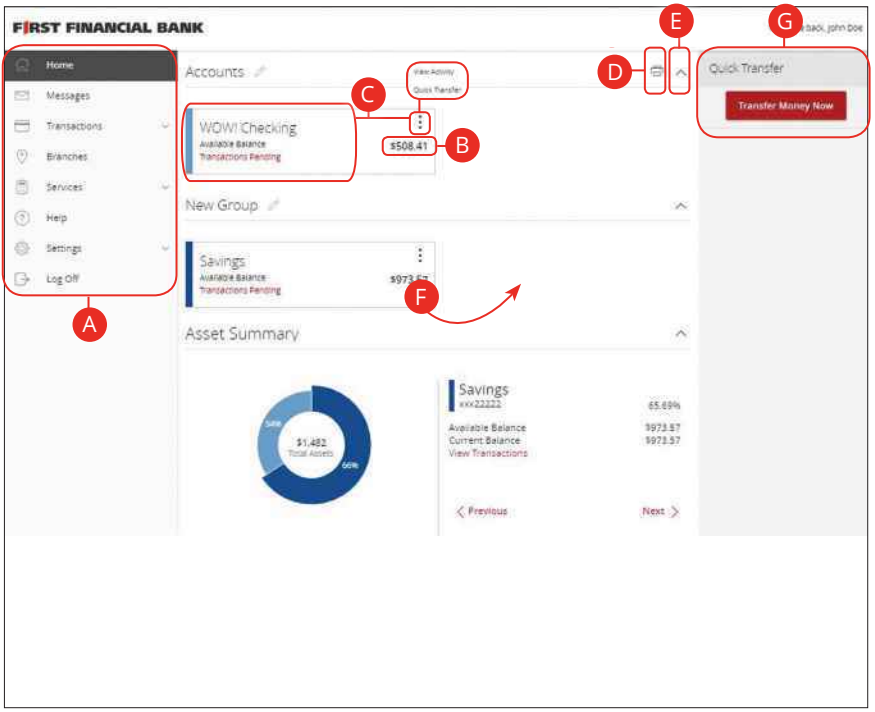


5. Choose the contact method that allows First Financial to reach you immediately with a 6-digit Secure Access Code (SAC).
6. Enter the SAC and click the **Submit** button.
7. Create a new password based on our password requirements and click the **Submit** button when you are finished.

Home Page

Home Page Overview

After logging in, you are taken directly to the Home page. This page is divided into three convenient sections to help you navigate to every feature within Online Banking. Here you can view the balances in both your linked and First Financial accounts, see your account summaries and more!



Note: The letters correspond to several available features on the Home page.

A. The navigation bar appears in every view on the left side of the screen. You can navigate to Online Banking features by selecting the appropriate drop-down tab.

B. Your First Financial accounts and linked external accounts are displayed in an account card with its balance.

C. If you click an account name, you are taken to the Account Details page. You can also click the ⋮ icon on the right side of an account card and select View Activity for more details.

D. The icon allows you to print a summary of current available funds in your accounts.

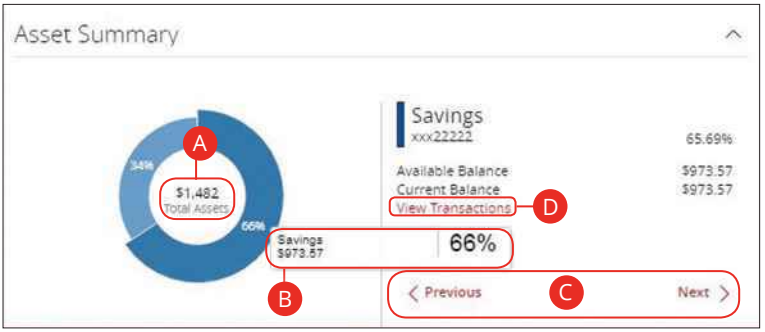
E. You can expand or collapse account details by clicking the ^ icon.

F. If you click and hold an account card, you can drag and drop it to a new location to change the order in which your accounts appear.

G. The Quick Actions links in the top right corner let you quickly access different Online Banking features.

Account Summary Overview

If you ever need to quickly assess how much money is in all of your accounts, you can scroll down to the Account Summary graphic on the Home page. This interactive chart represents your total assets, represented by specific colors and percentages.



A. The Total Assets widget gives you the total amount of money in your accounts and breaks down those funds into percentages.

B. Each colored piece represents one of your First Financial or linked accounts and displays its percentage of total funds as well as the balance.

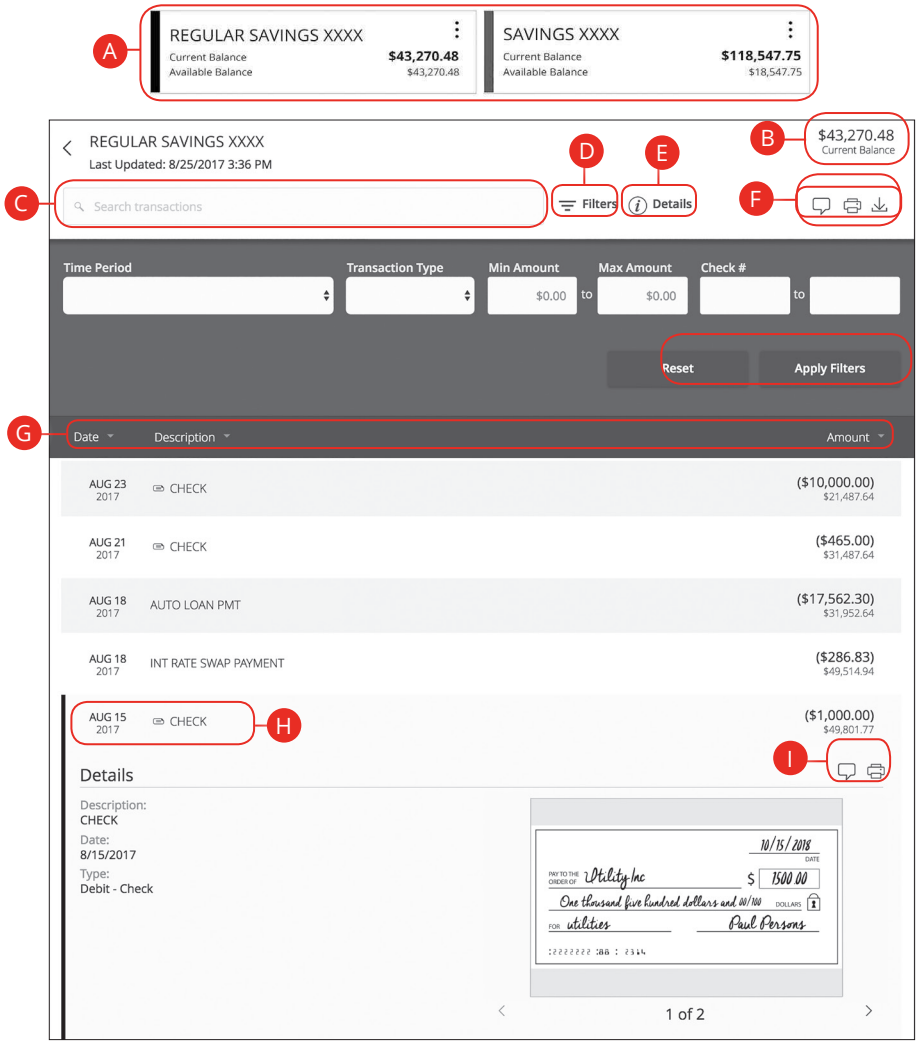
C. Clicking "Next" or "Previous" lets you view different accounts and details.

D. You can click the "View Transactions" link for more information.

Home Page

Account Details Overview

Selecting a First Financial account on the Home page takes you to the Account Details page, where you can view every transaction pertaining to that account. From here, you can view details such as type of transaction, check images and account balances so you stay organized and on top of your finances.



Home Page: Account Details Overview

A. On the Home page, you can click on an account name to view the Account Details screen. You can also click the right side of an account card and click the **View Activity** button.

B. The available balance of that account is displayed in the top right corner.

C. You can find transactions within that account using the search bar.

D. Transactions can be sorted by time, type, amount or check number. Click the **Filters** icon for more options.

E. More information about your transactions is available by clicking the **Details** icon.

F. The icon lets you send a secure message about that account. You can also print a list of transactions by clicking the icon or export your transactions into a different format by clicking the icon.

G. The icon indicates how the Date, Description and Amount columns are sorted.

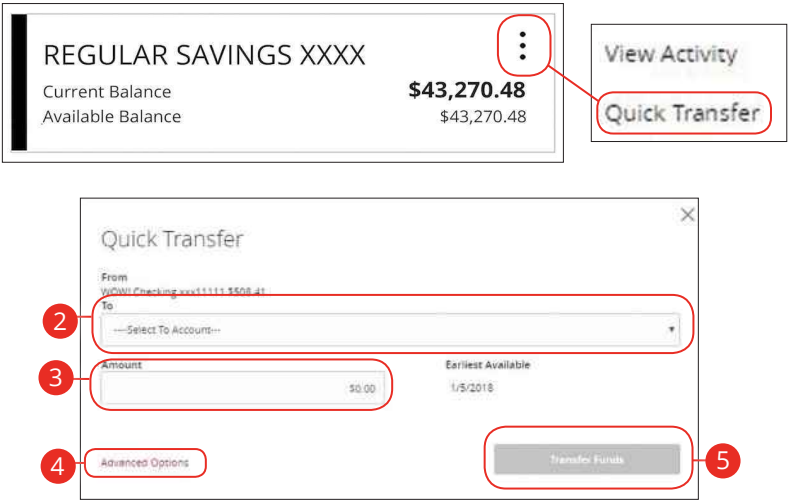
H. You can view more details about a transaction by clicking on it.

I. After clicking a transaction, the icon lets you send a secure message about that transaction. You can also print the transaction by clicking the icon.

Home Page

Quick Transfer

No need to run to a branch to move money from one account to another!
If you're ever in a rush, the Quick Transfer option provides you with a simple way to do those transactions.

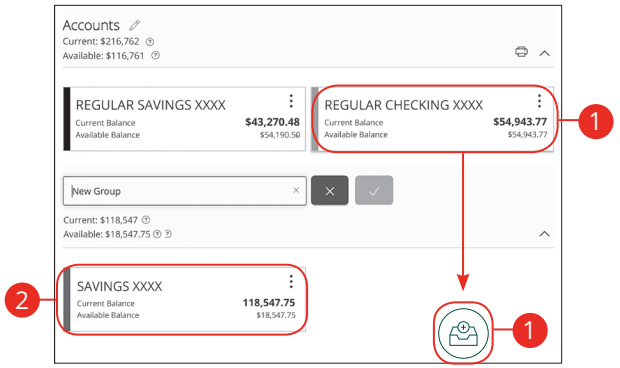


1. Click the ⋮ icon right side of an account card and select Quick Transfer.
2. Select the "To" drop-down and choose an account to receive the funds.
3. Enter an amount to transfer.
4. (Optional) Click the "Advanced Options" link to be redirected to the Funds Transfer feature.
5. Click the **Transfer Funds** button when you are finished.

Home Page

Account Grouping

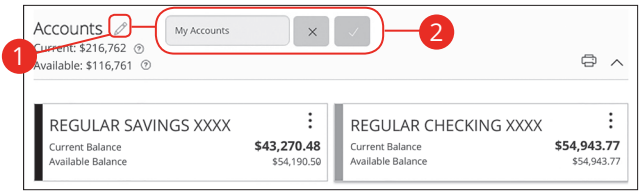
You can organize your internal and linked accounts into groups, so the Home page appears in a way that makes sense to you. These groups can always be changed or deleted to meet your needs.



1. Create a new group by clicking and holding an account tile, then dragging and dropping it to the pop-up icon.
2. Create a group nickname and click the check mark when you are finished.

Editing a Group Name

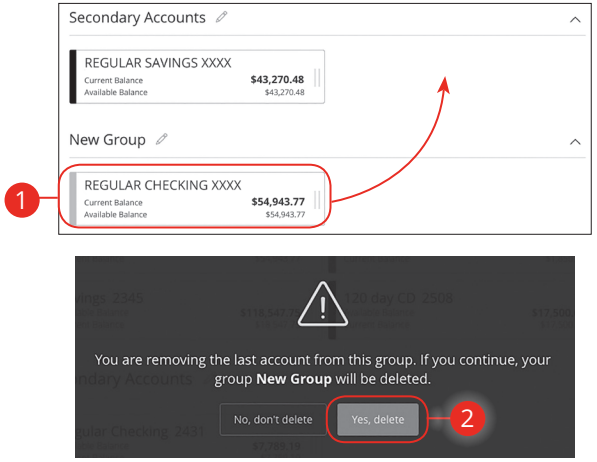
The names of existing groups can be edited in just two easy steps.



1. Click the icon to edit your group nickname.
2. Enter a new name and click the check mark when you are finished.

Deleting a Group

After a group is made, you can reorganize the Home page by deleting a group without removing those accounts from the Home page.



1. Remove all accounts from a group by clicking and holding an account tile and dragging it to another group and dropping it.
2. Click the **Yes, delete** button to delete the group.

Security

Protecting Your Information

Here at First Financial, we do all that we can to protect your personal information and provide you with a dependable online experience. However, we rely on you to take further precautions to assure the safety of your accounts. By following our tips, Online Banking can be a secure and efficient method for all your banking needs.

General Guidelines

- Make sure your operating system and antivirus software are up-to-date.
- Always use secure wireless (WiFi) networks that require a login ID and password.
- Never leave your computer unattended while using Online Banking.
- Monitor your recent account history for unauthorized transactions.
- Always log off of Online Banking when you're finished and close the browser.

Login ID and Password

- Create strong passwords by using a mixture of upper and lowercase letters, numbers and special characters.
- Do not create passwords containing your initials or birthday.
- Change your passwords periodically.
- Memorize your passwords instead of writing them down.
- Only register personal devices and avoid using features that save your login IDs and passwords.

Fraud Prevention

- Do not open email attachments or click on links from unsolicited sources.
- Avoid giving out personal information on the phone or through email.
- Shred unwanted sensitive documents including receipts, checks, deposit slips, pre-approved credit card offers and expired cards.
- Act quickly. If you suspect your financial information is compromised, call us immediately at 855.660.5862.

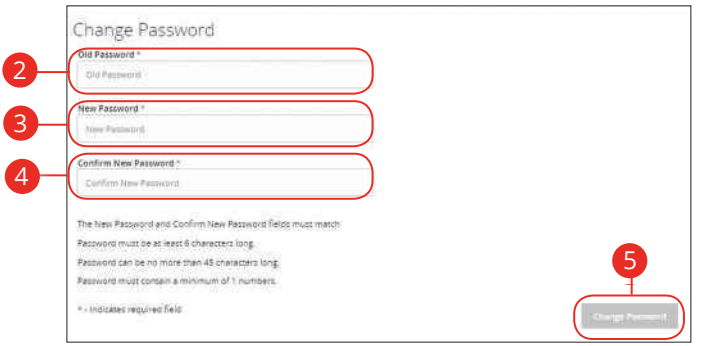
Security

Security Preferences

We take security very seriously at First Financial. Because of this, we've added various tools to help you better protect your account information. You can add and manage these features in Security Preferences to strengthen your Online Banking experience.

Change Password

When you need to, you can change your password within Online Banking. We recommend that you change your password regularly and follow our guidelines for creating a strong password.



In the **Settings** tab, click **Security Preferences**.

1. Click the **Change Password** button.
2. Enter your old password.
3. Create a new password.
4. Reenter your new password.
5. Click the **Change Password** button when you are finished making changes.

Change Login ID

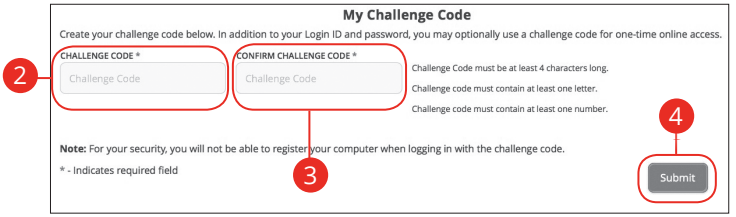
You can also change your login ID at any time. To ensure that you create an effective login ID, create an ID that you will remember and that follows our required guidelines.

In the **Settings** tab, click **Security Preferences**.

1. Click the **Change Login ID** button.
2. Enter your new login ID.
3. Click the **Submit** button when you are finished making changes.

Challenge Code

Adding a Challenge Code replaces the need for a SAC when accessing Online Banking on an unregistered device. If you are unable to receive a SAC at any time, this 4-character code allows one-time access.

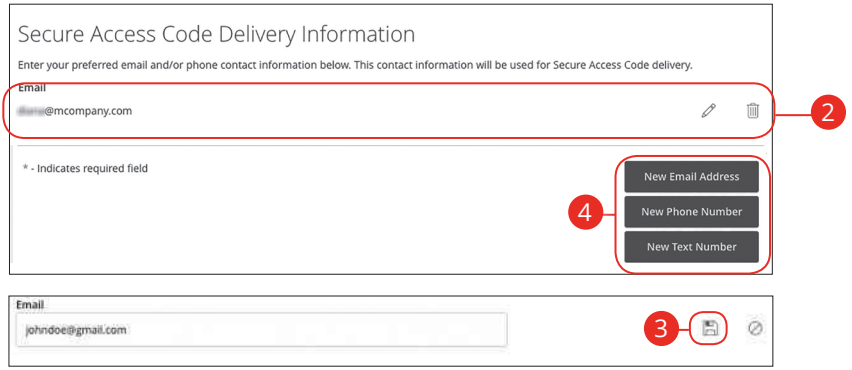


In the **Settings** tab, click **Security Preferences**.

1. Click the **Challenge Code** button.
2. Enter a challenge code.
3. Reenter the challenge code.
4. Click the **Submit** button when you are finished.

Secure Delivery

First Financial verifies your identity using Secure Access Codes (SACs), which are numbered codes that are sent to you by email, phone or text. Within Security Preferences, you can make changes to your delivery preferences or add new ways we can contact you.



In the **Settings** tab, click **Security Preferences**.

1. Click the **Secure Delivery** button.
2. Make changes to a secure delivery method by clicking the icon to make changes or the icon to delete a secure delivery method.
3. Enter your new contact information and click the icon when you are finished to save your changes.
4. Add a new delivery contact by clicking either the **New Email Address**, **New Phone Number** or **New Text Number** button at the bottom of the page.

Security

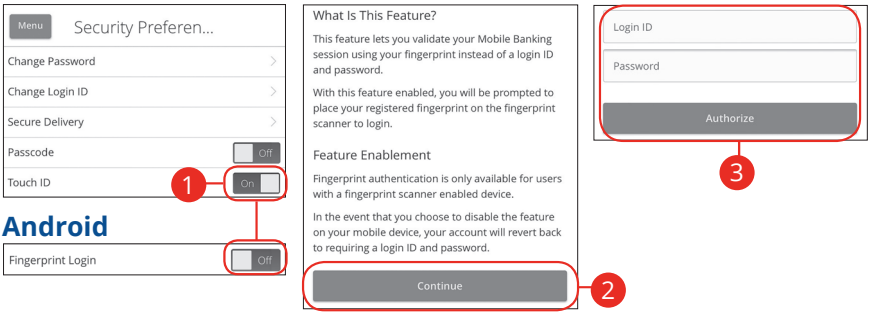
Mobile Security Preferences

Within First Financial's Online Banking app, you have the ability to set up security preferences that are not available on a desktop computer. These additional preferences make signing into your Online Banking quick and easy but also adds an extra layer of security to your private information while you are on the go!

Enabling Touch ID or Fingerprint Login

Touch ID and Fingerprint Login are features that have fingerprint recognition technology that allows you to unlock your iOS or Android device, to make payments or authenticate transactions using just your fingerprint. With this feature enabled, you can now easily and securely sign in to your Online Banking using Touch ID or Fingerprint Login on our mobile app!

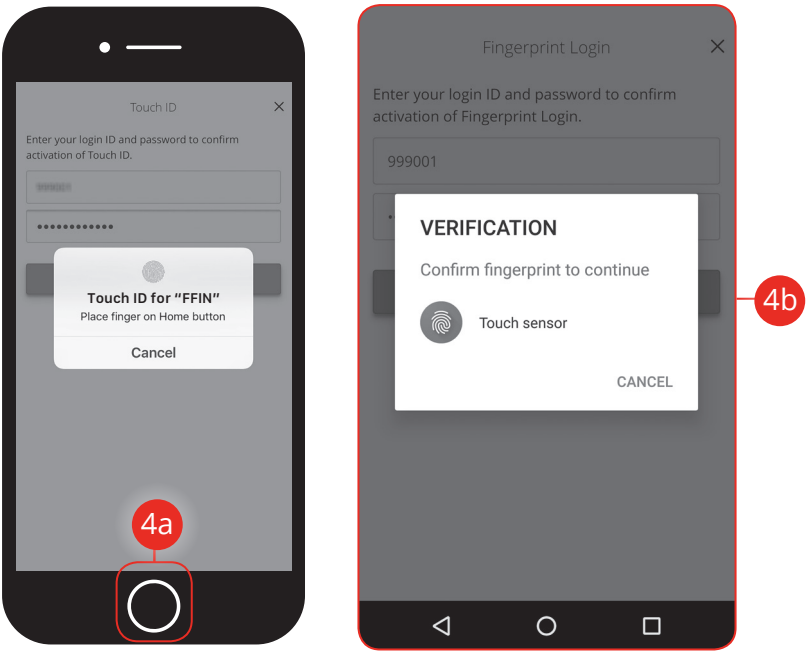
iOS



Sign in to First Financial's Online Banking app and tap the **Menu** button. In the **Settings** tab, tap **Security Preferences**.

1. Toggle the **Touch ID** or **Fingerprint Login** switch from "Off" to "On."
2. Review the information about using fingerprint authentication and tap the **Continue** button.
3. Enter your login ID and password and tap the **Authorize** button.

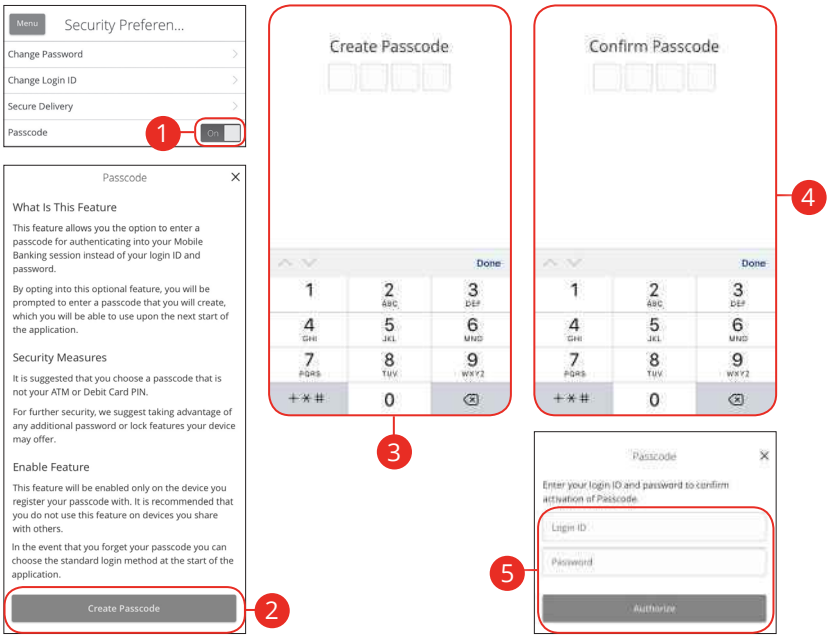
Note: You must have Touch ID or Fingerprint enabled on your mobile device before enabling it through our Online Banking app.



4. Scan your fingerprint
    a. **iOS Device**: Place your finger on the Home button to enable Touch ID.
    b. **Android Device**: Place your finger on the fingerprint scanner to enable Fingerprint Login. Location of scanner varies from device to device.

Enabling Passcode Authentication

Create a unique passode within our Online Banking app to quickly and easily sign in to your Online Banking on the go!



Sign in to First Financial's Online Banking app and tap the **Menu** button. In the **Settings** tab, tap **Security Preferences**.

1. Toggle the **Passcode** switch from "Off" to "On."
2. Review the information about using a passcode and tap the **Create Passcode** button.
3. Create your 4-digit passcode using the keypad.
4. Confirm your passcode using the keypad.
5. Enter your login ID and password and tap the **Authorize** button.

Disabling Passcode Authentication, Touch ID or Fingerprint Login

You can disable Passcode Authentication, Touch ID or Fingerprint Login if you no longer prefer to utilize them. When all features are disabled, you can sign in to your Online Banking using your login ID and password.

Sign in to First Financial's Online Banking app and tap the **Menu** button. In the **Settings** tab, tap **Security Preferences**.

1. Toggle the **Passcode**, **Touch ID** or **Fingerprint Login** switch from "On" to "Off."
2. Tap the **Yes** button to disable the feature.

Security

Alerts Overview

Having peace of mind is critical when it comes to your online banking experience. When you create an alert through Online Banking, you specify the conditions that trigger that alert, so you stay on top of what's important to you.

In the **Settings** tab, click **Alerts**.

A. The "New Alert" drop-down lets you create a date, account, history or transaction alert.

B. The ^ icon allows you to collapse or expand alert details for each category.

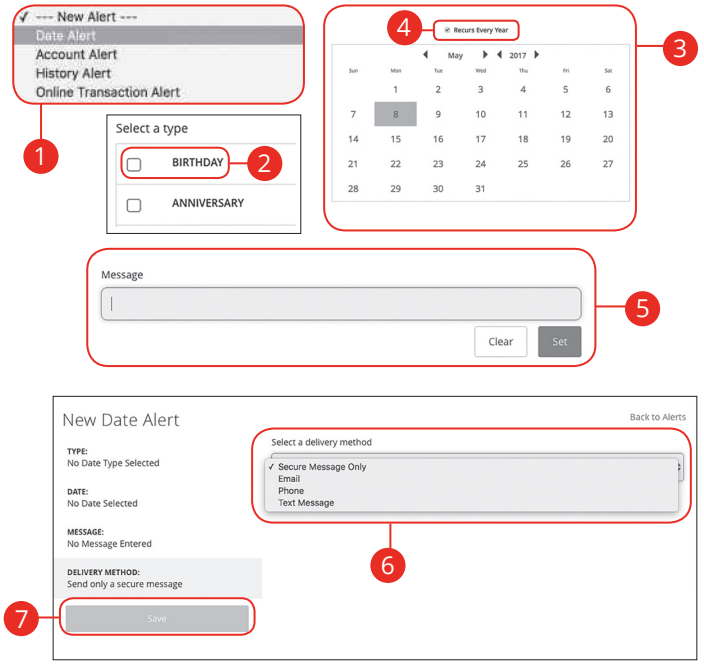
C. Toggling the "Enabled" switch turns an alert on or off without deleting it.

D. The "Edit" link lets you make changes to existing alerts.

Note: All alerts are automatically sent through secure messages, but you can also choose to receive them by email, phone or text message.

Date Alerts

Just like marking a calendar, you can set up alerts to remind you of specific dates or events. That way, you never forget a birthday or anniversary again!

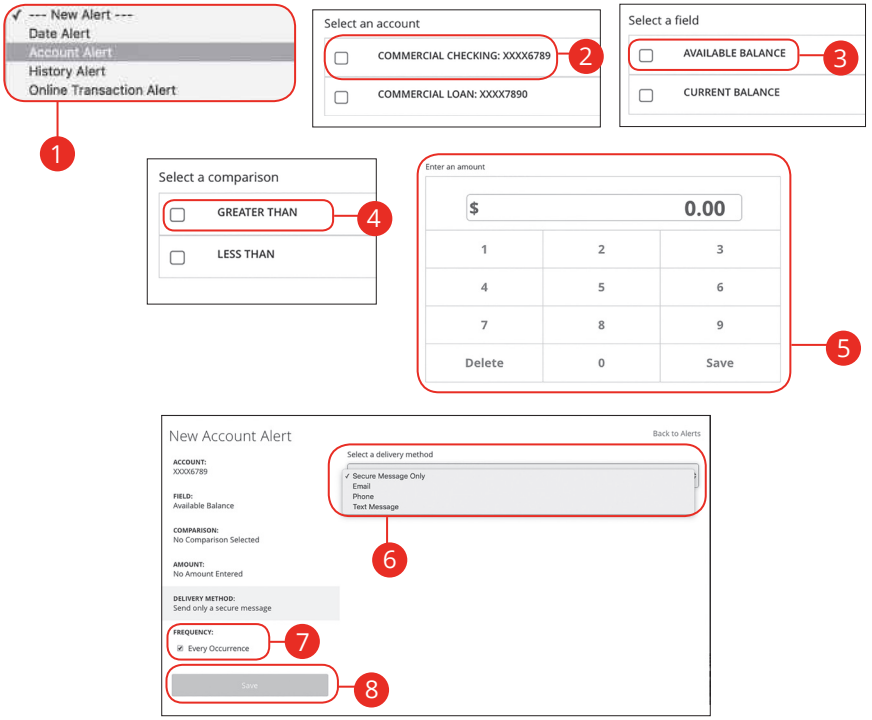


In the **Settings** tab, click **Alerts**.

1. Use the "New Alert" drop-down and select "Date Alert."
2. Check the box next to an alert type.
3. Enter the date for the alert to occur.
4. Check the box next to "Recurs Every Year" to have your alert repeat annually.
5. (Optional) Enter a message and click the **Set** button.
6. Select a delivery method from the drop-down.
7. Click the **Save** button when you are finished.

Account Alerts

There should be no surprises when it comes to your finances. Account Alerts can notify you when the balances in your accounts go above or below a number you specify.



In the **Settings** tab, click **Alerts**.

1. Use the "New Alert" drop-down and select "Account Alert."
2. Check the box next to an account name.
3. Check a box to select a field.
4. Check a box to select a comparison.
5. Enter an amount and click the **Save** button.
6. Select a delivery method using the drop-down.
7. Choose a frequency by checking the box next to "Every Occurrence" to repeat the alert.
8. Click the **Save** button when you are finished.

History Alerts

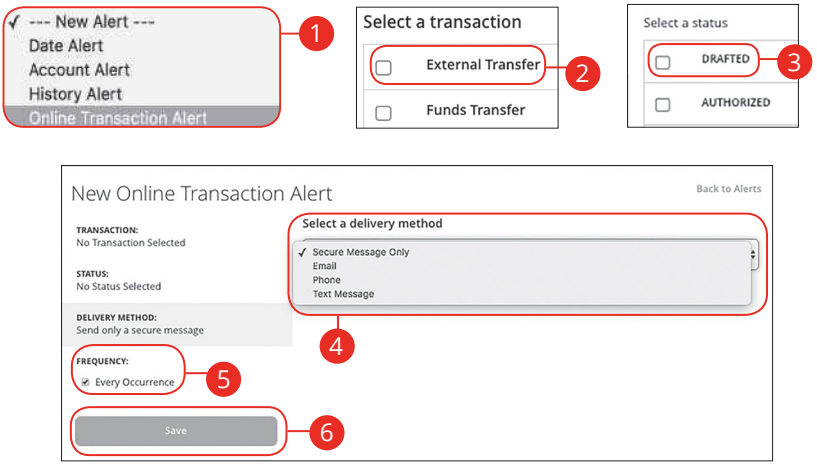
If you're ever concerned about amount limits or pending checks, you can create History Alerts to contact you when a check number posts or transactions meet an amount you choose.

In the **Settings** tab, click **Alerts**.

1. Click the "New Alert" drop-down and select "History Alert."
2. Check the box next to an account name.
3. Select a transaction type by checking a box.
4. Check a box to select a comparison. These options vary depending on the chosen transaction type.
5. Enter an amount or check number and click the **Save** button.
6. Select a delivery method using the drop-down.
7. Choose a frequency by checking the box next to "Every Occurrence" to repeat the alert.
8. Click the **Save** button when you are finished.

Online Transaction Alerts

Different types of transactions can occur in your accounts. By creating Online Transaction Alerts, you can be notified when various transfers, payments or debits post to your account.



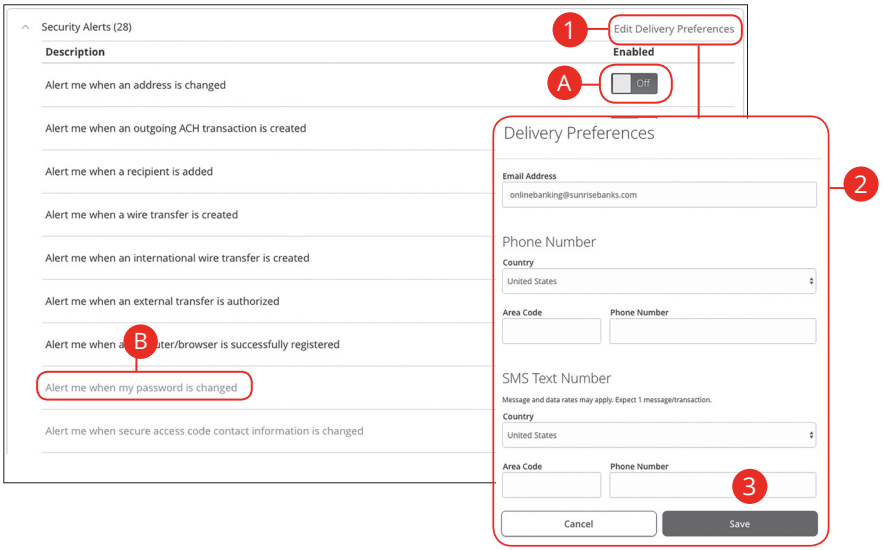
In the **Settings** tab, click **Alerts**.

1. Click the "New Alert" drop-down and select "Transaction Alert."
2. Check the box next to a transaction type.
3. Select a status by checking the appropriate box.
4. Select a delivery method using the drop-down.
5. Choose a frequency by checking the box next to "Every Occurrence" to repeat the alert.
6. Click the **Save** button when you are finished.

Security

Security Alerts Overview

We want you to feel confident while using Online Banking. To help you feel safe and in control, Security Alerts are implemented in your accounts to notify you immediately when security scenarios occur.



In the **Settings** tab, click **Alerts**, then **Security Alerts**.

A. You can turn an alert on or off by toggling the **Enabled** switch.

B. If an alert is grayed-out, you cannot edit or disable it.

Edit Delivery Preferences

When a trigger occurs, Security Alerts are always sent to you through secure messages. You can add additional delivery methods to notify you about your accounts wherever you are.

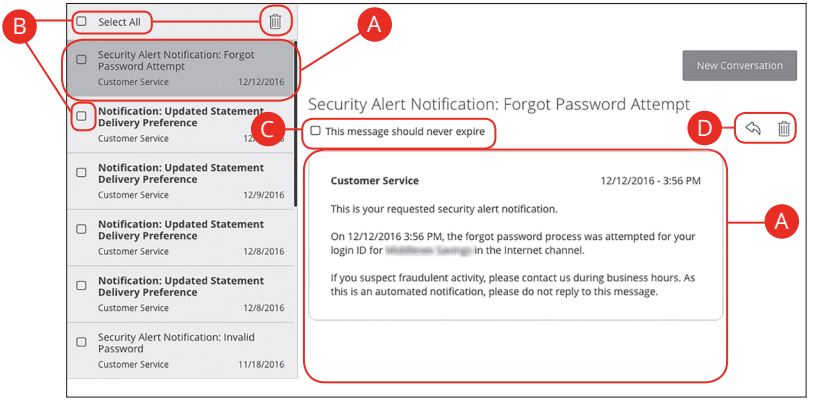
In the **Settings** tab, click **Alerts**, then **Security Alerts**.

1. Click the “Edit Delivery Preferences” link at the top. These changes will apply to all Security Alerts.
2. Enter the information for your preferred delivery method.
3. Click the **Save** button when you are finished making changes.

Security

Secure Message Overview

If you have questions about your accounts or need to speak with someone at First Financial, Secure Messages allows you to communicate directly with a First Financial Customer service representative. From the Secure Messages page, you can find replies, old messages or create new conversations.



Click the **Messages** tab.

A. Click on a message to open it. Messages are displayed on the left side of the screen.

B. Delete multiple messages by checking the box next to the corresponding messages or check the box next to "Select All" and click the icon.

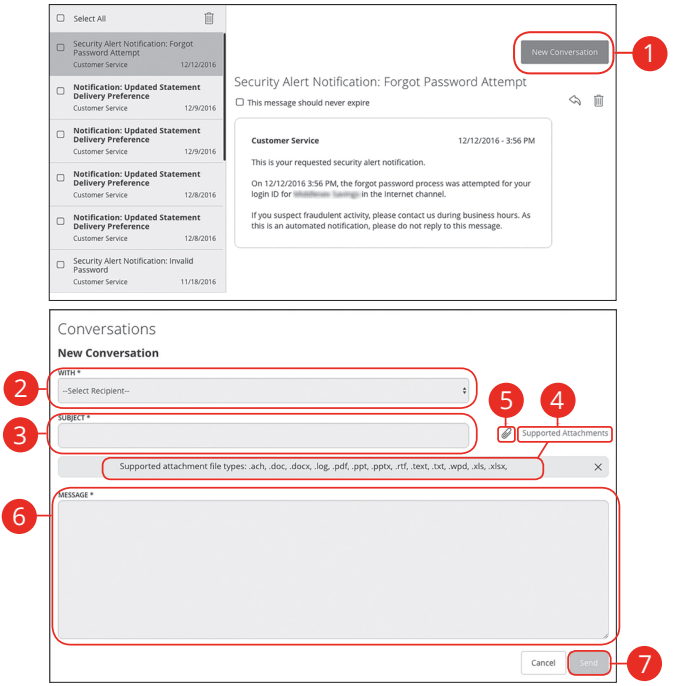
C. Messages automatically delete after a certain time. Check the box next to "This message should never expire" to prevent that message from being erased.

D. Delete an opened message by clicking the icon or reply by clicking the icon.

Security

Sending a Secure Message

Starting a new conversation through Online Banking is just as effortless as sending an email. Unlike an email, you can safely include confidential personal information relating to your accounts or attach files within a new message.



Click the **Messages** tab.

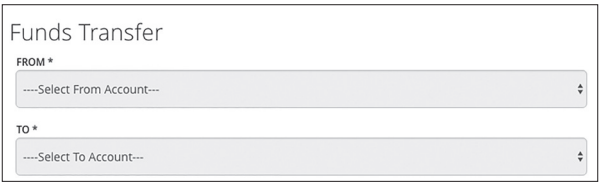
1. Create a new message by clicking the **New Conversation** button in the top right corner.
2. Select the recipient from the drop-down.
3. Enter the subject.
4. (Optional) Click the “Supported Attachments” link to see if your file is supported.
5. (Optional) Attach a file by clicking the icon.
6. Enter your message.
7. Click the **Send** button when you are finished.

Transaction Types

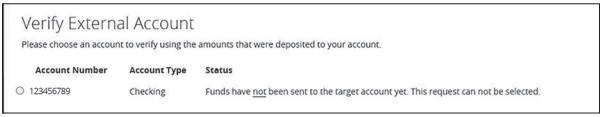
Moving Money Overview

The heart of Online Banking is the ability to transfer funds on the go. Whether you are transferring money between your accounts or sending money to someone outside of First Financial, there are various features that help you transfer funds in different ways.

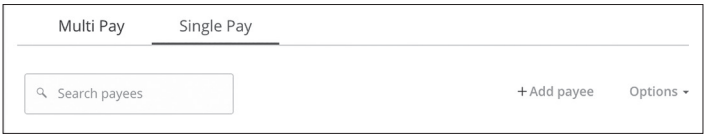
- **Funds Transfer**:
  Move money between your personal First Financial accounts.



- **External Transfer after adding and verifying external accounts**:
  Move money after linking your external accounts.



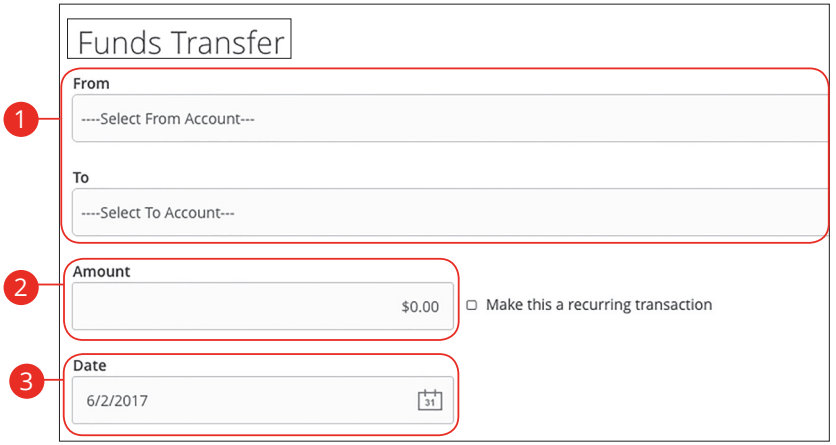
- **Bill Pay**:
  Move money to someone's external account or a company's account.



Transactions

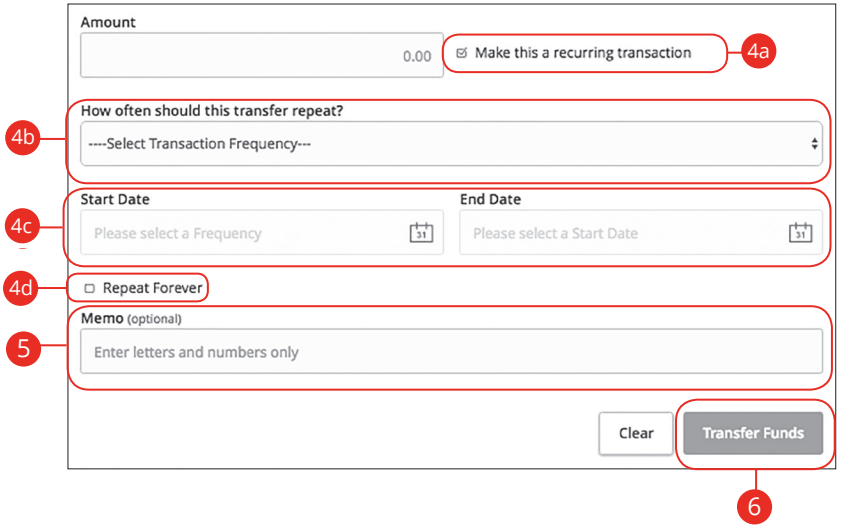
Funds Transfer

When you need to make a one-time or recurring transfer between your personal First Financial accounts, you can use the Funds Transfer feature. These transactions go through automatically, so your money is always where you need it to be.



In the **Transactions** tab, click **Funds Transfer**.

1. Select the accounts to transfer funds between using the “To” and “From” drop-downs.
2. Enter the amount to transfer.
3. (One-Time Transfer Only) Enter the date to process the transaction.



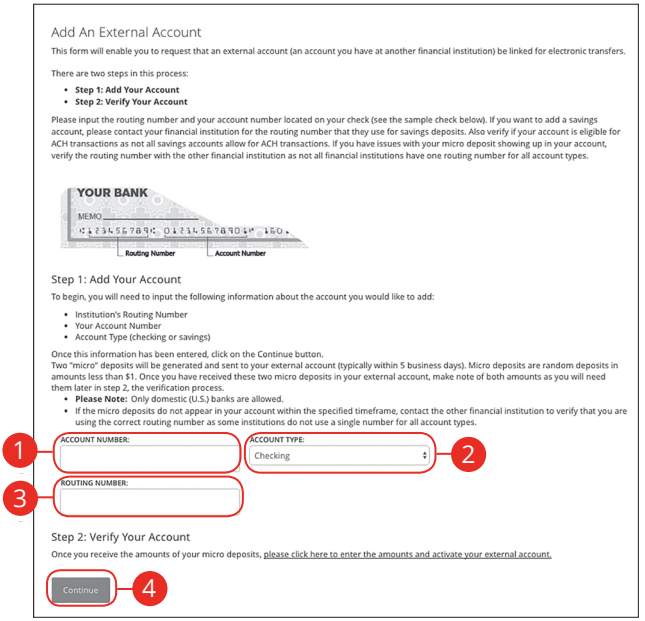
4. If you would like to set up a recurring transfer, follow the steps below.
    - **a.** Check the box next to "Make this a recurring transaction" to repeat the transfer.
    - **b.** Use the "How often should this transfer repeat?" drop-down to specify how often the transfer should occur.
    - **c.** Enter a start and end date for this transaction using the calendar features.
    - **d.** If your transaction doesn't have an end date, check the box next to "Repeat Forever."
5. Enter a memo.
6. Click the **Transfer Funds** button when you are finished.

Note: You can view or cancel unprocessed transactions by accessing the Recurring Transactions tab within the Activity Center.

Transactions

Adding A Personal External Account

Your private accounts at other financial institutions can be linked to Online Banking with First Financial so you can transfer money between two banks without ever leaving home! When you go to add another account, you are asked to verify your ownership of that account by confirming two small deposits First Financial makes into the external account.



In the **Services** tab, click **Add External Account**.

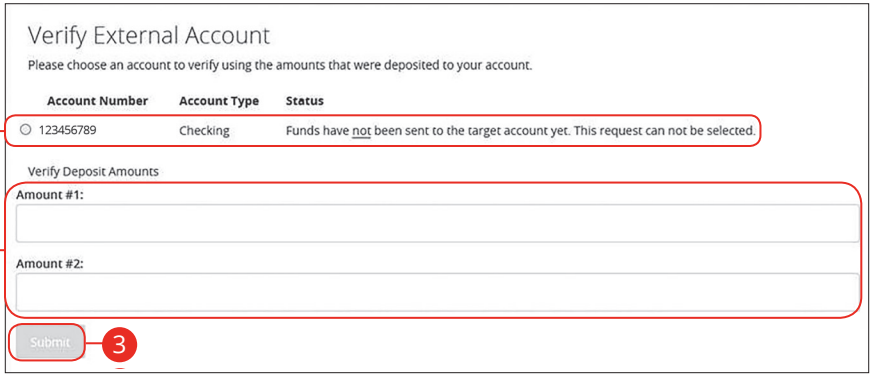
1. Enter the account number.
2. Select the type of account using "Account Type" drop-down.
3. Enter the financial institution's routing number. These numbers are located at the bottom of a paper check or deposit slip from your check book.
4. Click the **Continue** button.

In two to three business days, two micro-deposits will appear in your external account. Once you receive those deposits, go to the Verify External Account tab to add the account.

Transactions

Verifying A Personal External Account

As soon as First Financial makes two small deposits of less than a dollar into your external account, you are asked to verify those amounts within Online Banking. Once they are confirmed, you can begin transferring money to the outside account.



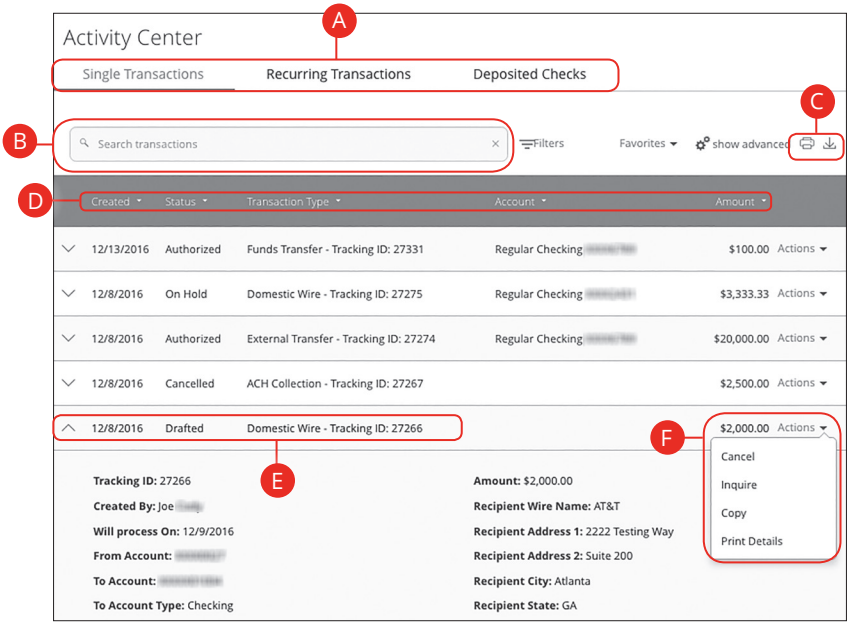
In the **Services** tab, click **Verify External Account**.

1. Select the account you would like to verify.
2. Enter the amounts of the two micro-deposits that have been made into your external account.
3. Click the **Submit** button when you are finished.

Transactions

Activity Center Overview

All transactions initiated through Online Banking or through our app appear in the Activity Center. All single and recurring transactions as well as deposited checks show in the Activity Center along with stop payments and check reorders.



In the **Transactions** tab, click **Activity Center**.

A. Click an appropriate tab at the top to view **Single Transactions**, **Recurring Transactions** or **Deposited Checks**.

B. Use the search bar to find transactions within that account.

C. Print the Activity Center page by clicking the icon. Export your transactions into a different format by clicking the icon.

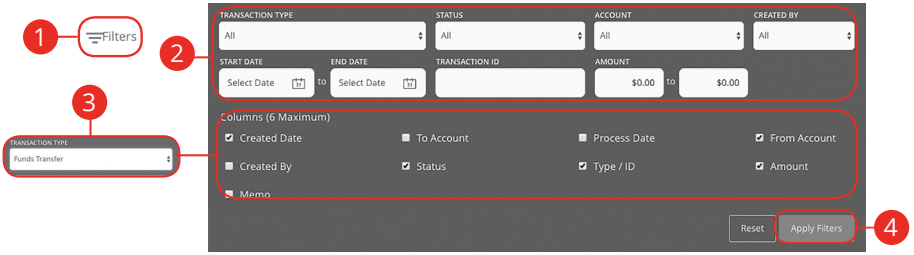
D. Click the icon next to the Created, Status, Transaction Type, Account or Amount columns to sort transactions.

E. Click on a transaction to view more details.

F. Select **Actions** to perform additional functions.

Using Filters

What appears on the Activity Center can be customized using various filters. You can also choose up to six columns to display, so you can swiftly find what you're looking for each time.



In the **Transactions** tab, click **Activity Center**.

1. Click the **Filters** icon to create a custom view of your transactions.
2. Create a custom list of transactions using these filters.
3. Filter the type of transaction you are looking for using the "Transaction Type" drop-down. Column names with check boxes appear. Select up to six boxes.
4. Click the **Apply Filters** button when you are finished.

Creating or Deleting Custom Views Using Favorites

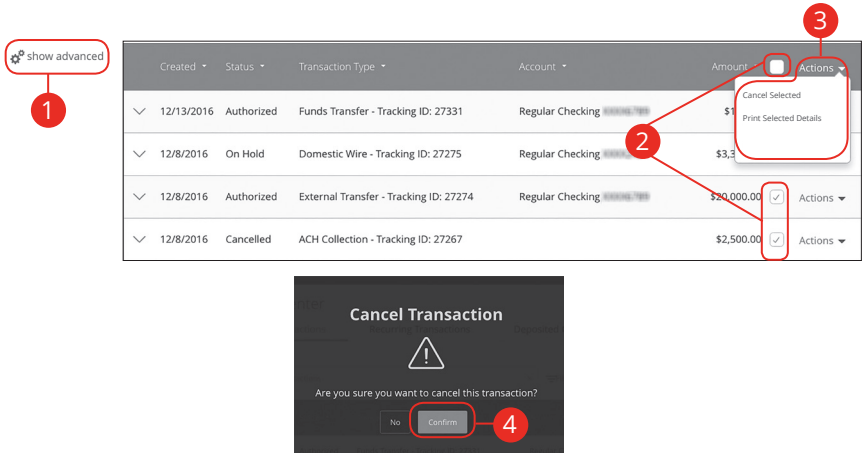
After applying specific filters, you can save that view of the Activity Center to Favorites, making it easier and faster to search, print or export transactions. You can always delete Favorites if they are no longer useful.

In the **Transactions** tab, click **Activity Center**.

1. Apply filters and click the "Favorites" link.
2. Click the **+** icon to create a new favorite template.
3. Enter a name for your new custom view.
4. Click the **Save** button when you are finished.
5. Click the **X** icon to remove a custom view from your Favorites.

Canceling Transactions

The Activity Center shows all pending transactions that have not posted to your account. You can also cancel pending transactions up until their process date.



In the **Transactions** tab, click **Activity Center**.

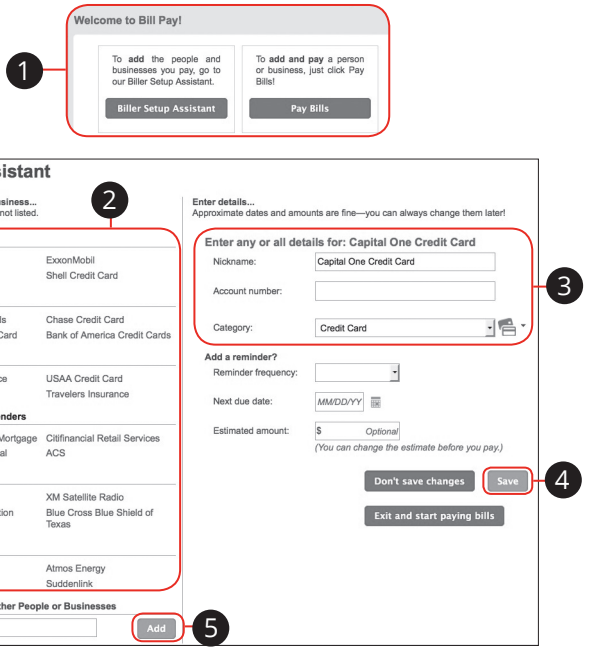
1. Click the **Show Advanced** icon. An additional column of check boxes appears next to the Amount column.
2. Browse through your pending transactions and check the box for each transaction you want to cancel. Check the box between Amount and Actions to select all transactions.
3. Click the "Actions" drop-down and click "Cancel Selected."
4. Click the **Confirm** button when you are finished. The status then changes to "Cancelled" on the Activity Center page.

Note: If you cancel a recurring transaction in the **Single Transaction** tab, you will only cancel that single occurrence. To cancel an entire series, you must visit the **Recurring Transactions** tab in the Activity Center.

Bill Payment

Getting Started

With Online Bill Payer, you can conveniently make one-time payments or set up auto payments so that you do not have to remember to complete a transaction each month. It is easy to set up national billers to pay your phone bill or credit cards as well as pay the local lawn maintenance company.



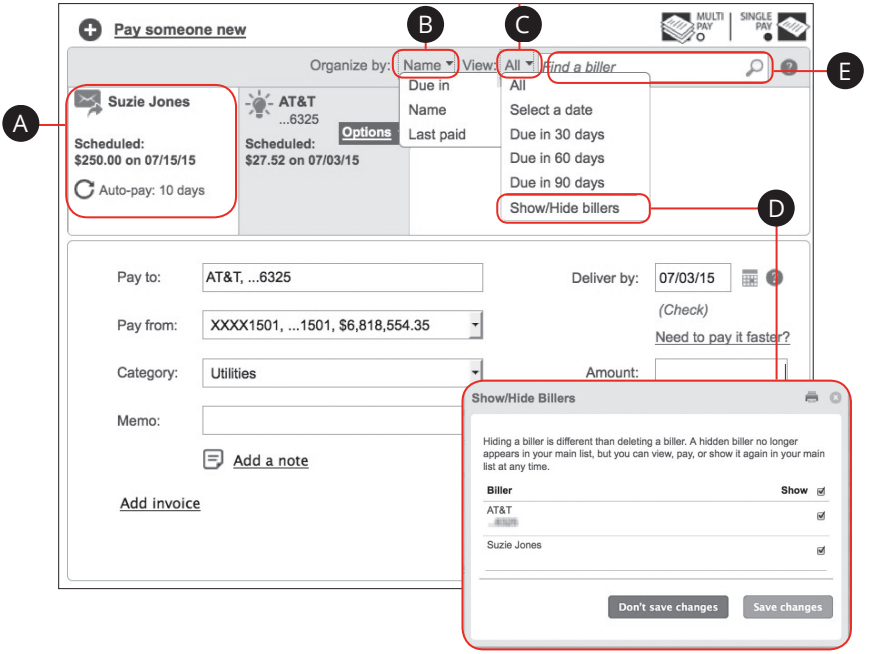
In the **Transactions** tab, click **Bill Payment**.

1. Click either the **Biller Setup Assistant** button to enter all of your billers at the same time or the **Pay Bills** button.
2. Add a national biller by clicking the name on the left.
3. Enter the account number, category and next due date for each biller.
4. Click the **Save** button when you are finished. This process can be repeated for all bills that you want to enter at this time.
5. **Add** a person by entering their name in the provided box and click the **Add** button.

Bill Payment

Navigation

There are many ways to search and process your monthly payments. Below are some quick access tools to get the job done as efficiently as possible.



In the **Transactions** tab, click **Bill Payment**.

A. All billers are displayed at the top with information about scheduled payments.

B. Using the "Name" drop-down organize your billers by due dates, name or last paid.

C. Using the "All" drop-down view billers due on a specific day or within a specific date range.

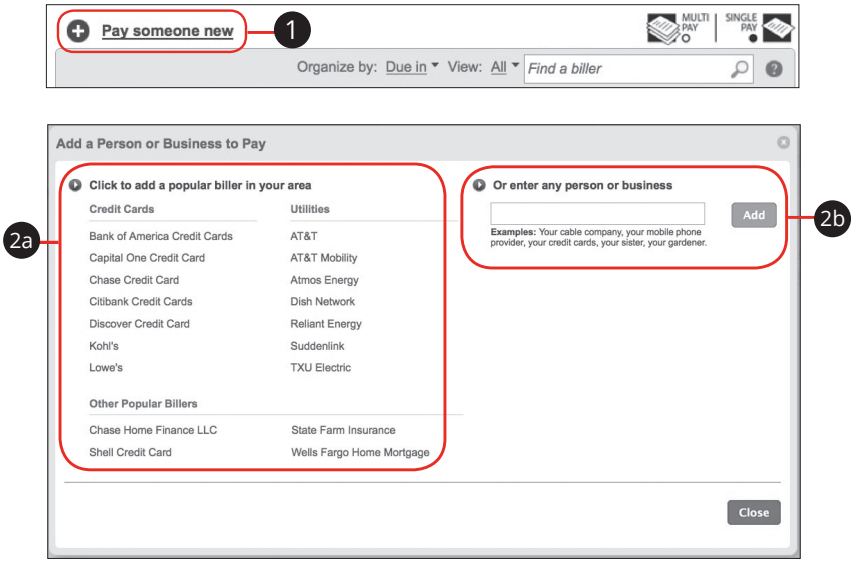
D. Using the "All" drop-down you can select Show/Hide billers to see only certain billers on your Home page. Check the boxes next to a specific biller to hide them and click the **save changes** button when you are finished.

E. Use the search bar to find billers.

Bill Payment

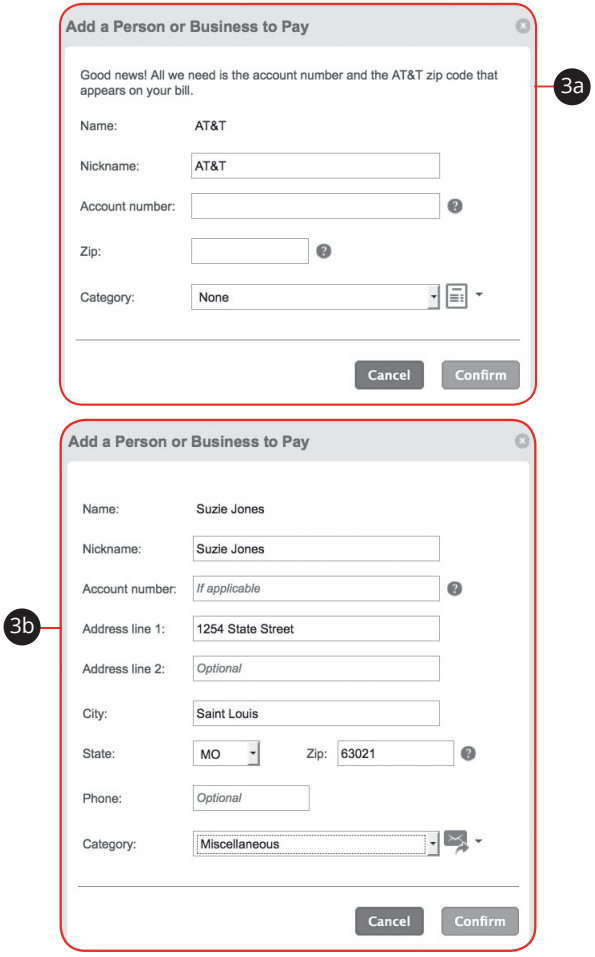
Pay Someone New

Adding a payee or a biller is easy with our online Bill Payer system. In no time you will be sending payments locally or nationally.



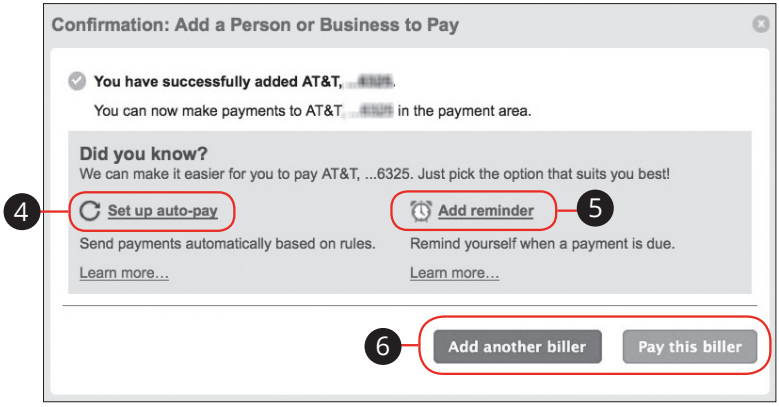
In the **Transactions** tab, click **Bill Payment**.

1. Click the "Pay Someone New" link located at the top of the page.
2. Add a payee. Your steps will vary depending if you are creating a known or unknown payee.
    a. Click on a company name from the list of our preloaded billers to add a national biller. A biller from this list is a known biller.
    b. Enter the name of the company on the right if your biller is not listed. Click the **Add** button. A biller not on the list is an unknown biller.



3. Enter the billers information.

- **a.** **Adding a known biller**: Enter the biller's nickname, account number, zip code and category. Click the **Confirm** button when you are finished.
- **b.** **Adding an unknown biller**: Enter biller's nickname, account number if applicable, street address, city, state, zip code, phone number and category. Click the **Confirm** button when you finished.

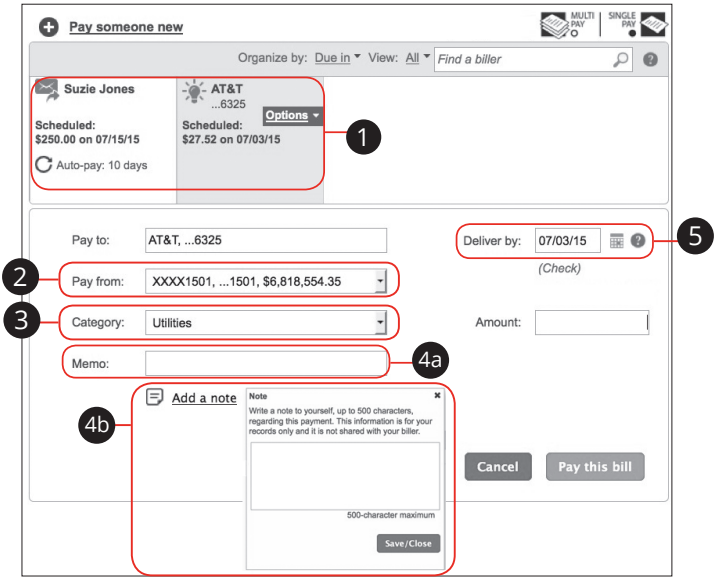


4. (Optional) Click the "Set up auto-pay" link. For details on making a payment automatic view page 51.
5. (Optional) Click the "Add Reminder" link to create a reminder so you will not forget to pay your bill on time.
6. Click **Pay this biller** or **Add another biller.**

Bill Payment

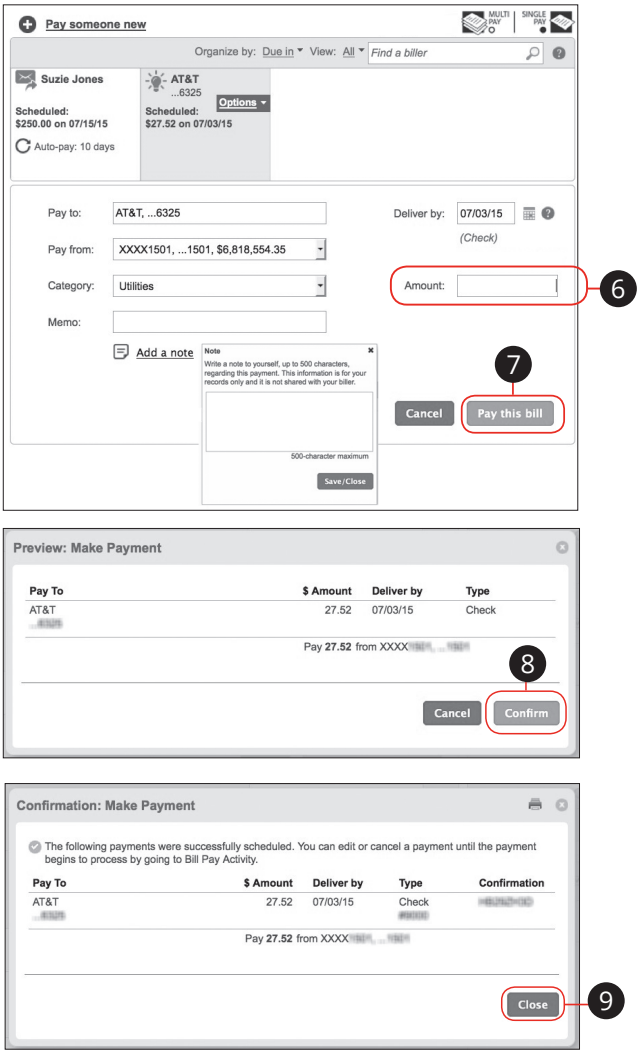
Schedule a Single Payment

There are many options to automate your bill payments. If you would rather set up and send payments for each bill manually, or if you have a situation where you need to make a one-time payment, follow the instructions below.



In the **Transactions** tab, click **Bill Payment**.

1. Click a biller to make a payment
2. Using the "Pay from" drop-down, select the account the funds will be taken from.
3. Using the "Category" drop-down, select a category this payment fits into.
4. Add a message:
    a. **Memo**: Enter a memo about your payment that can be viewed by the biller.
    b. **Note**: Click the "Add a Note" link to add a note about the payment. This note is for your records only and will not be shared with your biller. Click the **Save/Close** button.
5. Enter the deliver by date using the calendar feature.

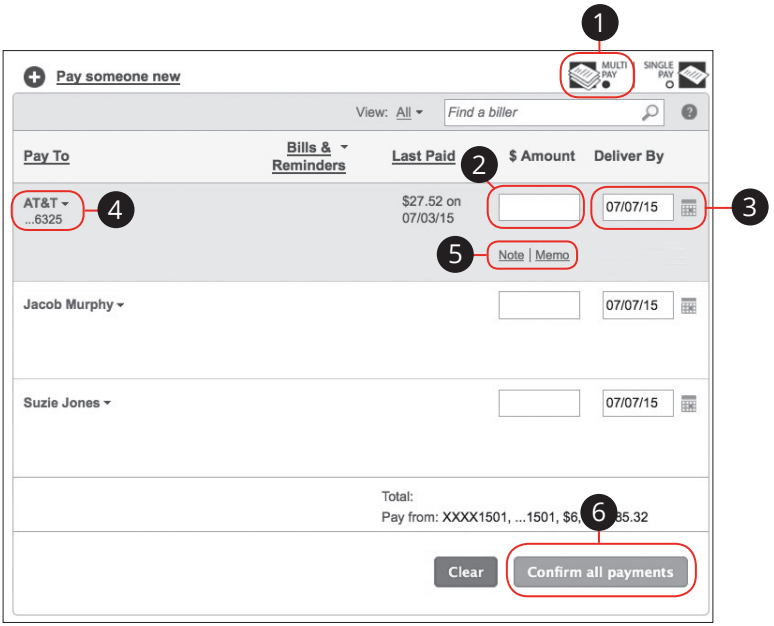


6. Enter the amount of the payment.
7. Click the **Pay this bill** button**.**
8. Review the payment details in the Preview screen and click the **Confirm** button.
9. Click the **Close** button in the confirmation screen.

Bill Payment

Schedule Multi Payments

Free yourself from the hassle of writing checks and the clutter that comes with traditional ways of paying bills. Multi Pay is a quick and easy alternative to paying your bills online at the sites of each individual company.



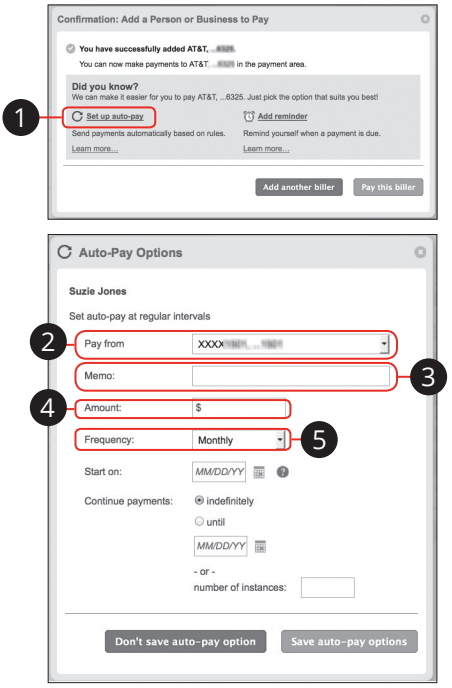
In the **Transactions** tab, click **Bill Payment**.

1. Click the "Multi Pay" link located at the top of the page.
2. Enter the amount for each bill.
3. Select the delivery date using the calendar feature for each bill.
4. (Optional) Click the drop-down by a biller's name to edit their information, when applicable.
5. (Optional) Add a note or memo by clicking the "Note" or "Memo" link.
6. Click the **Confirm all payments** button after you have reviewed all transactions.

Bill Payment

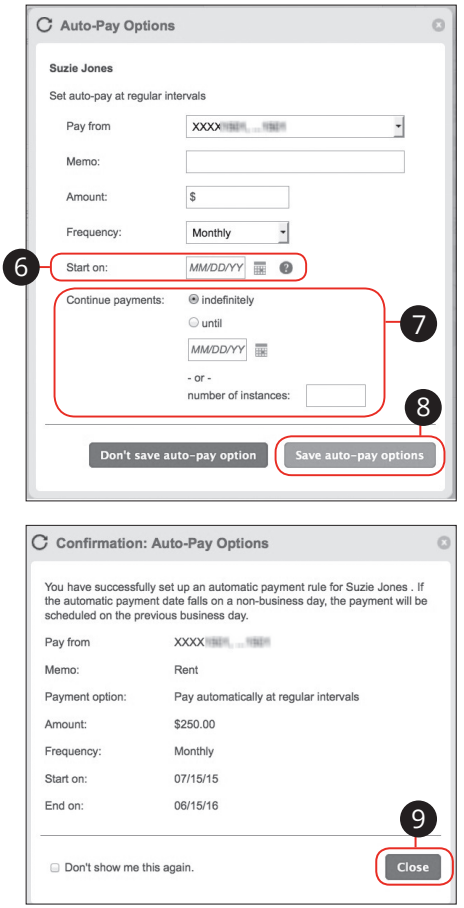
Set Up Auto-Pay

Staying on top of bills is made easier with Auto-Pay. You can choose to set up recurring payments at varied intervals for each bill. Setting up a recurring payment takes only a few moments and saves you time by not having to enter a payment each time a bill is due. You can also choose to receive a reminder of the pending bill.



Follow the steps on page 45 to create a biller.

1. Click the “Set up auto-pay” link after creating a new biller.
2. Using the “Pay from” drop-down, select the account the funds will be taken from.
3. Enter a memo.
4. Enter the amount of the payment.
5. Using the “Frequency” drop-down, select how often this payment will recur.



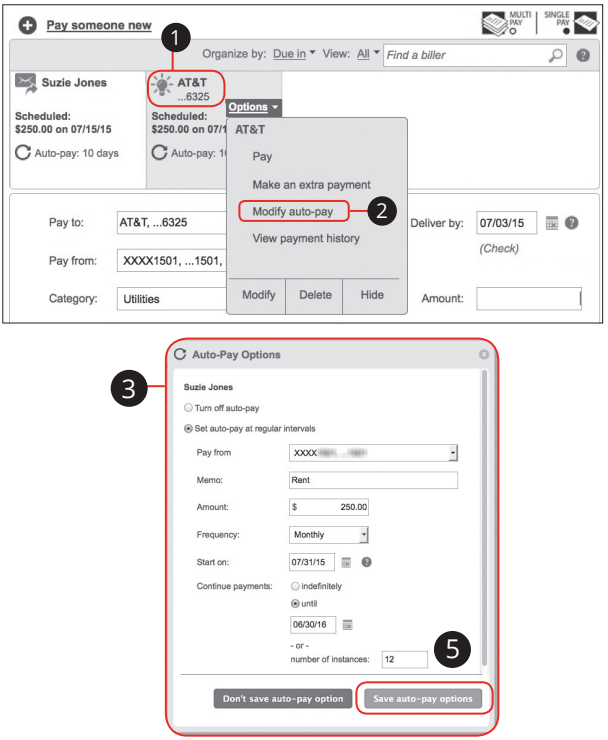
6. Choose a starting dating using the calendar feature.
7. Decide how long the payments will continue using the calendar feature or enter the amount of payments that will process.
8. Click the **Save auto-pay options** button.
9. Review your Auto-Pay Options. Click the **Close** button when you are finished.

Note: If you would prefer to manually process the payment each month, you can add a reminder so that you will receive a notification when this payment is due.

Bill Payment

Edit an Auto-Payment

Even after you have set up a payment, you can edit your payment up to the time it begins processing. This convenient feature gives you the freedom to change the way you make your payments.



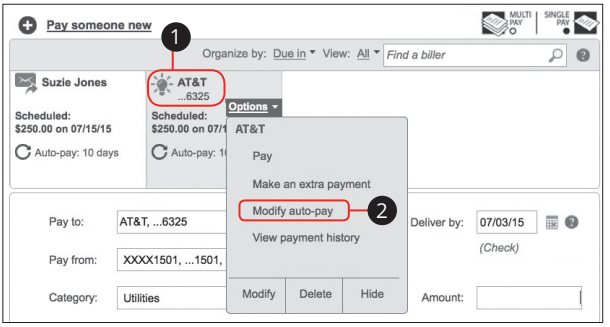
In the **Transactions** tab, click **Bill Payment**.

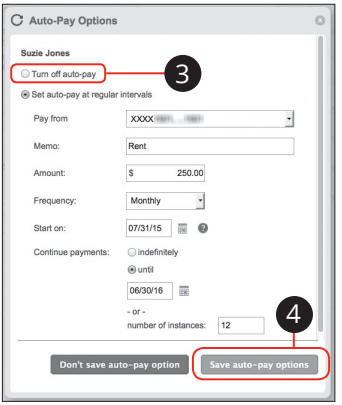
1. Click the payee that you need to change or cancel the auto-pay rule.
2. Using the "Option" drop-down, select Modify auto-pay.
3. Make the necessary changes in the Auto-Pay Options window.
4. Click the **Save auto-pay options** button when you are finished making changes.

Bill Payment

Turn off Auto-Payment

Even after you have set up a payment, you can cancel your payment up to the time it begins processing. This convenient feature gives you the freedom to change the way you make your payments.





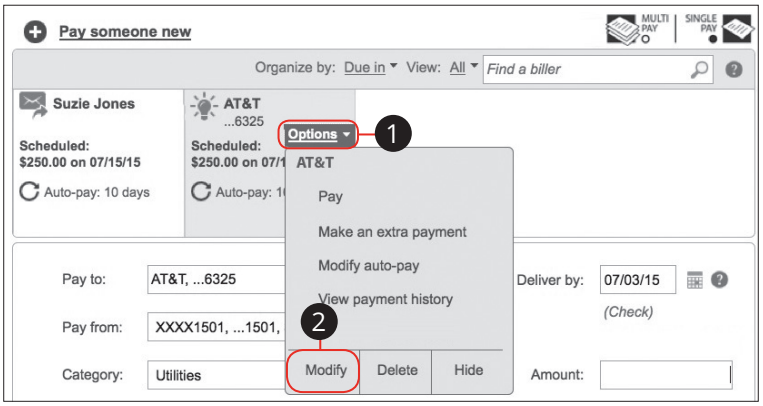
In the **Transactions** tab, click **Bill Payment**.

1. Click the payee that you need to change or cancel the auto-pay rule.
2. Using the "Option" drop-down, select Modify auto-pay.
3. Select "Turn off auto-pay" to disable Auto-Pay for a biller.
4. Click the **Save auto-pay options** button when you are finished making changes.

Bill Payment

Edit Biller Details

Biller information can be quickly modified if the need arises.



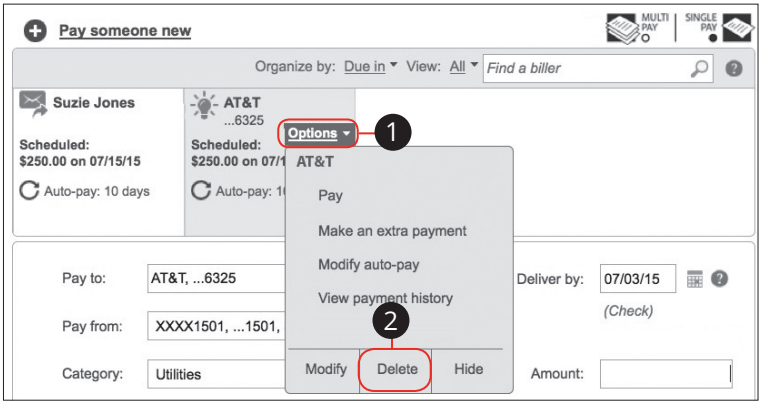
In the **Transactions** tab, click **Bill Payment**.

1. Click the biller whose information you need to edit.
2. Using the "Options" drop-down, select Modify.
3. Make the necessary edits to the biller.
4. Click the **Confirm** button when you are finished making changes.

Bill Payment

Edit Biller Details

If a biller is no longer needed you can easily remove them. This doesn't make changes to any of the pending bills to this biller once it is removed.



In the **Transactions** tab, click **Bill Payment**.

1. Click the biller whose information you need to edit.
2. Using the "Options" drop-down, select Delete to permanently remove a biller.

Bill Payment

Quick Reference Panels Overview

The Quick Reference Side Panel provides easy access to Bill Payer's most used tools and features.

In the **Transactions** tab, click **Bill Payment**.

A. Bill Pay Activity Panel shows all pending payments. Date ranges can be specified for streamlined viewing.

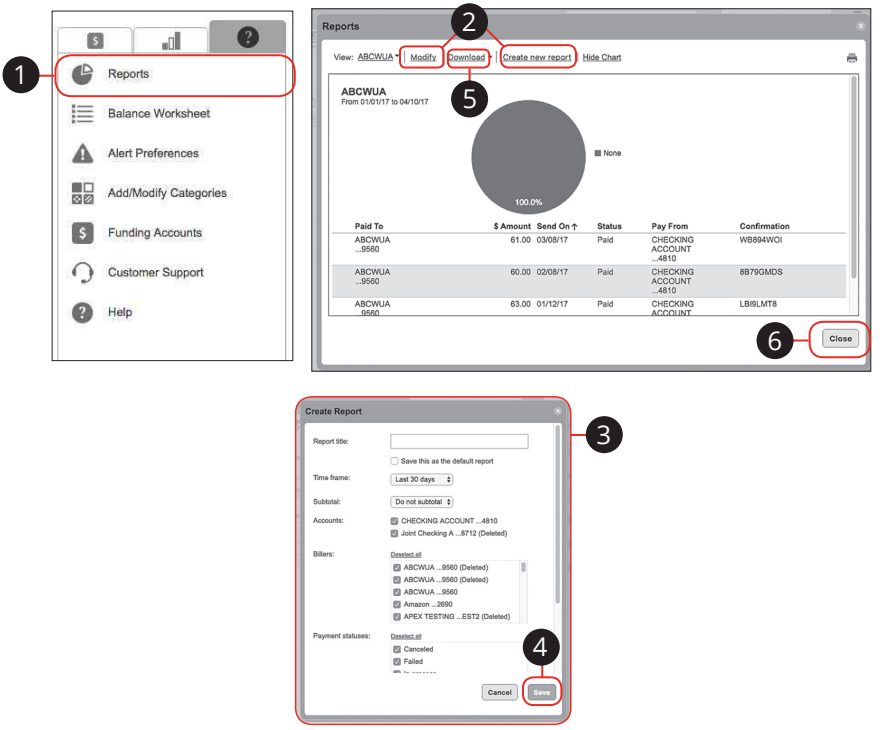
B. Bill Pay Spending Report shows the amounts spent in each category.

C. Helpful Resources is a library of tools that make managing and analyzing your spending habits simple.

Bill Payment

Reports

You can receive a detailed overview of your spending habits, helping you better manage your finances by running a series of regular reports. You can view them on your computer or download them locally to your hard drive.



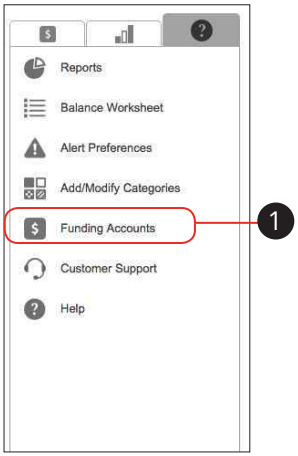
In the **Transactions** tab, click **Bill Payment**.

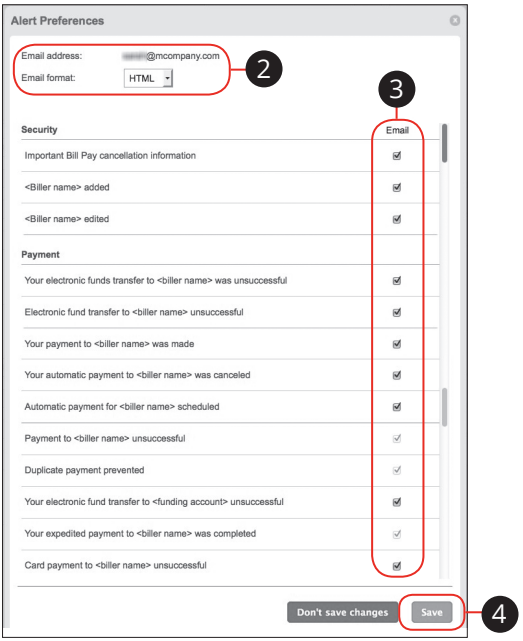
1. Click on the Helpful Resources panel and select Reports.
2. Choose either the “Create new report” or “Modify” link.
3. Fill in the required information when making a new report.
4. Click the **Save** button when you are finished.
5. (Optional) Reports can be downloaded and saved locally. Click the “Download” drop-down and choose the file type.
6. Click the **Close** button when you are finished.

Bill Payment

Alert Preferences

You can set up alerts to notify you of changes to your security preferences or status updates to your payments. This is an easy way to keep in touch with your account activity.





In the **Transactions** tab, click **Bill Payment**.

1. Click on the Helpful Resources panel and select Alert Preferences.
2. Choose which email format is best for receiving the alert.
3. Select or deselect the boxes next to an alert to receive an alert or deactivate one.
4. Click the **Save** button when you are finished.

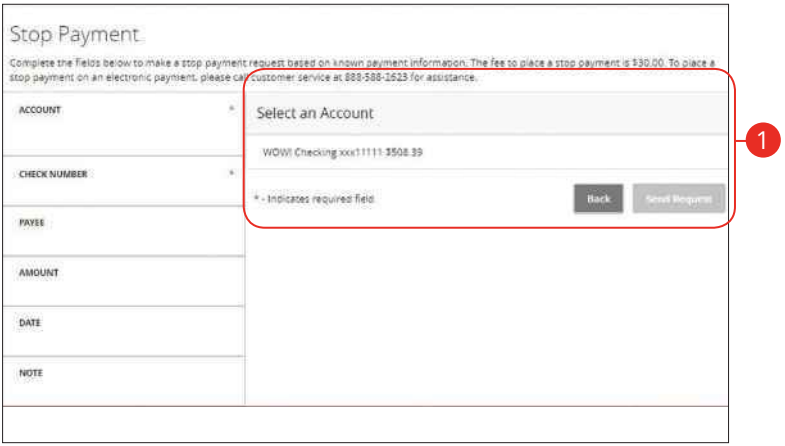
Note: Some alerts are not able to be edited for security purposes.

Services

Stop Payment Request

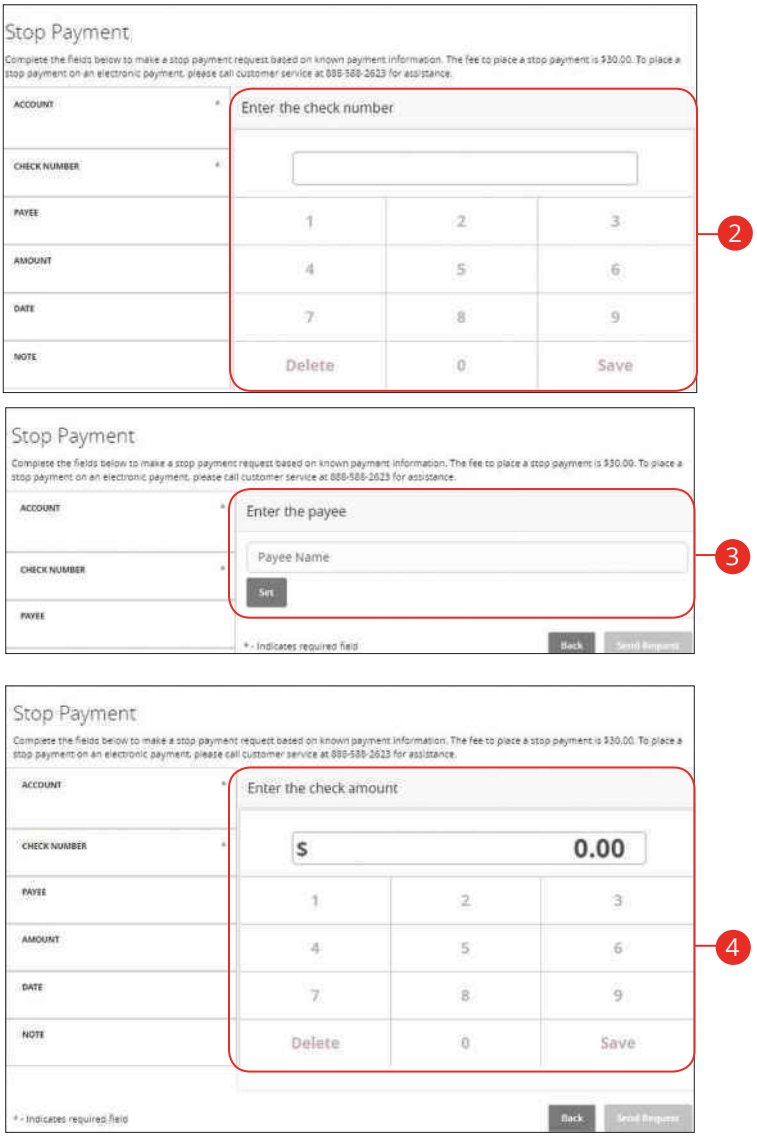
Single Check

If you're ever worried about a pending written check, you can initiate a stop payment request to prevent that check from being cashed. Once approved, the stop payment remains in effect for 6 months. If you need the current fee information, please call us during our business hours at 855.660.5862.

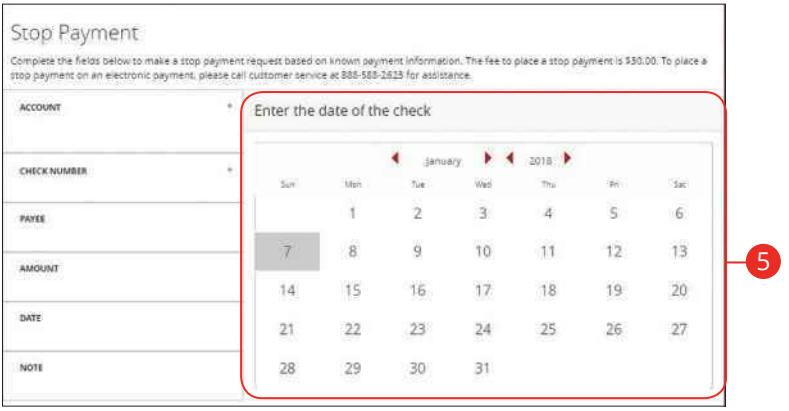


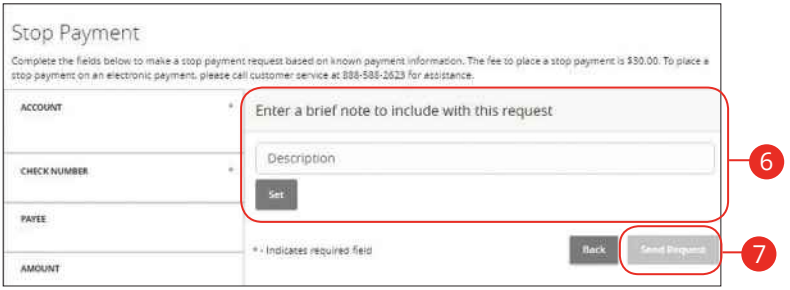
In the **Services** tab, click **Stop Payment**.

1. Select the appropriate account.



2. Enter the check number and click the **Save** button.
3. (Optional) Enter the payee and click the **Set** button.
4. (Optional) Enter the amount and click the **Save** button.





5. (Optional) Enter the date of the check using the calendar.

6. (Optional) Enter a description under "Note" and click the **Set** button.

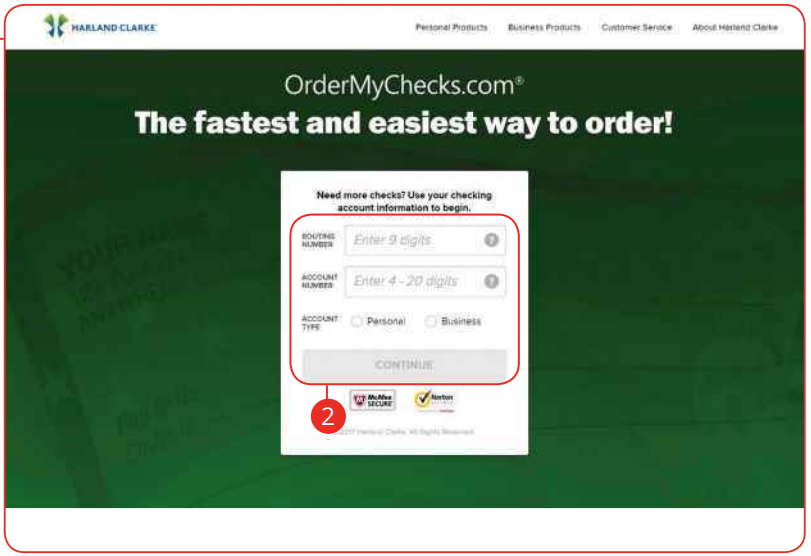
7. Click the **Send Request** button when you are finished.

Note: You can view the approval status of a stop payment in the Activity Center.

Services

Reordering Checks

If you've previously ordered checks through First Financial, you can conveniently reorder checks online at any time by signing in to our trusted vendor's website.



In the **Transactions** tab, click on **Check Reorder**.

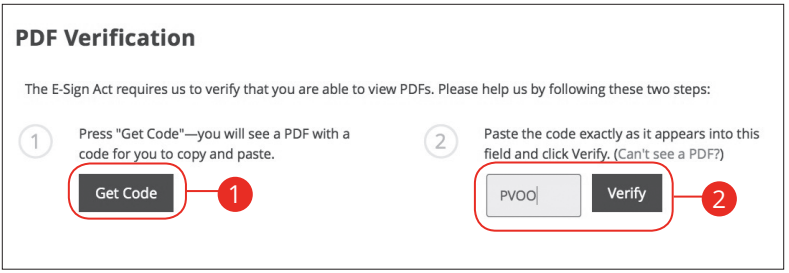
1. Complete your order on our vendor's website.
2. Enter the requested information and click the **Continue** button.

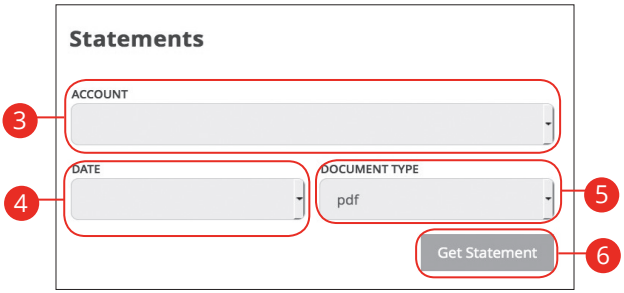
Note: If you notice that you are missing checks, please contact us right away so that we can take precautions to safeguard against identity theft and fraud.

Services

Statements

The Statements feature is a great virtual filing system for your bank statements, saving paper and space in your home or office. By storing your statements electronically, your account information is always readily available when you need it.





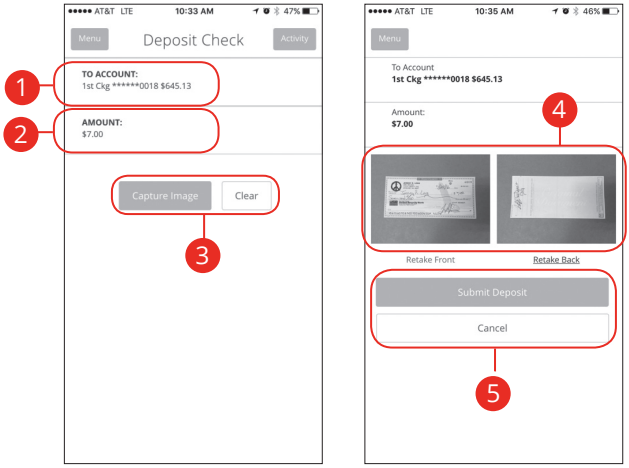
In the **Transactions** tab, click **Statements**.

1. Click the **Get Code** button to verify that you can view a PDF.
2. A PDF with a code appears. Type the code into the verification field and click the **Verify** button.
3. Choose an account to work with using the “Account” drop-down.
4. Choose a date for the statement using the “Date” drop-down.
5. Use the “Document Type” drop-down to select a file format.
6. Click the **Get Statement** button when you are finished.

Services

Mobile Deposits

With our mobile app on your Android or iOS device, you can deposit checks into your Online Banking account by taking a photo of a check.



Note: This feature is only available when using our mobile app on your device.

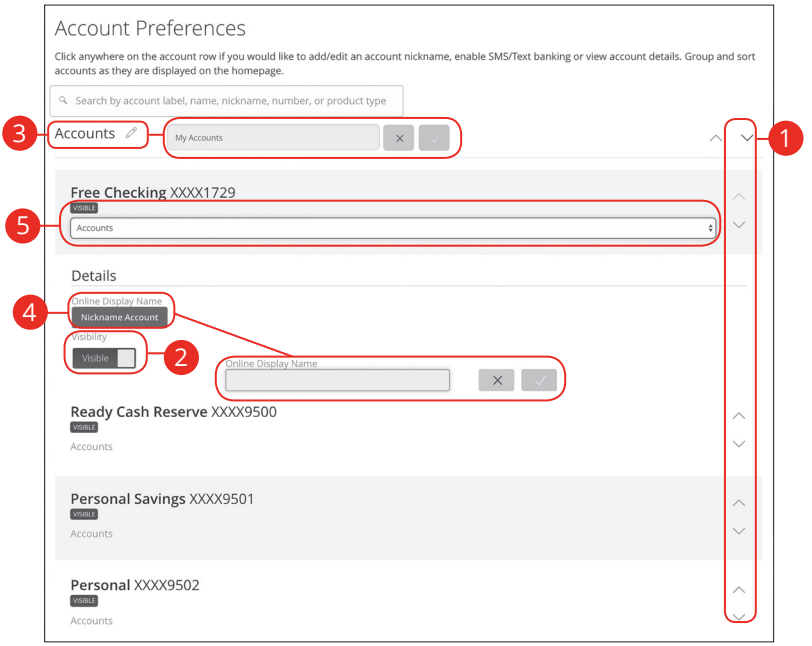
Log in to our First Financial Mobile Banking app.
In the **Transactions** tab, select **Deposit Checks**.

1. Choose the account you would like the check deposited to.
2. Input the dollar amount of the check.
3. Sign the back of the check, then tap the **Capture Image** button to take an image of both the front and back of the check.
4. Verify that all four corners of the check are visible and all elements are legible, then tap the **Submit Deposit** button when finished.

Settings

Account Preferences

The Home page and your accounts should appear in a way that is fitting for you. The names of accounts, order in which they appear on the Home page, order of account groups and names of account groups can be changed in Account Preferences to suit your needs.



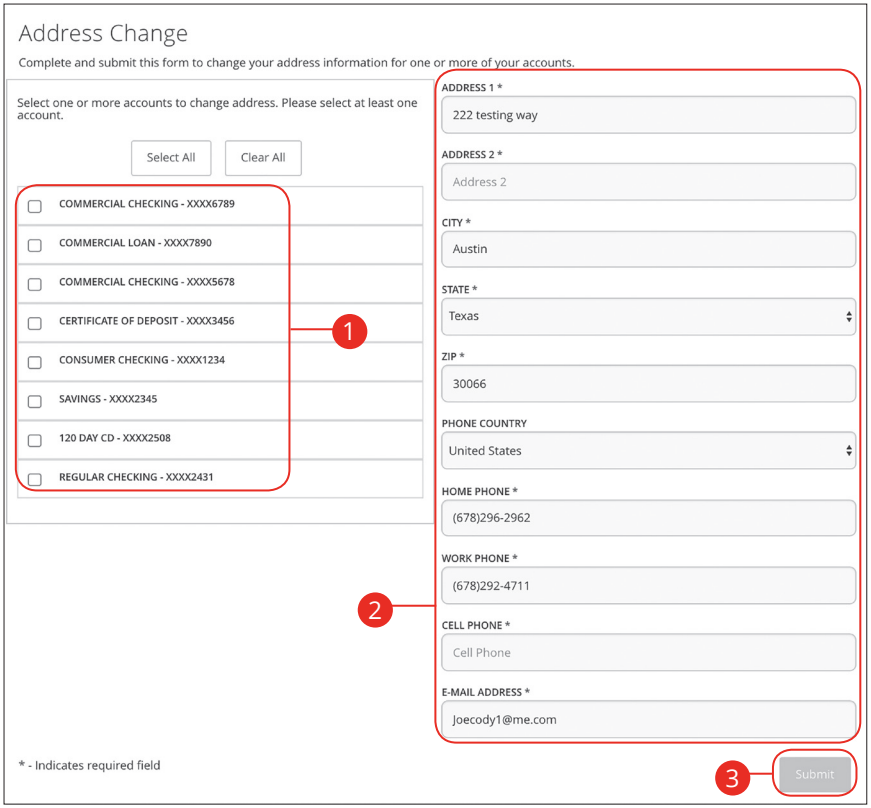
In the **Settings** tab, click **Account Preferences**.

1. Select the up or down arrows on the right side to change the order that your accounts appear in.
2. Use the **Visibility** switch to toggle whether or not your account is visible on the Home page.
3. Click the icon to change the nickname of a group or an account. Make your changes and click the check mark to save it.
4. Click the **Nickname Account** button to change the Online Display Name of an account. Make your changes and click the check mark to save it.
5. Select the “Account” drop-down to change the group that account is in.

Settings

Address Change Request

If your current address ever changes and you need to update your contact information, you can submit a request to First Financial for one or all accounts. Once it is approved, the address change takes effect immediately.



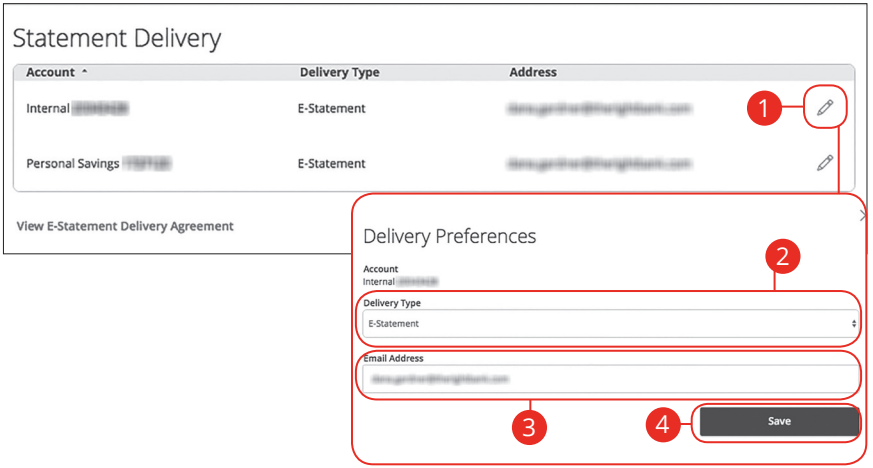
In the **Settings** tab, click **Address Change**.

1. Choose the accounts that need the address change.
2. Update your contact information.
3. Click the **Submit** button when you are finished.

Settings

Statement Delivery

You can change how you like to receive your monthly statements for your primary account. Paper statements are physically delivered to you in the mail, while E-Statements are sent in PDFs through email.



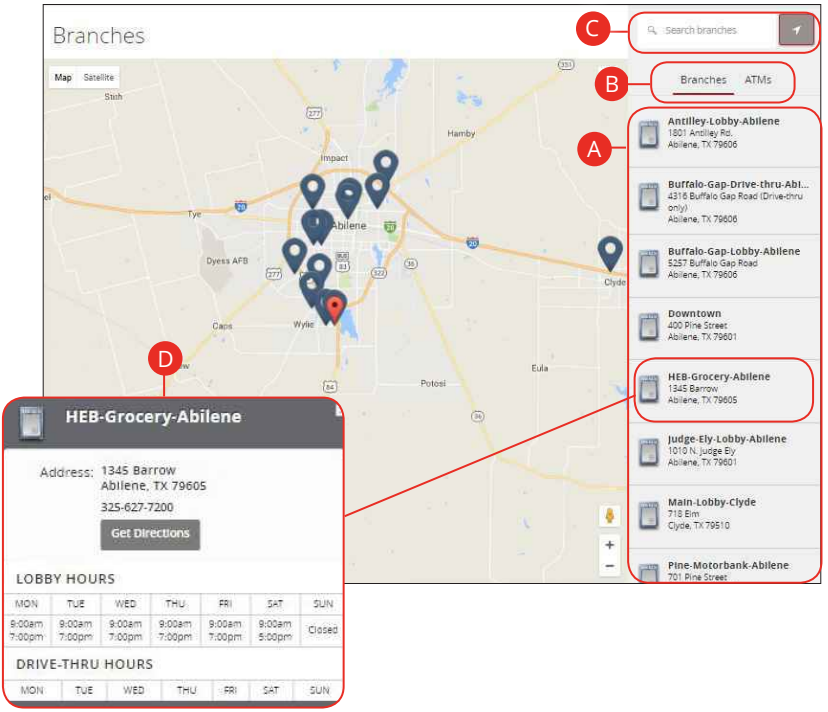
In the **Settings** tab, click **Statement Delivery**.

1. Edit or add a delivery destination by clicking the icon at the end of the account line.
2. Use the drop-down to choose your "Delivery Type."
3. Add or change your email address.
4. Click the **Save** button when you are finished.

Locations

Branches and ATMs

If you need to locate a First Financial branch or ATM, the interactive map below can help you find locations nearest you. If your device's location services feature is turned off or your location in unavailable, a general list of branches appears.



Click on the **Branches** tab.

A. Details about branches or ATMs are displayed on the right-hand side.

B. You can locate a First Financial branch or an ATM by clicking the appropriate button.

C. The search bar allows you to find specific First Financial branches.

D. First Financial locations or ATMs are marked along with your location. Click a branch for additional details such as phone numbers, directions, lobby hours and drive-thru hours.

FIRST FINANCIAL BANK
MEMBER FDIC

Business Online Banking
GUIDE TO WIRES

WELCOME TO BUSINESS BANKING

Welcome to Business Online Banking! Whether at home or at the office, from a mobile phone, tablet or laptop, we strive to make your Online Banking experience easy and convenient. Whether you're an enterprise, large corporation or small organization, our flexible Business Online Banking can efficiently serve you.

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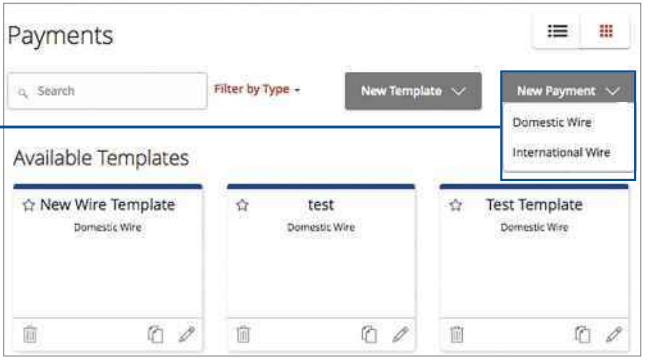
SENDING A PAYMENT: SINGLE AND TEMPLATE

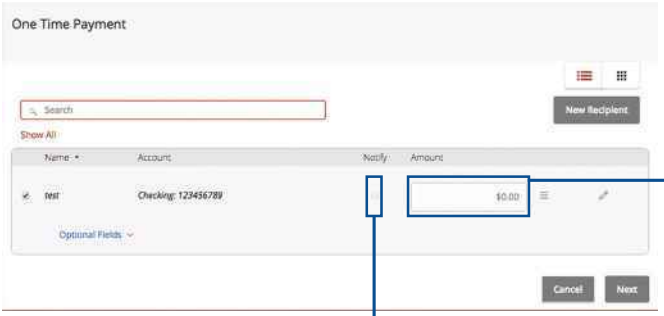
Step 1 of 3: Single-Recipient & Amount

In order to set up a template or generate a new payment, you need to select whether you are sending funds to an individual or a company.



Choose a payment type from the New Payment drop-down.

You can either choose an existing recipient or create a new one.



Enter an amount.

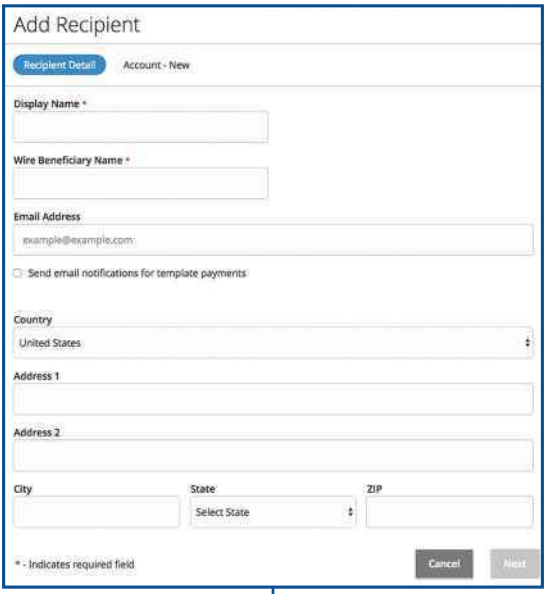
Notify a recipient of an incoming payment by checking the box in the Notify column.

ADDING A RECIPIENT

A recipient is any person or company that receives payments from your business. For easy access on the Recipient Management page, you can set up individual profiles so funds can be sent to or received by a recipient. After they are created, you can include them in multiple payments or templates.

Part 1 of 3: Adding a Recipient

If you are assigned the Manage Recipient right, you need to set up your recipients before you can send payments. In order to add a recipient, you need to have their contact and account information.

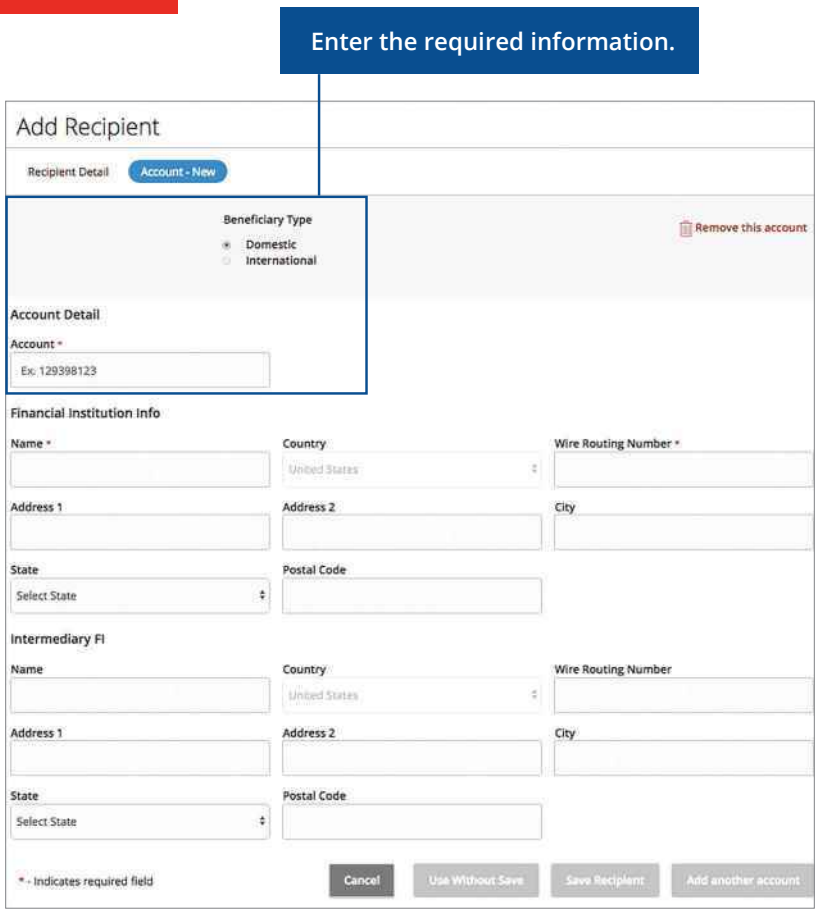


There are several steps you need to complete:

- Enter the recipient's name.
- Enter a Wire Name.
- Enter the recipient's email address.
- Check the box next to "Send E-Mail Notifications" to alert them when a payment is sent.
- Select the recipient's country using the "Country" drop-down.
- Enter the recipient's street address, city, state and zip code.

Part 2 of 3: Recipient Account Detail

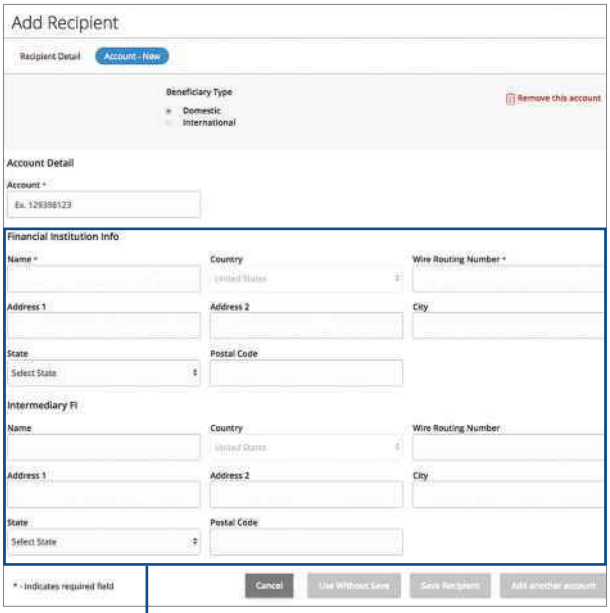
You need to provide a new recipient's account information, including their financial institution (FI) and account number. Depending on the types of payments you plan on sending them, you need to specify how users are allowed to send funds to this recipient.



Part 3 of 3: Beneficiary and Intermediary Detail

When sending a wire, the beneficiary is the final company or person that receives the funds. Depending on the payment type you selected in Part 1, you may need to provide beneficiary information.

Some FIs use an in-between third-party bank called an intermediary to process funds. If your beneficiary requires an intermediary, then you need the FI's wire routing number and address.

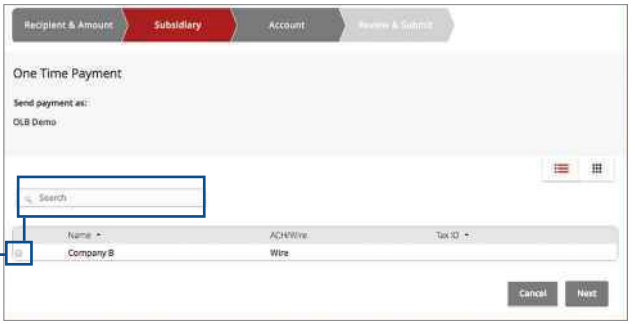


Enter the account and address information for both the beneficiary and intermediary FI.

- Enter the name of beneficiary and intermediary FI.
- Select its country using the "Country" drop-down. The address fields change based on the chosen country.
  a. **Domestic wire**: Enter the FI's wire routing number.
  b. **International wire**: Enter the FI's International Bank Account Number (IBAN) or SWIFT Bank Identification Code (SWIFT BIC).
- Enter the beneficiary's street address, city, state and postal code.

Step 2 of 3: Subsidiary

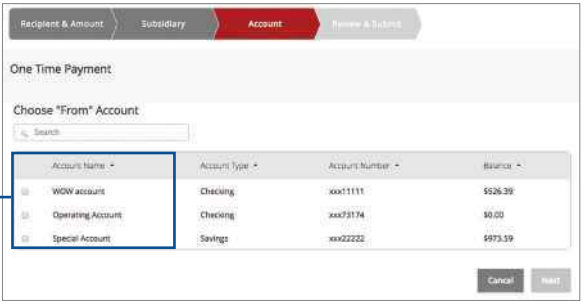
Authorized users with the Manage Subsidiaries right can add subsidiaries to one-time payments or templates.



Choose a subsidiary using the search bar or by checking the box next to their name.

Step 3 of 3: Account

When setting up a template or sending a single payment, you need to choose which account to withdraw from. All the accounts you are authorized to withdraw from display in a list in the Account tab.



Choose an account to withdraw from by finding its name using the search bar or checking the box next to its name.

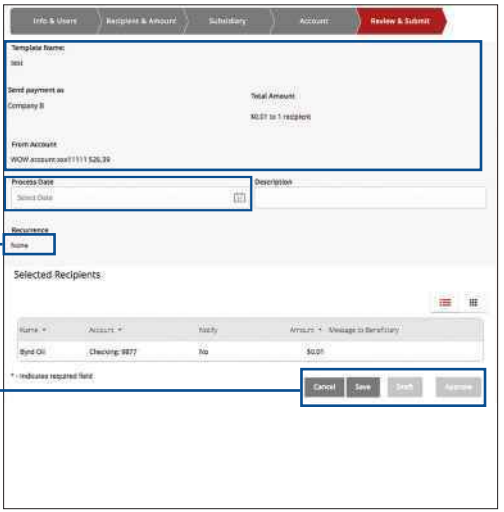
Step 3 of 3: Review & Approve

Next, you need to select an effective date or a process date for your payment to occur. When you're finished, you can review the one-time payment or template and, depending on your rights, either draft or approve your transaction.

Review the payment template and make sure all the information is correct.

Click the "Set Schedule" link and enter how often you would like your payment to recur.

If you are creating a template, click **Save**. Click the **Draft** or **Approve** button when you are finished.



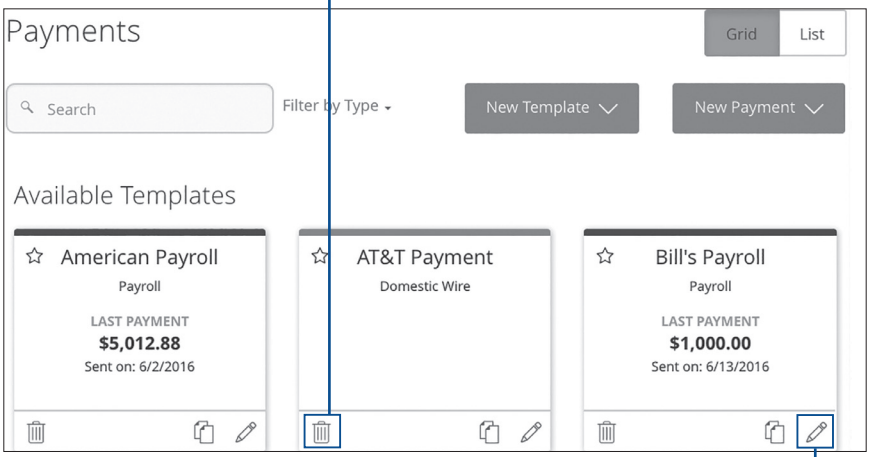
Process Date: The day the Bank processes your payment but will not post for another few business days. Wire transfers require a process date.

EDIT OR DELETE TEMPLATE

If you have Manage Template and Recipient rights, you can edit or use any of the available templates on the Payments page. Using or editing a template is a quick way to send a recurring payment or make a quick change without having to create a new template.

An authorized user can delete an unnecessary template if they have Manage Template rights. However, once a template is deleted, previous payments using the template will not change.

To delete a template, click the Commercial tab, then Wire Transfer. Click the icon then click the Delete Template button to permanently delete a template.

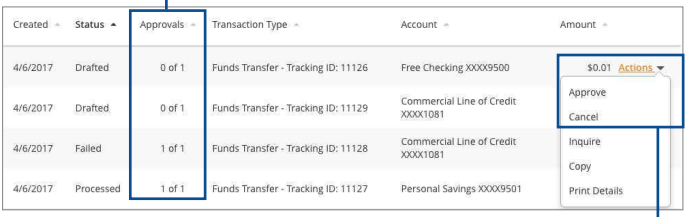


To edit a template, click the Commercial tab, then Wire Transfer. Click the icon to edit a template. Make the necessary edits. Click the Save button when you are finished making changes.

APPROVING OR CANCELING A TRANSACTION

All payments appear in the Activity Center, where authorized users can view, approve or cancel certain payments. If a payment has processed and cleared, you cannot make changes to that transaction.

To approve a single transaction, click the Transactions tab, then Activity Center. Note how many approvals are needed to process or cancel the specific transaction.



Click the "Actions" drop-down. Select "Approve" or "Cancel." Click the Confirm button.

Note: If you cancel a recurring transaction in the Single Transaction tab, you will only cancel that single occurrence. To cancel an entire series, you must visit the Recurring Transactions tab in the Activity Center.

EDITING OR DELETING A RECIPIENT

If a recipient's account or personal information changes, an authorized user can make those necessary edits from the Recipient Management page. You can also delete a recipient that is no longer needed.

To delete a recipient, click the Commercial tab, then Recipients. Find the recipient you want to delete and click the icon.

To edit a recipient, click the Commercial tab, then Recipients. Find the recipient you want to edit and click the icon. Make the necessary changes to the recipient's contact and address information.

FIRST FINANCIAL BANK

First Financial Bank
400 Pine Street
Abilene, TX 79604
p 636.394.2116 | tf 888.652.8648 | ffin.com

EQUAL HOUSING LENDER
Member of FDIC

Positive Pay
User Guide

v6.0

March 2014

First Financial Bank, N.A.
Treasury Management Services
866.627.7214

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Positive Pay Overview

First Financial Bank's Positive Pay system contains the following functionality:

- Issued check management, including Payee Name Match (submit issued check files and manual input of issued checks)
- ACH Positive Pay based on your rules specifications
- Check file maintenance (ex: changing check number, voiding a check)
- Access to daily exceptions (check and ACH)
- Reverse positive pay and partial account reconciliation transaction extracts
- Online reporting

Positive Pay Web Address:

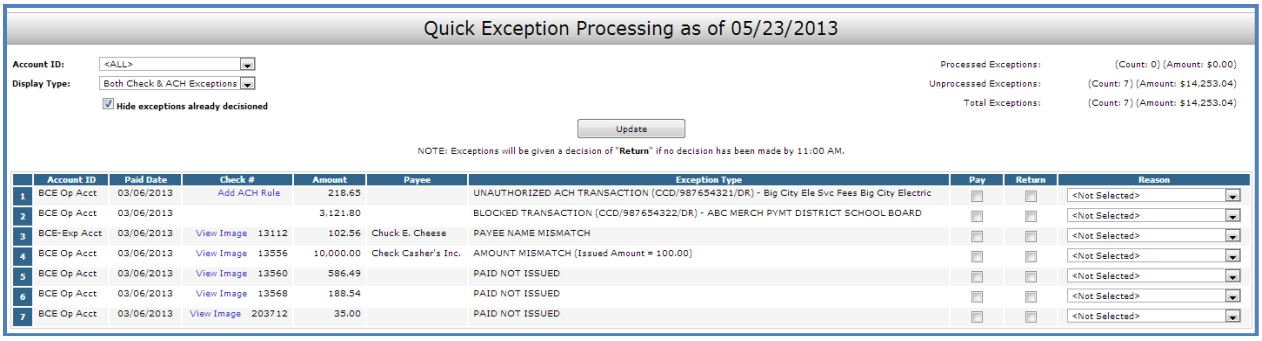
https://www.ffinonline.com/PositivePay01/Pages/Login.aspx

User Login

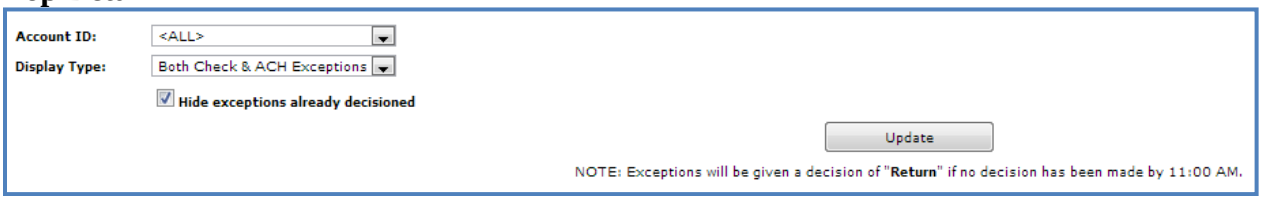
User Name / Password: User name and password and access privileges are assigned to each user.

Exception Processing – Quick Exception Processing

The Quick Exception Processing screen is an efficient method of managing exception item activity. Pay and return decisions can be made on all items on a single screen.



Top Detail



Account ID: Change this to display exceptions for a specific account (when managing more than one account with Positive Pay services).

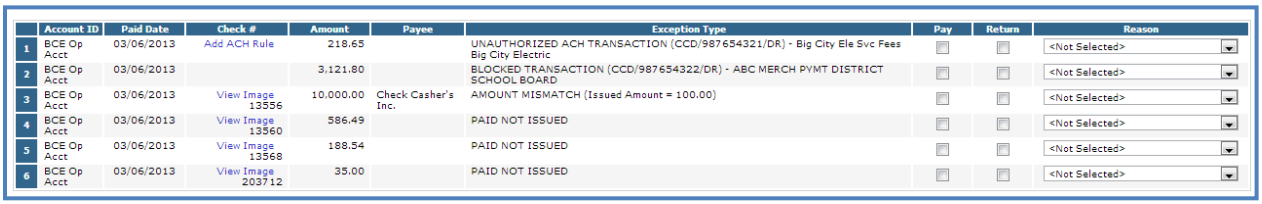
Display Type: Change this to display exceptions based on type (Checks, ACH or Both).

Hide Exceptions Already Decisioned: Determines whether all exception items are displayed or only those in which a pay/return decision has not been made.

Cutoff Time: Automated Pay/Return decision must be made on all "unresolved items" by the cut off time. After the cut off time, users are automatically put in "READ ONLY" mode to prevent any changes to the automated decision. If changes are necessary after the Cutoff Time, contact the bank to alter the automated decision.

Exception Processing – Quick Exception Processing (Continued)

Bottom Detail



	Account ID	Paid Date	Check #	Amount	Payee	Exception Type	Pay	Return	Reason
1	BCE Op Acct	03/06/2013	Add ACH Rule	218.65		UNAUTHORIZED ACH TRANSACTION (CCD/987654321/DR) - Big City Ele Svc Fees Big City Electric			<Not Selected>
2	BCE Op Acct	03/06/2013		3,121.80		BLOCKED TRANSACTION (CCD/987654322/DR) - ABC MERCH PYMT DISTRICT SCHOOL BOARD			<Not Selected>
3	BCE Op Acct	03/06/2013	View Image 13556	10,000.00	Check Casher's Inc.	AMOUNT MISMATCH (Issued Amount = 100.00)			<Not Selected>
4	BCE Op Acct	03/06/2013	View Image 13560	586.49		PAID NOT ISSUED			<Not Selected>
5	BCE Op Acct	03/06/2013	View Image 13568	188.54		PAID NOT ISSUED			<Not Selected>
6	BCE Op Acct	03/06/2013	View Image 203712	35.00		PAID NOT ISSUED			<Not Selected>

Client/Account ID: The Client/Account ID is the nickname or description that identifies the account. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system. ***Note***: The label used for this field (typically "Client ID" or "Account ID") throughout the system.

Paid Date: The paid date for this check or ACH transaction.

Check #: The check number of this item.

Add ACH Rule: Contact Treasury Management to add rules block or filter ACH activity.

View Image: Clicking on the "View Image" link will display the check image for the selected item.

Amount: The amount of the item that has been presented for payment.

Payee: The payee name for this check. ***Note:*** Payee Name Match must be activated and included with the issued check file upload.

Exception Type: The reason that the item is on the exception list. The possible exception types are as follows:

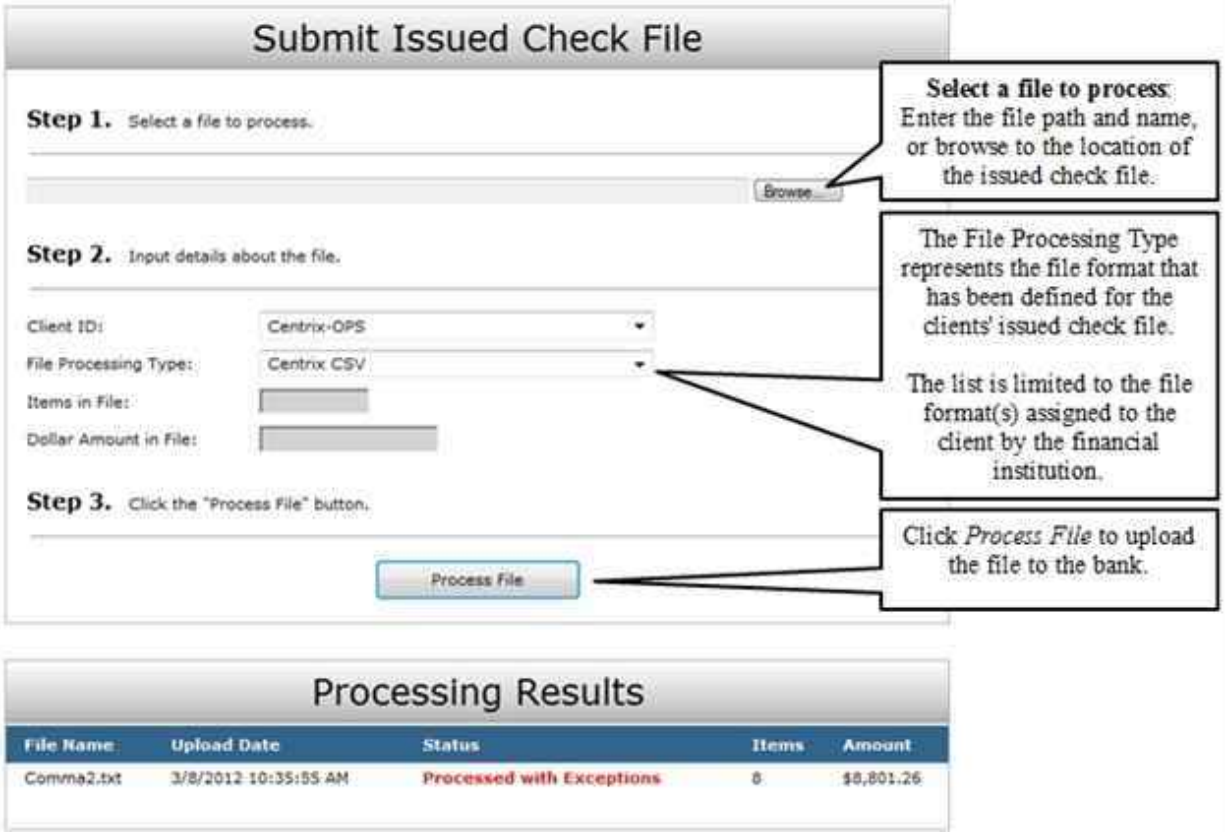
DUPLICATE PAID ITEM: The item was previously paid.
PAID NOT ISSUED: The item was never loaded into the system as an issued check.
STALE DATED ITEM PAID: The item is a stale dated check. A check is considered stale dated if the item was issued prior to the stale dated cutoff date, typically 180 days after the issued item date.
PREVIOUSLY PAID ITEM POSTED: The item was previously paid.
VOIDED ITEM: The item was previously voided.
ACH TRANSACTION: The item is an ACH transaction that was flagged as an exception by the ACH Filter rules defined for the account. ***Note:*** For ACH exceptions, the ACH Standard Entry Class Code, Originating Company ID and Debit or Credit (DR/CR) are displayed in the exception description.

Decision: Check the box to indicate if the item should be paid or returned.

Reason: The reason for the pay/return decision. If no reason has been selected, the field is displayed as <Not Selected>.

Transaction Processing – Issued Check File Submission

The Submit Issued Check File screen is used to upload issued check files to the financial institution.



To view additional details regarding the file, click on the status column. For example, to view the exceptions on a file that has a result of Processed with Exceptions, click on the 'Processed with Exceptions' link.

Client/Account ID: The Client/Account ID associated with the issued checks contained within the file. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system.

Note: If an issued check file contains items for multiple accounts, select another Client ID from the drop down box.

Transaction Processing – Issued Check File Submission (Continued)

File Processing Type: Indicates the format/template of the issued check file.

Items in File: The number of checks in the file. If the number entered does not match the actual number of items in the file, the file will be rejected. ***Note:*** If the field is disabled, the number of items in the file is not required or is included in the file.

Dollar Amount in File: The total dollar amount of checks in the file. ***Note:*** If the field is disabled, the dollar amount in the file is not required or is included in the file.

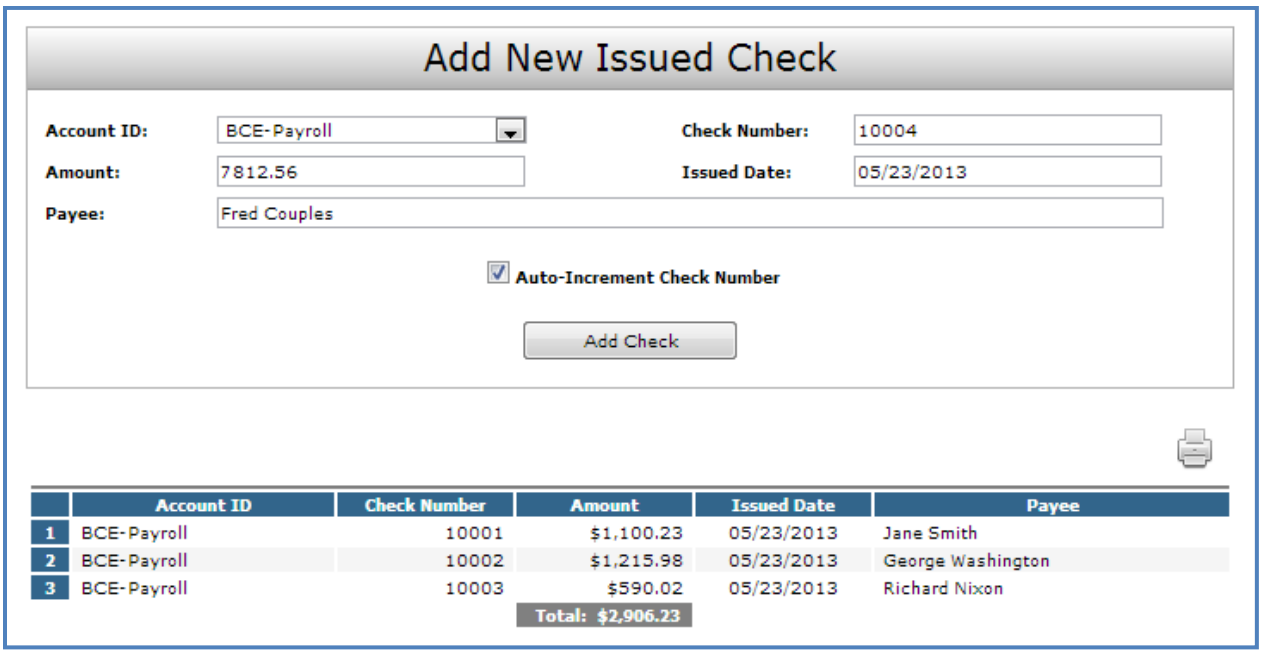
Once a file is uploaded and processed, a window will be displayed indicating the processing status. If the file has not processed within 30 seconds a message is displayed stating an email will be sent indicating the file processing status. The file processing status can also be checked within the Issued Check File Processing Log screen. The following is a list of the possible processing statuses:

Unprocessed: The file has been uploaded, but has not yet been processed.
Processed: The file was processed successfully.
Processed with Exceptions: The file was processed successfully, but duplicate checks were not loaded.
Rejected: The file was rejected due to one of the following reasons:

- A mismatch between the number of items/amount entered on the screen and the number of items/amount contained in the file (if required)
- The file format did not match the format selected(the wrong template was selected)

Transaction Processing – Add New Issued Check

The Add New Issued Check screen is used when a check is manually written or not included in the electronic issued check file. Any checks entered on this screen in one setting will be displayed below.



Client/Account ID: The Client/Account ID is the nickname or description that identifies the account. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system.

Check #: The check number of this item.

Amount: The amount of the check.

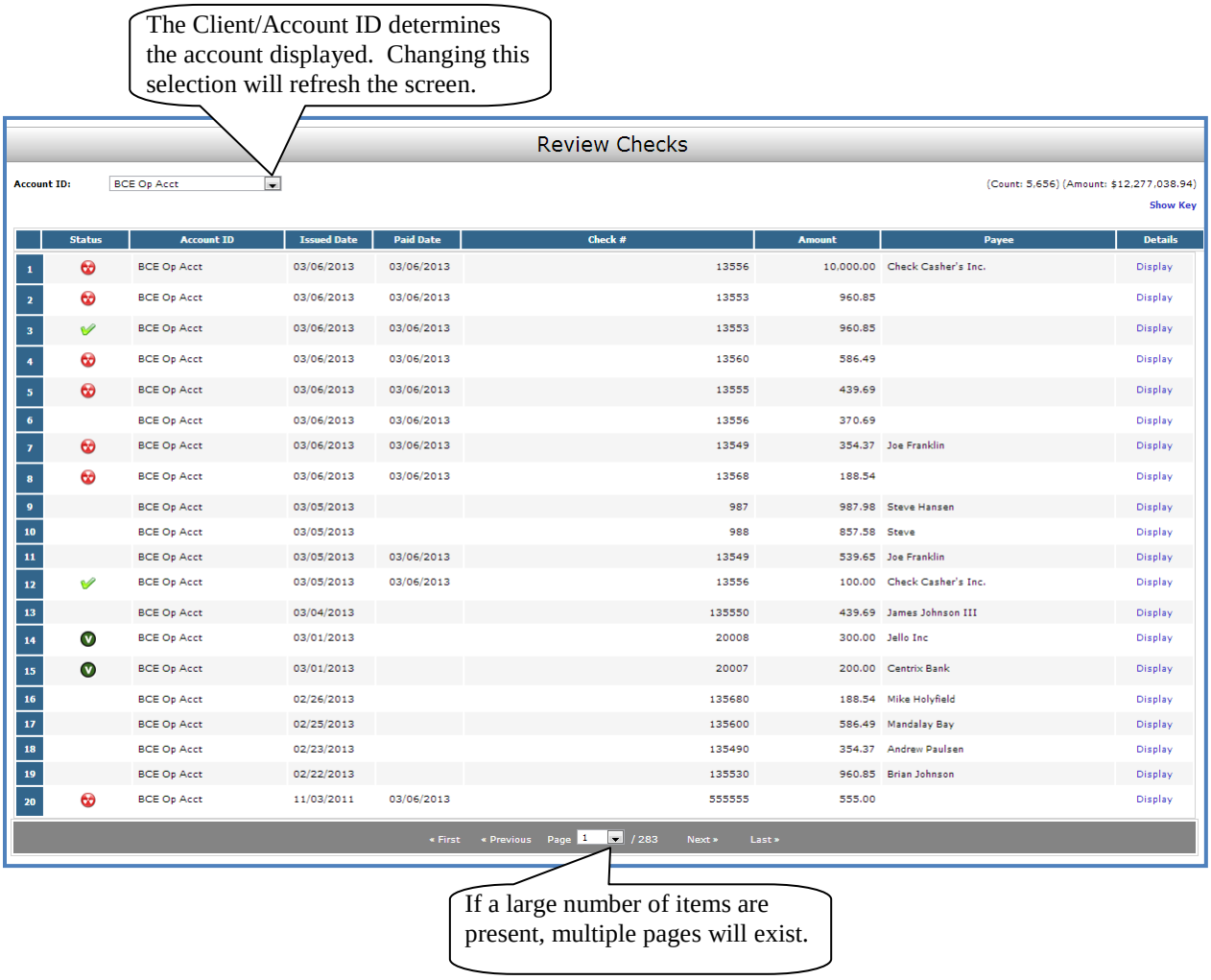
Issued Date: The issued date for this check.

Payee: The payee name for this check. ***Note:*** Payee Name Match must be activated and included with the issued check file upload.

Auto-Increment Check Number: Checking this box will increment the check number by one after each check submission.

Transaction Processing – Review Checks

The Review Issued Checks screen displays all issued checks for the selected Client/Account ID. This includes outstanding issued items, paid items, and exceptions.



The following columns appear on the Review Issued Checks screen:

Status: Icons representing the status of the transaction. By clicking on the *Show Key* link in the top-right portion of the screen, a legend displaying the description of each status icon is displayed. The possible statuses represented by an icon are as follows:

Exception: Displayed on items that are flagged as exceptions by the system.
Paid: Displayed on items that have been previously paid.
Stop Payment: Displayed for checks that have been stopped with a stop payment.
Reversal: Displayed on items that have been paid and reversed.
Void: Displayed on items that have been voided.
Blank: No icon indicates that the item is an outstanding check.

Transaction Processing – Review Checks (Continued)

Client/Account ID: The Client/Account ID is the nickname for the account. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system.

Issued Date: The issued date for this check. On *Paid Not Issued* exceptions, the paid date is defaulted into the issued date field.

Paid Date: The paid date for this check.

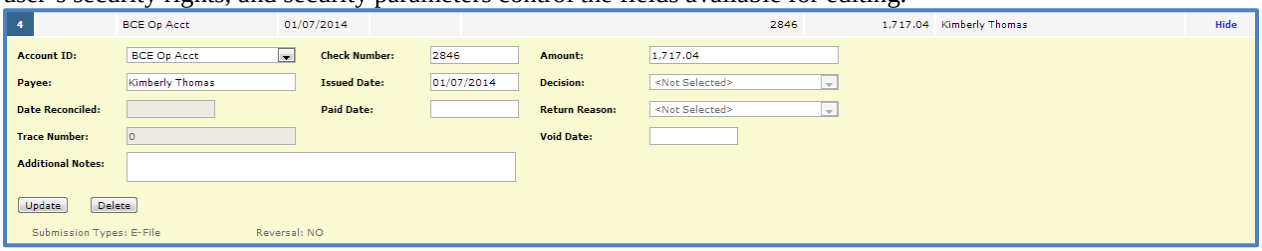
Check #: The check number of this item.

Amount: The amount of the check that has been presented for payment.

Payee: The payee name for this check. ***Note:*** Payee Name Match must be activated and included with the issued check file upload.

Transaction Processing – Review Checks (Display Details)

When the *Display* link is clicked, detailed transaction information is displayed. ***Note:*** The status of the item, the user's security rights, and security parameters control the fields available for editing.



Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system.

Check Number: The check number of this item.

Amount: The amount of the check that has been presented for payment.

Payee: The payee name for this check. ***Note:*** Payee Name Match must be activated.

Issued Date: The issued date of the item. On *Paid Not Issued* exceptions, the paid date is defaulted into the issued date field.

Decision: The decision that has been applied to this exception. If no decision has been applied, the field is displayed as <Not Selected>.

Date Reconciled: The date the system was reconciled within the system in the Check Reconciliation Summary screen. This field is not editable.

Paid Date: The date the item posted/paid.

Return Reason: The reason for the pay/return decision. If no reason has been applied, the field is displayed as <Not Selected>.

Trace Number: A unique transaction ID number that is generated by the core processing system.

Date Stop Request: If a stop payment request was placed on the item, the date the stop was requested is displayed.

Void Date: If the item has been voided, the void checkbox is checked; otherwise, the checkbox is blank.

Notes: Freeform text field that allows users to add notes to this item.

Submission Type: Indicates how the item was originally loaded into the system. The following values may be displayed:

E-file: Indicates that the item was electronically loaded from an issued file.
Manual: Indicates that the item was not electronically loaded from an issued file. The item was either manually input through the Add New Issued Check screen or the item was added by the system during the nightly update.

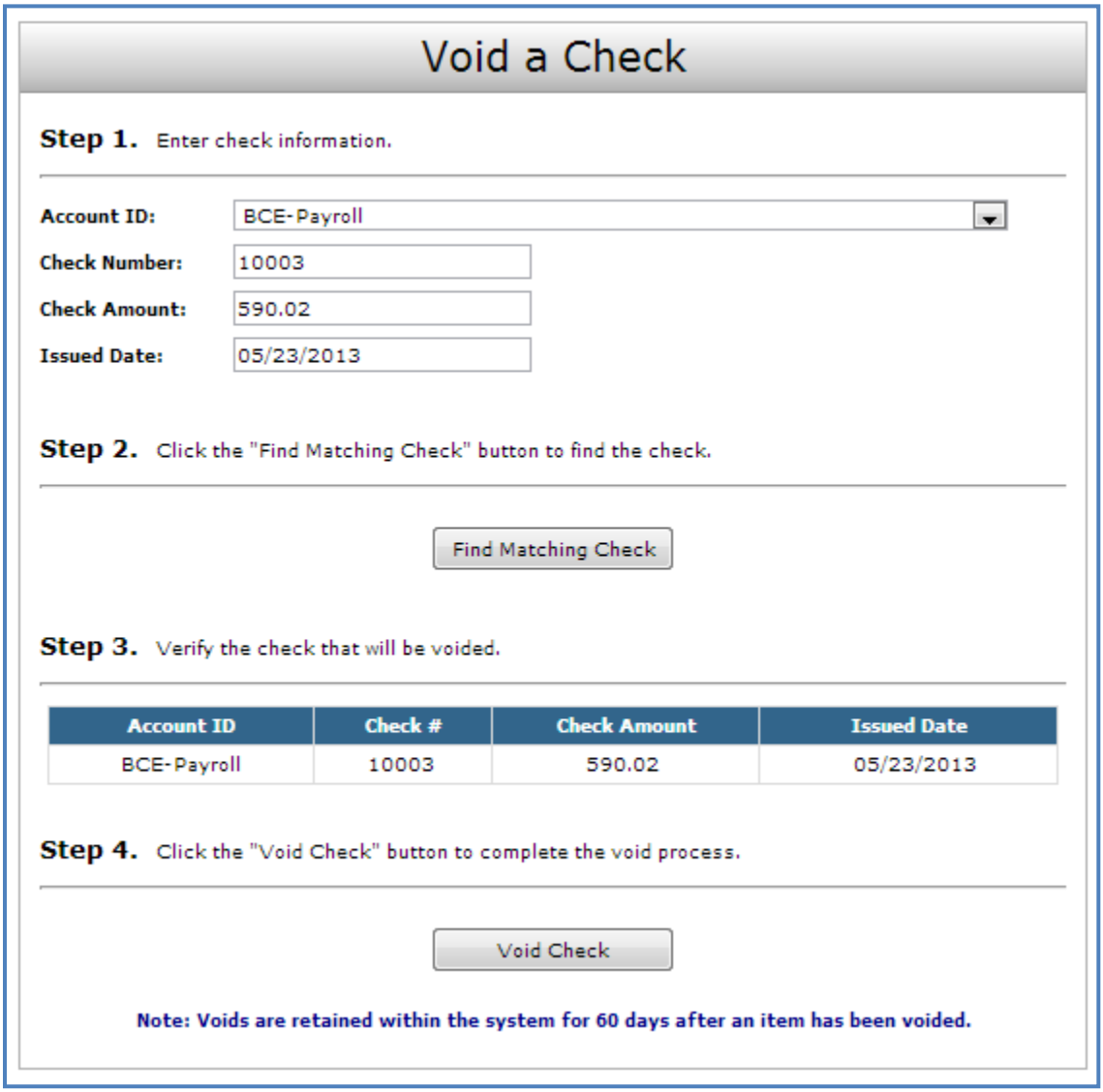
Stop Pay Status: Stop Payments are initiated in Business Online Bank.

None: Indicates the client has not requested that the item be stopped.
Requested: Stop Payments are initiated through Business Online Banking.
Applied: Indicates the bank has applied the stop payment request.
Item Stopped: Indicates the client has requested that the item be stopped and the item was already presented for payment and stopped by the bank.

Reversal: Indicates if the item was reversed.

Transaction Processing – Void a Check

The Void Check screen is used to void an issued check.



Client/Account ID: The Client/Account ID is the nickname or description that identifies this account. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system.

Check Number: The number of the issued check.

Check Amount: The amount the check was written for.

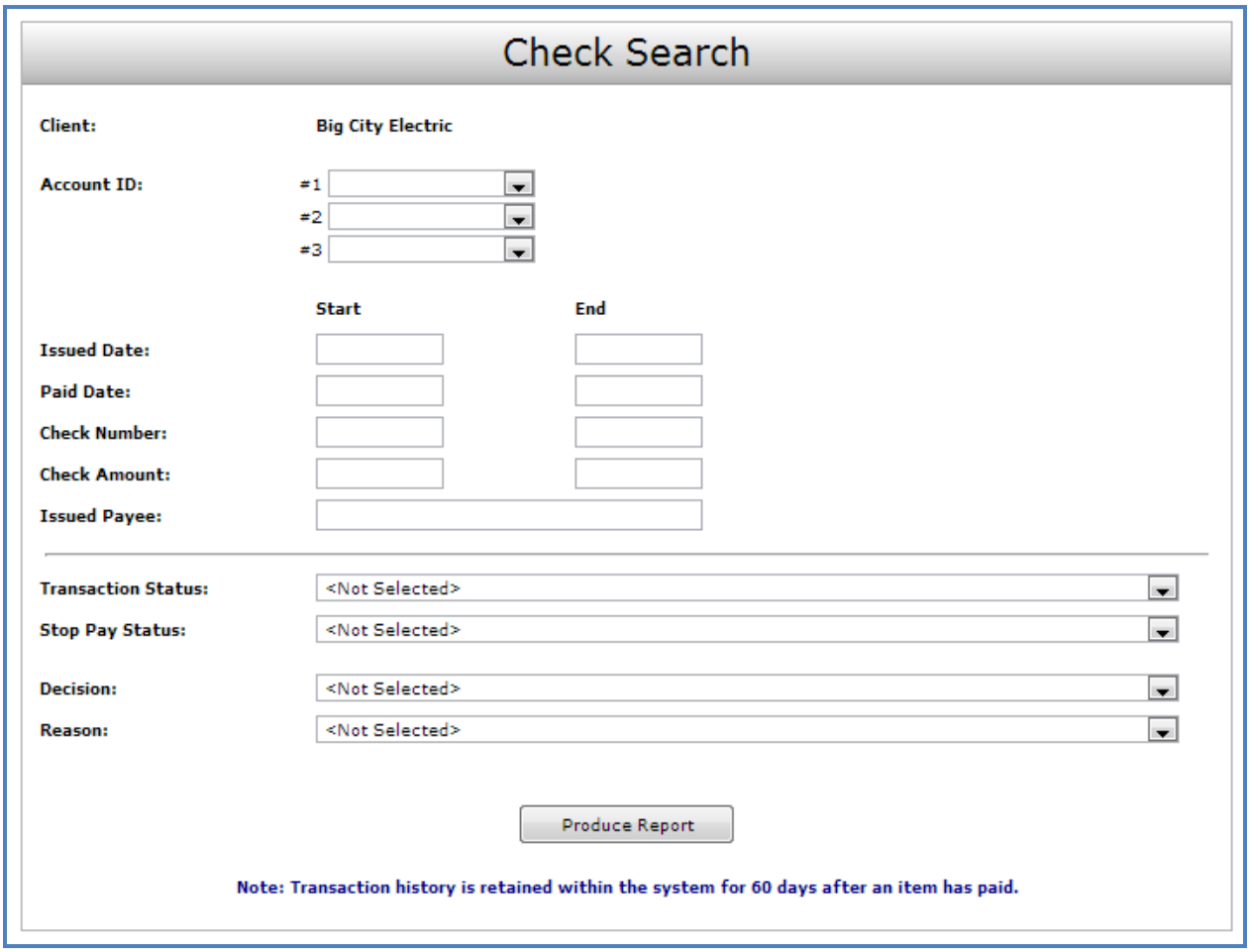
Issued Date: The date the check was issued.

Note: All three fields are required to void a check.

Transaction Processing – Check Search

The Check Search screen is used to search for specific transactions using dynamic selection criteria.

Selection Screen:



Client/Account ID: Optionally select a specific account. If no accounts are selected the system will search through all available accounts available to the user.

Issued Date: The Issued Date is used to search for transactions based upon the issued date of checks. A date range may be entered using the Start and End date fields. If searching for a specific date, enter the date in both the start and end date fields.

Paid Date: The Paid Date is used to search for transactions based upon the date the item was posted. A date range may be entered in the Start and End date fields. If searching for a specific date, enter the date in both the start and end date fields.

Check Number: The Check Number is used to search for transactions based upon check numbers. A range of check numbers may be selected by entering both a Start and End check number. If searching for a single check, enter the check number in the start field (the end field may be left blank).

Check Amount: The Check Amount is used to search for transactions based upon a specific dollar amount or dollar range. If searching for an exact amount, enter the amount in the start field (the end field may be left blank).

Issued Payee: The Issued Payee box is used to search by issued payee.

Transaction Processing – Check Search (Continued)

Transaction Status: To search for checks based upon the status of the check, select a status from the list. The following statuses are available:

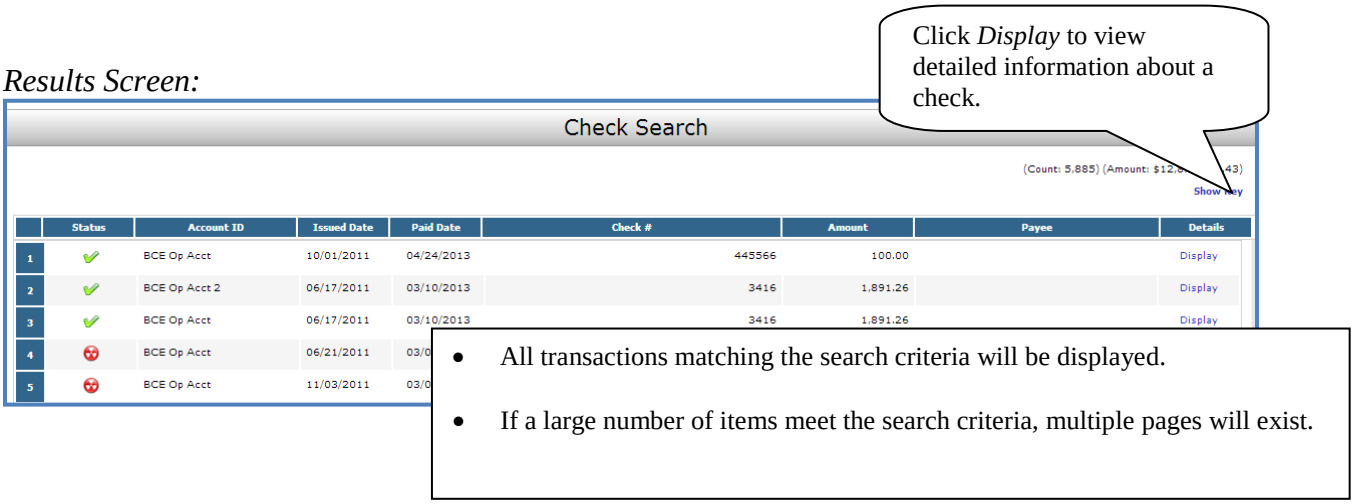
Issued and Not Paid: Lists outstanding issued checks.
Issued and Paid: Lists paid checks.
Current Exceptions: Lists today's exceptions.
All Exceptions: Lists exceptions from today and from previous days.
Void: Lists voided checks.

Stop Pay Status: To search for checks in which a stop pay request has been issued, select a stop pay status from the list. The following stop pay statuses are available:

Requested Stop Pay: The stop payment has not been applied by the bank.
Requested and Placed: The bank has applied the stop payment.
Item Stopped and Returned: The item was presented for payment and stopped by the bank.

Decision: To search for exceptions based upon the pay/return decision, select a decision from the list.
Reason: To search for exceptions based upon the reason that was selected, select a reason from the list.

Results Screen:



The following columns appear on the Check Search screen:

Status: Icons representing the status of the transaction. By clicking on the *Show Key* link in the top-right portion of the screen, a legend displaying the description of each status icon is displayed. The possible statuses represented by an icon are as follows:

Exception: Displayed on items that are flagged as exceptions by the system.
Paid: Displayed on items that have been previously paid.
Stop Payment: Displayed for checks that have been stopped with a stop payment.
Reversal: Displayed on items that have been paid and reversed.
Void: Displayed on items that have been voided.
Blank: No icon indicates that the item is an outstanding check.

Client/Account ID: The Client/Account ID is the nickname or description that identifies this account. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system.

Transaction Processing – Check Search (Continued)

Issued Date: The issued date for this check. On *Paid Not Issued* exceptions, the paid date is defaulted into the issued date field.

Paid Date: The paid date for this check.

Check #: The check number of this item.

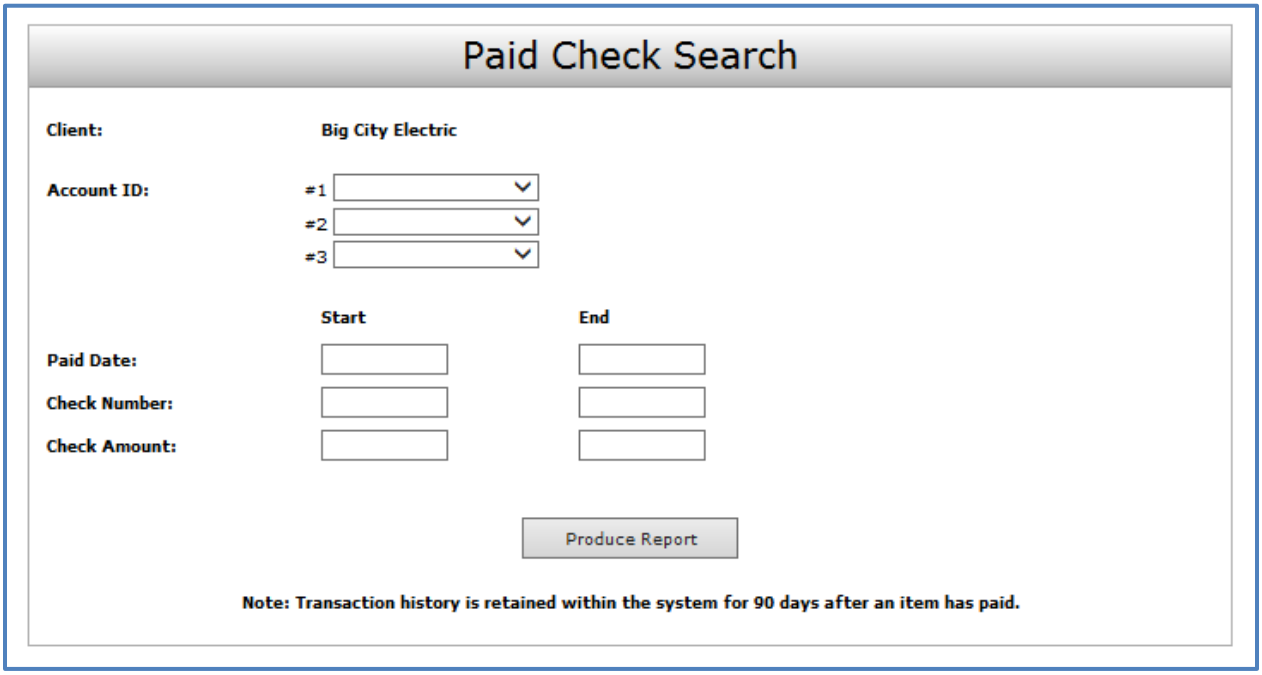
Amount: The amount of the check that has been presented for payment.

Payee: The payee name for this check. ***Note:*** Payee Name Match must be activated and included with the issued check file upload.

Transaction Processing – Paid Check Search

The Paid Check Search screen is used to search for specific transactions using dynamic selection criteria.

Selection Screen:



Client/Account ID: Optionally select a specific account. If no accounts are selected the system will search through all available accounts.

Paid Date: The Paid Date checkbox is used to search for transactions based upon the date the item was posted. A date range may be entered in the Start and End date fields. If searching for a specific date, enter the date in the start date field.

Check #: The Check # checkbox is used to search for transactions based upon check numbers. A range of check numbers may be selected by entering both a Start and End check number. If searching for a single check, enter the check number in the start field.

Check Amount: The Check Amount checkbox is used to search for transactions based upon a specific dollar amount or dollar range. If searching for an exact amount, enter the amount in the start field.

Transaction Processing – Paid Check Search (Continued)

Results Screen:

	Status	Account ID	Issued Date	Paid Date	Check #	Amount	Payee
1	✔	BCE Op Acct	05/14/2013	05/16/2013	View Image 101	100.00	
2	✔	BCE Op Acct	07/06/2012	05/08/2013	View Image 71939	1,974.61	Lnd Engnrn, In.
3	✔	BCE Op Acct	09/19/2012	05/02/2013	View Image 1	100.00	John Wayne
4	✔	BCE Op Acct	09/19/2012	05/01/2013	View Image 2	200.00	John Wayne

Client/Account ID: The Client/Account ID is the nickname or description that identifies this account. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system.

Issued Date: The issued date for this check. On *Paid Not Issued* exceptions, the paid date is defaulted into the issued date field.

Paid Date: The paid date for this check.

Check #: The check number of this item.

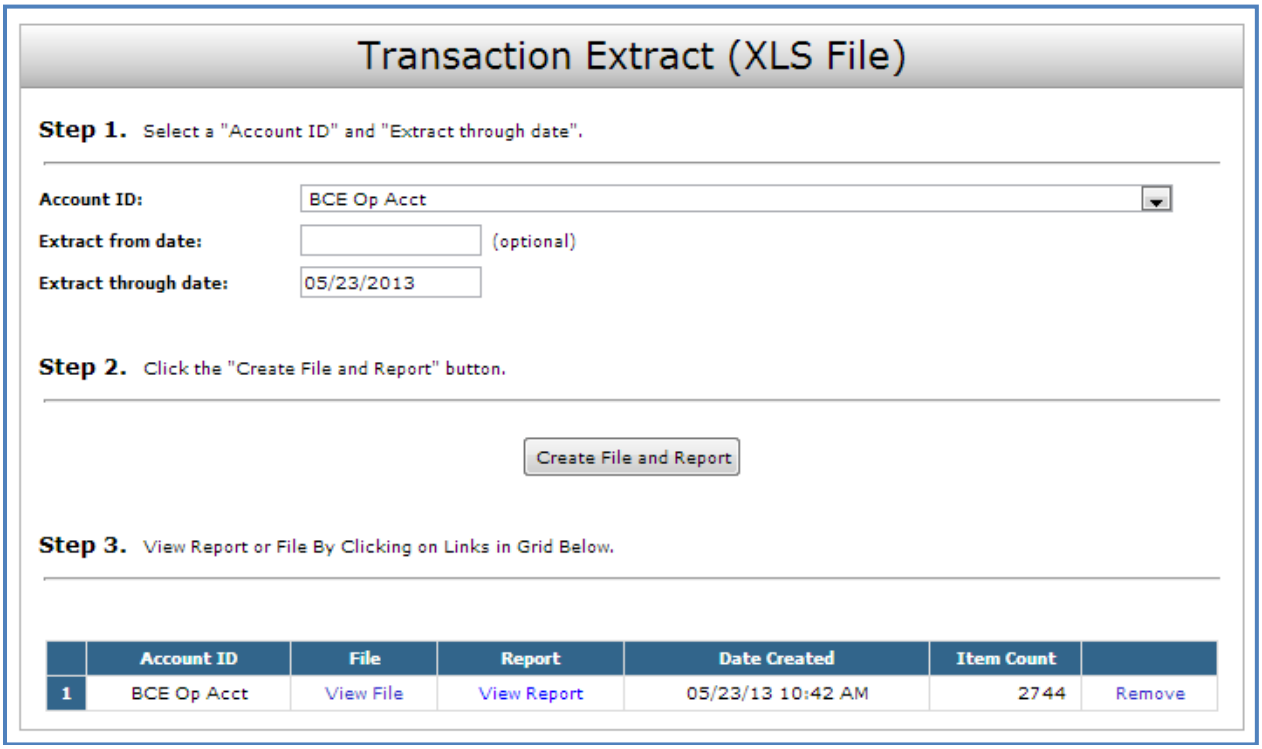
Amount: The amount of the check that has been presented for payment.

Payee: The payee name for this check. ***Note:*** Payee Name Match must be activated and included with the issued check file upload.

Transaction Processing – Reverse Positive Pay/Transaction Extract

The Reverse Positive Pay/Transaction Extract screen enables users to create an electronic file of paid checks. Once complete, the file and report are automatically displayed at the bottom of the screen. To save an extract file to a local workstation or network drive, click on the *File / Save* menu option while viewing the file. Or, right click on the View File link and select *Save Target As*.

Note: An item may only be extracted once.



Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system.

Extract from date: The extract from date is an optional field. By default the system will extract all items that have not been previously extracted.

Extract Thru Date: The date through which posted items are included in the extract file.

Transaction Processing – Reverse Positive Pay/Transaction Extract Report (Continued)

INST : 000 CENTRIX BANK

RUN DATE: 05/23/13

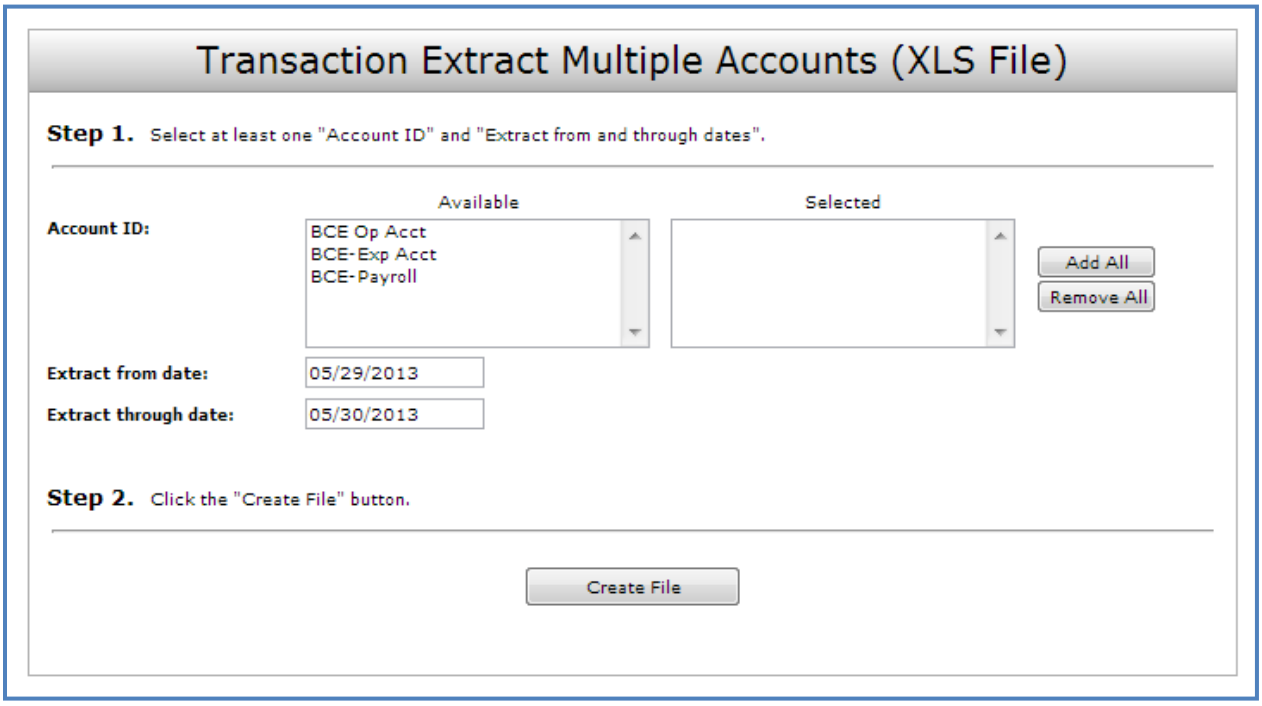
SYSTEM: 05/23/13 10:45 AM TRANSACTION EXTRACT REPORT PROCESSED THRU: 05/23/13

CLIENT: Big City Electric ACCOUNT ID: BCE Op Acct FILE NAME: BCEOpAcct_20130523_104250.xls

	CHECK #	PAID DATE	AMOUNT	DR/CR	REFERENCE
1	0	06/21/2011	1,353.78	DR	43001050
2	2389	06/24/2011	16.65	DR	41005949
3	2921	07/07/2011	189.88	DR	41000163
4	2927	06/22/2011	1,938.35	DR	3000802
5	3092	07/05/2011	296.12	DR	41000414
6	3117	06/22/2011	1,880.59	DR	3000801
7	3251	06/21/2011	345.39	DR	41015330
8	3253	06/29/2011	119.50	DR	41002533
9	3280	07/02/2011	309.47	DR	42004524
10	3292	06/24/2011	225.11	DR	41013836
11	3296	06/25/2011	208.65	DR	3000636
12	3300	06/21/2011	272.57	DR	41008848
13	3306	07/06/2011	2,284.35	DR	44010656

Transaction Processing – Transaction Extract Multiple Accounts

The Transaction Extract Multiple Accounts screen enables users to create an electronic file of paid checks to upload to another system. Once complete, the file and report are automatically displayed at the bottom of the screen. To save an extract file to a local workstation or network drive, click on the *File / Save* menu.



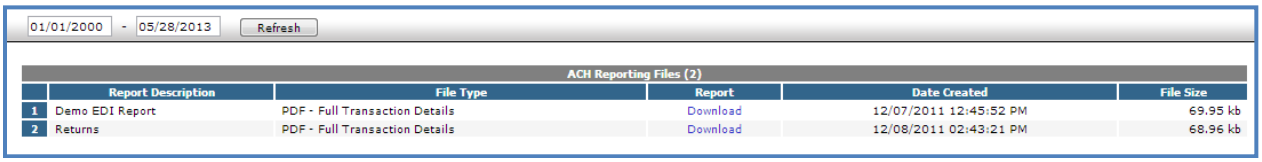
Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system.

Extract from date: The date from which posted items are included in the extract file.

Extract Thru Date: The date through which posted items are included in the extract file.

Transaction Processing – ACH Reporting Files

The ACH Reporting Files screen provides downloadable files containing ACH transactions, returns, notice of change (NOC) and EDI detail from corporate ACH payments. To save an ACH Reporting file to a local workstation or network drive, click on the *File / Save* menu option while viewing the file, or right click on the *download* link and select *Save Target As*.



From / Thru Date: The date range for which ACH reporting files displayed.

Report Description: The description of ACH reporting file.

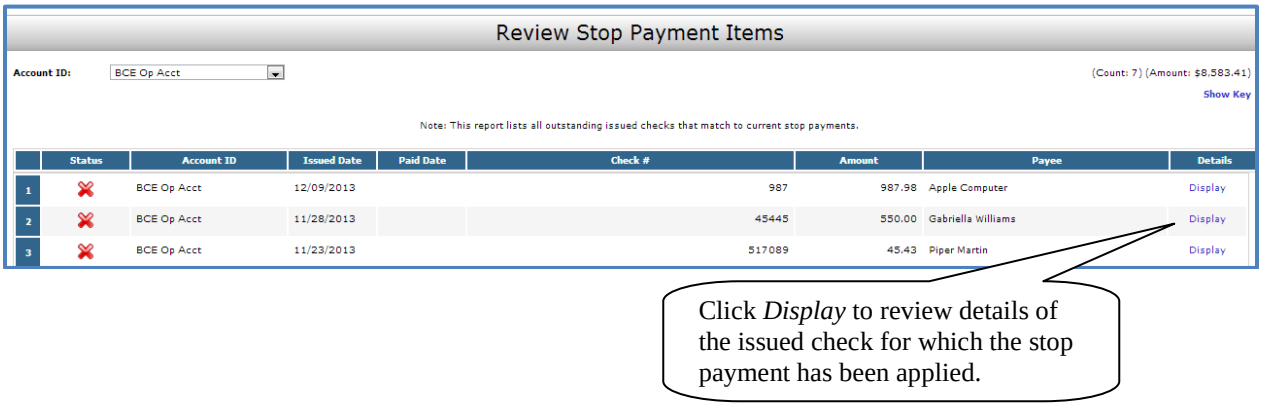
File Type: The format of the file. Types include: XML, PDF, NACHA, CSV or XLS.

Date Created: The date the report was created.

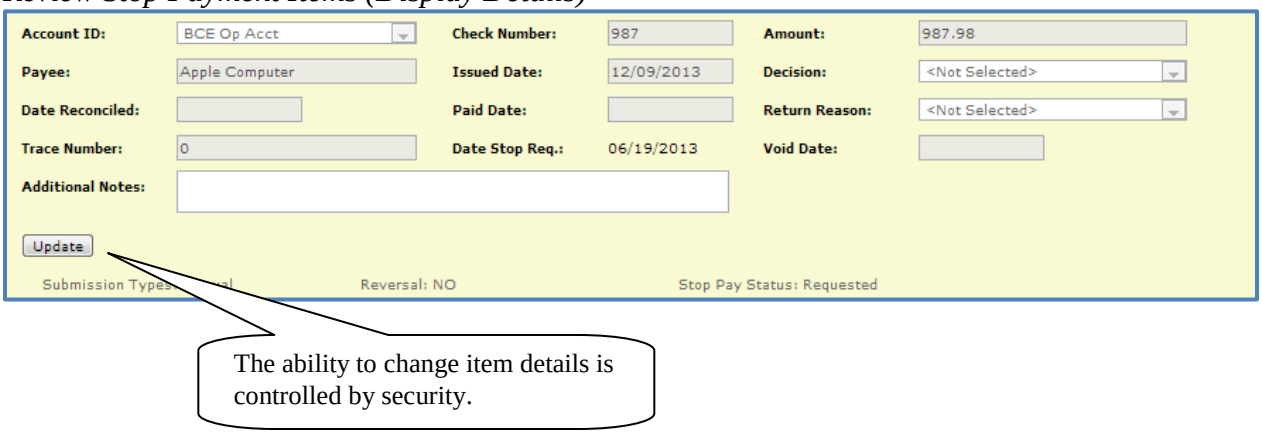
File Size: The size of the file (in kb).

Stop Payments – Review Stop Payment Items

The Review Stop Payment Items screen is used to view all checks that are currently marked as stop pay items.



Review Stop Payment Items (Display Details)



Client/Account ID: The Client/Account ID is the nickname or description that identifies this account. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system.

Check Number: The check number of this item.

Amount: The amount of the check that has been presented for payment.

Payee: The payee name for this check.

Issued Date: The date this item was issued. On *Paid Not Issued* exceptions, the paid date is defaulted into the issued date field.

Decision: The decision that has been applied to this exception. If no decision has been applied, the field is displayed as <Not Selected>.

Date Reconciled: The date the system was reconciled within the system in the Check Reconciliation Summary screen. This field is not editable.

Paid Date: The date the item was posted/paid.

Stop Payments – Review Stop Payment Items (Continued)

Return Reason: The reason for the pay/return decision. If no reason has been applied, the field is displayed as <Not Selected>.

Trace Number: A unique transaction ID number that is generated by the core processing system.

Date Stop Request: The date that the stop was requested is displayed.

Void Date: If the item has been voided, the void checkbox is checked; otherwise, the checkbox is blank.

Notes: Freeform text field to add notes to this item.

Submission Type: Indicates how the item was originally loaded into the system. The following values may be displayed:

E-file: Indicates that the item was electronically loaded from an issued file.
Manual: Indicates that the item was not electronically loaded from an issued file. The item was either manually input through the Add New Issued Check screen or the item was added by the system during the nightly update.

Stop Pay Status: To search for checks in which a stop pay request has been issued, select a stop pay status from the list. The following stop pay statuses are available:

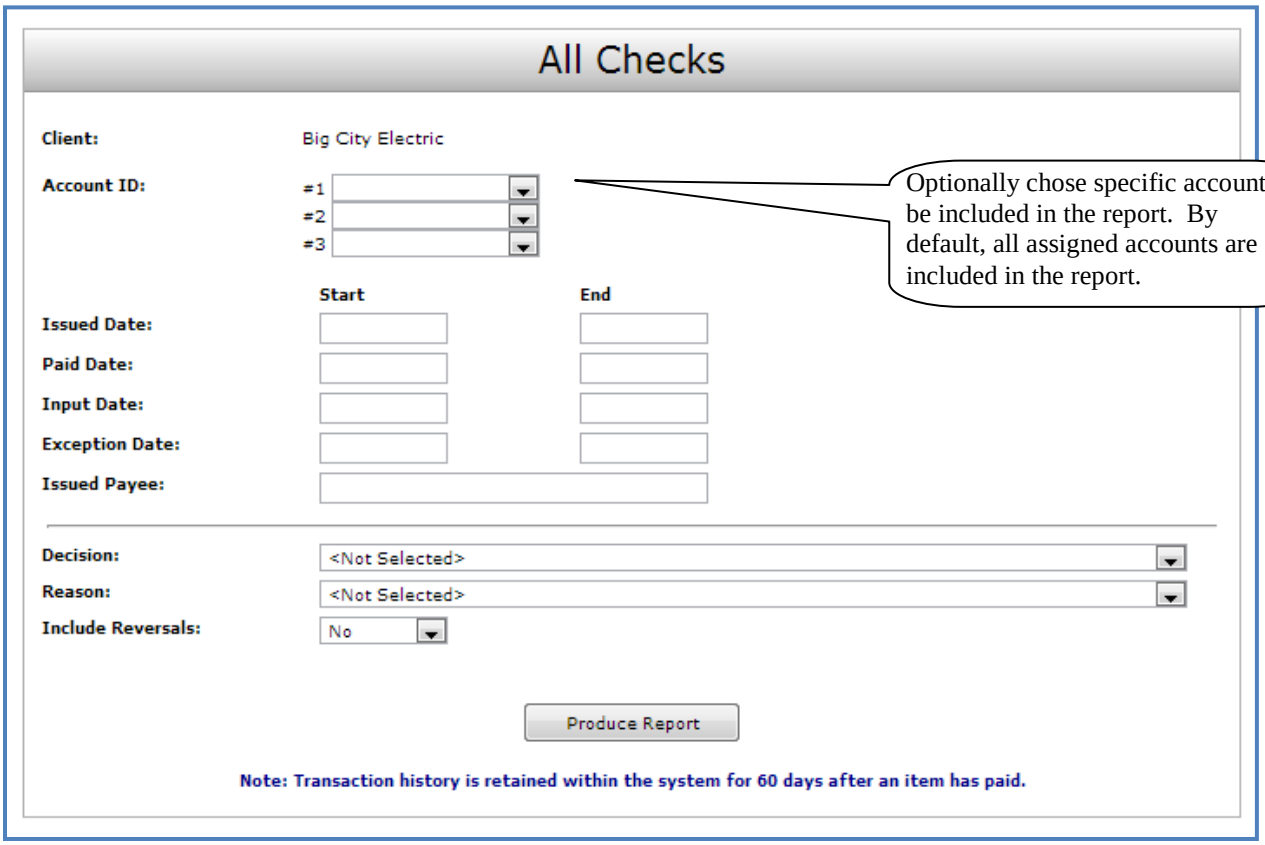
Requested Stop Pay: The stop payment has not been applied by the bank.
Requested and Placed: The bank has applied the stop payment.
Item Stopped and Returned: The item was presented for payment and stopped by the bank.

Reversal: Indicates if the item was reversed.

Transaction Reports – All Checks

The All Checks Report filter screen generates an on-line report using dynamic selection criteria. Select items by Issued Date, Paid Date, Input Date, Exception Date or Issued Payee. Optionally select items that meet a specific pay/return decision or return reason.

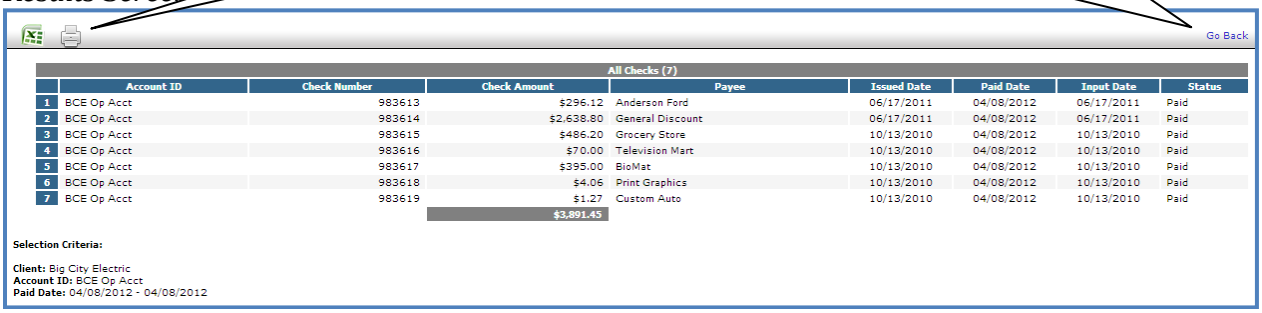
Selection Screen:



Results Screen:

The report can be printed or exported to Excel by clicking on the buttons.

Click on "*Go Back*" to return to the report selection screen.



	Account ID	Check Number	Check Amount	Payee	Issued Date	Paid Date	Input Date	Status
1	BCE Op Acct	983613	$296.12	Anderson Ford	06/17/2011	04/08/2012	06/17/2011	Paid
2	BCE Op Acct	983614	$2,638.80	General Discount	06/17/2011	04/08/2012	06/17/2011	Paid
3	BCE Op Acct	983615	$486.20	Grocery Store	10/13/2010	04/08/2012	10/13/2010	Paid
4	BCE Op Acct	983616	$70.00	Television Mart	10/13/2010	04/08/2012	10/13/2010	Paid
5	BCE Op Acct	983617	$395.00	BioMat	10/13/2010	04/08/2012	10/13/2010	Paid
6	BCE Op Acct	983618	$4.06	Print Graphics	10/13/2010	04/08/2012	10/13/2010	Paid
7	BCE Op Acct	983619	$1.27	Custom Auto	10/13/2010	04/08/2012	10/13/2010	Paid
			$3,891.45					

Client/Account ID: The Client/Account ID is the nickname or description that identifies this account. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system.

Transaction Reports – All Checks (Continued)

Check Number: The check number of this item.

Check Amount: The amount of the check that has been presented for payment.

Payee: The name of the issued payee for this check.

Issued Date: This is the date the check was issued.

Paid Date: The paid date for this check.

Input Date: The date the issued item was entered into the system. Note: The date is followed by (M) if the check was not loaded via an issued file upload, which means it was entered into the system in some other manner. Examples would be a check being manually input by a user, or a paid not issued exception item that is paid.

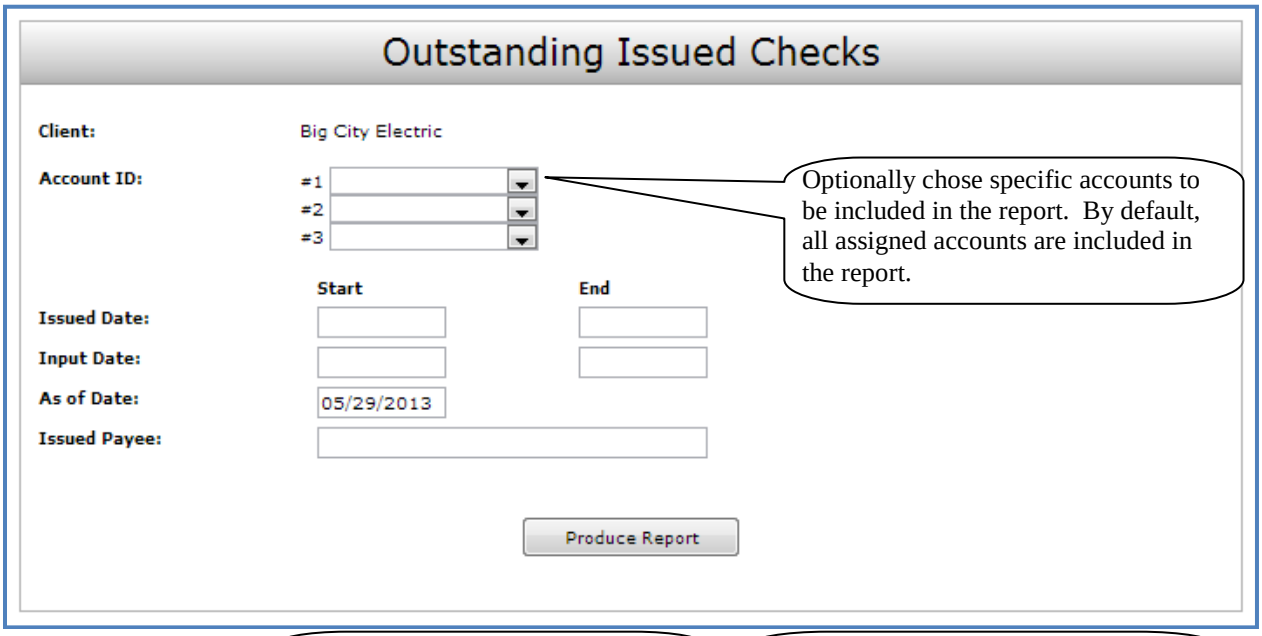
Status: The current status of the check.

Stop Payment: Displayed for checks that have been stopped with a stop payment.
Exception: Displayed on items that are flagged as exceptions by the system.
Paid: Displayed on items that have been previously paid.
Void: Displayed on items that have been voided.
Void (A): Indicates that the item was automatically voided.
Issued: Indicates that the item is an outstanding check.

Transaction Reports – Outstanding Issued Checks

The Outstanding Issued Checks report filter screen allows the user to create an outstanding issued checks report using dynamic selection criteria. Select items by Issued Date, Input Date, Outstanding as of Date, or Issued Payee.

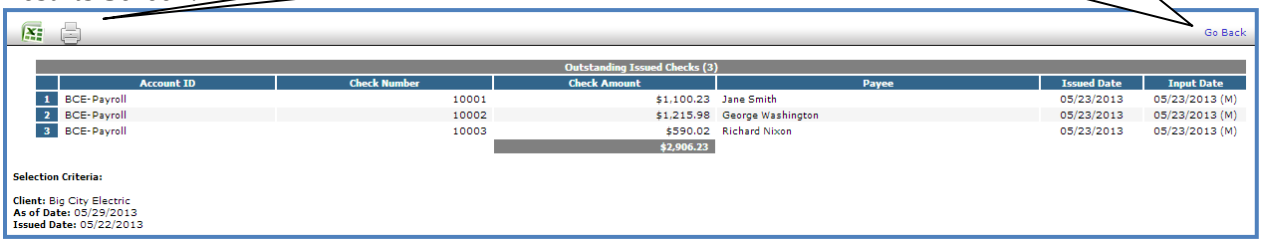
Selection Screen:



The report can be printed or exported to Excel by clicking on the buttons.

Click on "*Go Back*" to return to the report selection screen.

Results Screen:



Client/Account ID: The Client/Account ID is the nickname or description that identifies this account. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system.

Check Number: The check number of this item.

Check Amount: The amount of the check that has been presented for payment.

Payee: This is the name of the payee for this check.

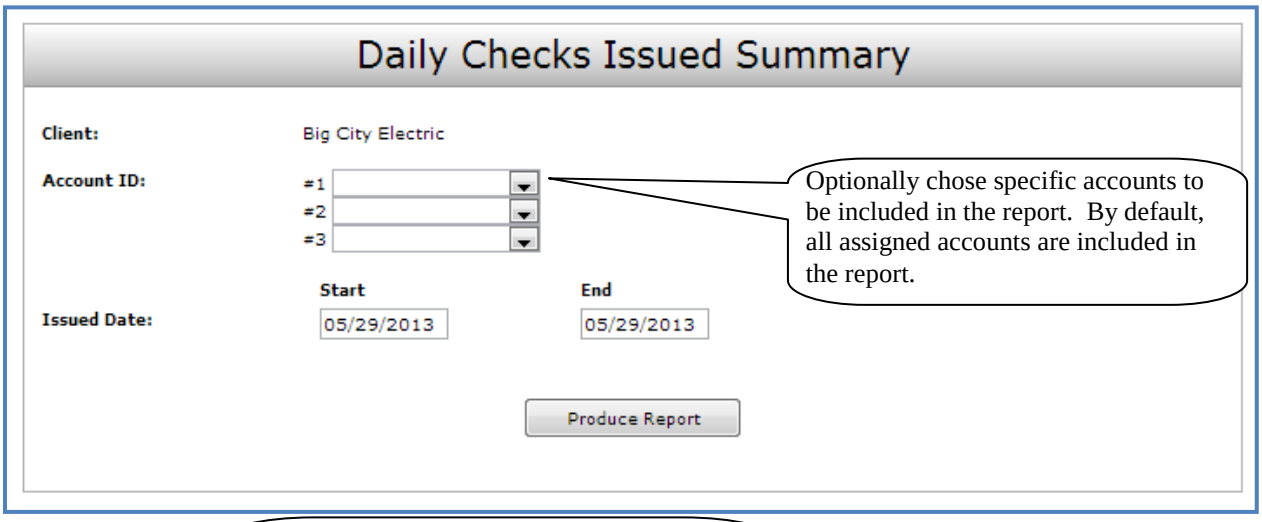
Issued Date: This is the date the check was issued.

Input Date: The date the issued item was entered into the system. Note: The date is followed by (M) if the check was not loaded with an issued file upload, which means it was entered into the system in some other manner. Examples would be a check added manually or a paid not issued exception item that paid.

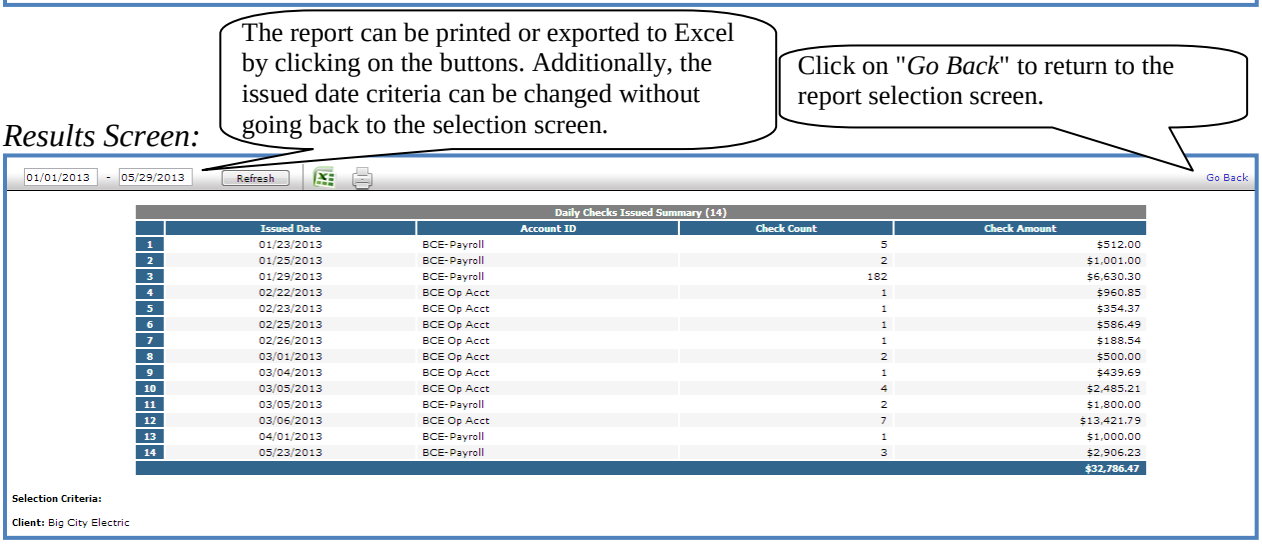
Transaction Reports – Daily Issued Checks Summary

The Daily Issued Checks Summary report is an easy way to see how many checks were issued on any given day and their totals. Use the dynamic selection options to fine tune the report for specific needs. This includes both manually loaded checks and checks uploaded through an issued check file.

Selection Screen:



Results Screen:



Issued Date: The date the checks were issued.

Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system. ***Note***: The label used for this field (typically "Client ID" or "Account ID") throughout the system is defined by the financial institution.

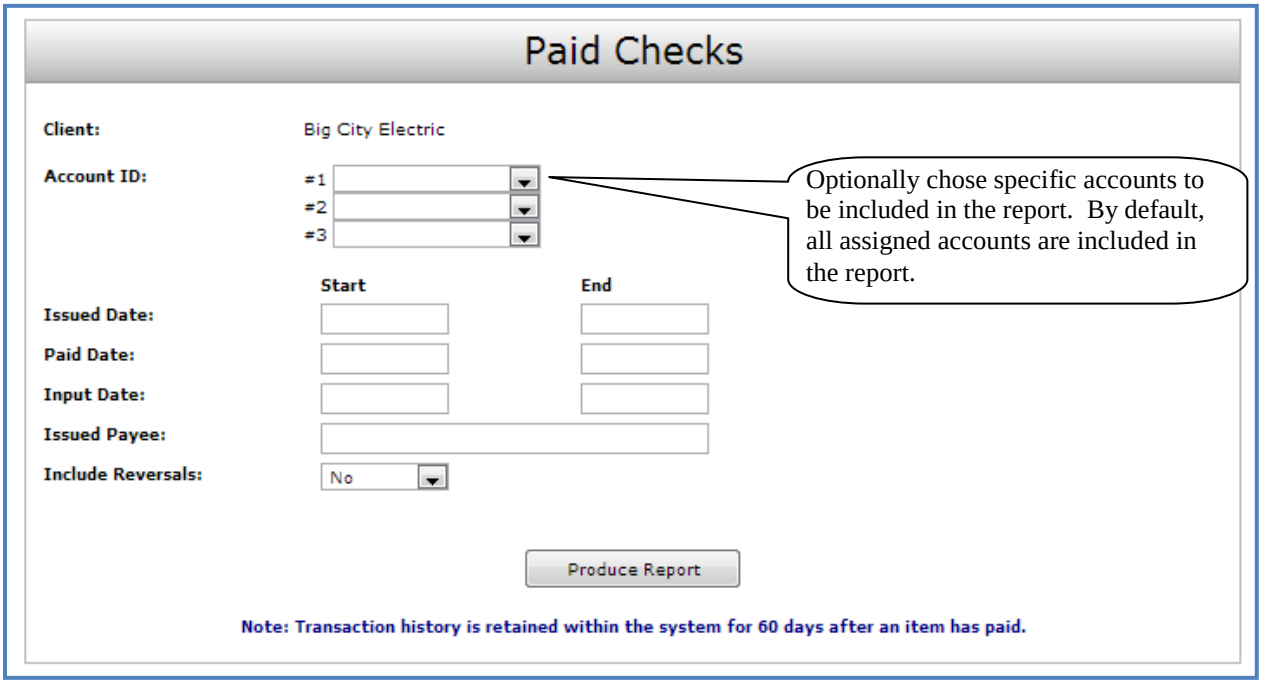
Check Count: The number of checks issued.

Check Amount: The total amount of the checks issued on the specified date.

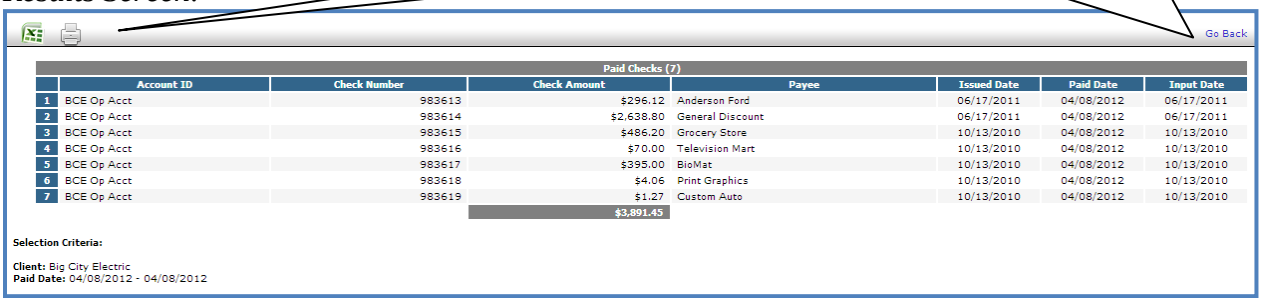
Transaction Reports – Paid Checks

The Paid Checks report filter screen allows the user to create a report of paid checks using dynamic selection criteria. Select items by Issued Date, Paid Date, Input Date or Issued Payee.

Selection Screen:



Results Screen:



Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system. ***Note***: The label used for this field (typically "Client ID" or "Account ID") throughout the system is defined by the financial institution.

Check Number: The check number of this item.

Check Amount: The amount of the check that has been presented for payment.

Payee: The name of the issued payee for this check.

Transaction Reports – Paid Checks (Continued)

Issued Date: This is the date the check was issued.

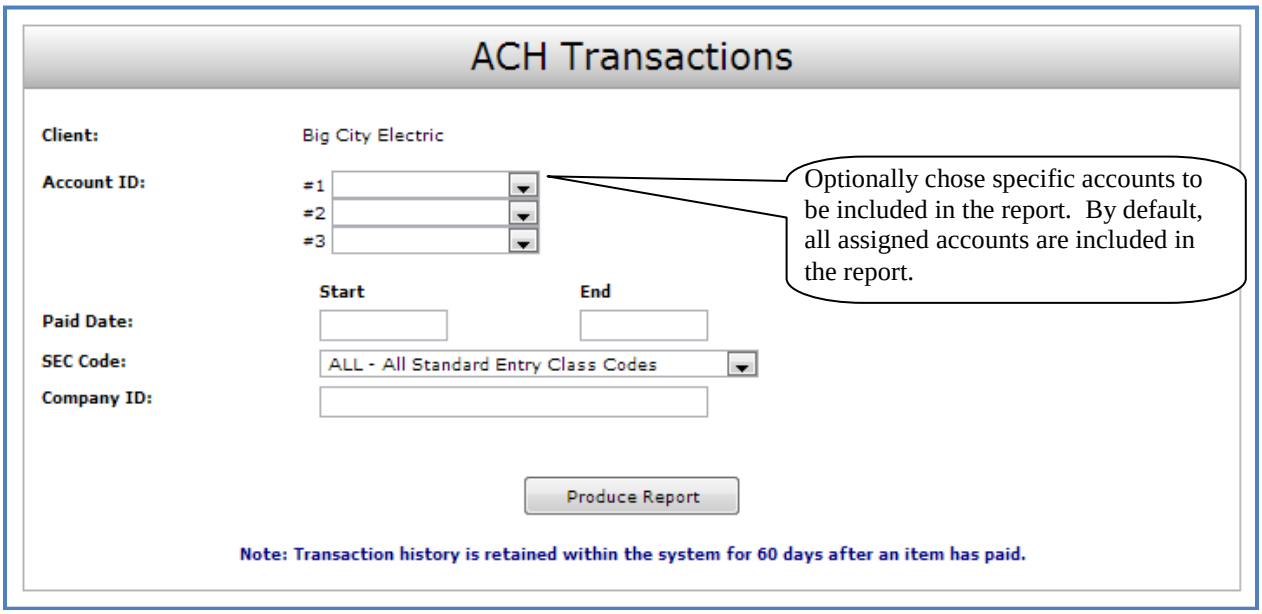
Paid Date: The paid date for this check.

Input Date: The date the issued item was entered into the system. Note: The date is followed by (M) if the check was not loaded via an issued file upload, which means it was entered into the system in some other manner. Examples would be a check being manually input by a user, or a paid not issued exception item that is paid

Transaction Reports – ACH Transactions

The ACH Transactions report filter screen allows the user to create a report of ACH transactions for a specific date range. If no date range is defined, all ACH transactions currently stored within the system are displayed. Report may be filtered by Paid Date, SEC Code or Company ID.

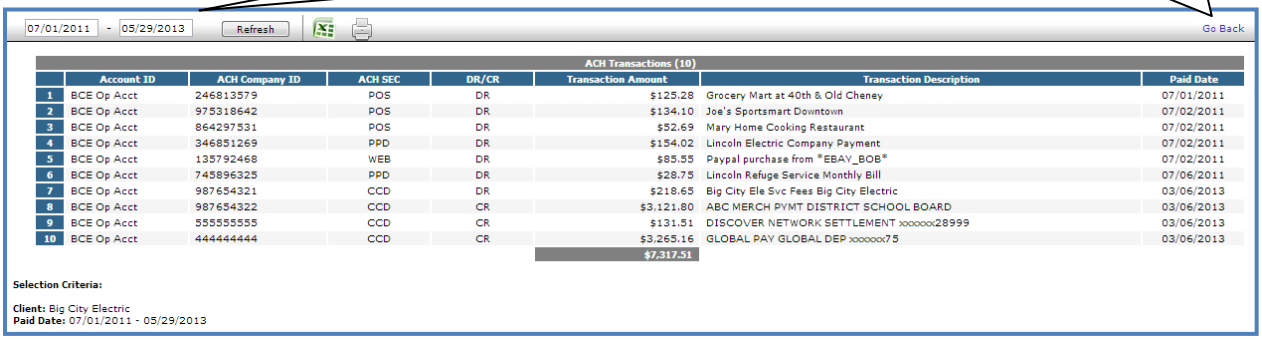
Selection Screen:



The report can be printed or exported to Excel by clicking on the buttons. Additionally, the paid date criteria can be changed without going back to the selection screen.

Click on "*Go Back*" to return to the report selection screen.

Results Screen:



Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system. ***Note***: The label used for this field (typically "Client ID" or "Account ID") throughout the system is defined by the financial institution.

ACH Company ID: The originating ACH company's identification number.

ACH SEC: The ACH standard entry class.

DR/CR: Indicates if the transaction is a debit or credit.

Transaction Reports – ACH Transactions (Continued)

Transaction Amount: The amount of the ACH transaction that has been presented for payment.

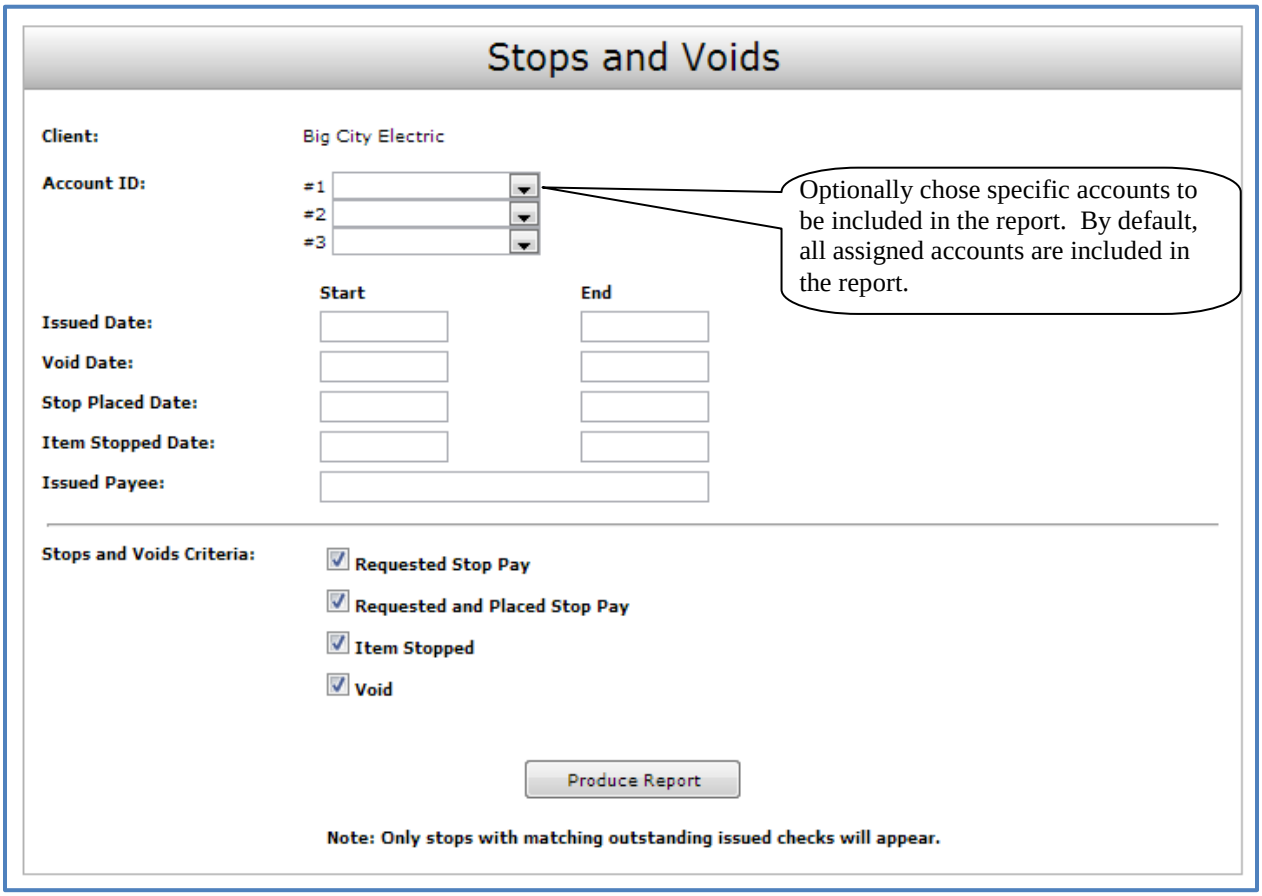
Description: The description of the ACH transaction.

Paid Date: The paid date for this transaction.

Transaction Reports – Stops and Voids

The Stops and Voids report filter screen allows the user to create a report of checks that have been stopped or voided. Select items by Issued Date, Void Date, Stop Placed Date, Item Stopped Date or Issued Payee.

Selection Screen:



Issued Date: The Issued Date checkbox is used to search for transactions based upon the issued date of checks. A date range may be selected by entering both a Start and End date. If searching only for a single date, enter the date in both the start date field.

Void Date: The Void Date checkbox is used to search for transactions based upon the date the item was voided. A date range may be selected by entering both a Start and End date. If searching only for a single date, enter the date in both the start date field.

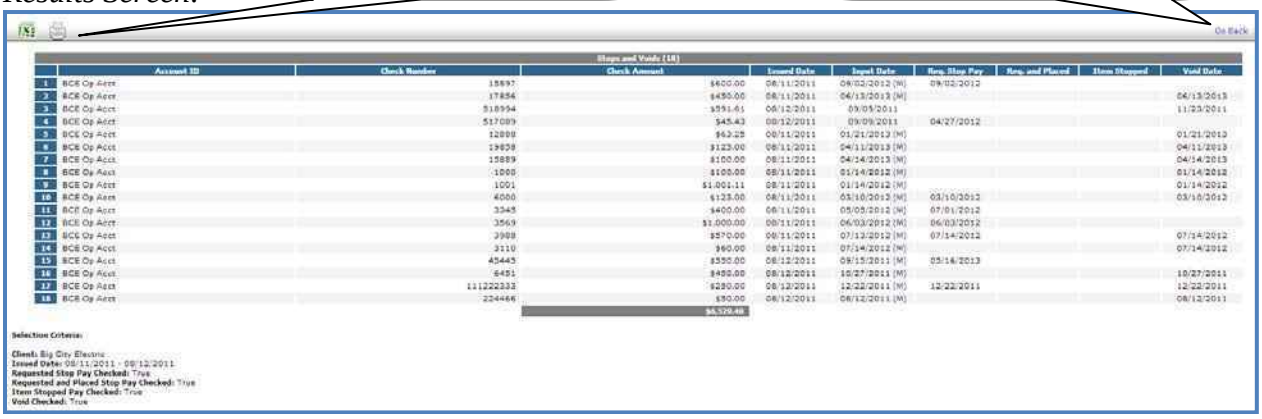
Stop Placed Date: The Stop Placed Date checkbox is used to search for transactions based upon the date a stop payment was applied to this item by the bank. A date range may be selected by entering both a Start and End date. If searching only for a single date, enter the date in both the start date field.

Transaction Reports – Stops and Voids Listing Selection (Continued)

Item Stopped Date: The Item Stopped Date checkbox is used to search for transactions based upon the date the item was stopped. The item stopped date is only set on checks that are presented for payment after being set up with a stop payment. A date range may be selected by entering both a Start and End date. If searching only for a single date, enter the date in both the start date field.

Requested Stop Pay: The requested stop pay checkbox is used to indicate if items that have been requested as stop payment through the Exact/TMS™ system should be listed.
Requested and Placed: The Requested and Placed checkbox is used to indicate if items with a stop payment that has been paid applied by the bank should be listed.
Item Stopped: The item stopped checkbox is used to indicate if items that have been stopped because of a stop payment should be listed.
Void: The void checkbox is used to indicate if checks that have been voided should be listed.

Results Screen:



Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system. ***Note***: The label used for this field (typically "Client ID" or "Account ID") throughout the system is defined by the financial institution.

Check #: The check number of this item.

Check Amount: The amount of the check that has been presented for payment.

Payee: The name of the issued payee for this check as provided by the corporate client.

Issued Date: This is the date the check was issued.

Requested Stop Pay: If the request originated from a source other than this system, this column is blank. Otherwise, this represents the date the request was submitted.

Requested and Placed: The date the stop payment was applied (setup).

Item Stopped: The date the item was stopped.

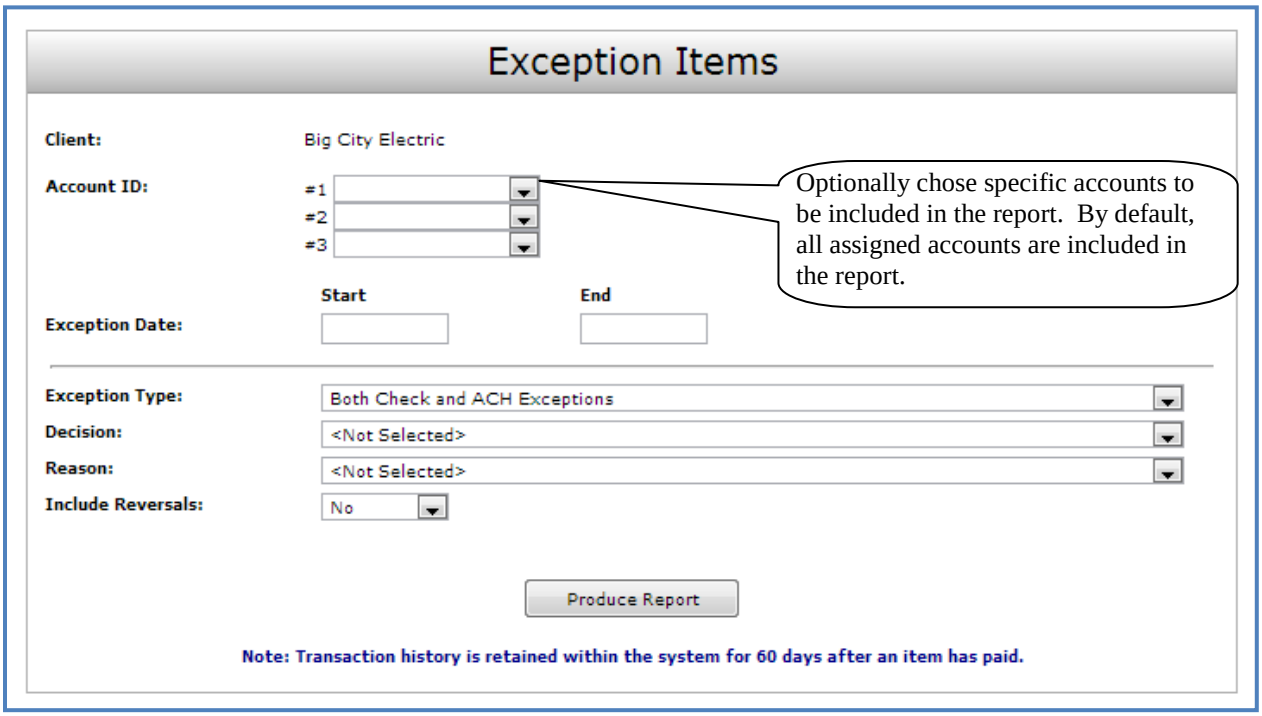
Void: The date the check was voided. Note: If an (A) is listed after the void date, the item was automatically voided.

	09/28/2012	Issued
	09/23/2011	Void (A)
	09/23/2011	Void (A)

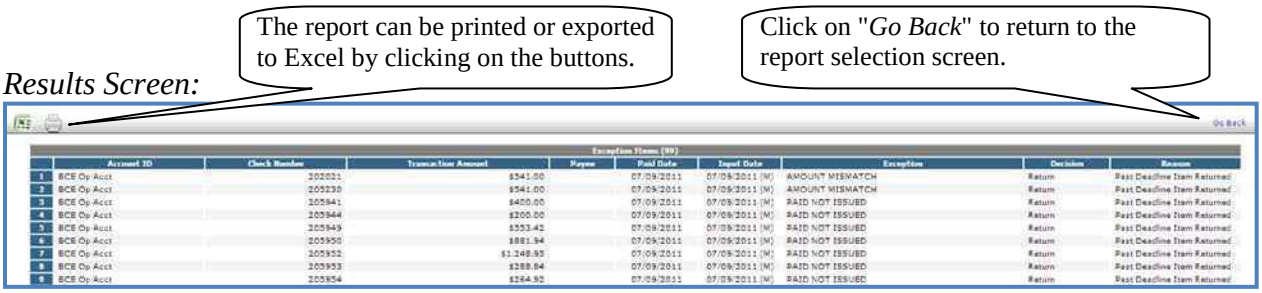
Transaction Reports – Exception Items

The Exception Items report filter screen allows the user to generate a report of items that were flagged as exception items. Optionally select items that meet specific criteria. Criteria can include: Exception Date, Exception Type (ACH, Check or Both), pay/return decision or return reason.

Selection Screen:



Results Screen:



Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system. ***Note***: The label used for this field (typically "Client ID" or "Account ID") throughout the system is defined by the financial institution.

Check Number: The check number of this item.

Transaction Amount: The amount of the transaction that has been presented for payment.

Transaction Reports – Exception Items (Continued)

Payee: The name of the issued payee for this check as provide by client.

Paid Date: The paid date for this check.

Input Date: The date the issued item was entered into the system. Note: The date is followed by (M) if the check was not loaded via an issued file upload, which means it was entered into the system in some other manner. Examples would be a check being manually input by a user, or a paid not issued exception item that is paid.

Exception: The type of exception for this item.

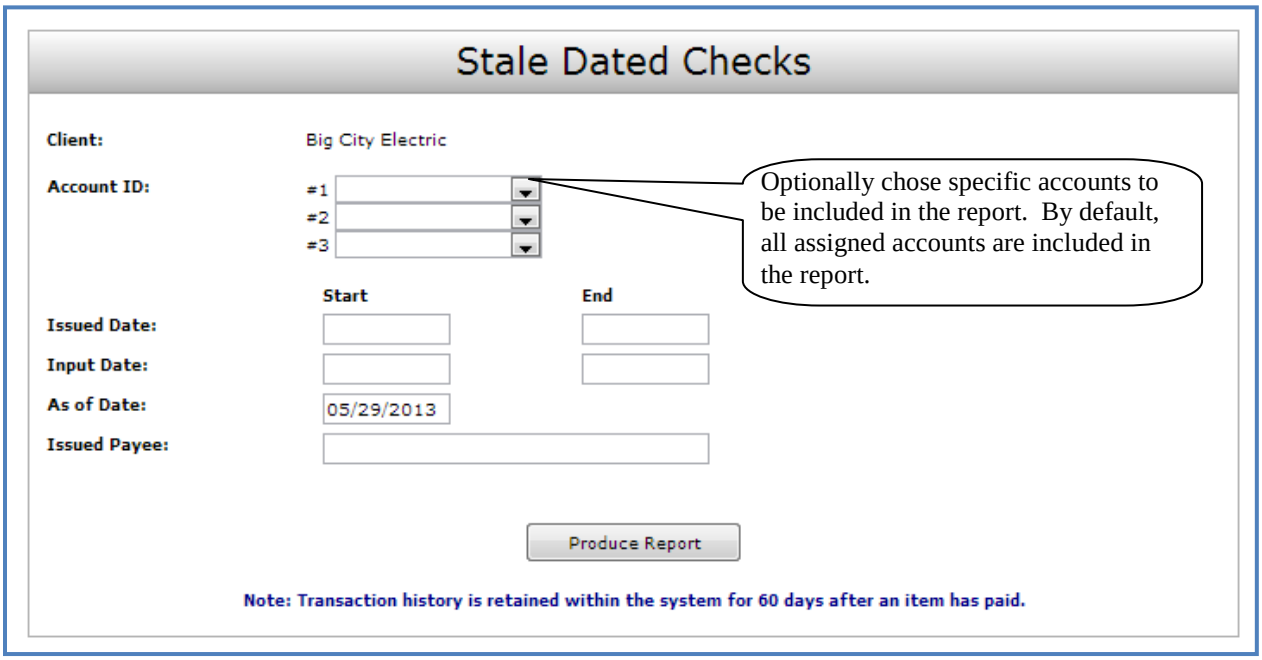
Decision: The decision for this exception item.

Return Reason: If the item was returned, the reason will be displayed here.

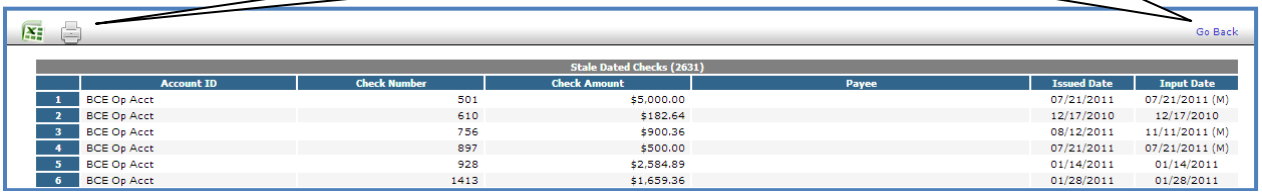
Transaction Reports – Stale Dated Checks

The Stale Dated Checks report filter screen allows the user to create a report of stale dated checks. A check is considered stale dated 180 days after the issue date. Select items by Issued Date, Input Date, As of Date or Issued Payee.

Selection Screen:



Results Screen:



Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system. ***Note***: The label used for this field (typically "Client ID" or "Account ID") throughout the system is defined by the financial institution.

Check Number: The check number of this item.

Check Amount: The amount of the check that has been presented for payment.

Payee: The name of the issued payee for this check.

Transaction Reports – Stale Dated Checks (Continued)

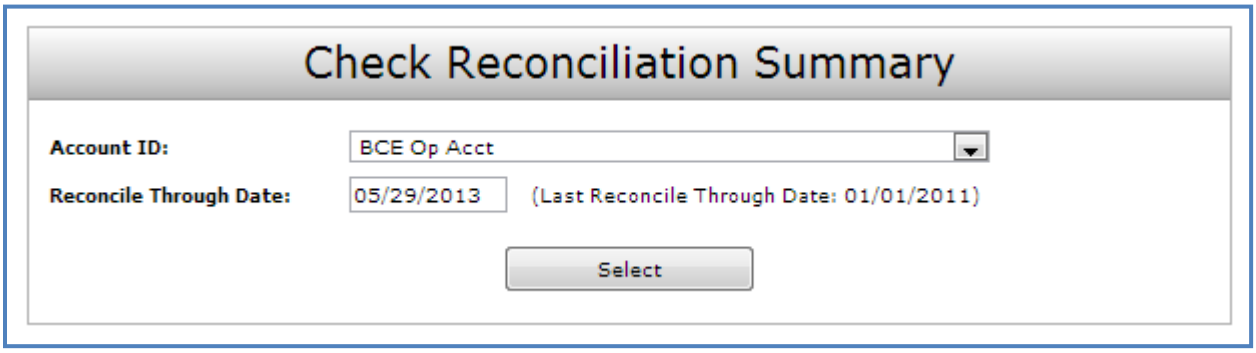
Issued Date: This is the date the check was issued.

Input Date: The date the issued item was entered into the system. Note: The date is followed by (M) if the check was not loaded via an issued file upload, which means it was entered into the system in some other manner. Examples would be a check being manually input by a user, or a paid not issued exception item that is paid.

As of Date: To create a report of stale dated checks "as of" a specific date in the past, enter a date in this field.

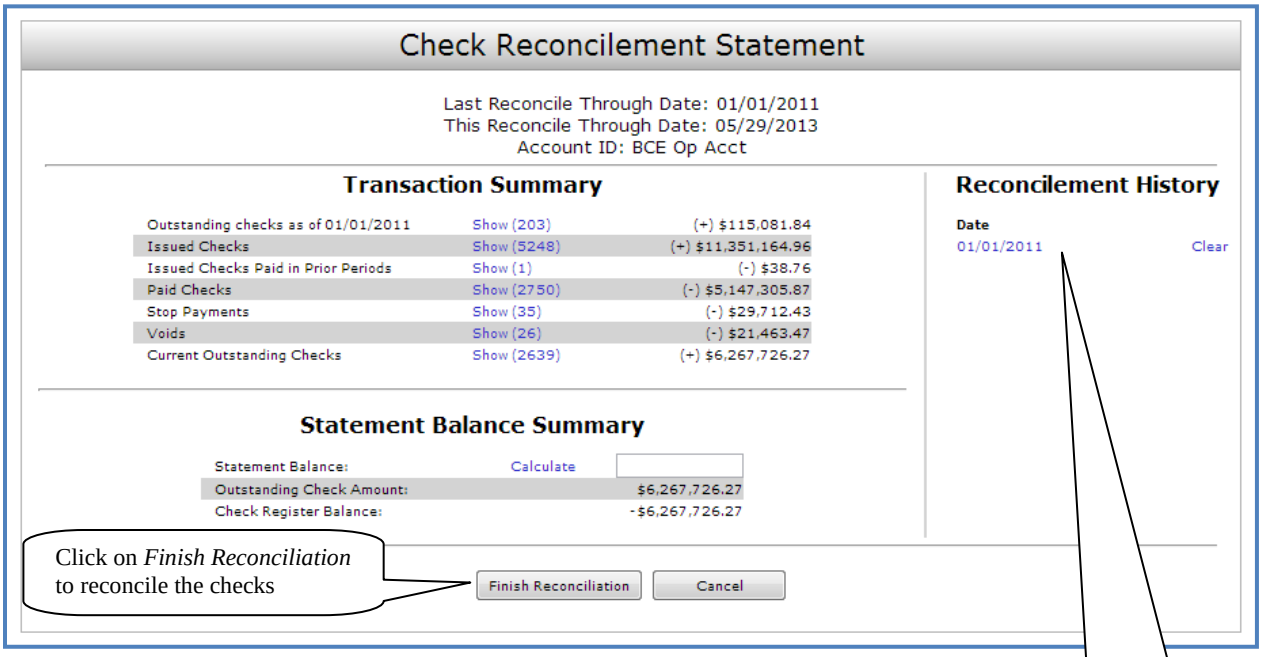
Transaction Reports – Check Reconciliation Summary

The Check Reconciliation Summary report is used to assist in balancing online account balances with a customer statement. The report displays an activity summary of newly issued checks, paid checks, and stopped/voided checks. The report also provides a total of outstanding checks as of the reconciliation date.



Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system. ***Note***: The label used for this field (typically "Client ID" or "Account ID") throughout the system is defined by the financial institution.

Reconcile Through Date: The ending date of the reconciliation period. The beginning date of the reconciliation period is based upon the last reconciliation performed on the account. The first time an account is reconciled, all activity in the system up through the Reconcile Through Date is included.

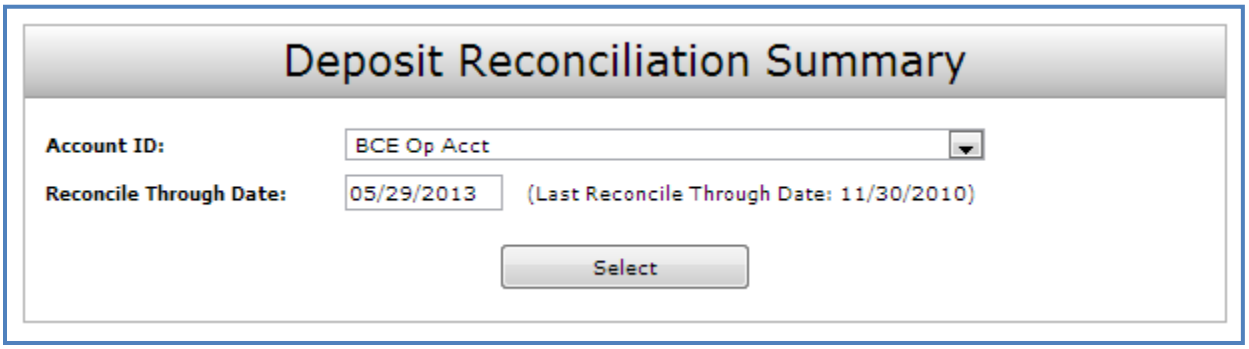


To display a detailed list of the items for any of the totals listed on the report, click on the *Show* link.

The Reconcile History on the right side of the screen provides links to previous reconciliation reports that have been performed on this account.

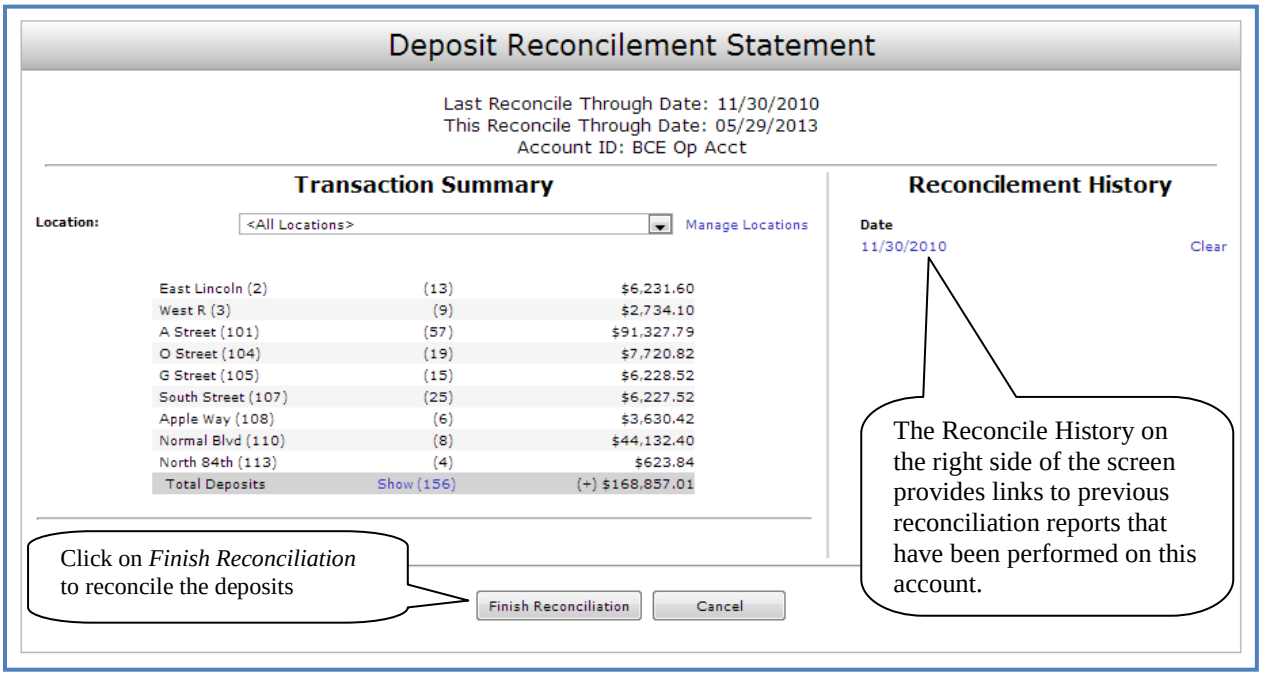
Transaction Reports – Deposit Reconciliation Summary

The Deposit Reconciliation Summary report is used by clients to verify deposits made to an account. This report allows the client to reconcile a full list of all deposits on an account or to reconcile deposits for each location separately.



Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system. ***Note***: The label used for this field (typically "Client ID" or "Account ID") throughout the system is defined by the financial institution.

Reconcile Through Date: The ending date of the reconciliation period. The beginning date of the reconciliation period is based upon the last reconciliation performed on the account. The first time an account is reconciled; all activity in the system up through the Reconcile Through Date is included.

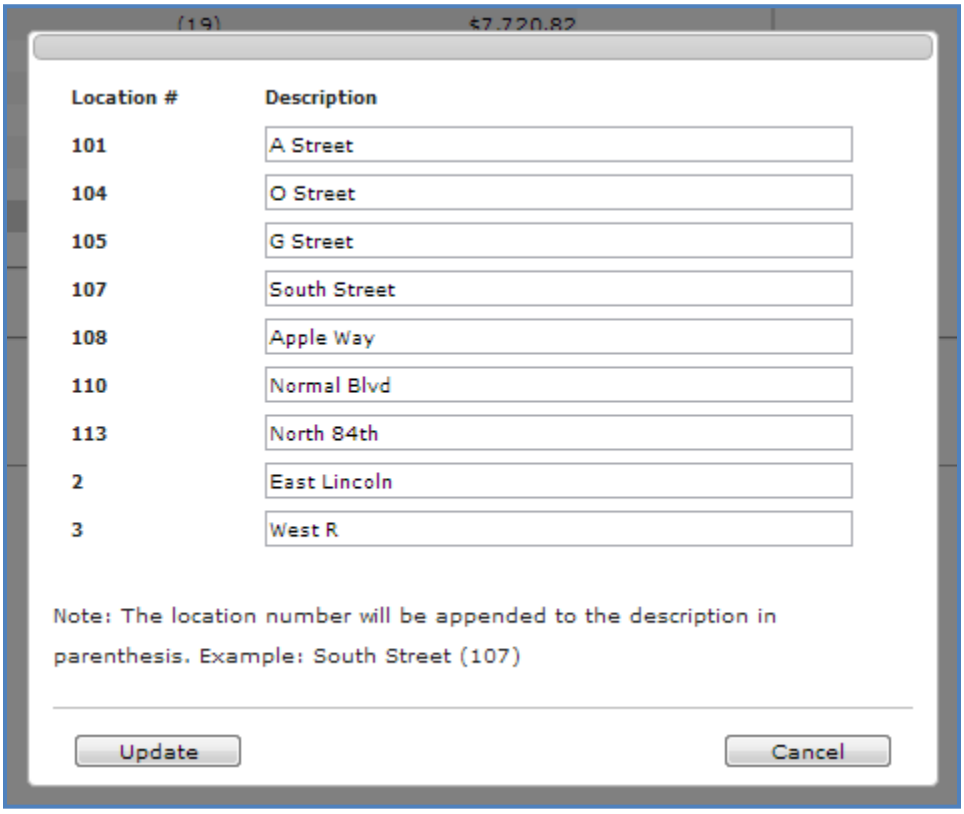


Location: A list of locations will be displayed if location information is available for this client. The location list values are populated based upon the serial number value from the clients deposit slips.

To display a detailed list of the items for any of the totals listed on the report, click on the *Show* link

Transaction Reports – Deposit Reconciliation Summary (Continued)

Manage Locations: If the corporate client is depositing by location, the "Manage Locations" option will be displayed. When selected, a list of the locations will be displayed with an option to define a description for the location.

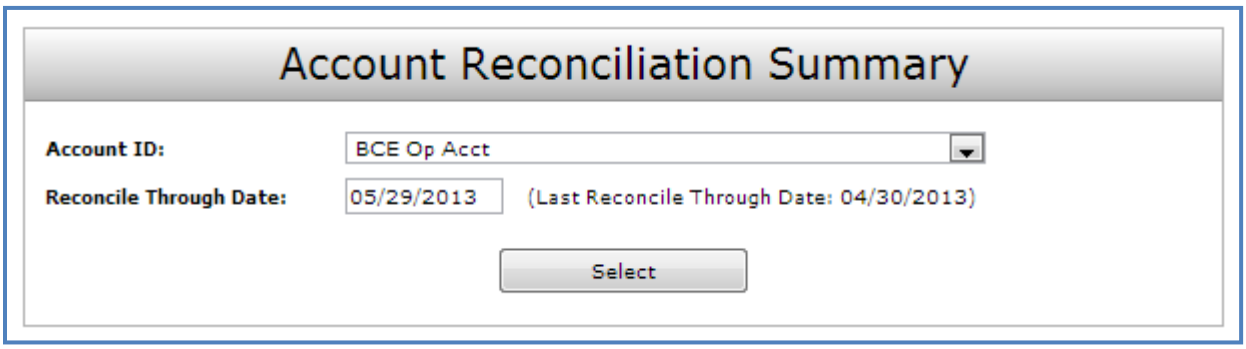


Location Number: The location the deposit is associated with.

Description: The description of the location. ***Note:*** The location number will be appended to the description in parenthesis. Example: South Street (107).

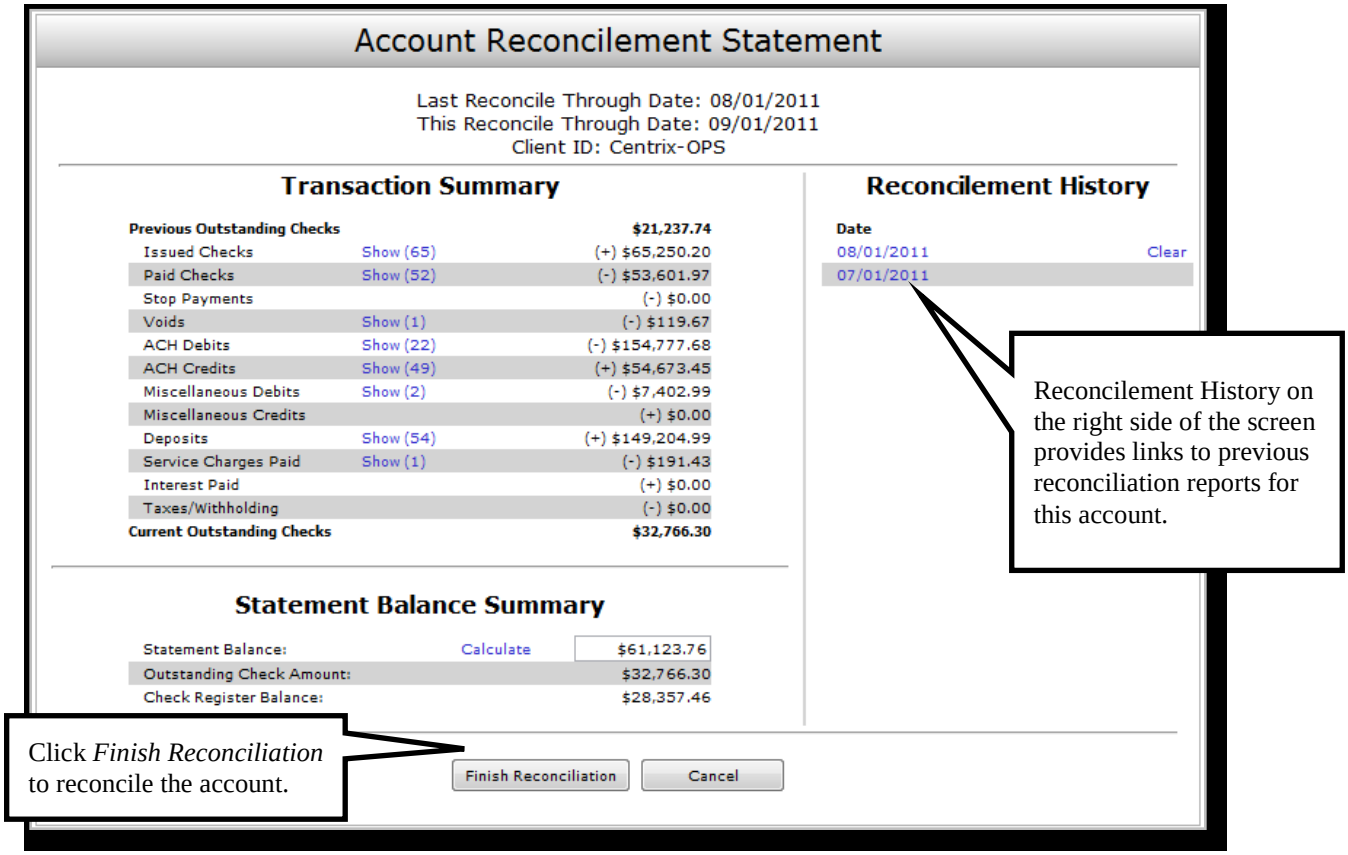
Transaction Reports – Account Reconciliation Summary

The Account Reconciliation Summary is used to assist in balancing online account balances with a customer statement. The report displays an activity summary with newly issued checks, paid checks, stopped checks, voided checks, ACH debits and credits, miscellaneous debits and credits, deposits, service charges, paid interest and taxes/withholding. The report also provides a total of outstanding checks and the check register balance as of reconciliation date.



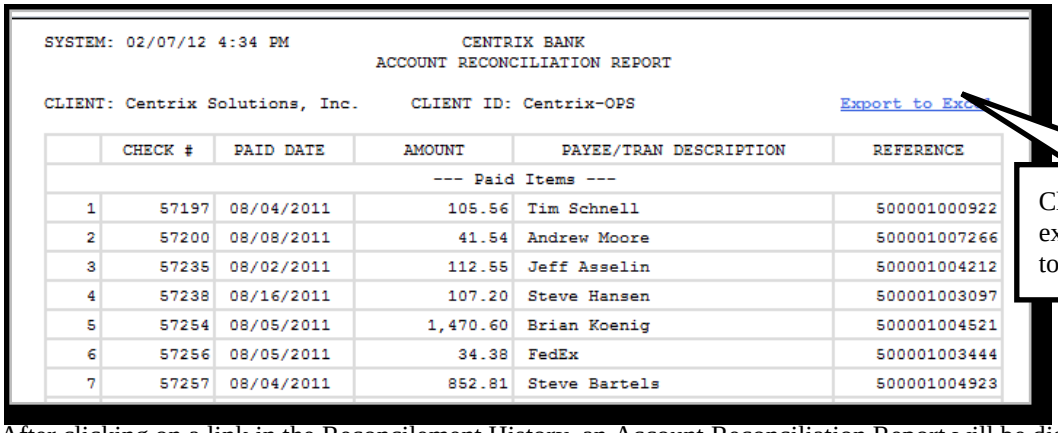
Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system. ***Note***: The label used for this field (typically "Client ID" or "Account ID") throughout the system is defined by the financial institution.

Reconcile Through Date: The ending date of the reconciliation period. The beginning date of the reconciliation period is based upon the last reconciliation performed on the account. The first time an account is reconciled, all activity up until the Reconcile Through Date will be included.



Transaction Reports – Account Reconciliation Summary (Continued)

To display a detailed list of the items for any of the totals listed on the report, click on the *Show* link.
**Note – Items that have already been reconciled via the Check Reconciliation or Deposit Reconciliation screens will not be included in the Account Reconciliation statement.



SYSTEM: 02/07/12 4:34 PM CENTRIX BANK
ACCOUNT RECONCILIATION REPORT

CLIENT: Centrix Solutions, Inc. CLIENT ID: Centrix-OPS Export to Excel

	CHECK #	PAID DATE	AMOUNT	PAYEE/TRAN DESCRIPTION	REFERENCE
			--- Paid Items ---		
1	57197	08/04/2011	105.56	Tim Schnell	500001000922
2	57200	08/08/2011	41.54	Andrew Moore	500001007266
3	57235	08/02/2011	112.55	Jeff Asselin	500001004212
4	57238	08/16/2011	107.20	Steve Hansen	500001003097
5	57254	08/05/2011	1,470.60	Brian Koenig	500001004521
6	57256	08/05/2011	34.38	FedEx	500001003444
7	57257	08/04/2011	852.81	Steve Bartels	500001004923

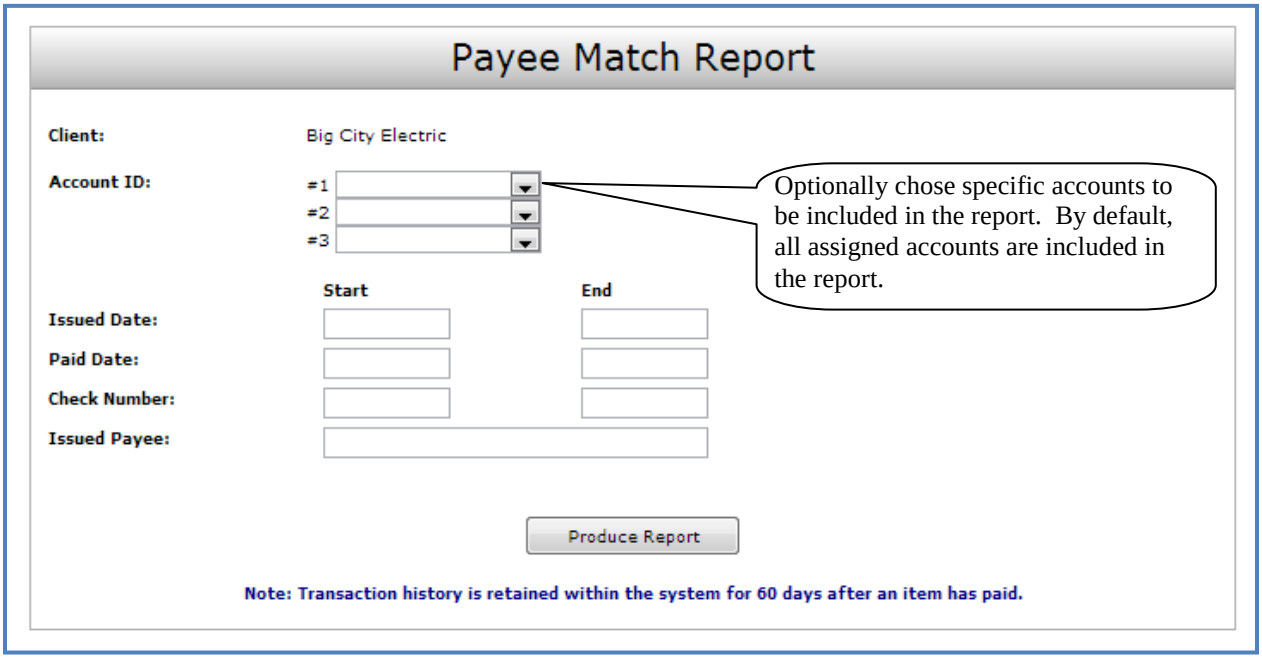
Click *Export to Excel* to export a copy of the report to excel.

After clicking on a link in the Reconcilement History, an Account Reconciliation Report will be displayed with all items that were reconciled on the report.

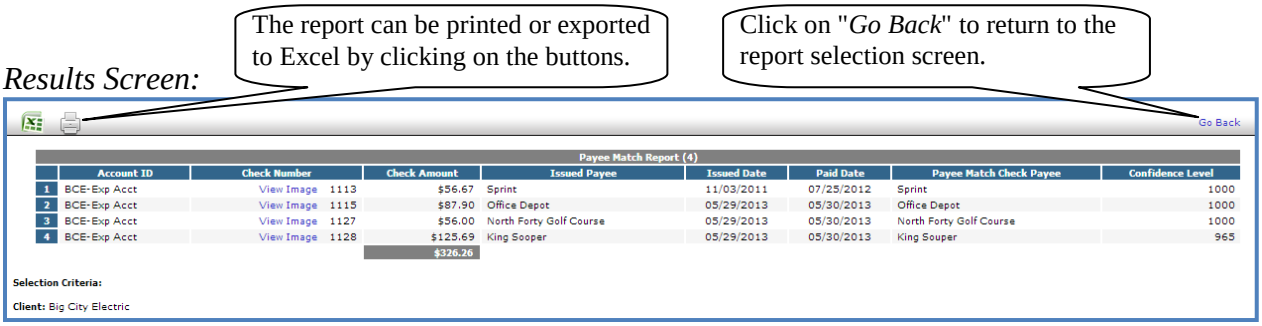
Transaction Reports – Payee Match Report

The Payee Match Report filter screen generates a report using dynamic selection criteria. Select items by Issued Date, Paid Date, Check Number or Issued Payee Name.

Selection Screen:



Results Screen:



Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system. ***Note***: The label used for this field (typically "Client ID" or "Account ID") throughout the system is defined by the financial institution.

Check Number: The check number of this item.

Check Amount: The amount of the check that has been presented for payment.

Transaction Reports – Payee Match Report (Continued)

Issued Payee: The name of the issued payee for this check.

Issued Date: The date the check was issued.

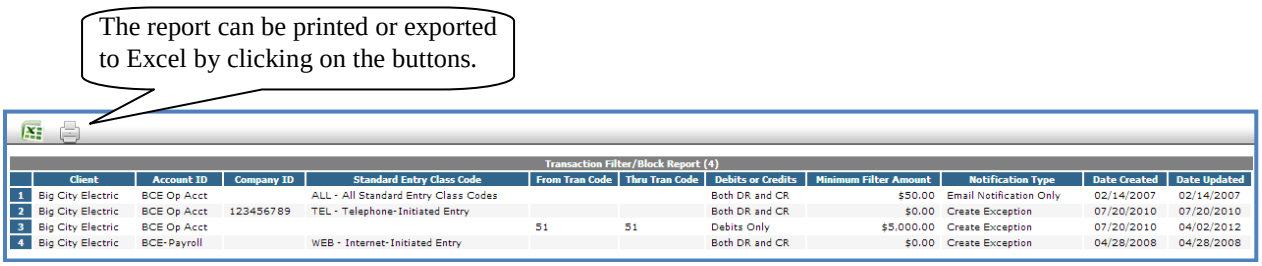
Paid Date: The posting date of the check.

Payee Match Check Payee: The name that was read from the check image for this check.

Confidence Level: The level of confidence that the payee match process returned for this check. The level will fall between 0 (no confidence) and 1000 (perfect score).

System Reports – Transaction Filter/Block Report

The Transaction Filter/Block Report displays a listing of all filters/block rules. ***Note:*** This report will only display rules for the accounts that the user has access to.



Transaction Filter/Block Report (4)

	Client	Account ID	Company ID	Standard Entry Class Code	From Tran Code	Thru Tran Code	Debits or Credits	Minimum Filter Amount	Notification Type	Date Created	Date Updated
1	Big City Electric	BCE Op Acct		ALL - All Standard Entry Class Codes			Both DR and CR	$50.00	Email Notification Only	02/14/2007	02/14/2007
2	Big City Electric	BCE Op Acct	123456789	TEL - Telephone-Initiated Entry			Both DR and CR	$0.00	Create Exception	07/20/2010	07/20/2010
3	Big City Electric	BCE Op Acct			51	51	Debits Only	$5,000.00	Create Exception	07/20/2010	04/02/2012
4	Big City Electric	BCE-Payroll		WEB - Internet-Initiated Entry			Both DR and CR	$0.00	Create Exception	04/28/2008	04/28/2008

Client: The name of the client.

Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system. ***Note***: The label used for this field (typically "Client ID" or "Account ID") throughout the system is defined by the financial institution.

Company ID: The originating company ID of the transaction from the ACH file. If the field is left blank, the filter will not be used.

Standard Entry Class: The ACH standard entry class (SEC) code(s) pertaining used for this rule. Either a specific SEC code can be selected or "ALL – All Standard Entry Class Codes" can be selected to include all SEC codes.

From Tran Code: The starting transaction code for this filter. If the ACH SEC Code is not available from the DDA system, the from and thru transaction code fields may be used to identify the type of transaction.

Thru Tran Code: The ending transaction code for this filter. If the ACH SEC Code is not available from the DDA system, the from and thru transaction code fields may be used to identify the type of transaction.

Debits or Credits: Displays whether the filter pertains to debits only, credits only, or both debits and credits.

Minimum Filter Amount: The minimum transaction amount for this filter. Transactions must have an amount greater than or equal to this amount for this filter to apply. Any transaction that exceeds the minimum filter amount will activate the "notification type" defined for the rule. If the minimum filter amount is blank or zero, the transaction amount will not be used.

Notification Type: The value *Create Exception* indicates that any transaction matching the filter criteria will become an exception that requires a pay or return decision by the client. The value *Email Notification Only* indicates that the client will receive an email notification of any transaction matching the criteria in this filter.

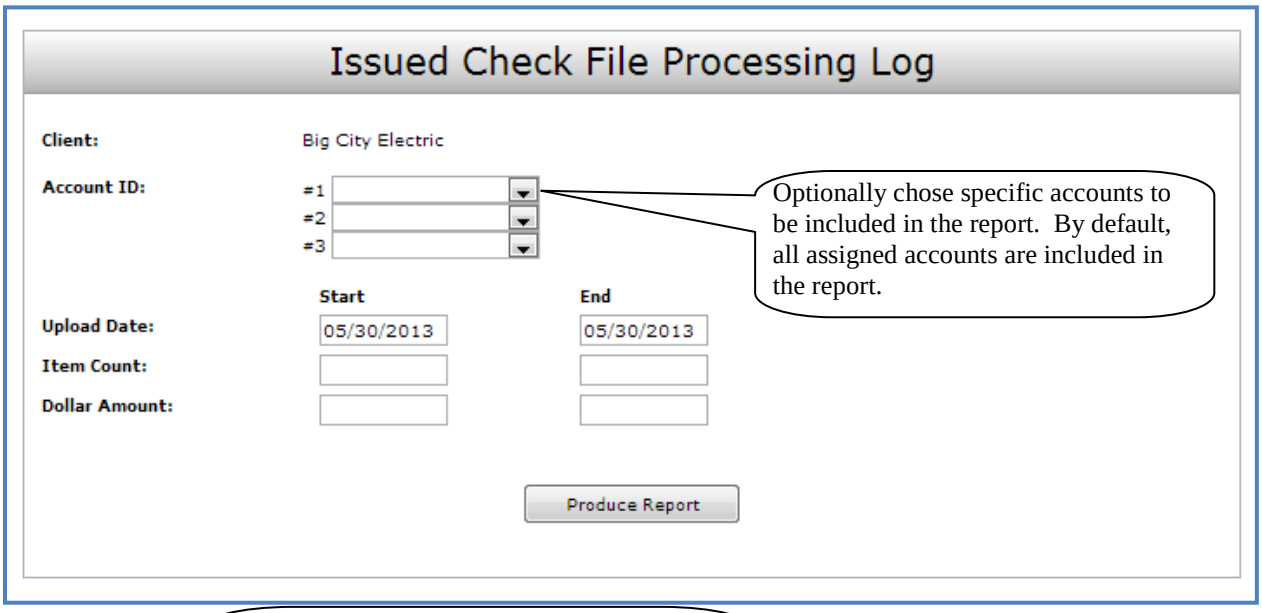
Date Created: The date the filter criteria was created

Date Updated: The date the filter criteria was last modified.

System Reports – Issued Check File Processing Log

The Issued Check File Processing Log displays a list of all issued check files that have been electronically submitted. Select items by Upload Date, Item Count or Dollar Amount. If a submitted file had errors, view the errors by clicking in the "Results" column.

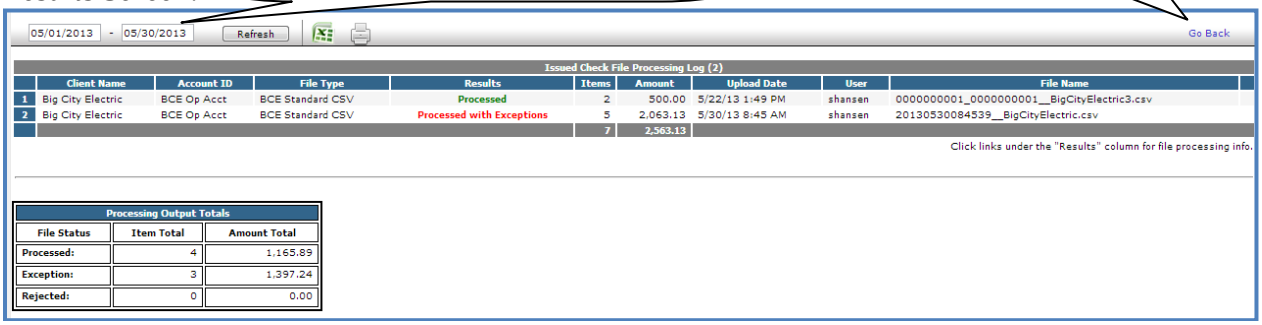
Selection Screen:



The report can be printed or exported to Excel by clicking on the buttons. Additionally, the upload date criteria can be changed without going back to the selection screen.

Click on "*Go Back*" to return to the report selection screen.

Results Screen:



Client: The client's name.

Client/Account ID: The Client/Account ID is the nickname or description that identifies this account to the customer. This Client/Account ID is displayed in place of the account number on screens within the system and in emails generated by the system. ***Note***: The label used for this field (typically "Client ID" or "Account ID") throughout the system is defined by the financial institution.

File Type: The file processing type associated with this upload.

System Report – Issued Check File Processing Log (Continued)

Results: the results column from the Issued Check File Processing Log will display one of the following processing statuses:

Unprocessed: The file has been uploaded, but has not yet been processed.
Processed: The file was processed successfully.
Processed with Exceptions: The file was processed successfully, but duplicate checks were not loaded.
Rejected: The file was rejected due to one of the following reasons:

- A mismatch between the number of items/amount entered on the screen and the number of items/amount contained in the file
- The file format did not match the format selected

To view additional details regarding the file, click on the results column. For example, to view the exceptions on a file that has a result of Processed with Exceptions, click on the 'Processed with Exceptions' link.

Items: The number of items in the file.

Amount: The total amount in the file.

Upload Date: The date the file was uploaded.

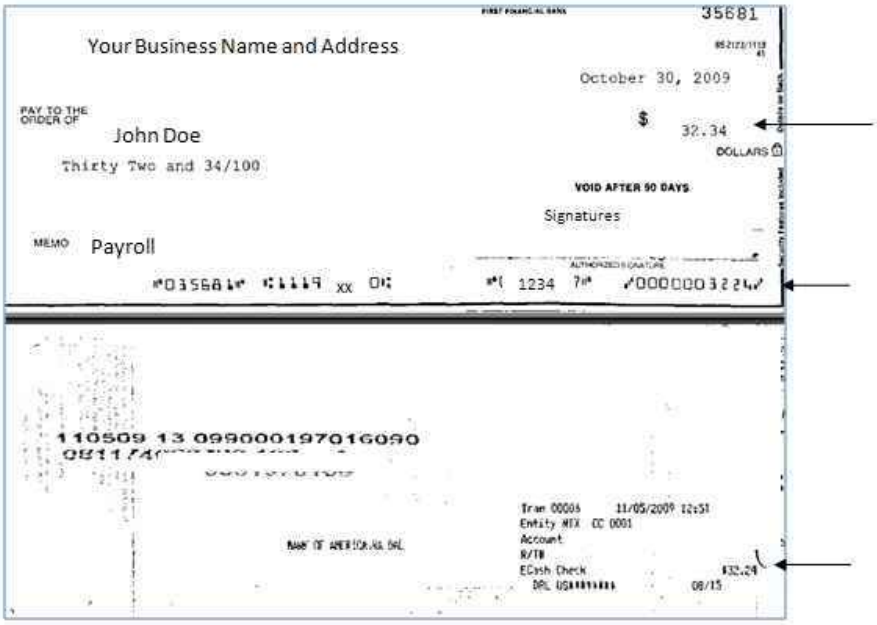
User: The user that uploaded the issued check file.

File Name: The name of the issued check file uploaded into the system. ***Note:*** The system appends the date/time to the beginning of the file name.

How to Handle Exceptions due to Encoding Errors

From time to time, the bank of first deposit will misread the check number or the amount of a check you issued and their customer deposited. The encoding error causes the check to present to your account for payment with the incorrect amount or check number.

Here's an example of a check with an encoding error in the amount:



Check Number 35681 was issued for $32.34. When the bank of first deposit processed the check, the amount was encoded in error for $32.24.

For Positive Pay customers, this results in an Exception when the item is presented for payment. The reason for the Exception may be: Amount Mismatch or Paid not Issued.

Please follow these steps to clear the exception:

1) View the item carefully to determine the exact reason for the Exception.

2) To resolve the encoding error, please mark the item to Return and select Incorrect Check Amount or Incorrect Check Number, whichever is appropriate, as the Reason Code.

Marking the item for Return for these reasons will ***not*** cause the item to be rejected and sent back to the bank of first deposit. This action alerts our Treasury Management operations team to review the item closely and make the necessary adjustment for the item to post to your account properly.

USING POSITIVE PAY TO
MANAGE ACH BLOCKS/FILTERS

QUICK EXCEPTON PROCESSSING FOR ACH TRANSACTIONS

Our ACH Block and Filter service monitors all ACH activity presented against specified accounts. Whenever an ACH item presents for payment and the entry is not on the white list of approved transactions, the entry will be considered an exception. When exceptions occur, an email notification is sent by 8:00AM to those designated in the Positive Pay Agreement. Pay/Return decisions must be completed by 12 noon. After the noon deadline, the exception list is removed and the Bank will stand in to make the decisions based on the options selected in the Positive Pay agreement.

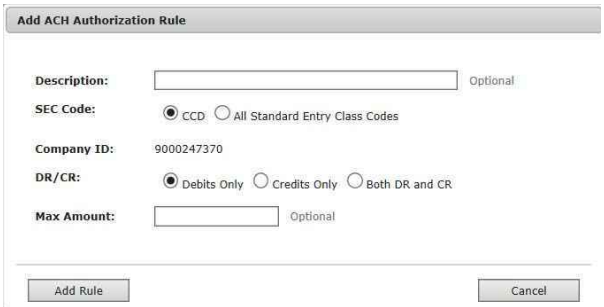
HERE'S HOW TO MANAGE ACH EXCEPTIONS

1) From the Online Banking menu, select Acct Recon/Pos Pay, or log directly into the Positive Pay system.
2) Click **Quick Exception Processing**
   a. All exceptions will be displayed. To view exceptions by account, simply select the account from the **Client ID** drop down menu.
   b. If the service option is ACH Positive Pay ONLY, select ACH Exceptions Only from the **Display Type** drop down menu.

3) For each exception, make a **Pay** or **Return** decision by clicking the box under **Pay** or **Return**.
4) Once all items have been marked to **Pay** or **Return**, click **Update** to transmit your decisions to the bank.

ADDING APPROVED ACH ENTRIES TO THE WHITE LIST

Add new ACH entries to a list of acceptable transactions by clicking **Add ACH Rule** under the **Check #** column.



Complete the required information including the Max Amount.

Select **Add Rule** to allow future transactions from this originator to pay up to the **Max Amount** entered.

First Financial Bank - Positive Pay Service
Issued Check Specifications

Each File received by Bank from Customer with respect to newly Issued Checks must be received by Bank BEFORE Customer distributes the corresponding checks.

Each File will be transmitted electronically, computer to computer, in compliance with the file specifications listed in this document. Physical checks must comply with the check specifications listed in this document.

I. File Specifications

1. Each File must be a delimited text, fixed length or Excel file. Delimited text files are most commonly comma separated value (aka CSV file), but tab, semicolon or other unique characters are also acceptable. See the "Standard Format" section for an example of each file type.

2. The File may contain header information (Ex: column headers) but it is not required.

3. The File may contain footer information but it is not required. The bank recommends the inclusion of the number of checks (count) and the sum of the checks (amount sum) as an added control.

4. The File Layout MUST include the following fields:

Check Issue Date	(See # 6 for Format)
Check Amount	(Max 10 Characters)
Check Number	(Max 10 Characters)
Payee Name(s)	(Max 120 Characters)

5. The File Layout MAY also include the following fields:

Check Status	(See # 9 for Format)	*Recommended*
Account Number	(Max 10 Characters)	*Recommended*
Notes	(Max 50 Characters)	

6. The Check Date contain separators (Ex: '/' or '-') or must be in one of the following formats consistently throughout the entire file:

MMDDYY	YYYYMMDD	DDMMYY
MMDDYYYY	YYMMDD	DDMMYY
	YYDDMM	

7. The Check Amount may or may not include a decimal point, but must be consistent throughout the entire file. If no decimal point is present, two decimals will be implied.

8. In a Comma Delimited file, the Payee field MUST BE encapsulated with text delimiters such as " " or ' ' or MUST NOT contain any commas. For example, "ABC Corp, Ltd" is allowed.

9. Check Status allows Bank to know whether the check is issued or voided. If Customer chooses to use the check status field, Customer must inform Bank what code they will be using for an Issued item or Void. Any Letter or Number may be used. Alternatively, Bank can convert any negative amount to a Voided Check.

10. For customers that have or may have multiple accounts, Bank recommends the inclusion of the Account Number for added control.

II. Test File

All Files that contain a new format MUST be reviewed and approved by Bank prior to its use. When you are ready to send your test file, please contact Treasury Management Client Support at 877-627-7201. Treasury Management Client Support will send you an email that will enable you to reply to and send your test File. Bank requests the following elements in your test file:

- Include at least 10 check items
- Include at least one Voided Check item and one issued item
- Include an issue date of December 31st and January 1st.
- Include a payee that contains a comma in its name

If you have any questions on these instructions, please feel free to contact Treasury Management Client Support.

III. Standard Format

Bank asks that if you do not use the standard format listed below, that you either place headers at the top of your file or notify Bank of your file format.

In these examples the fields will have the following values:

Record 1	Field 1	Check Status	V	
	Field 2	Check Issue Date	12/31/2012	(YYYYMMDD in record)
	Field 3	Check Amount	$111.11	(decimal in record)
	Field 4	Check Number	1234567890	
	Field 5	Account Number	12345678	
	Field 6	Payee	John Doe	
Record 2	Field 1	Check Status		
	Field 2	Check Issue Date	12/31/2012	(YYYYMMDD in record)
	Field 3	Check Amount	$222.22	(decimal in record)
	Field 4	Check Number	1234567891	

	Field 5	Account Number	12345678	
	Field 6	Payee	Jane Doe	
Record 3	Field 1	Check Status		
	Field 2	Check Issue Date	1/1/2013	(YYYYMMDD in record)
	Field 3	Check Amount	$333.33	(decimal in record)
	Field 4	Check Number	1234567892	
	Field 5	Account Number	12345678	
	Field 6	Payee	ABC, Inc.	

Example of a Comma Delimited File

V,20121231,111.11,1234567890,12345678,"John Doe"
,20121231,222.22,1234567891,12345678,"Jane Doe"
,20130101,333.33,1234567892,12345678,"ABC, Inc."

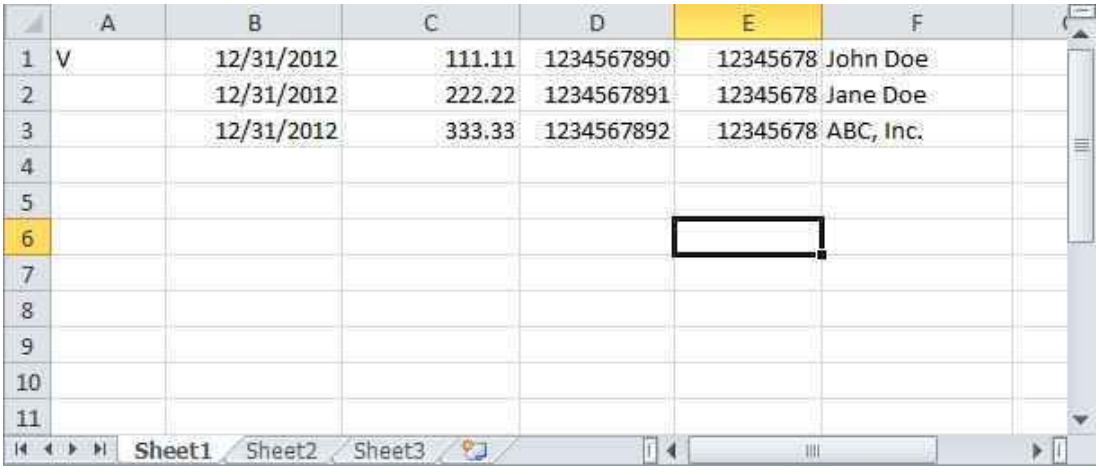
Example of a Fixed Length File

V20121231 111.11123456789012345678John Doe
20121231 222.22123456789112345678Jane Doe
20130101 333.33123456789212345678ABC, Inc.

In this case Bank will assume that a V in the Void Code Field means that the check should be Voided.

Example of an Excel File

Please note that data can only be included on the first sheet ("Sheet1") and any data on any additional sheet can cause the file to fail.



IV. Check Specifications

- Words or symbols used in conjunction with payee name (e.g. MR., MRS., MISS, or, &, AND) must be included on the issue file.
- Payee names listed on checks must match exactly the name listed on the Data Transmission issue file. For example, do not list check as JOHN DOE and put the same name on the issue file as DOE, JOHN.
- If more than one payee name is printed on more than one line, it is recommended that the line break should be indicated on the issue file with the vertical bar character "|".
- Character positions on the transmission after the payee name may be left blank (preferred). If filler is needed, the asterisk (*) symbol must be used. Any other symbol will be construed as part of the payee name.

V. Payee Match Specifications

The following specifications must be complied with to minimize unnecessary Exception Checks; all standard check-printing guidelines also apply.

Check Stock

- Check background must be light in color and plain (no pictures or lines) to ensure payee name field can be easily viewed.
- Watermark/pantograph features are not acceptable in the "Pay To the Order Of" or Payee Name/Address area of the checks. When checks are image captured, these features may "bleed" through the document causing background interference in reading the payee name.

Font/Characters

- Payee name must be typed; all hand written checks will be presented as exception items. Only the first 120 characters of the payee name will be read.
- Payee name must be in all uppercase type.
- Recommended font size is 12-point; fonts less than 10 points or greater than 16 points are not acceptable. **Do not use bold print.**
- Required font styles are noted below in order of preference (fixed space fonts achieve the highest match rates).

  Verdana
  OCR A
  OCR B
  Arial

- The words “PAY TO THE ORDER OF” must be printed in a machine-readable style vs. script and should be to the left of the payee names. See an unacceptable font style for the words “PAY TO THE ORDER OF.” Unacceptable font style:

Printing and Placement

- Letters must have enough space between them so that they are not touching each other.
- Additional lines of data below the payee name should be spaced such that the characters do not touch the payee name.
- The number of spaces between words should not be more than 2 spaces.
  Example:
  - Acceptable: JOHN DOE
  - Not acceptable: JOHN DOE
- Do not add characters and names close to the valid payee name information; any special codes or characters included on the same line as payee name should be at least two inches away. If they are not at least 2 inches away, include this information on your Issued Check File as part of the payee name.
- Special codes, characters or bar codes should not be in the proximity of the TO THE ORDER OF, PAYEE NAME/ADDRESS field.
- Payee name may not be located in the top one inch of the check.
- The following variations of “PAY TO THE ORDER OF” are acceptable:
  PAY TO THE ORDER
  PAY TO
  PAY
  TO THE ORDER OF
- A minimal amount of space, 2-8 characters, must be left between “PAY TO THE ORDER OF” and payee name; the payee name must not touch “PAY TO THE ORDER OF”
- The payee name must be located not more than 15 characters (one inch) from the last word of the PAY TO THE ORDER OF variation.
- Do not print “PAY TO THE ORDER OF” in more than three separate lines on the check.
- Only the first 120 characters of the payee name will be read.

“Attention To” or “Care Of” Recommendations

- The following variations of "ATTENTION TO" or "CARE OF" are acceptable (colon is optional):

  ATTENTION TO:
  ATTENTION:
  ATT:
  ATTN:
  IN CARE OF:
  CARE OF:
  C/O:

- Clearly identify names in the address field with the words "ATTENTION TO" or "CARE OF" to distinguish the distribution point from the payee name; placing a distribution point in the address field will minimize exceptions.
- "C/O" or "ATTENTION" or any variation will not be included in the payee name match process and should not be included on the issue file.
- If "C/O" or "ATTENTION" is not used, include the name and distribution point in the issue file.

- ○ New User
- ○ Add Account (Previously executed Schedule B(s) remain in place)
- ○ Modify Access (Previously executed Schedule B(s) modified as set forth below)
- ○ Remove User
- ○ Remove Account

CIF:

Business Online Banking Authorization Form

Schedule B(s) that have been previously executed by Customer shall remain in place and effective except to the event set forth above.

Bank	First Financial Bank, N.A. Cleburne		**Tax ID**	
Business Name				
Business Address Line				
Business City, State, Zip				
Business Phone Number		**Cell Phone Number**		
Authorized User's Name				
User ID	**1st Choice**		**2nd Choice**	
User's Email Address				
Method of Notification	☐ **E-Mail* or** ☐ **Mail**			
Account Number(s)				

Features	Access	Dollar Limit	Dual Authority	User's Dual Authority Rights
View Only	☐ Yes ☐ No	***N/A***	***N/A***	***N/A***
Stop Payment	☐ Yes ☐ No	***N/A***	***N/A***	***N/A***
Bill Pay**	☐ Yes ☐ No	*(Set by administrative user within bill pay system)*		
Funds Transfer**	☐ Yes ☐ No		☐ Yes ☐ No	☐ *Draft* ☐ *Cancel* ☐ *Approve*
Wire Transfer	☐ Yes ☐ No		☐ Yes ☐ No	☐ *Draft* ☐ *Cancel* ☐ *Approve*
International Wire Transfer	☐ Yes ☐ No		☐ Yes ☐ No	☐ *Draft* ☐ *Cancel* ☐ *Approve*
Smart Phone Token	☐ Yes ☐ No	If yes, provide credentials		

**NOTICE: E-mail notifications are transmitted unencrypted, which is not a secure environment for the transmission of confidential data.*

***NOTICE: Must have access to Funds Transfer in order to use Bill Pay*

The above named Designated User is authorized to perform the tasks indicated above. Account Holder shall be responsible for the confidentiality and use of its password(s) and other security data, methods and devices in accessing and using the Online Banking Services. Account Holder accepts full responsibility for the monitoring of its account. Account Holder shall be solely responsible for installing and maintaining up to date any malicious code security ("anti-virus") capability on its computers and information systems. Schedule B(s) that have been previously executed by Customer shall remain in place and effective except to the event set forth above.

Customer/Account Owner Name (Print) Individual or Company Officer Signature Date

Name of Company Title of Company Officer

To Be Completed by Bank Representative				***Treasury Management Department USE ONLY* – (866) 627-7214**							
Date:		Verified Signature:		Date Recd:		Verified Signature:		J/H:		Q2:	
Bank Representative:				Password:			NC:		ID & Agreement to Wires:		
Phone Extension:				Completed By & Date:			Reviewed By & Date:				

TREASURY MANAGEMENT SERVICES AGREEMENT – PUBLIC FUNDS ENTITY

This TREASURY MANAGEMENT SERVICES AGREEMENT is executed as of the _____ day of Month Year (the "Effective Date") by and between First Financial Bank, N.A., a national association ("Bank"), and _____ ("Customer"), a Other type of entity), Tax Identification number _____ .

As required by Chapter 2270, Texas Government Code, Bank does not boycott Israel and will not boycott Israel through the term of this Agreement. For purposes of this verification, "boycott Israel" means refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations specifically with Israel, or with a person or entity doing business in Israel or in an Israeli-controlled territory, but does not include an action made for ordinary business purposes.

Pursuant to Chapter 2252, Texas Government Code, Bank represents and certifies that, at the time of execution of this Agreement, neither Bank nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of Bank (i) engages in business with Iran, Sudan, or any foreign terrorist organization as described in Chapters 806 or 807 of the Texas Government Code, or Subchapter F of Chapter 2252 of the Texas Government Code, or (ii) is a company listed by the Texas Comptroller of Public Accounts under Sections 806.051, 807.051, or 2252.153 of the Texas Government Code. The term "foreign terrorist organization" in this paragraph has the meaning assigned to such term in Section 2252.151 of the Texas Government Code.

1. **Treasury Management Services**. Bank offers various Treasury Management Services (individually, referred to herein as a "Service"; when one or more, collectively referred to herein as the "Services") to its commercial customers. Enrollment in any individual Service requires the completion of Schedule A, the Treasury Management Services Request ("Schedule A"). Enrollment in a Service is accomplished by obtaining, completing and signing Schedule A, and submitting it to Bank in person, through regular mail, by facsimile, or via email. Customer understands and agrees that Bank is relying on the information provided by the Authorized Signer executing Schedule A in providing the Services hereunder. For Services Customer already receives from Bank, a new Schedule A is not required. However, the procedures, terms and conditions in this Agreement now govern those Services. Any capitalized terms not defined herein shall have the meaning ascribed to them in the "Treasury Management Services Agreement – Procedures, Terms and Conditions."

2. **Fees.** Customer agrees to pay Bank for the Service(s) in which Customer enrolls in accordance with the fee schedule for the applicable Service(s), a copy of which will be provided to Customer at the time Customer contracts for such Service(s).

3. **Term.** The term of this Agreement indefinite, unless terminated by either party pursuant to the termination provisions herein.

4. **Entire Agreement.** This Treasury Management Services Agreement and addenda; the Treasury Management Services Agreement - Procedures, Terms and Conditions and addenda; the Treasury Management Services Request; all applicable Service fee schedules, and attachments, schedules and exhibits thereto, as well as all items expressly incorporated by reference herein shall constitute a single agreement (collectively referred to herein as the "Agreement"), and, as such, shall contain the terms and conditions which govern the Services, and shall constitute the entire agreement between the parties as relates to the Treasury Management Services offered by Bank. This Agreement supersedes any prior agreements or representations relating to the Services and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements.

5. **Authorizations.** Customer agrees to deliver to Bank, prior to or simultaneous with execution of this Agreement or at any time upon Bank's subsequent request, a Corporate Resolution identifying individuals who are authorized to execute this Agreement.

6. **Related Entities.** If Customer desires to obtain Services on behalf of any Related Entities that Customer lists on the Related Entities Schedule ("Schedule B") or any additional Related Entities continuation schedules, Customer hereby represents and warrants that the Related Entities are either (a) a Parent Related Entity, (b) a Subsidiary Related Entity, or (c) an Affiliate Related Entity, as such terms are defined in Section 22 of the General Provisions of the Treasury Management Services Agreement – Procedures, Terms and Conditions. Furthermore, Customer hereby agrees and acknowledges that by listing any Related Entities, Customer is also making all representations and warranties set forth in Section 22 of the Treasury Management Services Agreement – Procedures, Terms and Conditions applicable to Related Entities.

7. **Limitation of Liability and Indemnification Obligations.** Notwithstanding anything in the Treasury Management Services – Procedures, Terms and Conditions or anywhere else in this Agreement to the contrary, to the fullest extent allowed by applicable law and under the constitution of the State of Texas, the public funds entity Customer will not be liable nor have an obligation to indemnify the Bank for any consequential, incidental, indirect, exemplary, special or punitive damages (including, without limitation, loss of revenue or anticipated profits), or for any indirect loss that Bank may incur of suffer in connection with the services provided hereunder, even if the Customer has been informed of the possibility of such damages.

8. **Authority To Execute Agreement.** The individual executing this Agreement on behalf of Customer expressly represents and warrants to Bank that (a) the individual is within their power and authority to enter into and execute this Agreement on behalf of Customer, (b) that the individual's actions in entering into this Agreement have been duly authorized and approved by Customer in accordance with all necessary actions, and (c) that this Agreement shall be legally binding on Customer after the individual's execution.

In consideration of the mutual promises and agreements contained herein, the receipt and sufficiency of which are hereby acknowledged, Customer agrees to purchase from Bank certain Services, and Bank agrees to provide Customer such Services, on the terms and conditions stated in this Agreement, as amended from time to time as provided for herein.

_____

"CUSTOMER"

Signature: _____ **(Authorized Signer)**

Name: _____

Title: _____

Schedule A

Treasury Management Services Request

Customer Name

Product	**Date Services Added**
☐ ACH Services	_____
☐ Online Banking	_____
☐ Positive Pay	_____
☐ ACH Filter	_____
☐ ACH Block	_____
☐ Remote Deposit Capture	_____
☐ Wire Transfer	_____
☐ Reverse Wire Transfer	_____
☐ RemitPlus	_____

By checking the box next to a particular Service or Services, I hereby authorize Bank to provide such Service(s).

Default Options

Positive Pay and ACH Filter

Bank will **RETURN all check and ACH Exception Items when a Pay or Return decision is not entered by 2PM CST**. Email notifications are sent whenever Exception Items are present. If Excections are not worked by noon, a reminder email is sent. Your signature below serves as an acknowledgement of the requirement to take action by 2PM CST.

Payee Name Match Opt Out(payee name will not be validated). I choose to opt out of Payee Name Match for the following reason(s):

☐ Checks are handwritten and cannot be typed or automated.

☐ Payee Names are currently not (and either cannot or will not be) provided in the Issued Item file.

☐ Format of the payee data provided in the Issued Item file to the Bank does not match the payee format on the checks; therefore, the payee name cannot be matched.

☐ Disagreement regarding the terms and conditions of the Treasury Management Services Agreement as it pertains to Payee Name Match.

ACH Block Services

Bank will automatically RETURN all ACH Items when ACH Block Services are requested for an account. Blocked items will not post to your account and you will not be able to review blocked items before they are returned.

Wire Transfer

☐ Option 1: Customer chooses to submit wire transfer instructions via Online Banking System's Wire Transfer Feature.

☐ Option 2: Customer chooses to submit wire transfer instructions by telephone with dual callback. A fax is required on all wires along with verification of personal identification.

☐ Option 3: Customer chooses to submit wire transfer instructions by telephone with callback verification to the same person. A fax is required on all wires along with verificaiton of personal identification.

By checking the box next to a particular option, I hereby authorize Bank to make such option the default.

_____ _____

Date Signature of Authorized Signer from Corporate Resolution or Authorized Administrator from Schedule C – Delegation of Authority to Authorized Administrators

Signer Name (print) _____

Tax Identification Number _____

Address _____

City, State Zip _____

Phone Number Add Account (Previ Fax Number _____

Schedule B

Related Entities Schedule

Customer Name _____

☐ **NEW SCHEDULE OF RELATED ENTITIES, this list replaces any and all previous lists of Related Entities schedule, or**
☐ **CONTINUATION SCHEDULE OF ADDITIONAL RELATED ENTITIES FROM FIRST FINANCIAL BANK, N.A. TREASURY MANAGEMENT SERVICES AGREEMENT,**

Customer Name	Tax Identification #

Authorization

_____ _____

Date Signature of Authorized Signer from Schedule C - Authorization to Obtain Treasury Management Services

_____

Name (Print)

Schedule C

DELEGATION OF AUTHORITY TO AUTHORIZED ADMINISTRATORS

Customer Name _____

Any capitalized terms not defined herein shall have the meaning ascribed to them in the Treasury Management Services Agreement - Procedures, Terms and Conditions.

Delegation of Authority

By signing below, you authorize each person listed below to be an Authorized Administrator with the authority to do any combination of the following:

A. Enroll Customer in any Treasury Management Service through the execution of a Treasury Management Services Request;

B. Appoint and remove User(s) (as that term is defined in Section 5(c) of the General Provisions of the Treasury Management Services Agreement – Procedures, Terms and Conditions) to perform authorized transactions under the Agreement and any applicable Treasury Management Services Request; and

C. To perform any transactions pursuant to the Agreement and Treasury Management Services Request.

The Authorized Administrator listed below does not have the authority to execute the Treasury Management Services Agreement or appoint or remove any Authorized Administrator(s).

Name: _____
Title: _____
Business Address: _____
Telephone Number: _____
Fax Number: _____
E-mail Address: _____

Signature: _____

This Delegation shall be binding and the authority shall remain in force until written notice of any revocation or modification is delivered to Bank.

_____ _____

Date **Signature of Authorized Signer**

_____

Name (Print)

Schedule D

SERVICE CHARGE SCHEDULE

Effective April 2018*

ACH Origination Services

ACH Origination - standard	$35.00
ACH Origination File - standard	$10.00
ACH Origination Item - standard	$0.10
ACH File Reversal/Deletion	$25.00
ACH Origination - returned item	$3.00
ACH Return Item as Not Authorized	$5.00
ACH Suspended File Manual Handling	$25.00

Remote Deposit Services

Remote Deposit - standard	$35.00
Remote Deposit Item - Standard	$0.08

Fraud Protection Services

Positive Pay	$10.00
Positive Pay Exception Item	$2.00
ACH Block/Filter	$10.00

Wire Transfer

Incoming Wire Transfer	$15.00
Outgoing Wire Transfer – Manual	$25.00
Outgoing Wire Transfer – Online	$15.00
Outgoing Wire Transfer - International	$40.00

***Fees are subject to change**

FIRST FINANCIAL BANK, N.A.
TREASURY MANAGEMENT SERVICES AGREEMENT
PROCEDURES, TERMS AND CONDITIONS

April 2018

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TREASURY MANAGEMENT SERVICES AGREEMENT
PROCEDURES, TERMS AND CONDITIONS

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I.
GENERAL PROVISIONS

1. Treasury Management Services.

(a) Generally. First Financial Bank, N.A. ("Bank") offers various Treasury Management Services (individually, each a "Service", collectively the "Services") to its commercial customers (each a "Customer" or "you"). These Services include but are not limited to the following:

- ACH Services
- Online Banking
- Positive Pay
- ACH Block/Filter
- Remote Deposit Capture
- Wire Transfer
- Reverse Wire Transfer

Many of the Services are available for use through traditional means of financial commerce as well as through the use of Online Banking Services offered by Bank. The execution of the Treasury Management Services Agreement (the "Agreement") obligates the parties with regard to the general terms and conditions related to use by the Customer of any Service or Services offered by Bank, regardless of whether such Service is performed traditionally, online or through some combination thereof. Nonetheless, before the Customer begins using any of the Services, the Customer must mail or deliver a duly authorized and executed copy of the Agreement to Bank for review and approval.

(b) Enrollment in a Service or Services. Enrollment in any individual Service is subject to Bank approval and requires the completion of the Treasury Management Services Request ("Schedule A"). Enrollment in a Service or Services is accomplished by obtaining, completing and signing Schedule A, and submitting it to Bank in person, through e-mail, regular mail, or by facsimile.

2. Accounts.

(a) Generally. The Customer agrees to maintain a minimum of at least one (1) commercial checking account ("Demand Deposit Account") with Bank with funds sufficient to cover the transactions initiated pursuant to the Agreement, and to cover fees required to pay for Services provided thereunder.

(b) Business Purpose. The Customer agrees that only Demand Deposit Accounts, or other deposit accounts, or other asset accounts (individually, a "Deposit Account"; collectively, "Deposit Accounts") established exclusively for business purposes will be used for transactions conducted pursuant to the Agreement, and that in no event will transactions conducted hereunder be conducted using Deposit Accounts of the Customer or its employees, officers, directors, members, or owners that are established primarily for personal, family or household purposes.

(c) Authorization for Transfers to and from Accounts. The Customer expressly authorizes Bank to debit the appropriate Deposit Account in the amount of any bank transfer initiated by the Customer and pursuant to the Agreement, or initiated by any other person the Customer authorizes to access Deposit Account(s). The Customer agrees that Bank: (i) may treat any bank transfer, whether initiated online or otherwise, from a Deposit Account the same as a duly executed written withdrawal, transfer, or check; (ii) may treat any bank transfer to a Deposit Account the same as a deposit by cash or check; and (iii) may treat any bank transfer to a loan account held by the Customer the same as a loan payment to Bank, all in accordance with the terms of the Agreement and the Terms and Conditions of Your Account governing the Deposit Account (the "Deposit Account Agreement") or the Customer's agreement with Bank governing any such loan account (the "Loan Account Agreement"), as applicable.

(d) Account Limitations. The Customer's ability to initiate bank transfers between Deposit Accounts may be limited by federal law or by the terms of the applicable Deposit Account Agreement or the applicable Loan Account Agreement. Bank transfers from Deposit Accounts that are savings or money market deposit accounts are limited as required by federal regulation in effect at the time a bank transfer is initiated. The Customer agrees that Bank may, without notice or other obligation to the Customer, for security reasons or as otherwise expressly provided in this Agreement, the Deposit Account Agreement or the Loan Account Agreement, (a) refuse to make any bank transfer, or (b) refuse to accept a Remote Deposit Capture deposit.

(e) Customer Printed Checks. Bank reserves the right, with respect to any and all of the Services, to require Customer to submit any non-Bank printed checks (i.e. checks that are printed by the Customer, or printed by an independent printer at the request of the Customer) for Bank's review and approval regarding format, size and other requirements. If Bank exercises such review and approval right for any of the Services, Customer shall be required to submit such non-Bank printed checks for Bank's review and approval prior to Customer using such non-Bank printed checks.

3. The Agreement.

(a) Generally. The terms and conditions of the Agreement, including Schedule A, any Service setup detail forms, these Treasury Management Services - Procedures, Terms and Conditions, and all attachments, authorizations, schedules and exhibits, together with all amendments or modifications thereto, are cumulative with and in addition to any terms of the Deposit Account Agreements and related Deposit Account signature cards and authorizations, Funds Transfer Agreements, Loan Account Agreements, the applicable Deposit and Loan Account disclosures, Bank's service schedule, Bank's Schedule of Funds Availability, any

credit account agreements relating to any credit accounts the Customer may have with Bank (together, the "Bank Agreements, Schedules and Disclosures"), the rules and regulations of any federal or state agency that supervises Bank's activities or insures accounts at Bank, and any applicable clearinghouse operating rules and guidelines, including, but not limited to those of the National Automated Clearing House Association ("NACHA"), and any other applicable local clearing house association, all as may be amended from time to time.

(b) Inconsistencies. To the extent expressly provided for otherwise herein, should any inconsistency exist or arise between the terms of the Agreement, as relates to any Service or Services, and the terms of any other Bank Agreements, Schedules and Disclosures, the terms of the Agreement shall control, but only to the extent of the inconsistency. Furthermore, to the extent expressly provided for otherwise herein, should any inconsistency exist or arise between the General Provisions of the Agreement and the applicable Service Specific Provisions of the Agreement, the terms of the Service Specific Provisions shall control, but only to the extent of the inconsistency.

(c) Amendment. Bank may amend the Agreement from time to time. To the extent permitted by applicable law, Bank may amend any term of the Agreement without prior notice or obligation to the Customer: (i) if a service provider changes any term without providing Bank sufficient prior notice to enable Bank to timely notify the Customer; (ii) for security reasons; (iii) to comply with applicable law; or (iv) as otherwise expressly provided in the Agreement. Use by the Customer of the Service(s) following the effective date of any amendment(s) shall constitute the Customer's acceptance of and agreement to the amendment(s). If the Customer does not agree to the changes as set forth in an amendment, the Customer may choose to terminate the Service(s) affected by the amendment prior to the effective date of the amendment by discontinuing further use of the Service and following the procedures set forth in Section 27 of these General Provisions. Unless otherwise provided for herein, the Agreement may not be amended or modified unless agreed to in writing by Bank.

4. Notices and Instructions.

(a) Generally. Unless otherwise stated in the Agreement, all notices required pursuant to the Agreement and the Services shall be in writing. Bank shall be entitled to rely on any written notice or other written, electronic or telephone communication believed by it in good faith to be genuine and to have been initiated by an authorized representative of the Customer to Bank. Any such communication will be deemed to have been authorized by the Customer. The parties agree that Bank's records of telephonic or electronic instructions shall be conclusive evidence of the actual notice or instructions given by the Customer and recorded by Bank.

(b) Data Recording. The Customer consents to Bank's recording and monitoring of any telephone conversations and online transmissions or communications including, but not limited to, requests or instructions. Bank, however, has no duty to record or monitor such telephone conversations or online transmissions and communications, and the election to record and/or monitor is within Bank's sole discretion. The Customer agrees to Bank's telephonic or electronic recording for security and quality of service purposes. Either the Customer or Bank may produce telephonic or electronic recordings or computer records, including e-mail and telefacsimile transmissions, as evidence in any proceedings brought in connection with the Service.

(c) Delivery of Notices, Disclosures, Amendments or Other Communications by Bank by E-mail. The Customer acknowledges and agrees that, to the extent permitted by applicable law, Bank may deliver all notices, disclosures, amendments or other communications required hereunder to the Customer by e-mail at the Customer's e-mail address as provided to Bank. To the extent permitted by applicable law, the Customer agrees that each such communication will be binding and enforceable to the same extent as if it were delivered to the Customer in writing by regular mail, branch posting, or in person.

(d) E-Mail Communication. The Customer may send e-mail to Bank and receive e-mail from Bank. (i) Communications sent to Bank over the Internet are considered unsecured unless the information is encrypted in accordance with Bank's security standards, as posted on Bank's website, or transmitted via a secure session using a commercial reasonable security technology that provides a level of security that is equivalent to Bank's security standards, as posted on Bank's website. (ii) The Customer agrees that unsecured e-mail will not be used to deliver sensitive personal or private information that includes, but is not limited to bank routing numbers, account numbers, Social Security numbers, Business ATM & Checkcard numbers, personal identification numbers ("PINs"), home addresses, User IDs, Passwords, ACH entries, or to provide required notices to Bank pursuant to any agreement the Customer has with Bank, unless such agreement expressly provides for e-mail notification. (iii) **THE CUSTOMER ACKNOWLEDGES AND AGREES THAT ANY REQUEST(S) SENT TO BANK THROUGH AN UNSECURED ELECTRONIC NETWORK ARE IN VIOLATION OF BANK AND NACHA POLICY AND PROCEDURES. THE CUSTOMER UNDERSTANDS AND AGREES THAT BANK IS NOT LIABLE FOR ANY LOSS OR DAMAGE INCURRED BY THE CUSTOMER WHEN AN UNAUTHORIZED PERSON GAINS ACCESS TO ANY SUCH E-MAIL. THE CUSTOMER AGREES TO INDEMNIFY AND HOLD BANK HARMLESS IF BANK ACTS WITH ORDINARY CARE IN GOOD FAITH BY RESPONDING TO ANY E-MAIL PURPORTED TO BE SENT BY THE CUSTOMER. BANK'S IMPLEMENTATION OF ITS NORMAL PROCEDURES REGARDING RECEIPT AND**

MAINTENANCE OF CONFIDENTIAL INFORMATION CONSTITUTES ITS EXERCISE OF DUE CARE. (iv) E-mail transmitted by the Customer to Bank may not be delivered to Bank immediately. If the Customer needs to contact Bank immediately to stop a payment, to report an unauthorized use of the Customer's User ID, to report unauthorized access to an account, or for any other reason, the Customer shall contact Bank by telephone at the telephone number provided herein, or in person. Bank will not be responsible for acting on or responding to any e-mail request made until Bank actually receives the Customer's e-mail message and Bank has a reasonable opportunity to act. (v) The Customer should check its e-mail regularly as Bank may attempt to notify the Customer by e-mail in the event of any technical difficulties or other occurrence that may affect Bank's online Services.

(e) Address for Notification. All notices to be delivered by the Customer to Bank pursuant to the Agreement can be made to the physical address, postal address, or e-mail address indicated below, as applicable pursuant to the terms of the Agreement and the requirements of the notice:

Bank's physical notification address:
First Financial Bank, N.A.
Attn: Treasury Management
400 Pine Street, Suite 410
Abilene, TX 79601
E-mail: TMClientSupport@ffin.com

Bank's postal (i.e. P.O. Box) notification address:
First Financial Bank, N.A.
Attn: Treasury Management
PO Box 701
Abilene, TX 79604

All notices to be delivered by Bank to the Customer pursuant to the Agreement can be made to the postal address, e-mail address, or through Online Banking indicated in the attached Schedule A, as such notification information as may be amended in writing by the Customer from time to time.

5. Submission of Information and Documents.

(a) Delivery of Documents. The Customer agrees to deliver, in a form and content satisfactory to Bank, such additional executed, or as the case may be, certified, documents required by Bank from time to time to obtain and to continue to receive the specific Service(s) requested by the Customer, including Deposit Account signature cards, declarations, authorizations, resolutions, implementation documents and updated financial statements.

(b) Provision of Information. Prior to initiating a new Service, the Customer agrees to provide all information which Bank may request including specifications, test results, check samples, transmissions and documents. In the event that Bank determines, in its sole discretion, that any specification, test result, sampling, transmission or document does not meet its requirements, Bank may advise the Customer that the Customer will not be eligible to obtain the Service(s) until requested information that is satisfactory to Bank is provided by the Customer.

(c) Authorizations. (i) The individuals executing the Customer's signature card for Depository Account(s) and the individuals granted banking authority under the Customer's Corporate Resolutions are "Authorized Signers" under this Agreement. The individuals listed on Schedule C – Delegation of Authority to Authorized Administrators are "Authorized Administrators" under this Agreement. Collectively, Authorized Signers and Authorized Administrators shall be referred to as "Authorized Parties" under this Agreement. Authorized Signers have the authority: to sign the Agreement and any addenda thereof; to accept on behalf of the Customer the terms and conditions governing the use of Services, including acceptance of Security Procedures (as defined below); to enroll in Services; to appoint and remove Authorized Administrators (as defined below); to provide the required information to set up and administer Services; to perform the functions of an Authorized Administrator; to authorize and remove the authorization of individual Users (as defined below) who perform transactions related to a Service or Services; and to perform transactions related to any Service hereunder. Authorized Administrators have the authority, if granted by the Authorized Signers: to enroll in Services; to sign addenda to the Agreement as they relate to Services; to provide the required information and instructions to set up and administer Services, including the authority to add or remove Deposit Accounts or Service features; to authorize and remove the authorization of individual Users who perform transactions related to a Service or Services; to grant access to specific Deposit Accounts and Service functions; to re-set passwords; to audit Service activities of Users who perform transactions related to a Service or Services; and to perform transactions related to any Service hereunder. Bank may rely on the Customer's Corporate Resolutions and Schedule C to be a true and correct representation of the Customer's authorizations. (ii) The Customer shall develop and maintain a list of the Customer's employees authorized to perform any of the transactions required by the Customer under the Agreement and naming those individuals who are authorized to act on behalf of the Customer with respect to the Service (the "Users"). If Bank requests, the Customer agrees to deliver to Bank its list of Users and the Service or Services for which they are authorized to perform transactions. **(iii) THE CUSTOMER AGREES THAT IN THE EVENT THE CUSTOMER DESIRES TO NAME ADDITIONAL AUTHORIZED ADMINISTRATORS OR REMOVE THE AUTHORITY OF AN EXISTING AUTHORIZED ADMINISTRATOR, THE CUSTOMER MUST PROVIDE BANK WITH WRITTEN INSTRUCTIONS ADVISING BANK OF THE CHANGE IN AUTHORITY SIGNED BY A PERSON NAMED AS AN AUTHORIZED SIGNER ON THE MOST CURRENT OR CORPORATE RESOLUTION. THE CUSTOMER**

AGREES THAT BANK WILL RELY ON THE MOST CURRENT CORPORATE RESOLUTION AND SCHEDULE C SUPPLIED BY THE CUSTOMER AND, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BANK SHALL HAVE NO LIABILITY FOR UNAUTHORIZED ACTIONS TAKEN OR TRANSACTIONS PERFORMED BY THOSE INDIVIDUALS NAMED AS AUTHORIZED PARTIES ON THE CURRENT CORPORATE RESOLUTION OR SCHEDULE C OR NAMED AS USERS BY CUSTOMER. (iv) The Customer understands and agrees that any employees or applicants for employment with Customer who are or may become Authorized Parties or Users, or may otherwise have any responsibility for handling Customer's financial affairs (including processing, writing or receiving checks or electronic transfers, handling account statements or other financial information, conducting Remote Deposit Capture Services such as scanning or storing Original Checks (as defined herein), or creating, transmitting or storing Substitute Check images, or acting otherwise regarding Customer's financial affairs) has been asked specifically whether they have ever been convicted of a felony, that a thorough background check of such employee or applicant has been conducted, that a system of reasonable financial controls is in place and that the Customer has instituted a program that encourages Customer's employees to report fraudulent or dishonest activities to Customer's management.

6. Security Procedures; Customer's Data Security Obligations; Limitation on Liability; Responsibility for Loss.

(a) Security Procedures under the Agreement. Where required for any Service, Bank and the Customer will agree in writing to one or more security procedures ("Security Procedures") that must be used by Bank and the Customer in connection with the Service(s). Security Procedures offered by Bank are described herein and in Bank's Deposit Account Agreement. As part of the Security Procedures, Bank may employ various authentication technologies. As part of Bank's Online Banking Services for commercial Customers, Bank employs various security and authentication technologies to ensure that Authorized Parties and Users are communicating directly with Bank, and also to ensure that the Customer's computer is communicating with a legitimate Bank computer. Such Bank authentication procedures and technologies include, but are not limited to, use of Customer Online Banking Services User IDs, passwords and other "Additional Authentication Information" ("AAI") that Bank may require Customers to provide at Bank's sole discretion. Such AAI is required as a component of various Online Banking Services authentication procedures that Bank may employ, including, but not limited to, security questions and responses and/or use of other hardware-based and software-based security and authentication tools, programs and procedures. The Customer is responsible for the establishment and maintenance of its internal procedures reasonably adapted to insure the confidentiality and security of Security Procedures. **CUSTOMER UNDERSTANDS AND AGREES THAT CUSTOMER WILL BE RESPONSIBLE FOR MAINTAINING SECURITY AND CONTROL OVER ALL USER IDS AND PASSWORDS OF THE CUSTOMER'S AUTHORIZED PARTIES AND USERS, AND SHALL USE SECURITY FOR SUCH ITEMS COMPARABLE TO THE SECURITY AND CONTROL CUSTOMER WOULD USE FOR CASH, OR A MECHANICAL CHECK-SIGNING MACHINE, BUT IN NO EVENT LESS THAN REASONABLE SECURITY AND CONTROL UNDER THE CIRCUMSTANCES.** If the Customer or its employees or agents have reason to believe that any Security Procedure has or may have become known by unauthorized persons (whether or not employed by the Customer), the Customer shall immediately notify Bank by telephone and confirm such oral notification in writing to Bank within twenty-four (24) hours of the oral notification. Bank will replace the Security Procedures in accordance with Bank's standard security requirements related to the applicable Service(s). To the maximum extent permitted by applicable law, the Customer will be solely liable for all transactions, including funds transfer instructions and other communications, initiated before Bank has received such notification and has had a reasonable opportunity to act on such notification. Bank reserves the right to change any or all of the Security Procedures offered and/or used at any time by giving oral or written notice to the Customer. The Customer agrees that its use of the related Service or Services after Bank provides notice of such changes constitutes Customer's acceptance of the new Security Procedures. The Customer acknowledges that the purpose of Security Procedures is to authenticate the identity of the person initiating the action, not to detect errors in any transmission or content. Bank is not agreeing to any security or other procedure for the detection of errors. The Customer represents that for the Service or Services it requests, it considers the Security Procedures to be commercially reasonable with respect to the size, type, and frequency of funds transfers it anticipates issuing and the information which will be transmitted.

(b) Customer's Data Security Obligations. With regard to obtaining any Services under this Agreement, Customer must comply with the Computer (as defined herein) hardware, software, and Security Procedures requirements as set forth in these General Provisions and as set forth in any Service Specific Provisions or any supplemental information and/or instructions provided by Bank. "Computer" means, collectively, the equipment and software (including web browser software) that allows Customer to access the Internet. Bank reserves the right as encryption technology develops to impose further reasonable requirements to maintain the appropriate level of security for the Services and transactions contemplated hereunder and the Customer agrees to abide by such requirements. Furthermore, the Customer understands and acknowledges that if Customer does not follow

commercially reasonable hardware, software, physical access and physical storage security procedures regarding any Customer-owned Data (defined herein), including such data containing the sensitive personally identifiable information ("PII" as defined herein) of any individual, the security of Customer's transactions and/or Customer-owned Data (including sensitive PII) may be compromised. "Personally identifiable information" means information that can be used on its own or with other information to identify, contact, or locate a single person, or to identify an individual in context, and includes, but is not limited to, (i) "nonpublic personal information" as such term is defined under the Gramm-Leach-Bliley Act of 1999 (Public Law 106-102, 113 Stat. 1138) as amended from time to time (the "GLBA") and the regulations promulgated thereunder, and (ii) "personal information" as defined in applicable state data privacy laws, rules and regulations. Customer understands, acknowledges and agrees that installation, maintenance and operation of Customer's Computer (hardware and software) and related security procedures, including, but not limited to, data security protection, firewalls and anti-virus software, is the Customer's sole responsibility, and that Customer is solely responsible for securing, encrypting, protecting and otherwise safeguarding the Customer-owned Data.

(c) Limitation on Liability. Customer understands, acknowledges and agrees that Bank is not responsible for any loss or damages resulting from any errors or failures of the Customer's Computer or data processing systems, including, but not limited to any computer virus or malware attack (such as a keystroke logging program or similar malware), any attack by a person attempting or actually gaining unauthorized access to Customer-owned Data, or any Internet-related problems that may be associated with the Customer's access and use of the Services.

(d) Serious Potential Threat to Customer's Business; Notification to Bank. Customer acknowledges and agrees that the threat of fraud resulting from theft of electronic data is a serious potential threat to Customer's business and, accordingly, Customer will take all reasonable steps to make certain that its Computers and data security systems are protected from unauthorized access or use, and in an event of any unauthorized access or use, Customer will take all reasonable steps to immediately inform Bank of the security breach.

(e) Responsibility for Loss. If, despite Customer efforts, Customer suffers any damage or loss as a result of Customer's failure to comply with its data security obligations, regardless of whether such damage or loss results from the activities of Customer's employees, agents, subcontractors or any unaffiliated third party, any such loss or damage shall be the sole responsibility of Customer.

7. Business Days; Posting; Funds Availability.

(a) Business Days. Any day on which a majority of Bank's offices are open to the public for conducting substantially all business functions shall be a "Business Day"; provided, however, that Saturdays, Sundays and federal holidays are not Business Days even if a majority of Bank's offices are open.

(b) Posting. Transactions (such as deposits, funds transfers, instructions and entries) related to any Service will be posted to the applicable Deposit Account in accordance with Regulation CC regarding funds availability as provided for in the Deposit Account Agreement. Bank may change any cutoff deadline at any time by giving notice, as required by law, of the change to the Customer.

(c) Funds Availability. Any funds transferred pursuant to a transaction hereunder will be available for withdrawal or advance as provided for in Bank's then current Schedule of Funds Availability, as amended from time to time, and in accordance with applicable law.

8. Honoring Transactions and Instructions; Furnishing Information.

(a) Generally. Bank will honor the Customer's transactions and instructions (including adjustments and cancellations) only when the Customer has complied with the Agreement. Bank will be under no obligation to complete any transaction or instruction that: (i) exceeds the Customer's collected or available funds on deposit with Bank, even if Bank has done so in the past; (ii) is not in accordance with any condition requested by the Customer and agreed to by Bank; (iii) Bank has reason to believe may not be authorized by the Customer; (iv) involves funds subject to a hold, dispute or legal process preventing their withdrawal; (v) violates, in the opinion of Bank, any provision of any present or future risk control program of the Federal Reserve or any other applicable federal or state law; (vi) does not comply with any other requirement stated in the Agreement or any Bank policy, procedure or practice; and/or (vii) for the protection of Bank or the Customer, Bank has reasonable cause not to honor.

(b) Insufficient Account Balances for Service(s). When a Service requires the Customer's Deposit Account(s) to contain sufficient, good, collected, and available funds to cover the Customer's obligations for the required Service, the Customer agrees to maintain sufficient, good, collected, and available funds in those accounts from which the funds are to be withdrawn or transferred. If there are insufficient funds in the designated Deposit Account to cover the required withdrawal(s), transfer(s), or related fees, except as specifically modified in an applicable implementation document, Bank may: (i) withhold the Service; (ii) in its sole discretion, elect to dishonor any item or transaction that creates a negative balance and has no duty to notify the Customer prior to dishonoring any overdraft, even if Bank has paid overdrafts on behalf of the Customer in the past; (iii) in its sole discretion,

provide the Service, and the Customer agrees to pay Bank promptly or on demand the amount of overdraft and any fees or other costs; and/or (iv) require the Customer to pre-fund transactions prior to settlement date or effective date. Bank may, in its sole discretion, on occasion provide a Service against insufficient, good, collected and available funds in Deposit Account(s), but Bank is not obligated to do so, and any action by Bank of this nature will not constitute an obligation by Bank to provide the Service in the future.

(c) Data File Retrieval and Delivery. Bank provides a data file exchange facility for Customers, which is intended to ensure a convenient, reliable and efficient means to obtain various informational data files and reports from Bank, or deliver instructional data files to Bank for processing and handling. This data file exchange facility makes it possible for a Customer, the Customer's agent, or a third party authorized by Customer to obtain specific Demand Deposit Account activity information as well as a means for a Customer, their agent or third party authorized by Customer to provide instructions to Bank in conjunction with various Services provided by Bank. To support this data file exchange facility, Bank makes use of an accepted data communication convention, File Transfer Protocol ("FTP"), which prescribes the manner in which files containing data are to be exchanged between computers using the Internet's transmission control protocol/Internet protocol ("TCP/IP") functionality. Bank allows Customer to choose among certain options for communicating with Bank's FTP external server for retrieval and delivery of data files. Access to Bank's FTP external server may require that the Customer, their agent or a third party authorized by Customer, utilize the Customer's User ID, and/or password (both of which are assigned by Bank), or any AAI, and Bank may further require that public encryption keys be exchanged between Customer (or their agent or third party authorized by Customer), and Bank, depending upon the communication option selected. Also, certain communication options will require Customer, their agent or third party authorized by Customer to furnish Bank with the TCP/IP address from which a FTP communication session will originate. In addition to the general testing obligations set forth in Section 5(b) above, when Customer selects a particular communication method, Bank and Customer shall cooperate in testing data file exchange by such communication method, and if the testing process is completed satisfactory to Bank, then such communication method will be used. If, however, the testing process for a particular communication method is not completed satisfactory to Bank, then Customer must choose a different communication method that must also meet with Bank's testing and approval as stated above. Once a particular communication method has been successfully tested satisfactory to Bank's requirements and approved by Bank, then Bank and Customer will commence exchange of data files using such communication method. When incoming data files are delivered to Bank by Customer (or by Customer's agent or third party authorized by Customer), the data files will reside in a secure folder on Bank's FTP external server until such files are relocated internally by Bank for processing.

9. Oral Instructions.

At Bank's option, Bank may honor the Customer's oral instructions regarding Service(s). The Customer agrees that Bank may in good faith rely on any such oral instructions, which purport to come from the Customer (including any Authorized Party or User) or the Customer's agent without independent verification by Bank unless Security Procedures require otherwise.

10. Erroneous Instructions.

CUSTOMER AGREES THAT TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BANK WILL NOT BE LIABLE FOR ANY INSTRUCTION, FUNDS TRANSFER ORDER, AMENDMENT OR CANCELLATION, OR ANY LOSS ARISING THEREFROM, ERRONEOUSLY TRANSMITTED BY THE CUSTOMER OR ANYONE AUTHORIZED BY THE CUSTOMER HEREUNDER OR CONTAINING AN ERROR IN CONTENT AS PROVIDED BY THE CUSTOMER OR ANYONE AUTHORIZED BY THE CUSTOMER HEREUNDER, REGARDLESS OF WHETHER BANK FOLLOWED THE SECURITY PROCEDURES AGREED UPON HEREIN OR ANY APPLICATION HERETO.

11. Inconsistent Name and Identifying Number.

If any funds transfer instruction by the Customer describes the intended recipient of funds inconsistently by name and account number, the Customer agrees that payment by the receiving bank (which may be Bank) may be made on the basis of the account number alone even if that account is not owned by the person or entity named in the funds transfer instruction. If any funds transfer instruction identifies an intermediary bank or the payee's bank inconsistently by name and identifying number, the Customer agrees that Bank may rely solely on the identifying number as the proper identification of the intermediary bank or the payee's bank even if it identifies a bank different from the bank the Customer identified by name. To the extent permitted by applicable law, the Customer acknowledges and agrees that its obligation to pay Bank the amount of the funds transfer pursuant to a funds transfer instruction will not be excused in any circumstance described in Section 10 above and that the Customer will reimburse Bank for any losses or expenses Bank incurs as a result of Bank's reliance on the identifying number provided in the funds transfer instruction.

12. Account Holder's Liability for Funds Transfers.

The Customer agrees to be bound by any funds transfer, amendment or cancellation to a funds transfer issued in the Customer's name and received by Bank, whether or not authorized, if Bank accepts the funds

transfer, amendment or cancellation in good faith and in compliance with the Security Procedures agreed to herein. In the event that a funds transfer is unauthorized but effective pursuant to the Security Procedures agreed to herein, Bank is entitled to enforce or retain payment for the funds transfer from the Customer unless the Customer can prove that the funds transfer was not caused, directly or indirectly, by a person (i) entrusted at any time with duties to act on the Customer's behalf with respect to such funds transfer or the Security Procedures; or (ii) who obtained access to the Customer's transmitting facilities or who obtained, from a source controlled by the Customer and without authority of Bank, information facilitating breach of the Security Procedures, regardless of how the information was obtained or whether the Customer was at fault.

13. Account Reconciliation and Reporting of Discrepancies.

(a) Generally. The Deposit Account statements provided to the Customer by Bank will notify the Customer of (i) the execution of funds transfers and all debits or credits to accounts of the Customer held by Bank resulting from transactions pursuant to the Agreement; and (ii) amounts debited by Bank from the account(s) for payment of fees for the Services hereunder or other charges pursuant to the Agreement. The Customer agrees that Bank will not be required to provide any other notice to the Customer of the execution of any funds transfers, debits, credits or charges.

(b) Notification of Discrepancies. Customer agrees to promptly report to Bank any discrepancies between the Customer's records and Bank's records and/or Deposit Account statements and any relevant facts pertaining to potentially unauthorized or erroneous funds transfers of any kind. (i) For funds transfers, such report should be made within thirty (30) calendar days from the date the Customer receives notice from Bank that the funds transfer was processed or that the Customer's account was debited with respect to the funds transfer. The Customer's failure to notify Bank of any such discrepancies may result in the Customer forfeiting any interest potentially due on the amount of the unauthorized or erroneous funds transfer due to Customer's failure to provide notification within thirty (30) days as stated herein. (ii) For all ACH transactions that are believed to be unauthorized or erroneous, such report should be made no later than one (1) Business Day following the date of the unauthorized or erroneous entry so that Bank can return the item to the Originating Depository Financial Institution (the "ODFI") within the two (2) Business Day period required under NACHA Rules. Failure to do so for debits against an account will preclude Bank from returning the transaction through the ACH system and re-crediting the account. At the Customer's request, Bank will go outside the ACH system and request a credit from the ODFI based on a violation of the ODFI's warranty that the transaction was authorized.

(c) Foreign Currency Exchange Conversions. Bank assumes neither risk of loss nor any liability, which any person (including the Customer) may suffer by reason of foreign currency exchange conversions. Any gains resulting from foreign exchange conversion in connection with any Customer transaction pursuant to any Service hereunder shall inure to the Customer.

14. Settlement of Obligations.

To the fullest extent permitted by applicable law, the Customer authorizes Bank to obtain payment of the Customer's obligations to Bank under the Agreement from time to time by (i) initiating debit or credit transfers to any of the Deposit Accounts; or (ii) deducting the payment from the amount of any bank transfer. Such obligations include, without limitation, fees owed to Bank, in conjunction with any of the Services or otherwise, and settlement for funds transfers initiated pursuant to the Agreement. At the time any Deposit Account is closed (whether by the Customer, by Bank, or otherwise) or any Service is terminated (whether by the Customer, by Bank, or otherwise), the Customer agrees that all such fees and other obligations will be immediately due and payable to Bank, and the Customer authorizes Bank to withhold the amount of any such fees and other obligations from any Deposit Account. Debiting a Deposit Account or deducting payment from the amount of any bank transfer is not Bank's exclusive remedy under this or any other section of the Agreement, and Bank will not be deemed to have made an election of remedies by making any such debit or deduction on any one or more occasions.

15. Cooperation in Loss Recovery Efforts.

Except as otherwise stated in the Agreement, in the event of any damages for which Bank or the Customer may be liable to the other or to a third party with respect to the Service(s), Bank and the Customer will undertake commercially reasonable efforts to cooperate with each other (as permitted by applicable law) in performing loss recovery efforts and in connection with any action(s) that the relevant party may be obligated to defend or elect to pursue against a third party.

16. Fees.

(a) Generally. Bank reserves the right to change any fee schedule at any time and from time to time. Applicable fees do not include, and the Customer will be solely responsible for payment of any sales, use, excise, value added, utility tax, or tariffs relating to the Service(s) provided hereunder, and for all telephone charges, internet access service charges, tolls, tariffs, and other costs for Online Banking Services initiated by the Customer or the Customer's authorized users.

(b) Payment of Fees. Any amount(s) due Bank for the Service(s) as determined by Bank's account analysis system will be charged as a direct fee debited to the Customer specified Deposit Account. If the Customer specified Deposit Account has insufficient funds to pay

any amount due, Bank may debit any Deposit Account maintained by the Customer at Bank. If there are no Deposit Accounts at Bank with sufficient funds to cover the amount due Bank, the Customer agrees to pay such amounts directly to Bank upon demand. The Customer also agrees to reimburse Bank for any actual expenses Bank may incur to effect, administer or revoke any Service(s). In the event any fees or taxes are owed to Bank and are not paid, Bank shall have no obligation to execute any Service for the Customer, or to continue any Service(s) previously provided to Customer.

17. Use of Third Parties.

(a) Bank's Use of Third Parties. Bank's ability to provide certain Services depends on its ability to provide access to third party networks and other third party services. In the event Bank determines, in its sole discretion, that it is unable to provide third party network or services access, Bank may discontinue the related Service or may provide the Service through an alternate third party network or service, and shall have no liability for the unavailability of such Service.

(b) The Customer's Use of Third Parties. The Customer shall notify Bank in writing as specified in Section 4(e) of the name of any third party whom it hires, employs, or to whom it delegates its duties or responsibilities under the Agreement, before that third party initiates any transaction or performs an obligation authorized or required under the Agreement. The Customer agrees that it shall be solely responsible for all acts of any such third party. The Customer shall provide information including financial information which Bank may, in its sole discretion, require from time to time regarding any third party vendor which the Customer hires, employs, or retains in any manner, to initiate transactions or assume any of the Customer's duties under the Agreement. The Customer understands and agrees that because of the risks involved in certain of the Services that the Customer may utilize, Bank may refuse, in its sole discretion, to provide such Services to the Customer if the third party retained by the Customer does not meet Bank's qualification criteria. Bank's acceptance of any third party retained by the Customer based on Bank's qualification criteria is not a representation or warranty by Bank regarding the fitness of the third party's capabilities or financial condition, nor is such acceptance by Bank an endorsement of any third party's ability to perform the third party services for Customer. The Customer agrees that it shall not allow any third party to use any Service hereunder or to process any third party's transactions pursuant to the Services hereunder through the Customer or its accounts without Bank's prior written consent.

18. Courier Agreements.

The Customer may utilize a courier to conduct transactions pursuant to the Agreement. In so doing, the Customer agrees at all times and in all respects, regardless of the source of payment for the courier services, that (i) the courier is the agent of the Customer and not Bank; (ii) Bank makes no representations or warranties regarding any courier, and assumes no responsibility with respect to any services performed or promised by any courier; and (iii) the Customer assumes all risk of loss (including loss or theft by third parties or employees of the Customer or the courier) prior to Bank's acceptance of such transactions from the courier and subsequent to the courier's acceptance of transactions from Bank. The Customer agrees that the Customer and the courier will be responsible for all loss recovery procedures and processes, although Bank may undertake commercially reasonable efforts to facilitate loss recovery.

19. Proprietary Property.

The Customer acknowledges and agrees that all trademarks, trade names, service marks, copyrights, programs, specifications, software, systems designs, applications, routines, techniques, enhancements, software codes, test keys, security devices, Security Procedures, documentation, manuals, ideas and formulas (collectively, referred to herein as the "Bank Proprietary Property") utilized or developed and provided by Bank in connection with the Agreement and the Services provided hereunder, whether online via Bank's web site or otherwise, are proprietary property of Bank having great commercial value to Bank. The Customer shall have no ownership interest in Bank Proprietary Property or other rights related thereto, and the Customer agrees to keep Bank Proprietary Property confidential at all times. The Customer may use Bank Proprietary Property only for the purposes for which it was provided by Bank and shall notify Bank immediately of any breach of this section of which it becomes aware. Bank may require the Customer to license specific software in order to receive a particular Service. Unless agreed to the contrary between the parties with regard to certain Services, with such agreement approved by Bank in Bank's sole discretion, upon termination of the Agreement or any applicable Service, such license in Bank's Proprietary Property and any licensed software shall automatically expire and the Customer agrees to immediately cease using any Bank Proprietary Property and any licensed software relating to the Service or Services effected by such termination. Additionally, and unless contrary to prior agreement regarding the software, the Customer agrees to erase any software comprising Bank Proprietary Property and relating to the Service or Services terminated to the extent such software is stored in the Customer's computers, and, at the request of Bank, to return all copies of all items relating to Bank Proprietary Property which are in the possession of the Customer. Alternatively, and at Bank's option, the Customer will destroy all copies of all items relating to Bank Proprietary Property which are in the possession of the Customer and, upon request from Bank, provide written certification to Bank that such destruction has occurred.

20. Confidentiality.

The Customer and Bank each agree that all information concerning the other party or parties which comes into its possession in connection with any Service and/or the performance of the Agreement including, but not limited to, software licensed to the Customer by Bank, user guides, and Security Procedures including security access codes, keys, PINs, template numbers, or any other AAI, will be maintained as confidential and shall not be used or divulged to any other party except as may be appropriate to enable Bank to provide the Service or as required by applicable law. The Customer agrees that Bank may share any information concerning the Customer's accounts and account transactions with any of Bank's affiliates, subsidiaries, parent Customer or service providers and to the extent Bank determines necessary, with the Customer's third party processor(s), and state or federal regulators, bank examiners or auditors.

21. Customer Records; Ownership of Data; Response to Data Security Breach Incidents; Responsibility for Loss.

(a) Customer Records. The Agreement will not relieve the Customer of any obligation imposed by law, contract, or otherwise regarding the maintenance of records or from employing adequate audit, accounting and review practices. The Customer shall retain and provide to Bank upon request all information necessary to remake or reconstruct any deposit, transmission file, or entry for at least thirty (30) Business Days, or longer as set forth in a separate Service Provision, following receipt by Bank of the deposit, transmission file, entry, or other order affecting any of the Customer's account(s); provided, however, that Bank's records, kept in the ordinary course of business, will be presumed to accurately reflect the contents of the Customer's instructions to Bank and, in the absence of manifest error, will be binding and conclusive.

(b) Ownership of Data. The parties understand, acknowledge and agree that all data provided by Customer to Bank (including, but not limited to, electronic images of Substitute Checks retained on any Processing Equipment, Processing Software, or any other processing equipment or software (including Customer's Computer) used by Customer in conjunction with Remote Deposit Capture Services), and all data produced, compiled or otherwise provided by Bank to Customer, in any form or format, is the sole and exclusive property of Customer and copies thereof shall be provided to Customer at Customer's request from time to time and at any time ("Customer-owned Data"). Once Customer-owned Data is delivered by Bank to Customer, retrieved by Customer from Bank, or otherwise created as a by-product of a transaction between Customer and Bank and retained by Customer, such Customer-owned Data is solely within Customer's possession and control.

(c) Response to Data Security Breach Incidents. As stated in Section 6 above, Customer has the sole responsibility for security and protection of Customer-owned Data. In the event of any security breach incident involving any potential or actual unauthorized access or acquisition of Customer-owned Data (*e.g.* computer hacking, virus attack, or theft or loss of any equipment containing Customer-owned Data), it is Customer's sole responsibility to determine whether Customer has the obligation, under applicable law, to notify potentially affected individuals whose sensitive PII may have been compromised by the security breach incident. Customer must conduct, at its sole cost and expense, any audit and forensic investigation of such security breach incident. Customer bears the sole responsibility for any and all costs of complying with required data breach notifications to individuals, credit bureaus and/or governmental entities as required by applicable law, and any and all costs for credit report monitoring or fraud monitoring associated with such security breach incident.

(d) Responsibility for Loss. If, despite Customer efforts, Customer suffers any damage or loss as a result of any unauthorized access or data security breach (*e.g.* computer hacking, virus attack, or theft or loss of equipment or other information containing Customer-owned Data), and regardless of whether such unauthorized access or breach results from the activities of Customer's employees, agents, subcontractors, or any unaffiliated third party, any such loss or damage shall be the sole responsibility of the Customer.

22. Representations and Warranties by Customer.

For purposes of this Section 22 and the Agreement, the following definitions apply:

"Affiliate" means a person who controls, is controlled by, or is under common control with another person.

"Organization" includes, but is not limited to, a corporation, limited or general partnership, limited liability partnership or limited liability limited partnership, limited liability company, business trust, real estate investment trust, cooperative, association, or other organization, regardless of whether the organization is for-profit, nonprofit, domestic or foreign.

"Parent" means an organization that, directly or indirectly through or with one or more of its subsidiaries: (a) owns at least 50 percent of the outstanding ownership or membership interests of another organization; or (b) possesses at least 50 percent of the voting power of the owners or members of another organization.

"Person" includes a corporation, organization, government or governmental subdivision or agency, business trust, estate, trust partnership, association and any other legal entity.

"Related Entity" means either (a) a Parent, (b) a Subsidiary, or (c) an Affiliate of Customer.

"Subsidiary" means an organization for which another organization, either directly or indirectly through or with one or more of its other subsidiaries: (a) owns at least 50 percent of the outstanding ownership or membership interests of the organization; or (b) possesses at least 50 percent of the voting power of the owners or members of the organization.

The Customer represents, warrants and agrees that (i) the execution, delivery and performance by the Customer under the Agreement are within the Customer's powers, have been duly authorized by all necessary action and do not contravene the Customer's governing documents (if any) or any law or contractual restrictions; (ii) no authorization, approval or other act, and no notice to or filing with any governmental authority or regulatory body is required for the execution, delivery and performance by the Customer of the Agreement; (iii) the Agreement constitutes the legal, valid and binding obligation of the Customer and that the Agreement is enforceable against the Customer in accordance with the terms of the Agreement; (iv) no information furnished by the Customer to Bank in connection with the Agreement is inaccurate in any material respect, contains any material misstatement of fact, or omits any fact necessary to make such statements not misleading, as of the date it is dated, or if not dated, the date it is given to Bank; and (v) the Customer has not been induced to enter into the Agreement by any representations or statements, oral or written that have not been expressly incorporated herein by reference. The Customer agrees to deliver to Bank, upon execution of the Agreement and at any time upon Bank's request, a certified copy of a duly adopted resolution, unanimous consent or other similar corporate document or official record authorizing the execution of Schedule C and Agreement and the granting of authority to the person(s) identified therein.

In addition, in the event that Customer desires to obtain any Services under this Agreement for any of Customer's Related Entities, as Customer shall list such Related Entities in Schedule B or any addendum, exhibit or schedule used in connection with this Agreement, the Customer makes the following additional representations and warranties to Bank each time that Customer lists a Related Entity that is authorized to obtain Services under this Agreement: (x) if Customer is a Parent of any Subsidiary Related Entity listed, that Customer is authorized under applicable governing documents to exercise both the voting power and equity of the Related Entity, and that no third party holds any veto power or approval right over (A) Customer's ability to appoint a majority of the directors, managers or other members of the Related Entity's governing body, (B) Customer's ability to determine the Related Entity's strategy and direction, or (C) Customer's ability to bind the Related Entity to this Agreement; (y) if Customer is a Subsidiary of any Parent Related Entity listed, that Customer has been duly authorized by the Parent to enter into this Agreement, to bind the Parent to this Agreement and to take all necessary actions to obtain Services under this Agreement, and that no third party holds any veto power or approval right over Customer's ability to fulfill Customer's obligations under this Agreement; (z) if Customer is an Affiliate of any Affiliate Related Entity listed, that Customer is duly authorized by its governing documents, or by actions of the Affiliate Related Entity, to enter into this Agreement, to bind the Affiliate Related Entity to this Agreement, and to take all necessary actions to obtain Services under this Agreement, and that no third party holds any veto power or approval right over Customer's ability to fulfill Customer's obligations under this Agreement.

23. Compliance with Laws.

Bank and Customer each agree to comply with provisions of all applicable federal, state, county or municipal laws, regulations or ordinances, and shall be responsible for obtaining any and all authorizations from any applicable governmental authority that may be required for the party to perform hereunder. Furthermore, both parties agree to comply with applicable federal and state privacy laws and anti-money laundering laws. Customer agrees that it shall not use any Services, including Remote Deposit Capture Services, in any manner that is designed or has the effect of violating or evading any laws with regards to currency controls, money laundering or banking secrecy.

24. Limitations of Liability.

(a) Generally. To the extent permitted by law, and except for the remedies provided expressly herein for breach of the Agreement, the Customer agrees that Bank will have no liability whatsoever for any loss, damage, or claim (collectively, a "Claim") arising out of the performance of or non-performance of any Service in accordance with the terms of the Agreement, **EVEN IF SUCH CLAIM ARISES, IN WHOLE OR IN PART, FROM BANK'S NEGLIGENCE**, but excluding any claim arising from Bank's gross negligence or willful misconduct. Bank's duties and responsibilities to the Customer are strictly limited to those described in the Agreement, except with respect to any provisions of the law which cannot be varied or waived by agreement. **TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BANK WILL NOT BE LIABLE FOR ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT, EXEMPLARY, SPECIAL, OR PUNITIVE DAMAGES (INCLUDING WITHOUT LIMITATION, LOSS OF REVENUE OR ANTICIPATED PROFITS) OR FOR ANY INDIRECT LOSS THAT THE CUSTOMER MAY INCUR OR SUFFER IN CONNECTION WITH THE SERVICES PROVIDED HEREUNDER (EVEN IF BANK HAS BEEN INFORMED OF THE POSSIBILITY OF SUCH DAMAGES), INCLUDING WITHOUT LIMITATION, ATTORNEYS' FEES**. Any third party service provider used by Bank is an independent contractor and not Bank's agent. **TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, BANK AND ITS AFFILIATES AND SUPPLIERS**

MAKE NO WARRANTIES OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, ABOUT ANY OF THE SERVICES, ANY PROCESSING EQUIPMENT OR ANY PROCESSING SOFTWARE DESCRIBED IN THIS AGREEMENT, AND HEREBY DISCLAIM ALL IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE OR NON-INFRINGEMENT. To the fullest extent permitted by applicable law, and without limiting the generality of the foregoing, Bank shall not be liable at any time to the Customer or any other person or entity for loss, charge, fee, penalty, expense or other damage resulting from any failure or delay of the performance of Bank's responsibilities under the Agreement which is caused or occasioned by any act or thing beyond Bank's reasonable control, including, without limitation, legal restraint, interruption of transmission or communication facilities, equipment failure, electrical or computer failure, war, emergency conditions, acts of God, fire, storm, or other catastrophe, or inability to obtain or delay in obtaining wire services, Internet access, electronic transfers, or electronic file exchange, or refusal or delay by a service provider or another bank or financial institution. In addition, Bank shall be excused from any failure or delay in executing a transaction hereunder, if such execution would result in the violation of any applicable state or federal law, rule, regulation or guideline. To the fullest extent permitted by applicable law, the Customer agrees that Bank shall not have any liability whatsoever for any loss caused by the act, error, or omission of the Customer or any other person, including, without limitation, any service provider, any Internet access service provider, any federal reserve bank or transmission or communications facility or any intermediary or receiving financial institution, and no such person shall be deemed Bank's agent. The Customer understands and agrees that the fees charged for the performance of the Service(s) have been established in contemplation of these limitations on liability.

(b) Statute of Limitations. The Customer agrees that any Claim, action, suit or proceeding against Bank for damages resulting in any respect from its acts or omissions in its performance of the Service(s) hereunder must be brought within two (2) years from the date of Bank's alleged act or omission.

(c) Notification in the Event of Claim. The Customer agrees to immediately notify Bank of any Claim by the Customer, or any Claim that is made to the Customer by a third party, where an act or omission by Bank in connection with any Service is alleged to have caused the Customer or such third party to sustain any damages.

(d) Other Limitations. The Customer agrees that any Deposit Account(s) it may have at Bank may be subject to additional liability limitations that are described in the Deposit Account Agreement for any such account(s).

(e) Reporting of Errors. The Customer acknowledges that it is not possible for Services provided by Bank hereunder to be free of operator, program or equipment error, and that errors in processing and compiling account data may occasionally occur, requiring adjustments. As such, the Customer agrees to review and verify all results and to maintain adequate controls for insuring both the accuracy of data transmissions and the detection of errors. Unless otherwise required by law, Bank's sole responsibility for reporting errors caused by it will be to reprocess information and reports for the applicable period in question and to submit corrected reports at its own expense to the Customer.

25. Indemnification.

TO THE EXTENT PERMITTED BY LAW, THE CUSTOMER AGREES TO INDEMNIFY, DEFEND, RELEASE AND HOLD HARMLESS BANK AND ITS AFFILIATES, DIRECTORS, OFFICERS, EMPLOYEES, AND AGENTS, INDIVIDUALLY AND COLLECTIVELY, FROM AND AGAINST ANY DAMAGE, LOSS, OR LIABILITY, INCLUDING WITHOUT LIMITATION FINES, PENALTIES, REASONABLE ATTORNEYS' FEES AND COURT COSTS (COLLECTIVELY, A "LOSS") WHICH RESULT, DIRECTLY OR INDIRECTLY, FROM BANK'S PROVIDING SERVICES TO THE CUSTOMER HEREUNDER, EVEN IF SUCH LOSS ARISES, IN WHOLE OR IN PART, FROM BANK'S NEGLIGENCE, BUT EXCLUDING ANY LOSS ARISING FROM BANK'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT, UNLESS OTHERWISE EXPRESSLY PROVIDED IN THE AGREEMENT OR THE APPLICABLE DEPOSIT ACCOUNT AGREEMENT.

26. Specific Performance.

The Customer agrees that money damages may not be sufficient remedy for any breach of the Agreement and that Bank shall be entitled to specific performance in addition to any other remedies, at law or in equity, as a remedy for any breach.

27. Termination.

(a) By Bank With Cause. Bank may, in its sole discretion, terminate the Agreement in its entirety or with respect to one or more specified Service(s) effective immediately if: (i) the Customer fails to maintain adequate collected and available balances to cover all transactions, costs and expenses relating to one or more Service(s); (ii) there is an occurrence of a material change in the Customer's credit and/or risk analysis criteria as determined by Bank in its sole and absolute discretion; (iii) Bank at any time determines that the Customer or the Customer's third party vendor does not meet Bank's risk or other qualification requirements; (iv) Bank discovers any willful misconduct (including but not limited to writing or knowingly passing bad checks, or types of fraudulent activity) on the part of Customer or any other party with respect to electronic images submitted by Customer if Customer utilizes Bank's Remote Deposit Capture Services or originated electronic entries if the Customer utilizes Bank's ACH Services; (v) the

Customer is in default of any terms of a Service Specific Provisions of this Agreement where such default gives Bank the right to terminate, immediately or otherwise, the Agreement or a specific Service; (vi) the Customer has selected a particular Service, but Customer has not used such Service for a period of time deemed to constitute an inactive Service by Bank (in Bank's sole discretion); or (vii) the Customer is in default of any terms of the Agreement or any other agreement with Bank. In any of these events, Bank's sole obligation shall be to provide notice of its termination of the Agreement to the Customer as soon as is commercially reasonable.

(b) By Either Party for Any Reason. Either party may terminate the Agreement, with or without cause, in its entirety or with respect to one or more specified Service(s) at any time, upon thirty (30) days written notice to the other of its intent to do so.

(c) Rights and Responsibilities Upon Termination. In the event of termination of the Agreement or any Service hereunder, the rights and responsibilities of the parties shall continue through any applicable settlement period including the Customer's responsibility to pay Bank for Service(s), and, to the extent Bank may require a Reserve Account (as defined in the ACH Service Specific Provisions below), to maintain a Reserve Account as otherwise stated in this Agreement, with respect to transactions processed prior to the effective date of termination. If this Agreement, or any Service, is terminated by Bank, Bank may accelerate all amounts due and to become due under this Agreement, and the Customer shall promptly make full payment to Bank of all amounts due and amounts incurred under this Agreement. If the Customer utilizes the Remote Deposit Capture Services, termination of this Agreement for any reason shall automatically terminate the limited license to the Processing Software granted in the Remote Deposit Capture Services Section, and Bank has the right to demand immediate return of the Processing Software, the Processing Equipment and all Documentation (as those terms are defined in the Remote Deposit Capture Services Section). In the event that the Customer fails to immediately return such items upon the written demand of Bank, Bank shall have the authority to enter the premises of the Customer to remove such items.

28. Governing Law; Venue; Jury Trial Waiver; Class Action Waiver.

The Customer and Bank agree that any controversy or Claim between the Customer and Bank, or between the Customer and any of the officers, employees, agents, or affiliated companies of Bank, arising out of or relating to the Agreement, or any of the transactions contemplated under the Agreement, or any of the Services provided pursuant to the Agreement, or any of the discussions or negotiations leading up to the making of the Agreement, or any relationship that results from any of the foregoing, whether based in contract, or an alleged tort, or on any other legal theory, and whether asserted as an original or amended claim, counterclaim, cross claim, or otherwise, shall be governed by federal law and all applicable substantive laws of the State of Texas (without regard to its conflict of laws principles), including the Uniform Commercial Code as adopted by the State of Texas (the "UCC"). Bank is located in Texas and that is where the Customer opens the Customer account(s). In addition, Bank is subject to certain federal and state regulations, as well as national and local clearing house rules regarding some of the matters addressed in this Agreement, and Bank must comply with these laws, regulations and rules. The Customer agrees that if there is any inconsistency between the terms of this Agreement and any applicable law, regulation or rule, the terms of this Agreement will prevail to the extent any such law, regulation or rule may be modified by agreement. Venue for the resolution of any disputes under this Agreement shall be in the state or federal courts located in Taylor County, Texas. **AS PERMITTED BY APPLICABLE LAW, CUSTOMER AND BANK, FOR THEMSELVES AND EACH OF THEIR RELATED ENTITIES, SUCCESSORS AND ASSIGNS, HEREBY IRREVOCABLY WAIVE THE RIGHT TO TRIAL BY JURY OF ALL DISPUTES, CONTROVERSIES AND CLAIMS BY, BETWEEN OR AGAINST EITHER THE CUSTOMER OR BANK WHEN THE DISPUTE, CONTROVERSY OR CLAIM IS TO BE DECIDED BY A COURT. ANY SUCH DISPUTES, CONTROVERSIES, OR CLAIMS SHALL BE RESOLVED BY A JUDGE SITTING WITHOUT A JURY. IF PERMITTED BY APPLICABLE LAW, CUSTOMER AND BANK ALSO WAIVE THE RIGHT TO LITIGATE IN COURT OR AN ARBITRATION PROCEEDING ANY DISPUTE, CONTROVERSY, OR CLAIM AS A CLASS ACTION, EITHER AS A MEMBER OF A CLASS OR AS A REPRESENTATIVE, OR TO ACT AS A PRIVATE ATTORNEY GENERAL.**

29. Attorney's Fees.

If either party named herein brings an action to enforce the terms of this Agreement or to declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the court.

30. Assignment.

The Customer may not assign all or any part of its rights or obligations under the Agreement without Bank's prior express written consent, which may be withheld in Bank's sole discretion. Bank may assign or delegate all or any part of its rights or obligations under the Agreement, including, without limitation, the performance of the Services described herein. The Agreement will be binding on and inure to the benefit of the successors and permitted assigns of either party.

31. No Third Party Beneficiaries.

The Agreement is for the benefit of the Customer and Bank and is not intended to grant, and shall not be construed as granting, any rights to or otherwise

benefiting any other person, except as expressly otherwise provided for in the Agreement.

32. Other Agreements; Severability; Construction.

If any provision of the Agreement or of any writing used in connection with the Agreement is unlawful or unenforceable, each such provision or writing will be without force and effect without thereby affecting any other provision hereof. No waiver of the provisions herein shall be effective unless in writing and signed by the party to be charged with such waiver. No waiver shall be deemed a continuing waiver unless expressly so stated in writing. The headings in the Agreement are for convenience or reference only and will not govern the interpretation of the provisions. Unless it would be inconsistent to do so, words and phrases used in the Agreement should be construed so the singular includes the plural and the plural includes the singular. Any provision that by its terms or operation is designed to survive termination, expiration or cancellation of this Service shall so survive.

II.
SERVICE SPECIFIC PROVISIONS

1. ACH Services

(a) The Service. Bank participates in the ACH Network, which is a batch processing, store-and-forward system. Transactions received by Bank during the day are stored and processed later in a batch mode.

(i) The ACH Network. The ACH Network consists of: (i) Originators who initiate the transaction (the "Entry"); (ii) Originating Depository Financial Institutions (the "ODFI") that receive payment instructions from Originators and forward them to the ACH Operator; (iii) the ACH Operator (normally the Federal Reserve Bank) which is a central clearing facility that receives and forwards transactions to Financial Institutions; (iv) Receiving Depository Financial Institutions (the "RDFI") that post the transactions to the accounts of their depositors; and (v) Receivers of transactions which are companies or persons who have authorized the Entry to their account.

(ii) Rules. The operation of the ACH Network is governed by NACHA's Operating Rules and Operating Guidelines (the "NACHA Rules"). A copy of the operating rules of NACHA ("ACH Rules Book") and any amendments thereof, must be obtained at http://www.nacha.org. Customer can acquire and review the ACH Rules Book on a yearly basis to remain current with ACH Origination rules and requirements. Customer hereby agrees to: (i) comply with all NACHA Rules (including, but not limited to, ACH rules) as now existing or subsequently amended; (ii) abide by the applicable laws of the State of Texas and of the United States, including but not limited to the Bank Secrecy Act, the U.S.A. PATRIOT Act, and sanctions enforced by the U.S. Treasury Department's "Office of Foreign Assets Control" ("OFAC"); and (iii) obtain all information regarding the list of sanctioned individuals periodically issued by OFAC, and refrain from engaging in prohibited transactions with such sanctioned individuals or entities (particularly if Customer is providing third-party ACH processing services to other entities). Customer hereby understands and agrees that Bank is only able to provide ACH Services to Customer via Bank's role as both an ODFI and RDFI, as applicable, under the NACHA Rules, that Bank must comply with all of the NACHA Rules in order to provide ACH Services, and that Bank's compliance with the NACHA Rules includes, but is not limited to, immediately ceasing any ACH Services provided to Customer if Bank must, in Bank's sole and absolute discretion, take such action against Customer to comply with NACHA Rules and to avoid or mitigate any fines or penalties being assessed against Bank by NACHA for Customer's ACH activities.

(iii) Origination. Bank, as an ODFI, agrees to provide ACH origination services (the "ACH Services") to allow the Customer to be an Originator of ACH Entries pursuant to the terms of the Agreement and this ACH Services Section.

(b) ACH Services Approval and Underwriting Process.

(i) Bank Approval and Monitoring of Customer's ACH Operations Risk. Customer agrees and acknowledges Bank shall provide ACH Services to Customer subject to Bank's prior approval. To obtain approval from Bank, the Customer is required to undergo Bank's screening and risk analysis process regarding the Customer's proposed ACH operations. In addition, after any initial approval for ACH Services by Bank, Bank shall also, from time-to-time and in its sole discretion (including the occurrence of certain events described in subsection (iii) below), undertake additional ACH operations credit and risk analysis monitoring activities that are deemed necessary, in Bank's sole and absolute discretion, while Bank is providing ACH Services to an approved Customer. Customer agrees to cooperate with Bank regarding any ongoing risk analysis activities by Bank, including providing financial or other documents in a timely manner upon Bank's request, and taking any risk mitigation or other ACH Entry origination procedures as required by Bank.

(ii) ACH Operations Credit and Risk Criteria. Bank's ACH operations credit and risk analysis may be based on one or more factors deemed relevant by Bank in its sole discretion, including, but not limited to, the following factors: (i) the credit worthiness, financial condition and financial performance of the Customer, particularly the Customer's capital adequacy relative to the Customer's ACH activity volume; (ii) the nature, conduct and geographic location of the Customer's business, including whether the Customer engages in certain high-risk ACH activities or transaction environments, or whether certain "Standard Entry Class" ("SEC") codes that Bank either deems to be high-risk or does not allow are present in Customer's ACH transactions; (iii) the historic level and dollar amounts of Customer's ACH returns, including any return levels or dollar amounts in excess of generally acceptable ACH return parameters (as determined by Bank in its sole discretion), or a sudden increase in Customer's ACH return levels; and (iv) whether the Customer adheres to all authorization requirements set forth in detail in Section (e) below.

(iii) Material Change in Credit and Risk Analysis Criteria. In the event a Customer approved for ACH Services either fails to maintain the minimum risk analysis criteria as required by Bank, or if, in

the opinion of Bank, the Customer undergoes a material change in its operations that Bank believes increases the risk of the Customer's ACH operations, then Bank may, in its sole discretion, take any and all of the following actions: require the Customer to pre-fund their ACH activities (as defined in Section (c) below); require the Customer to establish a Reserve Account (as defined in Subsection (iv) below); or terminate ACH Services to the Customer, generally upon prior written notice from Bank, or immediately if Bank deems immediate termination necessary, in Bank's sole discretion, to comply with NACHA Rules. Events that constitute a material change in a Customer's business operations include, but are not limited to: (i) levels of ACH returns that exceed generally acceptable return levels (as determined by Bank); (ii) a significant or sudden increase in the Customer's ACH return levels as compared to the Customer's historic ACH return levels; (iii) significant changes in the nature of the Customer's business, including its product and services lines or transaction environments; or (iv) the occurrence of any other event that Bank believes represents a material change in the Customer's financial performance or financial condition. Upon learning of any such material change, Bank will inform Customer of the issue, and Bank may exercise its right to temporarily suspend the Customer's ACH Services in order to investigate the issue. After investigation, Bank may invoke its rights to require the Customer to Pre-fund ACH Services or to establish a Reserve Account, or Bank may, in its sole discretion, exercise its right to terminate ACH Services to the Customer generally upon prior written notice from Bank, or immediately if Bank deems immediate termination necessary, in Bank's sole discretion, to comply with NACHA Rules.

(iv) Reserve Account. Upon written notification by Bank, a Customer shall immediately establish a separate account funded with an amount required to protect Bank against the risks associated with Customer's ACH operations (the "Reserve Account"). Such Reserve Account must be established by the date requested by Bank, and the required Reserve Account amount expressly includes any existing or anticipated Customer-related ACH returns, including all fees, costs, fines and penalties assessed against either Customer or Bank associated with such Customer-related ACH returns. The Reserve Account will not bear interest, and the Customer will not have any right or interest in the Reserve Account funds; provided that upon satisfaction of all of Customer's obligations under this Agreement, Bank will pay any funds remaining in the Reserve account no sooner than ninety (90) days after the effective date of termination of Customer's ACH Services pursuant to NACHA Rules and Federal Reserve Board's Regulation E. Effective upon the establishment of any Reserve Account, the Customer irrevocably grants Bank a security interest in the Reserve Account and any and all funds in the Account, together with the proceeds thereof. Customer also agrees to execute and deliver to Bank such instruments and documents that Bank may reasonably request to perfect and confirm the security interest and Bank's right of setoff in the Reserve Account. Customer understands and acknowledges that Customer's failure to establish and fund a Reserve Account immediately upon Bank's request shall be grounds for immediate termination of Customer's ACH Services provided by Bank, with such termination in Bank's sole discretion.

(c) Prefunding of ACH Credit Entries. If a Customer prefers to prefund ACH Credit Entries or does not meet Bank's minimum credit and risk analysis requirements to become fully approved for ACH Services, Bank may choose to offer the Customer the option of obtaining ACH Services on a pre-funded basis ("Prefunding"). Bank can also exercise its rights under Section (b) to require a Customer approved for ACH services to begin Prefunding its ACH Services. If Bank exercises its rights to require Prefunding under Section (b) and Customer does not immediately comply with Bank's request, then such non-compliance shall be grounds for immediate termination of Customer's ACH Services provided by Bank, with such termination in Bank's sole discretion. If a Customer uses Prefunding for ACH Services, the Customer is required to provide immediate available and collected funds sufficient to pay all Entries initiated by the Customer (1) not later than 9:00 a.m. Central Time three (3) Business Days before each Settlement Date, and (2) prior to initiating any Entries for which prefunding is required. If the Customer's account has funds that are at least equal to the amount of the ACH credit Entry file, then the ACH credit Entry file will be processed as normal on the desired settlement date. However, if the Customer does not have the necessary funds available in their account, then the ACH system will reject the file.

(d) Delivery of Entries. The Customer shall deliver Entries to Bank through Bank's designated secure file upload system or secure FTP. Entries shall be deemed delivered to Bank when the applicable security procedures with respect to submission as set forth herein have been complied with and the submission to Bank is completed in accordance with the Agreement.

(i) Effective Date. The Customer shall specify the date on which it desires each batch of Entries to be Settled (the "Effective Entry Date"). The Effective Entry Dates specified for all Entries must be Business Days or the Entry will be processed on the first Business Day following the Effective Entry Date.

(ii) Cutoff Times. Except for Same-Day Entries, Entries shall be delivered to Bank no later than 3:00 p.m. Central Time one (1) Business Day prior to their Effective Entry Date (the "Cutoff Time"). Bank strongly encourages the Customer to

complete ACH credit Entries at least two (2) Business Days prior to their Effective Entry Date to guarantee funds availability to the Receiver. The Cutoff Time for Same-Day Entries shall be 10:30 a.m. Central Time. If Entries are delivered to Bank after the Cutoff Time on a Business Day, Bank may treat such Entries as having been received on the next following Business Day. Entries delivered to Bank shall be prepared and submitted in compliance with the formatting and other requirements as set forth in the NACHA Rules and in accordance with the provisions of the Agreement.

(iii) Sensitive Information. The Customer shall not send banking information over an unsecured Internet connection. Communications sent to Bank over the Internet are considered unsecured unless the information is encrypted in accordance with Bank's security standards, as posted on Bank's website, or transmitted via a secure session using a commercially reasonable security technology that provides a level of security that is at least equivalent to Bank's security standards, as posted on Bank's website. Banking information is sensitive personal or private information that includes, but is not limited to: banking routing number, account number, Social Security number, and ACH Entries. **THE CUSTOMER ACKNOWLEDGES AND AGREES THAT ANY REQUESTS SENT VIA E-MAIL OR OTHER ELECTRONIC COMMUNICATION TO BANK THROUGH AN UNSECURED ELECTRONIC NETWORK ARE IN VIOLATION OF BANK AND NACHA POLICY AND PROCEDURES. THE CUSTOMER UNDERSTANDS AND AGREES THAT BANK IS NOT LIABLE FOR ANY LOSS OR DAMAGE INCURRED BY THE CUSTOMER WHEN AN UNAUTHORIZED PERSON GAINS ACCESS TO ANY SUCH E-MAIL OR OTHER ELECTRONIC COMMUNICATION. THE CUSTOMER AGREES TO INDEMNIFY AND HOLD BANK HARMLESS IF BANK ACTS WITH ORDINARY CARE IN GOOD FAITH BY RESPONDING TO ANY E-MAIL OR OTHER ELECTRONIC COMMUNICATION PURPORTED TO BE SENT BY THE CUSTOMER. BANK'S IMPLEMENTATION OF ITS NORMAL PROCEDURES REGARDING RECEIPT AND MAINTENANCE OF CONFIDENTIAL INFORMATION CONSTITUTES ITS EXERCISE OF DUE CARE.**

(e) Authorization of Entries. The Customer shall:

(i) Authorization. Obtain authorization from the "Receiver" of any Entry (*e.g.* the Customer's employee or customer or other person whose account is to be debited/credited for the Entry) through either a written authorization agreement, as required by the NACHA Rules or by any other method of authorization allowed under and in accordance with the NACHA Rules, before initiating any Entry to the Receiver's account; such authorization agreement must authorize the Customer to initiate Entries to the Receiver's account and to initiate, if necessary, entries and adjustments for any Entries made in error to the Receiver's account. The Customer shall comply with all provisions of the federal Electronic Funds Transfer Act ("EFTA"), including the requirements of Regulation E promulgated by the U.S. Federal Reserve Board in accordance with EFTA, if applicable, and the provisions of the Texas UCC Section 4A, if applicable. Furthermore, the Customer shall perform its obligations in accordance with all other applicable laws and regulations, including but not limited to the foregoing with respect to obtaining and documenting authorization from the Receiver of any Entry. Customer understands, acknowledges and agrees that ACH Entries to a Receiver's account where the individual name does not match the account information will be posted based on the account information provided in the ACH transaction, not based on the name, individual identification or other information provided in the ACH Entry. It is the sole responsibility of the Customer to verify that the individual signing the ACH authorization is in fact entitled to use the specified account. The Customer may obtain and store the authorization by electronic methods as long as: (i) the electronic record accurately reflects the information in the document; (ii) the electronic authorization is similarly authenticated (*e.g.* through the use of a digital signature, PIN, password, shared secret, etc.); and (iii) the electronic record is capable of being accurately reproduced for future reference, whether by transmission, printing or other reproduction;

(ii) Retention of Authorization. Retain each such authorization agreement for so long as the same remains in effect and for a period of two (2) years after the termination or revocation of such authorization agreement;

(iii) Notice. Notwithstanding anything to the contrary contained in the NACHA Rules, provide positive notice to each Receiver that a pre-authorized Entry has been initiated or a correcting Entry has been made;

(iv) Proof of Authorization. Upon request from Bank or any RDFI, provide Bank or such RDFI with a copy of such Receiver Entry written authorization agreement, or documentation of such authorization, in accordance with the NACHA Rules;

(v) Telephone-Initiated Debit Entries. With respect to any debit Entry to a consumer account pursuant to an authorization obtained from the Receiver via telephone ("Telephone-Initiated Debit Entry" or "TEL"), the Customer represents and warrants to Bank, to the extent not already represented and warranted herein: (i) the

Customer has commercially reasonable procedures to verify the identity of the Receiver and to verify that routing numbers are valid; (ii) for purposes of the Customer's compliance with provisions relating to the authorization of entries by the Receiver and with respect to TEL Entries, the authorization agreement shall be either: for single TEL Entries (1) comprised of oral authorization from the Receiver containing the minimum information required by the NACHA Rules, and (2) evidenced by either a tape recording of such oral authorization or a written notice to the Receiver confirming the oral authorization and meeting the requirements of the NACHA Rules; for recurring TEL Entries (1) comprised of oral authorization from the Receiver containing the minimum information required by the NACHA Rules, and (2) evidenced by a tape recording of such oral authorization and a written copy of the authorization to the extent required by Regulation E, including the requirement to send a copy of the authorization to the Receiver, and meeting the requirements of the NACHA Rules. The original or a duplicate tape recording of the oral authorization, or, as applicable, the original, microfilm, or microfilm-equivalent copy of the written notice, shall be retained for so long as the authorization agreement remains in effect and for a period of two (2) years after the termination or revocation of the authorization agreement;

(vi) Internet-Initiated (WEB) Entries. With respect to any Entry to a consumer account pursuant to an authorization obtained from the Receiver via the Internet ("Internet-Initiated Entry" or "WEB"), Customer represents and warrants to Bank, to the extent not already represented and warranted herein: (i) Customer has employed a commercially reasonable fraudulent detection system to screen such Entry; (ii) Customer has used commercially reasonable procedures to verify the identity of the Receiver and to verify that routing numbers provided by the Receiver are valid; (iii) Customer has established a secure Internet session with each Receiver utilizing a commercially reasonable security technology, at a minimum equivalent to Bank's security standards, as posted on Bank's website, prior to the Receiver's key entry of any banking information, including, but not limited to, the Receiver's routing number, account number, and PIN or other identification symbol; and (iv) Customer will conduct or have conducted annual audits in accordance with NACHA Rules to ensure the financial information it obtains from Receivers is protected by security practices and procedures that include, at a minimum, adequate levels of (1) physical security to protect against theft, tampering, or damage, (2) personnel and access controls to protect against unauthorized access and use, and (3) network security to ensure secure capture, storage, and distribution of financial information, and Customer will provide to Bank a copy of the written report of each such audit promptly upon its receipt. If the Customer will be engaging in mobile initiated Entries (e.g. origination of consumer Entries via a mobile device), the Customer must use the WEB SEC code and must otherwise comply with the NACHA Rules regarding mobile WEB Entries;

(vii) Back Office Conversion Entries ("BOC Entries"). With respect to any ACH debit Entry to an account of a purchaser (*e.g.* a customer of the Customer) that is the result of Customer's Back Office Conversion process whereby Customer converts source documents (typically paper checks) to ACH debit Entries, Customer acknowledges and agrees that all such BOC Entries must be made in accordance with applicable law and the NACHA Rules for BOC Entries. Customer hereby represents and warrants to Bank, to the extent not already represented and warranted herein: (i) Customer complies with applicable provisions of the EFTA, Regulation E and the NACHA Rules, including the requirements regarding (A) posting conspicuous notice to purchasers indicating that any source document presented at Customer's register may be used to create "electronic checks" to be sent for collection to the purchaser's account and listing Customer's telephone number for questions regarding the transaction, (B) the requirement that the purchaser be provided with a copy of such notice at the time of the transaction, and (C) maintaining a working telephone number that is answered during the Customer's normal business hours for receiving inquiries regarding BOC Entries; (ii) the amount of the Entry, the routing number, the account number, and the check serial number reflected in the BOC Entry are in accordance with the source document; (iii) Customer has employed commercially reasonable procedures to verify the identity of the Receiver; (iv) Customer will maintain a reproducible, legible image, microfilm or copy of the front of the source document for two (2) years from the settlement date; (v) Customer will provide a copy of the source document within six (6) Business Days upon a written request from Bank, and such copy will indicate that it is a copy on its face; (vi) the source document used for the BOC Entry will not be presented or returned such that any purchaser will be required to make payment based on the source document; and (vii) Customer has employed commercially reasonable methods to securely store (A) all source documents until destruction and (B) all electronic or other banking information relating to BOC Entries;

(viii) Point of Purchase Entries ("POP Entries"). With respect to any debit Entry to a consumer account authorized pursuant to the NACHA Rules at a point-of-purchase, Customer represents and warrants to Bank, to the extent not already represented and warranted herein: (i) Customer has provided the Receiver a receipt containing the

information required in the NACHA Rules, including without limitation the city and state in which the electronic terminal for the point-of-purchase transaction was located and, when there are multiple locations, another identifier; (ii) the source document provided to Customer for use in obtaining the Receiver's routing number, account number, and check serial number for the initiation of the POP Entry has been returned voided to the Receiver after use by Customer and has not been provided by the Receiver for use in any prior POP Entry; and (iii) Customer will retain the original or a copy of the Receiver's authorization for two (2) years from the settlement date of the POP Entry; (v) Customer will provide a copy of the source document within six (6) Business Days upon a written request from Bank, and such copy will indicate that it is a copy on its face; (vi) Customer has employed commercially reasonable methods to securely store all electronic or other banking information relating to POP Entries; and

(ix) International ACH Transactions ("IAT Entries"). Customer agrees that an IAT Entry initiated or transmitted by Customer to Bank that is intended to settle in a country outside the United States will be in compliance with the laws and regulations of the receiving country. At Customer's request, Bank will assist the Customer with the form, format, and content of any such IAT Entry prior to processing the IAT Entry into the ACH network. Customer agrees and acknowledges that any assistance by Bank does not in any manner obligate Bank for the accuracy of enforceability of the IAT Entry in any country outside the United States. Customer bears the risk of any loss caused by the delay, tax, cost, tariff, fee, or other charge incurred on account of the IAT Entry in any country outside the United States. If the settlement of any IAT Entry involves clearing of the IAT Entry in more than one country outside the United States, Bank shall be permitted to rely upon any advice or instructions received by Bank from the financial institution or financial agency located in the first country outside the United States with which the entry is directed. Customer agrees and acknowledges that Bank shall not be liable to the Customer for any loss or charge incurred by the Customer as the result of the application of any foreign currency exchange criteria imposed by any institution or agency located outside the United States.

(x) Same-Day Entries. Customer may request to enroll in Same-Day Entries by contacting Customer's Treasury Management Sales Officer. If Customer requests to enroll in Same-Day Entries and Bank approves Customer's request, in Bank's sole discretion, Customer may designate certain Entries to be originated as Same-Day Entries. Same-Day Entries delivered to Bank shall be prepared and submitted in compliance with the instructions and other requirements set forth in the NACHA Rules and this Agreement. Customer understands that any Entries above $25,000 and IAT Entries are not eligible for Same-Day ACH processing and Customer further agrees it will not structure Entries to avoid these eligibility restrictions.

(f) Security Procedures. The Customer and Bank shall comply with the following security procedures with regard to the delivery of Entries and requests for cancellation or amendment of Entries by the Customer to Bank:

(i) Customer Responsibilities. The Customer is strictly responsible to establish and maintain procedures to safeguard against unauthorized ACH Entries. The Customer warrants that no individual will be allowed to initiate transfers in the absence of proper supervision and safeguards. The Customer shall establish and maintain security policies, procedures, and systems related to initiation, processing, and storage of Entries that are designed to: (i) protect the confidentiality of Protected Information; (ii) protect against anticipated threats or hazards to the security or integrity of Protected Information; and (iii) protect against unauthorized use of Protected Information that could result in substantial harm to a natural person. "Protected Information" means non-public personal information, including financial information, of a natural person used to create, or contained within, an Entry and related addenda records.

(ii) Delivery of Entries by Online Banking Services. The following procedures shall be followed in delivering Entries to Bank by Bank's Online Banking Services: (i) on the date that the Entry is transmitted, the Customer (or an agent of the Customer) will have initially logged into Bank's Online Banking Services using their log-in credentials, and security token, which will be accepted by Bank as evidence of authorization and authentication for processing; and (ii) the Entry data will be deemed delivered to Bank when all steps as described in this section have been complied with and the transmission is completed;

(iii) Requests for Cancellations or Amendments. The Customer shall have no right to cancel or amend an Entry after its receipt by Bank. However, any Authorized Party or User of the Customer may request a cancellation or amendment of an Entry on behalf of the Customer in the manner set forth below: (i) the Customer shall transmit to Bank's Operations Center a facsimile copy of a written request for cancellation or amendment of an Entry, signed by an Authorized Party or User of the Customer; and (ii) the request or authorization will not be considered received by Bank until all steps as described in this section have been completed. Bank shall use reasonable efforts to act on the request by the Customer for cancellation of an Entry prior to

transmitting to the ACH Operator or, in the case of an On-Us Entry, prior to crediting a Receiver's account, but shall have no liability if such cancellation is not affected.

(g) Compliance with Security Procedures. If an Entry (or a request for cancellation or amendment of an Entry) received by Bank purports to have been transmitted or authorized by the Customer, it will be deemed effective as Customer's Entry (or request) and Customer shall be obligated to pay Bank the amount of such Entry even though the Entry (or request) was not authorized by the Customer, provided Bank accepted the Entry in good faith and acted in compliance with the Security Procedures with respect to such Entry. If an Entry (or request) received by Bank was transmitted or authorized by the Customer, the Customer shall pay Bank the amount of the Entry, whether or not Bank complied with the Security Procedures with respect to that Entry and whether or not that Entry was erroneous in any respect or that error would have been detected if Bank had complied with such procedure. Bank does not verify the accuracy of the file attributes, including, but not limited to, Effective Date(s), account information or bank information. Customer must comply with the separate security procedures for Online Banking as set forth in this Agreement with regard to origination of ACH Entries.

(h) Exposure Limit. The total dollar amount of all Entries delivered to Bank in any one file of Entries, plus all other Entries that remain unsettled in the ACH network, shall not exceed the customer's "Exposure Limit". The Exposure Limit is determined by Bank in its sole and absolute discretion as part of the ACH Services approval and underwriting process described in Section (b) above. Bank shall have the right to reduce the Customer's Exposure Limit at any time immediately upon delivery of notice to the Customer.

(i) File and Daily Limits for Online Banking Customers. For Customers sending ACH Entries through Bank's Online Banking Service, Customer's Authorized Administrator can establish file and daily limits within the ACH module of the Online Banking Service. When the Customer's Authorized Administrator changes such file and daily limits, the changes are effective immediately, provided such changes are equal to or less than the Exposure Limit. ACH files sent to Bank are screened against these limits

(j) Processing, Transmittal and Settlement by Bank.

(i) Processing. Except as otherwise provided in these ACH Services provisions, Bank shall (i) process Entries received from the Customer conforming to the requirements of the NACHA Rules; (ii) transmit such Entries as ODFI to the ACH Operator; and (iii) settle such Entries as provided in the NACHA Rules.

(ii) Transmitting Credit Entries. Except for Same-Day ACH Entries, Bank will transmit credit Entries by the deadline of the ACH Operator one (1) to two (2) Business Days prior to the Effective Entry Date shown in such Entries, provided that in each case such Entries are delivered to Bank by the applicable Cutoff Time and Customer has funds available. For Same-Day ACH Entries, Bank will transmit credit Entries by the deadline of the ACH Operator on the same day as the Effective Entry Date shown in such Entries, provided that in each case such Entries are delivered to Bank by the applicable Cutoff Time and Customer has funds available.

(iii) Transmitting Debit Entries. Bank will transmit debit Entries designated for one-day settlement to the ACH Operator for one-day settlement by the deadline of the ACH Operator one (1) Business Day prior to the Effective Entry Date shown in such Entries.

(iv) Cut Offs. If Entries are delivered late (i.e., after the applicable Cutoff Time), or if the Effective Entry Date specified for the Entries is not a Business Day, then Bank may reject such Entries or Bank may, in its sole discretion, use its reasonable efforts to transmit such Entries to the ACH Operator by the next reasonably available deposit deadline of the ACH Operator following the applicable deadline specified in Section (b) of these ACH Services provisions. In no event will Bank be liable for any loss resulting from any failure of a Receiver's account to be debited/credited for an Entry on its Effective Entry Date.

(v) On-Us Entries. All Entries received for debit/credit to an account maintained with Bank ("On-Us Entries") will be treated in accordance with this section and as otherwise provided for in the Agreement.

(k) Rejection of Entries. Bank may reject any Entry (or group of Entries) which does not comply with, and/or is not delivered in accordance with, the requirements of this Agreement, or which contains an Effective Entry Date more than thirty (30) Business Days after the Business Day such Entry(s) is received by Bank. Bank shall also have the right to reject any Entry (including On-Us Entries) for any reason for which an Entry may be returned under the NACHA Rules. Bank shall have the right to reject any Entry if the Customer has failed to comply with any of its account balance obligations under these ACH Services provisions. Bank will notify the Customer of any such rejection by any method of notification authorized under the Agreement, no later than the Business Day such Entry would otherwise have been transmitted by Bank to the ACH Operator, as provided in Section (h) of these ACH Services provisions. Bank shall have no liability to the Customer by reason of the rejection of any such Entry or the fact that such notice is not given at an earlier time than that provided for herein.

(l) Cancellation, Amendment or Correction of Entries. The Customer shall have no right to cancel or amend any Entry after its receipt by Bank. However, Bank will use reasonable efforts to act on a request for

cancellation or amendment of an Entry received from the Customer prior to Bank's transmission of the Entry to the ACH Operator or, in the case of an On-Us Entry, prior to Bank's debit/credit of the Entry to a Receiver's account, but Bank shall have no liability if such cancellation or amendment is not effected. If the Customer discovers that an Entry initiated by or on its behalf was in error, the Customer may notify Bank of such error, however, such notification must be provided to Bank within twenty-four (24) hours after discovery of the error and must be provided by such means of notification as is authorized under the Agreement. The Customer shall send or deliver to the Receiver written notice of such correction and the reason therefore prior to requesting the correction. The Customer shall indemnify Bank from and against any Claims, demands, loss, liability or expense, including attorney's fees and costs, resulting directly or indirectly from compliance by Bank with any request for cancellation, amendment or correction of an Entry, whether or not the cancellation, amendment or correction is affected. All requests for cancellation, amendment or correction of Entries must be made by the Customer in compliance with the Security Procedures for such requests as set forth herein.

(m) Returned Entries.

(i) Notification to Customer. Bank will notify the Customer or the Customer's Authorized Party of Bank's receipt of a returned Entry (or group of Entries) from the ACH Operator in accordance with the notice procedures authorized under the Agreement no later than one (1) Business Day after the Business Day of such receipt, and will debit/credit the Customer's Account (as identified by number in the applicable ACH schedule) for the returned Entry(s).

(ii) Resubmission. The Customer shall assume the sole responsibility for remaking and resubmitting said Entry(s) in accordance with the requirements of the Agreement or otherwise handling the payments due the Receiver(s), unless the return was due to an error in the processing of such Entry(s) by Bank and sufficient data is available to Bank to permit it to remake and resubmit such Entry(s), in which event Bank will remake and resubmit such Entry(s). Bank assumes no other responsibility with respect to such returned Entries except for an Entry retransmitted by the Customer in accordance with the requirements of the Agreement and the NACHA Rules, Bank shall have no obligation to retransmit a returned Entry to the ACH Operator if Bank complied with the requirements of the Agreement with respect to the original Entry.

(iii) Limit on Resubmission. Except for Re-Presentation Check ("RCK") Entries, an ACH entry returned for insufficient or uncollected funds may be reinitiated no more than two (2) times following the return of the original Entry. For RCK Entries, an entry returned for insufficient or uncollected funds may be reinitiated as long as the item has been presented no more than one time in its physical form and no more than one time as an RCK entry.

(iv) TEL Returns. Where Bank or NACHA believes the return rate for the Customer's TEL entries that are returned as unauthorized exceeds the normal and acceptable return rate for Customer, Bank shall notify the Customer of such excessive unauthorized return rate and the Customer, upon request from Bank, will provide the following information: (i) the Customer's, address, telephone number, contact person, principal owner(s) and taxpayer identification number; (ii) the name, address, telephone number, contact person, principal owner(s) and taxpayer identification number of any Third-Party Service Provider acting on behalf of the Customer with respect to origination of TEL entries, (iii) a general description of the nature of the business of the Customer; and (iv) an explanation of the reason(s) for the excessive return rate. The Customer will provide this information to Bank within five (5) business days after receipt of the request from Bank.

(v) Returned ACH Entry Warning Notices. As part of Bank's ACH Services underwriting process as generally set forth in Section (b) above, Bank routinely monitors and submits reports to NACHA regarding Customers' historic ACH Entry return levels and dollar amounts. Under the NACHA Rules, if an individual Customer's ACH Entry return levels exceed certain parameters, then Bank, as the ODFI, is instructed to take certain actions to mitigate a Customer's unacceptable levels or dollar amounts of ACH Entry returns. If Bank does not comply with such requirements in its role as an ODFI, Bank is subject to censure, fines and penalties imposed by NACHA. Customer understands and agrees that in order to protect itself from risks, and to inform its Customers of problems with returned ACH Entries, Bank will inform Customer of Customer's excessive ACH Entry return levels or dollar amounts, as determined by Bank in its sole discretion, and Customer agrees to take all steps requested by Bank immediately to decrease the levels and/or dollar amounts of Customer's ACH returns. If Customer fails to comply with the required actions as outlined by Bank then such failure to comply shall be deemed to be a material violation of this Agreement, and Bank may, in its sole and absolute discretion, immediately terminate ACH Services to Customer.

(n) Debits/Credits to the Customer's Account.

(i) Credit Entries. The Customer authorizes Bank to debit the Customer's account for ACH credit Entries processed for the Customer either on Settlement Date or on the date the ACH credit

Entry file is transmitted to Bank if the entry is prefunded.

(ii) Debit Entries. Bank shall credit the Customer's Account for the amounts of debit Entries processed for the Customer hereunder on the settlement date for such Entries; it being expressly understood, however, that each credit to the Customer's Account on account of a debit Entry is provisional until Bank receives final settlement for such Entry, and Bank may charge-back to the Customer's Account the amount of any debit Entry credited to the Customer's Account for which Bank does not, for any reason, receive final settlement.

(iii) Amendments to Entries. The Customer authorizes Bank to credit the Customer's Account for any amount received by Bank by reason of the return or cancellation of any credit Entry transmitted by Bank for which Bank has previously received payment (such credit to the Customer's Account to be made on the date Bank receives such amount), and to debit the Customer's Account for the amount of any returned debit Entry (such debit to the Customer's Account to be made upon receipt by Bank of the returned Entry), and to debit or credit (as applicable) the Customer's Account for any amendments made to Entries or for corrected Entries resubmitted.

Customer agrees that upon termination of ACH Services by either Bank or Customer, Bank may require Customer to maintain an open Account with sufficient funds to accommodate any ACH Entries returned, or any other costs, associated with any ACH transactions occurring prior to the termination of ACH origination activities. This Account shall remain available for a minimum period of sixty (60) days, or longer if Bank believes, in its sole discretion, that such time extension is necessary to accommodate additional ACH Entry returns or associated costs.

(o) Reversals. Customer may request a reversal by completing a Reversal Request Form. The Customer may initiate a reversing Entry for erroneous or duplicate transactions as permitted by the NACHA Rules. The Customer warrants that it has initiated the Entry within five (5) Business Days of the original Entry and within 24 hours of the discovery of the error. The Customer also warrants that the account holder of a reversing Entry has been notified of the reversal and the reason for the reversal no later than the settlement day of the reversal. The Customer indemnifies all parties of the transaction(s) from and against any claim, demand, loss, liability or expense.

(p) Customer Representations; Indemnity. The Customer represents to Bank and agrees that:

(i) Receiver Authorizations for Credit Entries. Each person shown as the Receiver on a credit Entry received by Bank from the Customer has, by an authorization agreement in accordance with the NACHA Rules, authorized the initiation of such Entry and the crediting of the Receiver's account in the amount and on the Effective Entry Date shown on such Entry, and has authorized the initiation, if necessary, of debit Entries and adjustments for any credit Entries made in error to the Receiver's account;

(ii) Receiver Authorizations for Debit Entries. Each debit Entry received by Bank from the Customer is for a sum due and owing to the Customer by the Receiver of such debit Entry, or is for a sum specified by such Receiver to be paid to the Customer, or is a correction of a previously submitted erroneous credit Entry, and such Receiver has duly authorized such Entry by an authorization agreement in accordance with the NACHA Rules. Without limiting the foregoing, re-initiation of any debit Entry previously returned for stop payment has been authorized by the Receiver;

(iii) Effective Authorizations. Each such authorization with respect to an Entry is operative at the time of transmittal or debiting/crediting by Bank as provided herein; and at the time each Entry is processed by Bank, the Customer has no knowledge of revocation by such Receiver of such authorization, and the Customer has no knowledge of any revocation by such RDFI of its agreement to accept such Entry, or any knowledge that such Receiver's authorization for such Entry has been terminated, in whole or in part, by operation of law or otherwise;

(iv) Types of Entries. Entries transmitted to Bank by the Customer are limited to those types of Entries identified to Bank by the Customer;

(v) ACH NACHA Rules. The Customer shall be bound by and comply with the then-current version NACHA Rules including, without limitation, the provision thereof making payment of an Entry by the RDFI to the Receiver provisional until receipt by the RDFI of final settlement for such Entry; and the Customer specifically acknowledges that it has received notice of this NACHA Rule and of the fact that, if such settlement is not received, the RDFI shall be entitled to a refund from the Receiver of the amount credited and the Customer shall not be deemed to have paid the Receiver the amount of the Entry; and

(vi) Legal Obligations. The Customer shall perform its activities under the Agreement in accordance with all applicable laws and regulations, including without limitation the regulations of OFAC of the U.S. Department of the Treasury. **IN ADDITION TO THE INDEMNIFICATION OF BANK BY CUSTOMER AS SET FORTH ELSEWHERE IN THIS AGREEMENT, IN THE EVENT THAT CUSTOMER, OR A THIRD-PARTY AGENT ACTING ON BEHALF OF AND WITH AUTHORITY FROM THE CUSTOMER, IS THE ORIGINATOR OF ACH ENTRIES AND FAILS TO PERFORM ITS OBLIGATIONS AS AN**

ORIGINATOR UNDER THE NACHA RULES, CUSTOMER HEREBY INDEMNIFIES BANK FROM ANY AND ALL CLAIMS, DEMANDS, LOSSES, LIABILITY OR EXPENSE, INCLUDING ATTORNEYS' FEES, FINES, PENALTIES AND ANY OTHER COSTS THAT RESULT DIRECTLY OR INDIRECTLY FROM THE FAILURE OF CUSTOMER OR ITS THIRD-PARTY AGENT TO PERFORM ITS OBLIGATIONS UNDER THE NACHA RULES.

(q) Express Limitations on Bank's Liability. Customer understands and expressly assumes all risks related to Bank immediately suspending or terminating Customer's ACH Services under this Agreement, including, but not limited to, Bank immediately suspending or terminating Customer's ACH Services due to Customer's non-compliance with Bank's requirements as set forth in any "Excessive ACH Returns Warning Notice." **CUSTOMER UNDERSTANDS AND EXPRESSLY ACKNOWLEDGES AND AGREES THAT, IN ADDITION TO THE LIMITATIONS ON LIABILITY SET FORTH ELSEWHERE IN THIS AGREEMENT, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BANK SHALL NOT BE LIABLE FOR ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT, EXEMPLARY, SPECIAL OR PUNITIVE DAMAGES (INCLUDING, WITHOUT LIMITATION, LOSS OF REVENUE OR ANTICIPATED PROFITS OR FOR ANY INDIRECT LOSS THAT THE CUSTOMER MAY INCUR OR SUFFER IN CONNECTION WITH BANK TERMINATING CUSTOMER'S ACH SERVICES IN ACCORDANCE WITH THIS AGREEMENT.**

(r) Notifications of Change. Bank will notify the Customer of all Notifications of Change ("NOC") or Corrected Notification of Change ("Corrected NOC") received by Bank relating to Entries transmitted by the Customer by sending a copy of such notification of change to the Customer no later than two (2) Business Day after Bank's receipt thereof. Customer shall ensure that changes requested by the NOC or Corrected NOC are made within six (6) Business Days of Customer's receipt of the NOC information from Bank or prior to initiating another entry to the Receiver's account, whichever is later. If the NOC is incorrect, the Customer will generate a Refused NOC and deliver it to Bank within 15 calendar days.

(s) Pre-notification. Notwithstanding anything to the contrary in the NACHA Rules, the Customer may provide to Bank, three (3) Business Days prior to initiation of any new Entry, a pre-notification record which shall include Receiver's name, identification number, account number, RDFI's routing transit number, and zero-dollar amount. If the Customer's pre-notification record is rejected by an RDFI and the Customer is so notified, the Customer must correct the reason for rejection, resubmit another pre-notification record, and wait the prescribed three (3) Business Days before submitting any further Entries for the Receiver(s) in question.

(t) Data Retention. The Customer shall retain data on file adequate to permit the remaking of Entries for one (1) year following the date of the ACH Entry transmittal by Bank as provided herein, and shall provide such data to Bank upon Bank's request.

2. Online Banking

(a) The Service. Bank agrees to provide various services and transaction functions to the Customer on selected Customer Deposit Account(s) through Bank's Online Banking, Business Online Banking, Mobile Banking, Business Mobile Banking, and other online and mobile-based financial services functions which are now available or may be available sometime in the future ("Online Services"). These Services are provided in accordance with the Online Services Agreement. Eligible accounts include:

Checking (Demand Deposit) Accounts Savings Accounts
Money Market Accounts Certificates of Deposit
Loans

Available functions through Online Services include, but are not limited to, the following:

- View account balances, account details, and specific transaction information
- View and download transaction history and account statements
- Place a stop payment on a check
- Make payments to billers within the United States (Conditions apply)
- Send and receive secure communications
- Request a change of address
- Deposit certain checks using a mobile device (Conditions apply)
- Enable or disable debit card transactions and temporarily modify transaction limits
- Move money between your eligible and enrolled accounts at Bank
- Move funds to registered external accounts
- Send domestic and international wire transfers (Conditions apply)
- Register to receive automated activity and security alerts via voice, text, or email

Some services may not be available for certain accounts or customers.

(b) Transaction Processing Schedule. An Online Services transaction initiated on a Business Day is posted to the Customer's account the same Business Day. External funds transfers completed after 2:00 p.m. Central Time, mobile check deposits completed after 7: 00 p.m. Central Time, and all transfers and stop payments completed on a non-Business Day, will be processed the following Business Day. Account balances and transaction histories reflect activity through the close of the previous Business Day. Transactions that have not been processed may display

as pending and may reflect in account balance calculations.

(c) Equipment, Software, and Internet Services. The Online Services can be accessed through Bank's web page at ffin.com. To access the Services online, the Customer must own or have access to equipment and software (including web browser software) that allows the Customer to access the Internet. The Customer is responsible for maintaining equipment the Customer will use to access Online Services including personal computers and mobile devices, and associated operating systems, browsers, virus protection, firewalls, and other software. The Customer is responsible for establishing a connection to the Internet through an Internet service provider, wireless communication service provider, or other telecommunications provider. Browser support is subject to change with little to no notice. Bank encourages the Customer to configure its browser for automatic browser updates. The web browser used by the Customer must meet Bank's security standards, as posted on Bank's website. If the Customer tries to log on with an unsupported browser, the Customer will be redirected to download a new version of an acceptable browser. The Customer understands that if a web browser is used that does not support Bank's security standards, the security of the Customer's transactions related to any Service may be compromised and thus not in compliance with the Security Procedures required by Bank.

(d) E-mail Communications. E-mail sent via the Customer's own software may not be secure. The Customer should not include confidential information, such as account numbers and balances, in normal Internet e-mail to Bank. The Customer agrees to contact Bank electronically only by using the secure messaging capability in Bank's Online Banking system. The Customer cannot use e-mail to initiate account transactions. Bank will not be liable for any errors, omissions, claims, or problems of any kind involving the Customer's e-mail.

(e) Location Based Information. If the Customer uses any location-based feature of any of the Online Services, the Customer agrees that its geographic location and other personal information (such as its device ID) may be accessed and disclosed through the application or service. The Customer may turn off location-based features at any time within its mobile device settings. If the Customer wishes to revoke access to such information, the Customer must cease using location-based features of the application or service.

(f) Alerts and Mobile Text Messages. Online Services includes alerts and mobile text messaging capabilities. The Customer agrees that Bank may send messages through the Customer's communication service provider in order to deliver them to the Customer and that the Customer's communication services provider is acting as the Customer's agent in this capacity. Bank may use a telephone number, e-mail address, or other delivery location Bank has in its records for the Customer or other such contact information as the Customer may provide to Bank for these services so that Bank may send the Customer certain information about the Customer's applicable account. Additionally, the Customer agrees to indemnify, defend and hold Bank harmless from and against any and all claims, losses, liability, cost and expenses (including reasonable attorneys' fees) arising from the Customer's provision of a phone number, e-mail address, or other delivery location that is not the Customer's own or the Customer's violation of applicable federal, state or local law, regulation or ordinance. The Customer's obligation under this paragraph shall survive termination of the Agreement.

The alerts and text messages are provided for the Customer's convenience and do not replace the Customer's monthly account statement(s), which are the official record of the Customer's accounts. The Customer understands and agrees that these Services may not be encrypted and may include personal or confidential information about the Customer such as the Customer's account activity or the status of the Customer's account. The Customer also understands that there may be a disruption in service when the Customer changes its communications service provider. Messages may be delayed or impacted by factor(s) pertaining to the Customer's Internet service provider(s), wireless communication service provider, or other parties. Bank will not be liable for losses or damages arising from any disclosure of account information to third parties, non-delivery, delayed delivery, misdirected delivery, or mishandling of, or inaccurate content in, the messages sent through the alerts and text services. The text service is only available to customers who have an enrolled account with Bank, and the Customer may automatically receive certain alerts for enrolled accounts. The Customer is responsible for any and all charges, including, but not limited to, fees associated with text messaging imposed by the Customer's communications service provider. **Message and data rates may apply. Such charges include those from the Customer's communications service provider.** Message frequency depends on user preferences.

(g) Accessing Accounts. The Customer may access any eligible account for which it is an owner. If the Customer desires Services that allow it to initiate payments or transfers from the account, the Customer will need the required withdrawal authority over the account to be able to complete the transaction. By using Online Services, the Customer agrees to maintain one or more accounts with Bank and to keep sufficient balances in any account to cover any transaction and fees that are ultimately approved by or related to the Customer's use of Online Services. The Customer understands and agrees that any one User can initiate transactions (including funds transfers or bill pay transactions) from any of the Customer's accounts using Online Services regardless of whether the User is an Authorized Signer on those accounts and regardless of whether any of those accounts normally require two

or more signatures or have other restrictions. The Customer agrees that Bank may consider all such transfers as having been authorized by the Customer.

Authorized Administrators are granted system administrative powers to establish User rights for accounts, authorize and alter rights of any Users over accounts and payment categories, authorize and alter rights to Cash Management Services, and grant or remove Supervisory rights to or from other Users. The Customer acknowledges that Bank has advised the Customer and its assignees of the liabilities created by appointing Authorized Administrators; and agrees that Bank is released from any and all liability for damages, including but not limited to claims for indirect, incidental, special, or consequential damages arising out of or related to the appointment of the Authorized Administrator(s) and the actions, now and in the future, of the Authorized Administrator(s).

The Customer further represents that each individual who has been granted access to Online Services has general authority from the Customer to give instructions to Bank with respect to the Customer's enrolled account upon entry of the Customer's authentication techniques such as User ID, password, PIN, Mobile Authorization Code, and/or authentication token ("Security Device") (including general authority over the movement of the Customer's funds and over accounts with Bank) and that Bank has full authorization from the Customer to rely and act upon instructions from the individual identified by such Security Device. The Customer accepts responsibility for unauthorized access to Online Services with its Security Device by its employees and associates or by third parties. In the event of any conflict between the authority of an individual (including the entitlement to initiate and approve financial transactions on behalf of your business) as evidenced in an account agreement, corporate resolution, power of attorney or other means and that granted through this Agreement (including additional service agreements), the terms of this Agreement shall have precedence.

(h) System Unavailability. Online Services may be unavailable when systems require maintenance or major unforeseen events occur, such as earthquakes, fires, floods, computer failures, interruptions in telephone service, electrical outages, civil unrest or riots, war, or acts or threatened acts of terrorism or other circumstances beyond our control. Bank shall have no liability for interruptions or delays in services due to systems unavailability. When unavailable, the Customer may use Bank's telephone banking system, an ATM, customer contact center or a branch office to conduct its transactions.

(i) Changes to Online Services. Bank may periodically introduce new capabilities to Online Services, or modify or delete existing capabilities. Bank will notify the Customer of these changes if Bank is legally required to do so. By using these Services when they become available, the Customer agrees to the terms contained in this Agreement, any attachments, and subsequent amendments.

(j) Security Procedures. The Customer and Bank shall comply with the following Security Procedures with regard to Online Services:

(i) Security Controls. Bank has implemented various Online Services security controls including, but not limited to: (i) restricting access to Online Services from a computer or mobile device using an unsupported browser or mobile operating system; (ii) controlling access by requiring authentication Security Devices. Additional password complexity, password expiration requirements, or other Security Devices may be required based on the Customer's transaction authority; (iii) automatically terminating sessions after a period of inactivity. Third-party services accessed through Online Banking are subject to those vendor's restrictions; (iv) requiring a secure access code (for identification purposes) if the computer the Customer is using is not familiar to Bank; (v) authenticating mobile device specific information such as phone number, IMEI, serial number, or device type may be used as additional authentication when accessing Online Services; (vi) detecting potentially fraudulent transactions using risk and fraud analytics system; (vii) limiting account access, transactions, and providing the ability for dual-authorization for certain transactions across multiple channels; and (viii) for certain products, requiring additional transaction-level authentication including, but not limited to, two-factor authentication using tokens and out-of-band authentication techniques.

(ii) Online Banking Security Devices. The Customer's Security Devices will give the Customer access to its accounts and ability to perform certain transactions through Online Services. Bank is entitled to act on any instructions it receives using the Customer's Security Devices. The Customer must memorize its password and must not write down its password down or store it electronically. The Customer should change its password regularly. The Customer can change its password within the Online Services systems. The Customer is responsible for the confidentiality and use of its Security Devices in accessing and using Online Services. The Customer is responsible for keeping its password and account data confidential. When the Customer gives someone its User ID and password, it is authorizing that person to use Online Services. Bank will therefore consider any access to Online Services through use of any valid Security Devices to be duly authorized by the Customer, and Bank will carry out any instruction given regardless of the identity of the individual who is actually operating the system. The Customer is responsible for all Online Services transactions performed using its User ID and password, even if it did not intend or authorize

them. If the Customer believes that its password may have been lost or stolen, the Customer must notify Bank at once.

(iii) Computer Security and Maintenance. The Customer understands that installation, maintenance, and operation of the Customer's Computer is the Customer's sole responsibility. Bank is not responsible for any errors or failures of the Customer's Computer, including but not limited to, any virus or Internet related problems that may be associated with the Customer's access and use of the Services online. The Customer confirms that it has investigated Bank's Security Procedures and that it has instituted the proper controls for access to Online Banking through its computers, mobile devices, and terminals. The Customer confirms that the security system and controls are commercially reasonable for its business. The Customer agrees that it is responsible for the performance and protection of any browser or operating system used in connection with Online Banking, including the prompt adoption of all security patches, installing and mainlining up to date any malicious code security ("anti-virus") and other security measures issued or recommended from time to time by the suppliers of such software. Bank encourages the Customer to scan its computer, mobile devices, and removable storage routinely using a reliable virus protection product to detect and remove viruses. If undetected and unrepaired, a virus can corrupt and destroy the Customer's programs, files, and hardware.

Bank reserves the right as encryption technology develops to impose further reasonable restrictions or requirements to maintain the appropriate level of security for the transactions contemplated hereunder and the Customer agrees to abide by such restrictions or requirements or discontinue the Service or Services hereunder. Unauthorized modification of a mobile device operating system (also known as "jailbreaking") can cause security vulnerabilities, instability, and other issues. Bank strongly cautions against installing any software that modifies a mobile operating system, and Bank may deny service for any mobile device that has installed any unauthorized software. Bank is not responsible for any loss, damage, or injury related to or caused by any use, misuse, or failure of the Customer's equipment. Bank is not responsible for any loss, damage, nor injury related to or caused by any deficiency, malfunction, or failure of the Customer's software, hardware, or internet connection.

(k) Termination and Changes in Terms. Bank reserves the right to terminate the Customer's access to Online Banking in whole or in part or to change the charges, fees or other terms described in this Agreement at any time without prior notice. When changes are made, Bank will notify the Customer using one or more of the following: (i) e-mail; (ii) physical mail at the address shown in Bank records; (iii) Online Banking secure message; and/or (iv) website content.

Bank reserves the rights to terminate and purge Online Services customers who have not accessed or utilized the service for an extended period of time. Should the Customer's access be terminated due to inactivity, the Customer will be permitted to re-enroll.

(l) Beta Features. From time to time, Bank may include new or updated beta features in the Online Services ("Beta Features"). Beta Features may have associated fees, which will be disclosed to the Customer at the time the Customer chooses to use the Beta Features. Bank understands that the Customer's use of any Beta Feature is voluntary. The Customer understands that once the Customer uses a Beta Feature, it may be unable to revert back to a prior non-beta version of the same or similar feature. Additionally, if such reversion is possible, the Customer may not be able to return or restore data created within the Beta Feature back to the prior non-beta version. The Beta Features are provided on an "as is" basis and may contain errors or inaccuracies that could cause failures, corruption or loss of data and information from any connected device. The Customer acknowledges and agrees that all use of any Beta Features is at its sole risk.

(m) Provider Services. In connection with the Customer's use of and as part of the functionality of the Services, the Customer may have access to certain online services or information that may be made available by its provider(s) ("Provider Services"), including online banking, online payment, online investment account download, online bill pay, online trading, and other account information available from its provider(s). The Services are designed to allow the Customer to access Provider Services (if and to the extent provided by the Customer's provider(s)) to set up banking and other information, allow the Services to access the Customer's account(s), download transactions into the Services and otherwise aggregate information from the Customer's account(s) with its provider(s).

The Customer acknowledges and agrees that Bank has no control over the provision of Provider Services or provision of access to the Provider Services by the Customer's provider(s), does not guarantee that the Services will work with the Provider Services, and will have no liability whatsoever for any actions or inactions on the part of the provider(s) resulting in the Customer's inability to use the Services to access its accounts, obtain data, download transactions, or otherwise use or access the Provider Services.

(n) Limitation of Damages and Liability. Except as specifically provided for in this Agreement or where the law requires a different standard, the Customer agrees that the Bank is not responsible for any losses, errors, injuries, expenses, claims, attorney's fees, interest or other damages, whether direct, indirect, special,

punitive, incidental or consequential, (collectively, "losses") caused by the Customer's use of online banking or the use of online banking or in any way arising out of the installation, use or maintenance of its personal computer hardware or software, including any software provided by Bank or one of its suppliers.

In addition, Bank disclaims any responsibility for any electronic virus(s) the Customer may encounter after installation of such software or use of Online Banking or the online services. Without limiting the foregoing, neither Bank nor its suppliers shall be liable for any: (i) failure to perform or any losses arising out of an event or condition beyond their reasonable control, including but not limited to communications breakdown or interruption, acts of God or labor disputes; or (ii) the loss, confidentiality or security of any data while in transit via the internet, communication lines, postal system or ACH network. Bank and its suppliers provide Online Services from their own sites and they make no representation or warranty that any information, material, or functions included in Online Services are appropriate for use by the Customer in its jurisdiction. If the Customer chooses to use Online Services, it does so at its own initiative and is solely responsible for compliance with applicable local laws and regulations. Neither Bank nor its suppliers warrant the adequacy, accuracy, or completeness of any information provided as a part of Online Services, or contained in any third party sites linked to or from Bank's website.

(o) Restrictions. The Customer may not appropriate any information or material that violates any copyright, trademark, or other proprietary or intellectual property rights of any person or entity while using the Online Services. The Customer may not gain, or attempt to gain, access to any Online Services server, network, or data not specifically permitted to the Customer by Bank or its suppliers. The Customer must not include any obscene, libelous, scandalous, or defamatory content in any communications with Bank or its suppliers**.**

(p) Links to other Sites. Information that Bank publishes online may contain links to other sites and third parties may establish links to Bank's site. Bank makes no representations about any other website that the Customer may access to, from, or through Bank's website. Unless expressly stated in writing, Bank does not endorse the products or services offered by any company or person linked to Bank's website nor is Bank responsible for any software or the content of any information published on the website of any third party. The Customer should take precautions when downloading files from sites to protect its computer software and data from viruses and other destructive programs.

3. Positive Pay

(a) The Service. Bank agrees to provide various "Positive Pay Services" to the Customer for the purposes of increasing the chance of identifying fraudulent or unauthorized checks and/or electronic transfers drawn on selected Customer Deposit Account(s), as identified to Bank.

(i) Positive Pay. Customer sends a file of issued checks to Bank ("Check Issued File").

(ii) ACH Block/Filter Bank receives incoming ACH entries and the Customer makes the decision to honor the item or not ("Decision").

(b) Procedures for Positive Pay.

(i) Check Issued File. For applicable Deposit Accounts identified whereby the Customer has requested Bank verify checks against a Check Issued File, the Customer agrees to deliver or transmit the serial number, amount, date issued and status of each check by Deposit Account number (such data cumulatively, the "Check Issued File") to Bank electronically using Online Banking or the Positive Pay System. Customer shall submit the Check Issued File to Bank no later than 7:00 p.m. Central Time on normal Business Days. With the exception of checks presented for immediate payment in person ("Teller Checks"), Check Issued File data received by 7:00 p.m. Central Time each Business Day will be used to verify any check or Electronic Check Presentment ("ECP") items posting to the applicable Deposit Account that Business Day. Any Check Issued File data received by Bank during banking hours of a Business Day will be made available to Bank's tellers within thirty (30) minutes of Bank's receipt. Teller Checks will be cashed only if verified against the most recent Check Issued File made available to Bank tellers and, if cashed, will be posted to the applicable Deposit Account on the Business Day they are received. **If the online Check Issued File is unavailable Bank's tellers will follow normal check cashing procedures.** For items presented through ECP, the serial number on the Customer's Check Issued File must match the serial number on the MICR line of the Customer's checks as shown on the ECP item. The Customer acknowledges that any stop payment issued on a check will supersede any data transmitted hereunder.

(ii) Payment or Dishonor of Over the Counter Items. Bank shall compare each Over the Counter Item by serial number, amount, and payee name (if participating in Payee Name Match) against each Check Issued File received by Bank. On each Business Day, Bank will pay and charge each Over the Counter Item to the Authorized Account after validation. In the event the serial number or amount do not match a check in any Issued Item File, Bank will verify the Exception Item received when negotiating the Over the Counter Item and return the check to the presenter of the item and that person will be referred back to the maker of the check for assistance.

(iii) Payment of Presented Items and Reporting of Exception Items. Bank shall compare each Presented Item by serial number, amount, and

payee name (if participating in Payee Name Match) against each Check Issued File received by Bank. A Presented Item that does not match a check included in a Check Issued File or an ACH transaction that is blocked or filtered is an "Exception Item." On each Business Day, Bank:

(1) shall pay and charge to the Authorized Account each Presented Item that matches by serial number, amount, and payee name (if participating in Payee Name Match) a check shown in any Check Issued File; and

(2) shall notify Customer via e-mail whether Bank has received any Exception Items, which Customer can log in to Online Banking or the Positive Pay system to view.

(iv) Payment and Dishonor of Exception Items. Bank will pay or return Exception Items in accordance with the default option selected by Customer for each Authorized Account in Schedule A.

(v) Return Default. Where Customer has selected the return default option to apply to an Authorized Account, Bank shall return to the depository bank any Exception Item drawn on that Account, unless Customer instructs Bank to pay such check in a timely Pay Request. The Pay Request shall identify each Exception Item that Customer desires to be paid by the check number and amount specified in the Exception Item List and shall instruct Bank to pay such Exception Item. The Pay Request shall be sent to Bank by Customer no later than 2:00 p.m. on a Business Day via Online Banking or the Positive Pay System, or at such other time otherwise designated by Bank. Bank shall pay and charge to the Authorized Account any Exception Item that Customer directs Bank to pay as provided above.

(vi) Pay Default. Where Customer has selected the pay default option to apply to an Authorized Account, Bank may pay and charge to the Authorized Account any Exception Item provided that Customer has not objected to such payment in a timely Return Request. A Return Request shall identify each Exception Item that Customer desires not to pay by the complete check number and amount specified in the Exception Item List and shall instruct Bank to return the Exception Item. The Return Request shall be sent to Bank by Customer no later than 2:00 p.m. Central Time on the Business Day of presentment. Bank shall return to the depositary bank any Exception Item that Customer instructs Bank to return as provided above.

(vii) Communications. Customer or Bank, at its discretion, may each submit to the other party a revision of any communication provided for under this Agreement. The revised communication must:

(1) be sent in its entirety electronically via Online Banking or the Positive Pay System and not in the form of a partial amendment to the communication originally sent,

(2) identify the original communication, and

(3) be sent immediately upon discovery of previously sent information. A properly submitted revised communication serves to revoke the original communication.

Bank shall use only Check Issued Files that comply with Check Issued File and have not been revoked in the preparation of Exception Item Lists under this Agreement. Customer shall use only Exception Item Lists that comply with Payment of Presented Items and Reporting of Exception Items and have not been revoked in the preparation of Pay Requests and Return Requests. Bank shall not be obligated to comply with any Pay Request or Return Requests received in a method not permitted in this Agreement but may instead treat such a Pay Request or Return Requests as though it had not been received. Bank is not responsible for detecting any Customer error contained in any Issued Item File or Pay Request or Return Request sent by Customer to Bank. Any communication purporting to have been sent by Customer will be deemed to have been sent by and authorized by Customer, and Bank is authorized by Customer to act in reliance thereon, even though the communication was unauthorized.

(viii)Transmittal. Files delivered to Bank shall be prepared and submitted in compliance with the formatting as provided.

(ix) Exception Reporting. At approximately 8:00 a.m. Central Time of each Business Day, for each Deposit Account for which the Customer has requested the Service, Bank will make available to the Customer, an exception report (the "Exception Report") for the prior Business Day for each Deposit Account for which the Customer has requested the Service. The Exception Report will list: (i) all check, Substitute Check (defined herein) and ECP items posted to the applicable Deposit Account but not on the Check Issued File; (ii) all check, Substitute Check and ECP items posted to the applicable Deposit Account that are on the Check Issued File but for an amount different than that stated on the Check Issued File; (iii) where the Customer chooses to set Maximum Limits, ACH items exceeding the Maximum Limit; and (iv) all ACH debits where the Customer chooses to block ACH debits.

(x) Payment Authorization for Exception Report Items. In the event the Customer wants to authorize payment of any item on the Exception Report, the Customer must notify Bank of its intent to authorize such payment on or before 2:00 p.m. Central Time of the Business Day that the

Customer received such Exception Report. Such notification must be made by an authorized User to Bank via Bank's Positive Pay system or Online Banking. Any items on the Exception Report not authorized for payment by the Customer as provided for herein, will be marked "REFER TO MAKER" and returned. Bank does not check items on the Exception Report(s) against previously cleared items.

(c) Procedures for ACH Block/Filter.

The Customer may provide standing instructions to Bank to manage ACH activity. Specified ACH transactions will be subject to block and/or filter services. Customer shall provide Bank with all information required by Bank in order to permit Bank to deliver the block and/or filter services for ACH entries. Unless the Customer has provided Bank with sufficient information to block or filter ACH entries, Bank may pay any debit or credit to the Authorized Account for each ACH entry that is not blocked or filtered.

(i) The Customer must submit a list of ACH originators for which Customer has authorized, blocked and/or filtered ACH entries against its account no later than 3:00 p.m. Central Time for next day business processing.

(ii) Bank shall compare each ACH item against the ACH block/filter instructions received by Bank. Bank may pay and charge to the Authorized Account each ACH entry not subject to the ACH block/filter order sent by the Customer.

(iii) At approximately 8:00 a.m. Central Time on each business day, Bank will notify Customer of ACH Entries presented to Bank for settlement on that business day and which have been identified as Exception Items based on the authorized ACH originators provided to Bank by Customer. Bank shall provide to Customer the detail provided with such ACH entries. Customer may choose not to authorize any ACH Entries, in which case Bank will treat all such ACH Entries as Exception Items.

(iv) The Customer shall review and electronically communicate any and all Pay Requests or Return Requests for all exceptions to Bank by 2:00 p.m. Central Time. A Return Request shall identify each Exception Item that the Customer desires not to pay by ACH Standard Entry Class Code, Customer ID or amount of any ACH item listed in the Exception Item Report. If Customer fails to notify Bank by 2:00 p.m. Central Time of its decisions, Bank will pay or return the Exception Items based on the Customer's default option elected for each Authorized Account.

(v) A Return Request shall be considered timely only if sent to Bank by the deadline. Bank shall not be obligated to comply with a Return Request received after a deadline.

(vi) In the event system problems prevent Bank from sending the Exception Item information in sufficient time for the Customer to respond by the above deadline, the deadline will be extended accordingly.

(vii) Except as provided in this section, Bank will not provide the Customer with notice of any ACH transactions. The customer will receive an e-mail when ACH Exception Items are presented and need to have a decision.

(viii)No instructions shall be binding on Bank unless they are in writing, on such forms as Bank may require from time to time, and are received in such time as to provide Bank reasonable opportunity to act thereon. Bank shall be entitled to rely exclusively on the written instructions provided by the Customer, and the Customer understands that any error made by the Customer in furnishing the identification number will make the block instructions ineffective.

By using the ACH Block/Filter Service, the Customer authorizes Bank to return ACH Entries or to pay ACH Entries in accordance with Customer authorization. Bank will have no liability for non-payment or payment of an ACH Entry when the ACH Entry is included in the report of Exception Items and Customer does not give Bank a timely decision to pay or return the ACH Entry.

Customer acknowledges that the ACH Block/Filter Service does not preclude standard ACH processing procedures which may cause an ACH Entry to be dishonored even if Customer instructs Bank otherwise.

Customer acknowledges the ACH Block/Filter Service is intended to be used to identify ACH entries which it suspects in good faith are unauthorized. If Bank suspects or deems, in its sole discretion, that the Customer is using ACH Block/Filter contrary to these intentions, Bank may require the Customer to provide evidence the ACH Entries Bank returns are in fact unauthorized.

ACH Block/Filter Service does not apply to transactions between the Customer and Bank. Bank may pay ACH Entries which the Customer has authorized Bank to originate against its account.

ACH Block/Filter does not cover an ACH entry if Bank has paid the item or is committed to honor or pay the item under applicable laws, regulations, or rules governing checks. Bank may also pay any ACH Entry Reversals which Bank is required to accept under NACHA Rules, operating circulars, and / or other applicable rules, guidelines or regulations.

(d) Security Procedures. The Customer and Bank shall comply with the following Security Procedures with regard to the delivery/transmittal of Positive Pay files by the Customer to Bank:

(i) Security Controls. Bank has implemented various Positive Pay security controls including, but not limited to: (i) restricting access to the Positive Pay system from a computer or mobile device using an unsupported browser or mobile operating system; (ii) controlling access by requiring authentication through the use of a User ID and Password (if accessed through the Positive Pay Portal) or through the use of Codes (if accessed through Online Banking); (iii) automatically terminating sessions after a period of inactivity; (iv) requiring a secure access code (for identification purposes) (if accessed through Online Banking) if the computer the Customer is using is not familiar to Bank; and (v) authenticating mobile device specific information such as phone number, IMEI, serial number, or device type may be used as additional authentication when accessing the Positive Pay system through Online Banking.

(ii) Security Codes. The Customer's Codes will give the Customer access to the Positive Pay system. Bank is entitled to act on any instructions it receives using the Customer's Codes. Bank recommends that the Customer memorize its password and not write down its password or store it electronically. The Customer should change its password regularly. The Customer can change its password within the Online Services or Positive Pay systems. The Customer is responsible for the confidentiality and use of its User ID and password and other security data, methods and devices in accessing and using the Positive Pay system. The Customer is responsible for keeping its password and account data confidential. When the Customer gives someone its User ID and password, it is authorizing that person to use the Positive Pay system. Bank will therefore consider any access to the Positive Pay system through use of valid User ID and Password to be duly authorized by the Customer, and Bank will carry out any instruction given regardless of the identity of the individual who is actually operating the system. The Customer is responsible for all Positive Pay transactions performed using its User ID and password, even if it did not intend or authorize them. If the Customer believes that its password may have been lost or stolen, Customer must notify Bank at once.

(e) Updating Issued Check File(s). For each Deposit Account for which the Customer requests Services hereunder, Bank will only pay Items presented for payment against such Deposit Account in accordance with the terms of the Agreement. It is the responsibility of the Customer to routinely and regularly update the Check Issued File. Bank is not liable to the Customer or any third party for the payment or rejection of items consistent with the terms of the Agreement, or for the erroneous payment or rejection of an item due to an encoding error or posting error. Should the Customer fail to routinely update Issued Check File(s), Bank may terminate this Service immediately upon written notice to the Customer.

(f) Remedies.

(i) UCC Liability. To the extent applicable, the liability provisions of UCC Articles 3 and 4 shall govern the Positive Pay Services, except as modified below.

(ii) Wrongful Honor. It shall constitute wrongful honor by Bank if Bank pays an Exception Item listed in an Exception Item Report if the Customer issued a timely Return Request identifying said Exception Item. In the event that there is wrongful honor: (i) Bank shall be liable to the Customer for the lesser of the amount of the wrongfully paid Exception Item or the Customer's actual damages resulting from Bank's payment of the Exception Item; (ii) Bank retains the right to assert the Customer's failure to exercise ordinary care under UCC Section 3-406(a), as amended, and the Customer's failure to exercise reasonable promptness under UCC Section 4-406(c), as amended; and (iii) Bank retains the right to assert the defense that the Customer sustained no actual damages because of Bank's honor of the Exception Item discharged for value.

(iii) Wrongful Dishonor. Except as provided below, it shall constitute wrongful dishonor by Bank if Bank dishonors an Exception Item for which the Customer has not issued a Return Request.

(1) The Bank's liability for wrongful dishonor of an Exception Item shall be limited to the actual damages suffered by the Customer that were proximately caused by the wrongful dishonor.

(2) Notwithstanding Section 3(f)(iii)(1), Bank shall have no liability to the Customer for wrongful dishonor when Bank, acting in good faith, returns an Exception Item: (i) that it reasonably believed was not properly payable; or (ii) if there are insufficient Available Funds on deposit in the Authorized Account; or (iii) if required to do so by the service of legal process on Bank or the instructions of regulatory or government authorities or courts, or (iv) if the Customer fails to provide proper and timely notice to pay the Exception Item.

(iv) Rightful Honor and Dishonor.

(1) If the Customer does not issue a Return Request to Bank for an Exception Item in accordance with Section 3(b)(v), and Bank honors such Exception Item, such honor shall be rightful, and the Customer waives any right it may have to assert that the Exception Item was not properly payable under UCC Section 4-401.

(2) If Bank dishonors an Exception Item in accordance with a Return Request issued by the

Customer, the dishonor shall be rightful, and the Customer waives any right it may have to assert that the dishonor was wrongful under UCC Section 4-402.

(3) The Customer agrees that Bank exercises ordinary care whenever it rightfully honors or dishonors an Exception Item consistent with the provisions of this Agreement.

4. Remote Deposit Capture

(a) The Service. Bank agrees to provide Remote Deposit Capture Services to Customer for the purpose of depositing Customer's checks through the Internet or by creating information to deposit checks through the software provided by Bank, for improved collections and increased availability of funds in selected Deposit Accounts identified to Bank.

(b) Definitions. The meanings of the defined terms set forth below are also applicable to this Agreement. If any capitalized term is used in Regulation CC (Vol. 12 of the U.S. Code of Federal Regulations, part 229) promulgated by the Board of Governors of the Federal Reserve Board (the "FRB"), as it may be amended, substituted for, or recodified from time to time ("Reg. CC"), then such term generally shall have the meaning assigned to it in Reg. CC. To the extent that any of the defined terms use a term not defined herein but otherwise defined in Reg. CC, then such definition also incorporates the meaning assigned to the applicable term as set forth in Reg. CC. Other non-grammatical capitalized terms used in the Agreement, if defined herein or in the Agreement, are given the meaning assigned to such terms the first time the term is used. All other non-grammatical capitalized terms used that are not otherwise defined herein shall have the meaning given to such term in Article 3 or Article 4 of the Texas UCC as amended from time to time.

(i) "Check" means a draft, payable on demand and drawn on or payable through or at an office of a bank, whether or not negotiable, that is handled for forward collection, including a Substitute Check and a traveler's check; and does not include a non-cash item payable in a medium other than United States dollars.

(ii) "Deposit Account" means the Customer's designated deposit account at Bank.

(iii) "RDC Security Procedures" means the use of identification codes, encryption, passwords, logon identifications, personal or location identification numbers, repetitive codes, and other security devices, systems and software used by the Customer to communicate through the Internet for the Remote Deposit Service.

(iv) "Remote Deposit Capture Services" means all duties to be performed by Bank regarding the Remote Deposit Service.

(v) "Remote Deposit Service" means all information, web-based services, technological infrastructure and installed software, if applicable, on the Customer's computers, which allow Customer to submit Checks to Bank for deposit through the Internet or by creating information to deposit Checks through the software provided by Bank.

(vi) "Substitute Check" means a paper reproduction of the original Check that:

(1) contains an image of the front and back of the original Check;

(2) bears a MICR line containing all the information on the MICR line of the original Check, except as provided under generally applicable industry standards for substitute Checks to facilitate the processing of substitute Checks;

(3) conforms, in paper stock, dimension, and otherwise, with generally applicable industry standards for substitute Checks; and

(4) is suitable for automated processing in the same manner as the original Check.

(vii) "Federal Financial Institutions Examination Council" or "FFIEC" consists of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and a representative of the State Liaison Committee. The FFIEC is the governing body which provides high-level descriptions of risk management processes that include planning, risk identification and assessment, controls, and measuring and monitoring.

(c) Duties and Responsibilities of Bank. Bank hereby grants to Customer a non-exclusive ability to utilize the Remote Deposit Service through the Internet or by creating information to deposit Checks through the software provided by Bank, and to use Bank's proprietary documentation for the term of this Agreement. Customer agrees that Bank may process these Checks in accordance with the terms of this Agreement.

(i) Processing. Bank will process, encode, endorse and deposit into the Deposit Account, Checks submitted by Customer through the Remote Deposit Service in accordance with Bank's internal procedures and all state and federal laws during any Business Day, subject to the Cutoff Time below. Bank will not examine Checks to verify any data or dates. Bank will process the Check according to the amount entered by Customer, if applicable, or by the numeric amount shown. If the numeric amount is unclear, Bank may process the Check according to the written amount, and Bank may correct the amount entered by the Customer. If the Check is ambiguous, Bank will return the check as an exception. Checks made payable to

the Customer or any reasonable derivation thereof are acceptable for deposit. If a Check does not have the necessary information to be processed by Bank, then Bank will treat the Check as an exception. If a Check is treated as an exception, it will be forwarded by Bank to the Customer, and not deposited or otherwise reflected in the account of Customer. Bank will disregard any notation on a Check containing "paid in full" or other restrictive notation, whether preprinted or handwritten, and treat any such Check as though such notation did not appear thereon.

(ii) Reporting. Reports regarding the Remote Deposit Service will be available through the Bank-provided software which the Customer may access through the Internet.

(d) Duties and Responsibilities of the Customer.

(i) Use of Remote Deposit Service. Customer shall be solely responsible for installing and maintaining up to date any malicious code security ("anti-virus") capability on its computers and information systems. Customer shall submit valid Checks payable to Customer by using the Remote Deposit Service in accordance this Agreement. In using the Remote Deposit Service, Customer shall create an image of the Check or Checks and the associated MICR data using approved hardware provided by Bank. If applicable, Customer agrees to enter in the amount of the Check using the written amount of the Check into the Remote Deposit Service in the data field provided. Customer agrees to abide by all terms and conditions contained in this Agreement for using the Remote Deposit Service, including but not limited to the specifications and image standards for Checks in accordance with standards as outlined in 12 CFR Part 210.

(ii) Check Endorsements. To comply with FFIEC guidance concerning forged and missing endorsements, most Remote Deposit Capture endorsements may be "virtual." The Customer and Bank will determine the required endorsement and Bank will ensure the proper virtual endorsement is configured in each Remote Deposit Capture profile. If the Customer requires a change in the endorsement, the Customer shall coordinate the change with Bank at which time Bank shall implement the change.

(iii) Substitute Checks. Customer agrees that it will not deposit any Substitute Checks unless Bank specifically agrees to accept such deposit. If in the absence of such specific agreement Bank processes any substitute checks, other than returned items for deposit, Customer agrees that such processing shall not be deemed to be Bank's agreement to accept any Substitute Checks for deposit and that Customer will be solely responsible for any loss or liability in connection with the deposit.

(iv) Records Retention. Customer shall retain each original Check that is processed through any Remote Deposit Capture activity for a reasonable period of time, but Bank recommends that Customer keep each original Check for at least fourteen (14) Business Days from the date of deposit or such longer time. Customer understands that in all cases it is solely responsible for safeguarding all items it retains as required or permitted by this Remote Deposit Service from destruction, alteration or theft in accordance with the provisions of this Agreement.

(e) Security Procedures and Communications. Certain RDC Security Procedures designed to verify the origination (but not errors in transmission or content) of instructions, orders and other communications sent by Bank and Customer might be used in connection with the Remote Deposit Service. Customer agrees that any such mutually agreed-upon RDC Security Procedures shall be deemed commercially reasonable. Bank shall not be obligated to act on a communication not transmitted in accordance with the RDC Security Procedures and may refuse to act on any communication where Bank reasonably doubts its authorization, contents, origination or compliance with the RDC Security Procedures. Bank shall have no duty to discover, and shall not be liable for, errors or omissions by the Customer. If Bank complies with the RDC Security Procedures in respect of a communication, Bank shall be entitled to act on that communication and shall not be obligated to verify the content of such communication, establish the identity of the person giving it, or await any confirmation thereof, and Bank shall not be liable for acting on, and Customer shall be bound by, any communication sent in the name of Customer, whether or not authorized.

Bank reserves the right to issue new RDC Security Procedures and/or to cancel or change any RDC Security Procedures from time to time. Whenever the RDC Security Procedures include the assigning to Customer of any confidential password, logon identification, identification code, personal or location identification number, repetitive code, or similar security device, Customer shall not disclose such security device except to employees or agents authorized to act for Customer in connection with the Remote Deposit Service. Customer shall implement such safeguards as are reasonably necessary to ensure the confidentiality and integrity of such security devices, and shall immediately notify Bank if the confidentiality or integrity of any such security device is breached or threatened. Customer shall be solely responsible for the safekeeping of such security devices and assumes all risk of accidental disclosure or inadvertent use of such security devices by any party whatsoever, whether such disclosure or use is on account of Customer's negligence or deliberate acts or otherwise. Bank shall not be liable for any loss or damage resulting from fraudulent, unauthorized or otherwise improper use of any security devices.

(f) Personal Computer File Transmission. The Customer's Authorized Representative will access the Remote Deposit system by utilizing the prearranged log on procedures, remote ID and file ID. The Customer is solely responsible for any access by its employees and agents to the data files maintained on the Customer's personal computers or Remote Deposit database. Customer hereby acknowledges that access to the Remote Deposit system must be carefully and continuously controlled. In accordance with the aforesaid, the Customer agrees to use the highest standard of diligence to ensure the confidentiality of user passwords and will prohibit the unauthorized access to or use of the Remote Deposit secure web site.

(g) License. Subject to the terms and conditions of this Agreement and these Remote Deposit Capture Services specific provisions, Bank hereby grants Customer a non-exclusive, non-transferable, limited license to access and/or use Bank's processing software for Customer's own business operations.

(h) Provisions Applicable to Customer Related Entity Use. If a Customer elects to receive the Remote Deposit Capture Services, such Services also include the ability and license for Customer and its Related Entities to use the Processing Equipment and Processing Software to perform Remote Deposit Capture Services to transmit an Electronic Deposit to Bank, including a file of Sufficient Image Copies of checks that total to the amount of the Electronic Deposit. Customer must list such Related Entities on Bank's Related Entities Schedule ("Schedule B"). If a Customer's Related Entity maintains its normal check processing activity in a location remote from the Processing Equipment and Processing Software licensed by Bank to Customer, then such Related Entity shall also complete any forms required by Bank, and shall so license additional Processing Equipment and Processing Software, at the same fees, unless other duly authorized compensation arrangements have been made in writing between Customer and Bank. Each Related Entity, by using the Processing Equipment and Processing Software either licensed indirectly through Customer or licensed directly to the Related Entity, hereby agrees to abide by each and every term of this Agreement, including governing law, for each and every Electronic Deposit transmitted by the Related Entity.

(i) Representations and Warranties. It is the intention of the parties to this Agreement that the warranties deemed given by a depositor of a check to a bank under the UCC as applicable from time to time in the State of Texas shall also apply to any image or electronic representation of an Original Check transferred by Customer to Bank as if such image or electronic representation were a paper check within the meaning of the UCC. Accordingly, except to the extent that any warranties deemed given under the UCC are expressly superseded by CTA or Check 21, Customer understands that Customer shall be deemed to have given Bank all of the warranties that Customer would have given under the UCC for the deposit of an Original Check by transferring to Bank any electronic file that contains or purports to contain a Sufficient Image Copy of an Original Check. The above warranties are deemed given to Bank and any person, company or bank to which Bank transfers, presents or returns any of the images included in such electronic file as a Sufficient Image Copy or that purports to be a Sufficient Image Copy created by Bank or any subsequent bank receiving a copy of such image. Customer represents that it shall permit no entity to use the Processing Equipment and Processing Software, whether licensed to Customer directly, or licensed to one of its Related Entities, other than a Related Entity listed on Bank's appropriate authorization form. For the purpose of avoiding doubt, and not as a limitation of the generality of the foregoing statement, Customer acknowledges that the indemnification obligations of Customer set forth in Section (k) below apply equally to the activities of each Related Entity of Customer, so that Bank may call upon Customer and its assets to satisfy such indemnification obligations, even if the conduct that gave rise to the indemnity obligation was conducted by a Related Entity of Customer.

(j) **CUSTOMER INDEMNITY. IF CUSTOMER ELECTS TO USE BANK'S REMOTE DEPOSIT CAPTURE SERVICE THEN, IN ADDITION TO THE INDEMNIFICATION OF BANK BY CUSTOMER AS SET FORTH ELSEWHERE IN THIS AGREEMENT, CUSTOMER ASSUMES LIABILITY FOR, AND HEREBY AGREES TO INDEMNIFY, PROTECT AND HOLD HARMLESS BANK AND ITS AGENTS, OFFICERS, DIRECTORS, EMPLOYEES, SUCCESSORS AND ASSIGNS ("BANK INDEMNITEES"), FROM AND AGAINST ANY AND ALL LIABILITIES, OBLIGATIONS, LOSSES AND EXPENSES, INCLUDING REASONABLE ATTORNEYS' FEES, OF ANY KIND OR NATURE ("DAMAGES") ARISING OUT OF THE USE OF, CONDITION (INCLUDING LATENT AND DEFECTS AND WHETHER OR NOT DISCOVERABLE BY CUSTOMER OR BANK), OPERATION, OWNERSHIP, SELECTION, DELIVERY, INSTALLATION OR LICENSING OF ANY ITEM OF PROCESSING EQUIPMENT. NOTWITHSTANDING THE FACT THAT TITLE TO THE PROCESSING EQUIPMENT LICENSED BY BANK TO CUSTOMER SHALL REMAIN WITH BANK AT ALL TIMES, AND THAT THE PROCESSING EQUIPMENT SHALL AT ALL TIMES BE AND REMAIN THE PERSONAL PROPERTY OF BANK, CUSTOMER HEREBY EXPRESSLY AGREES TO INDEMNIFY AND REIMBURSE BANK FOR THE COST OF ANY PROCESSING EQUIPMENT THAT IS DAMAGED, LOST OR STOLEN WHILE SUCH PROCESSING EQUIPMENT IS IN THE POSSESSION AND CONTROL OF CUSTOMER (INCLUDING ANY OF CUSTOMER'S EMPLOYEES, AGENTS OR SUBCONTRACTORS), EXCEPT THAT SUCH INDEMNIFICATION AND REIMBURSEMENT COSTS SHALL NOT EXTEND TO ANY DAMAGE,**

LOSS OR THEFT DUE TO THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF BANK. Bank shall, in its sole and absolute discretion, determine whether to seek indemnification and reimbursement from Customer for any Processing Equipment that is damaged, lost or stolen while in Customer's possession and control.

(k) Limitation on Bank Liability for Remote Deposit Capture Services. Bank shall not have any liability for any breach of any representation, warranty or covenant of this Agreement to the extent caused by: (i) the unavailability of the external connection services and other Internet network functions; (ii) any modifications, alterations of or additions to the Processing Software or Processing Equipment performed by anyone other than Bank or Bank's designated service providers; (iii) the use of the Processing Software or the Processing Equipment by Customer in a manner not as set forth in this Agreement or any procedures or Documentation, in a manner for which it was not designed, or in combination with systems, products or components not supplied or approved in writing by Bank; of (iv) Customer's use of software, equipment or other systems not supplied by Bank. **CUSTOMER UNDERSTANDS AND EXPRESSLY ACKNOWLEDGES AND AGREES THAT, IN ADDITION TO THE LIMITATIONS ON LIABILITY SET FORTH ELSEWHERE IN THIS AGREEMENT, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BANK SHALL NOT BE LIABLE FOR ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT, EXEMPLARY, SPECIAL OR PUNITIVE DAMAGES (INCLUDING, WITHOUT LIMITATION, LOSS OF REVENUE OR ANTICIPATED PROFITS OR FOR ANY INDIRECT LOSS THAT THE CUSTOMER MAY INCUR OR SUFFER IN CONNECTION WITH BANK TERMINATING CUSTOMER'S REMOTE DEPOSIT CAPTURE SERVICES IN ACCORDANCE WITH THIS AGREEMENT.**

5. Wire Transfer

(a) The Service. Bank agrees to provide for origination of Funds Transfers by Wire ("Wire Transfer") through the Customer's personal computer or by telephone. Bank will act upon the Customer's instructions to debit one or more specified Deposit Accounts of the Customer and will transfer funds from such Deposit Account(s) for credit to the Customer and/or other persons or companies or specified accounts in accordance with the terms hereof.

(b) Definitions.

(i) "Repetitive Transfers" means Funds Transfer requests made routinely with instructions remaining constant except for the date and dollar amount.

(ii) "Non-Repetitive Transfers" means Funds Transfer Requests made routinely with only the debit account remaining constant.

(iii) "Online Wire Transfer" means a Wire Transfer initiated by a Customer via Bank's Online Banking Services.

(iv) "Domestic Wire" means a Wire Transfer that will not go outside of the United States and will be in U.S. dollars.

(v) "Foreign Wire" means a Wire Transfer that eventually will be credited to an account outside the United States or will be sent in a currency other than U.S. Dollars.

(vi) "Wire Templates" means formats for repetitive, non-repetitive, foreign and tax wires established in Bank's Online Banking Services by the Customer or established by Bank based on the Customer's request. Wire templates are the formats in Bank's Online Banking Services that enable the Customer to initiate Online Wire Transfers.

(c) Wire Template Maintenance; Customer's Liability for Errors to Beneficiary Information. Bank establishes non-repetitive Wire Templates for Customers based on the information provided by the Customer. The Customer may use those non-repetitive Wire Templates to establish repetitive Wire Templates as needed.

THE CUSTOMER UNDERSTANDS AND AGREES THAT THE CUSTOMER AND NOT BANK WILL CONTROL THE BENEFICIARY INFORMATION FOR ALL WIRE TRANSFERS, INCLUDING ANY REPETITIVE WIRE TEMPLATES, AND THAT IF ANY WIRE TRANSFER INSTRUCTION BY THE CUSTOMER DESCRIBES THE INTENDED RECIPIENT OF FUNDS INCONSISTENTLY BY NAME AND ACCOUNT NUMBER THAT PAYMENT BY THE RECEIVING BANK (WHICH MAY BE BANK) MAY BE MADE ON THE BASIS OF ACCOUNT NUMBER ALONE EVEN IF THAT ACCOUNT IS NOT OWNED BY THE PERSON OR ENTITY NAMED IN THE WIRE TRANSFER INSTRUCTION. BANK WILL NOT BE LIABLE FOR ANY ERRORS OR LOSSES RESULTING FROM ANY ERRORS IN OR CHANGES TO THE BENEFICIARY INFORMATION PROVIDED BY THE CUSTOMER. CUSTOMER HEREBY AGREES AND ACKNOWLEDGES THAT BANK IS NOT RESPONSIBLE FOR DETECTING ANY CUSTOMER ERROR CONTAINED IN ANY INDIVIDUAL WIRE TRANSFER.

IN THE EVENT THAT A WIRE TRANSFER IS UNAUTHORIZED BUT EFFECTIVE PURSUANT TO THE SECURITY PROCEDURES AND OTHER PROCEDURES AGREED TO HEREIN, BANK IS ENTITLED TO ENFORCE OR RETAIN PAYMENT FOR THE WIRE TRANSFER FROM CUSTOMER UNLESS THE CUSTOMER CAN PROVE THAT THE WIRE TRANSFER WAS NOT CAUSED, DIRECTLY OR INDIRECTLY, BY A PERSON EITHER (I) ENTRUSTED AT ANY TIME WITH DUTIES TO ACT ON CUSTOMER'S BEHALF WITH RESPECT TO SUCH WIRE TRANSFER OR THE SECURITY

PROCEDURES OR OTHER PROCEDURES HEREIN, OR (II) WHO OBTAINED ACCESS TO CUSTOMER'S TRANSMITTING FACILITIES OR WHO OBTAINED, FROM A SOURCE CONTROLLED BY CUSTOMER AND WITHOUT AUTHORITY OF BANK, INFORMATION FACILITATING A BREACH OF THE PROCEDURES, REGARDLESS OF HOW THE INFORMATION WAS OBTAINED OR WHETHER CUSTOMER WAS AT FAULT.

(d) Wire Transfer Procedures. Customer agrees to make all wire transfer transaction requests according to the security procedures that are set forth below. Notwithstanding the foregoing: (1) in the event that any third party wire transfer system imposes procedures upon Bank, Bank may immediately implement such procedures, followed by notice to the Customer; (2) Bank is not required to act upon any transaction request that does not comply with Bank's security procedures; (3) Bank is not required to act upon any transaction request which exceeds Customer's available balance on account with Bank or which Bank is unable to authenticate to its satisfaction; and (4) Bank may revise its security procedures upon notice to the Customer and in such case, such revised security procedures shall be binding upon the Customer.

(e) Security Procedures.

(i) Bank will only accept a funds transfer request that is made using the appropriate "Security Procedures" and codes. Bank always recommends that the Customer incorporate dual control authorities when initiating outgoing wires transfers. If the Customer chooses to allow a single Authorized Party to draft and approve an outgoing wire transfer request, Bank will require the Customer to document a waiver of this recommendation by completing a Waiver of Recommended Wire Transfer Procedure. Bank will assign personal identification numbers ("PINs"), user ID's, unique passwords, and security tokens (collectively referred to herein as "IDs") as applicable, which Authorized Parties will use to make transfer requests. The Customer understands and accepts responsibility for maintaining a high level of security in reference to such IDs.

(ii) Prior to initiating a transfer request, Bank may, but shall not be obligated to, confirm by telephone with an authorized representative of the Customer any third party transfer request. Third party transfer requests are defined to include any movement of funds from an account of the Customer maintained at Bank to an account of the Customer with a different name at another bank, as well as any movement of funds from Customer's account maintained at Bank to any company, individual or representative of any other company. The Customer understands that if and when Bank attempts to confirm transfers, a delay may occur pending an independent confirmation.

(iii) Each Authorized Party will have access to Bank's Online Banking System with the ability, as authorized, to draft and approve an outgoing wire transfer request through an ID. Each Authorized Party shall be permitted to make wire transfers by telephone and will be issued a PIN. It shall be the sole responsibility of the Customer to safeguard each ID. The effectiveness of the security procedures depends on the Customer safeguarding its IDs and limiting access to the service to Authorized Parties. Any act or omission of the Customer that permits any other party besides Authorized Parties to learn any Customer IDs and enables the outside party to use this information to use Bank's online banking system and/or telephone wire department destroys the security of the IDs and the results thereof are the responsibility of the Customer. In the event that Customer has reason to believe that any IDs have been compromised, the Customer shall immediately advise Bank by telephone. Upon such notification, Bank will issue new IDs to Customer's Authorized Parties. Until the new IDs have been issued, the Authorized Parties' use of Bank's online banking system and telephone wire department will be abated. In order to maintain a high level of security, each ID may be changed periodically by Bank. Before this occurs, Bank will notify the Customer of the impending change and supply applicable Authorized Parties with new IDs.

(iv) The Security Procedures to initiate Online Wire Transfers are as follows: Bank is hereby directed to complete all funds transfer instructions received from Customer using Bank's Online Banking System. Bank shall have no liability for performing all funds transfer instructions submitted through the service as long as Bank complies with the instructions received. Each Authorized Party designated to draft and approve a wire transfer request will have an ID, which shall include a user ID, unique password, and security token, to access the wire transfer system. Each Authorized Party may change his or her own password. Customer acknowledges and accepts sole responsibility for the security of each ID issued to Customer's Authorized Parties and access to the service, and agrees to hold Bank harmless for complying with all instructions received from Authorized Parties in connection with the service. Customer understands that Bank will not call the Customer to verify the authenticity or accuracy of any wire transfer instruction and that Bank will have no liability for performing each wire transfer instruction without verifying the instruction with Customer.

(v) The Security Procedures to submit wire transfer instructions by telephone with dual callback are as follows: When initiating a wire transfer request, the Authorized Party must contact the wire transfer department and provide specifics of the wire transfer request and his or her PIN.

This information includes, but is not limited to, his or her name, the Customer name, the User's PIN, the account number from which the funds are to be drawn, the amount of the transfer, the name of the bank and the bank's ABA number to which the funds are to be transferred and the name and account number of the receiving party to which the funds are to be transferred. When verifying the wire transfer instructions **the wire transfer department will call back to a different Authorized Party to confirm and verify the wire transfer request**. A PIN must be used to identify the individual verifying the wire transfer instruction. A facsimile is required on all third party wire transfers. Third party wire transfer requests are defined to include any movement of funds from an account of Customer maintained at Bank to an account of Customer with a different name at another bank, as well as any movement of funds from Customer's account maintained at Bank to any company, individual or representative of any other company at another bank.

(vi) The Security Procedures to submit wire transfer instructions by telephone with callback verification to the same person submitting the request are as follows: When initiating a wire transfer request, the Authorized Party must contact the wire transfer department and provide specifics of the wire transfer request and his or her PIN. This information includes, but is not limited to, his or her name, the Customer name, the User's PIN, the account number from which the funds are to be drawn, the amount of the transfer, the name of the bank and the bank's ABA number to which the funds are to be transferred and the name and account number of the receiving party to which the funds are to be transferred. When verifying the wire transfer instructions **the wire transfer department will call back to ANY Authorized Party, including the same Authorized Party who provided the instruction to confirm and verify the wire transfer request**. A PIN must be used to identify the individual verifying the wire transfer instruction. A facsimile is required on all third party wire transfers. Third party wire transfer requests are defined to include any movement of funds from an account of Customer maintained at Bank to an account of Customer with a different name at another bank, as well as any movement of funds from Customer's account maintained at Bank to any company, individual or representative of any other company at another bank.

(f) Transfer Requests. Requests for transfers may be initiated online by an Authorized Party or a User of the Customer providing to Bank the following information (i) User ID and password; (ii) multifactor authentication; (iii) the amount to be transferred; (iv) the bank to which funds are to be transferred, identified by name and transit routing number; and (v) the name of the receiving party and account number to which funds are to be transferred.

(g) Submission of Transfers. In order for Domestic Online Wire Transfers to be sent same day, a Wire Transfer Request must be submitted through phone to Bank's wire transfer department by 3:30 p.m. Central Time on a Business Day or through Bank's online banking software by 4:00 p.m. on a Business Day. Wire Transfers shall be deemed delivered to Bank when the applicable Security Procedures have been complied with and the submission to Bank is completed in accordance with the Agreement.

(h) Acceptance and Execution of Transfer Requests.

(i) Bank Acceptance of Requests. A Wire Transfer request from the Customer shall be considered accepted by Bank when Bank executes it.

(ii) Deadlines. The Customer acknowledges that Bank maintains deadlines for accepting Wire Transfer requests. Such deadlines are subject to change from time to time at the sole discretion of Bank. If a Wire Transfer request from the Customer is received after the deadline, it may be executed the next Business Day.

(iii) Bank Acceptance of Instructions. No instructions or other restrictions limiting Bank's acceptance of a Wire Transfer request from the Customer shall be effective unless accepted and agreed to in writing by Bank. However, Bank at its option may elect to act consistently with such instructions or other restrictions which it believes in good faith were made by an Authorized Party or User of the Customer.

(iv) Instructions. Bank shall make debits according to the instructions received from the Customer and credits according to the instructions received electronically for each request.

(v) Transmission. In executing any Wire Transfer request, Bank may utilize such means of transmission as it may reasonably select, including through the Federal Reserve Bank System ("Fed"). Bank may initiate Wire Transfer requests in any order convenient to it.

(vi) International Wires. In order for International Wires to be sent same day, a Wire Transfer request must be submitted as follows: International Wires in U.S. Dollars must be submitted through phone to the wire transfer department by 3:30 p.m. Central Time. International Wires in U.S. Dollars can be submitted through Online Banking until 4:00 p.m. Central Time. International Wires sent in foreign currency must be submitted by phone or through Online Banking to the wire transfer department by 12:30 p.m. Central Time.

(vii) Rejections by Bank. Bank may, in good faith, reject, except when prohibited by law, at its sole discretion, any transfer request it receives from the Customer (including any Authorized Party) for any reason. Bank shall notify the

Customer of Bank's rejection of the transfer request by telephone, electronic message, or U.S. Mail. Bank will comply with regulations issued by the U.S. Treasury's Office of Foreign Assets Control ("OFAC"). If any transfer request is to an entity listed on OFAC's list of Specially Designated Nationals and Blocked Persons, by law Bank shall not complete the transfer. Bank shall have no liability to the Customer as a result of Bank's rejection of any transfer request if it complies with the terms of this Agreement.

(viii) Rejection of Bank's Transfer Request. If Bank receives notice that a wire transfer transmitted by Bank has been rejected, Bank shall notify the Customer of such rejection including the reason given for rejection by telephone, electronic message, or U.S. mail. Bank will have no further obligation to transmit the rejected wire transfer if it complied with this Agreement with respect to the original transfer request.

(ix) **Revocation of Transfers. The Customer has no right to reverse, adjust, or revoke a Wire Transfer request after Bank has executed the Wire Transfer. If the Customer requests the reversal, adjustment or revocation of a Wire Transfer request, Bank may (but shall not be obligated to) attempt to recover the funds from the transferee using whatever steps Bank may deem appropriate. THE CUSTOMER EXPRESSLY AGREES TO INDEMNIFY BANK AGAINST ANY COSTS, EXPENSES, DAMAGES AND LIABILITIES, INCLUDING ATTORNEY'S FEES, WHICH BANK MAY INCUR IN ATTEMPTING TO EFFECT SUCH RECOVERY OF FUNDS. BANK MAKES NO REPRESENTATION OR WARRANTY AS TO ITS ABILITY TO REVOKE OR CANCEL A WIRE TRANSFER ONCE MADE.**

(x) Confirmation. Bank may send the Customer an e-mail confirming each executed Wire Transfer request.

(i) Reverse Wire Transfers. Bank will honor reverse transfer drafts subject to the terms of this Agreement and further subject to and conditioned upon Customer's execution of the Reverse Wire Transfer and Indemnity Agreement (the "Reverse Wire Agreement") provided by Bank. Upon execution of the Reverse Wire Agreement, Customer authorizes the credit party identified in such form (the "Credit Party") to initiate transfers from Customer's designated account(s) to Credit Party's account (each a "Reverse Wire"), each as identified in the Reverse Wire Agreement. Customer agrees that Bank's treatment of, or action related to, a Reverse Wire shall be treated as if Customer requested the transfer pursuant to the terms of this Agreement. The Customer further authorizes Bank to transfer funds pursuant to the Reverse Wires without further consent or authorization by the Customer. The Customer understands that this authorization applies to all Reverse Wires initiated by the Credit Party to the Customer's designated accounts. Customer understands and agrees that Bank will not honor Reverse Wires initiated by Credit Party from accounts other than Customer's designated accounts. If Customer desires Bank to accept Reverse Wires from accounts other than the Customer's designated accounts, the Customer and Bank must execute a new Reverse Wire Transfer Authorization Form to cover said accounts. The Customer understands and agrees that Bank will not confirm with the Customer that the Credit Party is authorized to make such Reverse Wires prior to accepting a Reverse Wire by the Credit Party. **Customer understands that Bank will not verify the authenticity or accuracy of any Reverse Wire initiated by the Credit Party with the Customer and/or the Credit Party and that Bank will have no liability for accepting each Reverse Wire initiated by the Credit Party without verifying the Reverse Wire with the Customer and/or the Credit Party. The Customer accepts full responsibility for and agrees to be bound by any and all actions of the Credit Party with regard to the transfer of funds from the Customer's designated accounts pursuant to the Reverse Wires initiated by the Credit Party.** Bank may decline any Reverse Wire request to the same extent it may decline any transfer hereunder. In the event Customer does not have sufficient funds in Customer's designated accounts at the time the Credit Party initiates any Reverse Wire, the Reverse Wire shall be denied. Further, if the Reverse Wire and associated Bank fees results in Customer having an overdrawn balance in Customer's designated accounts, Bank in its sole discretion may deny the Reverse Wire. Notwithstanding any provision herein to the contrary, Bank may honor any Reverse Wire request in conformance with the instructions outlined in the Reverse Wire Agreement. The Customer and/or Credit Party has no right to cancel, reverse, adjust, or revoke a Reverse Wire request after received by Bank; however, Bank may (but shall not be obligated to), act on the request if Bank receives the request prior to the time Bank executes such Reverse Wire, provided Bank has sufficient time, in its sole discretion, to effect such cancellation or change. The Reverse Wire Agreement shall remain in effect unless and until revoked in writing by an authorized representative of Customer and both Bank and Credit Party have each received such written notice and have had a reasonable period of time to act on such notice.

(j) Limitation of Bank's Liability. **BANK WILL NOT BE LIABLE TO CUSTOMER FOR ANY EXPENSE, CLAIM, LOSS, DAMAGE, OR COST ("DAMAGES") ARISING OUT OF OR RELATING TO BANK'S PERFORMANCE OR FAILURE TO PERFORM UNDER THIS SECTION OTHER THAN THOSE DAMAGES THAT RESULT SOLELY AND DIRECTLY FROM BANK'S ACTS OR OMISSIONS CONSTITUTING GROSS NEGLIGENCE, BAD FAITH OR INTENTIONAL MISCONDUCT AS**

DETERMINED IN A COURT OF COMPETENT JURISDICTION IN A FINAL NON-APPEALABLE ORDER.

IN NO EVENT WILL BANK BE LIABLE FOR ANY SPECIAL, INDIRECT, EXEMPLARY, PUNITIVE, OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO LOST PROFITS.

Bank will be excused from any failure to act or delay in acting, and no such failure or delay shall constitute a breach of this Section or otherwise give rise to any liability of Bank, if (i) such failure or delay is caused by circumstances beyond Bank's reasonable control, including but not limited to computer malfunction, legal constraint, emergency conditions, action or inaction of governmental, civil or military authority, fire, strike, lockout or other labor dispute, war, riot, theft, acts of terrorism, flood, earthquake or other natural disaster, breakdown of public or private or common carrier communications or transmission facilities, equipment failure, or negligence or default of Customer or Credit Party or (ii) such failure or delay resulted from Bank's reasonable belief that the action would have violated any of Bank's guidelines or policies, or rule or regulation of any governmental authority.

Bank will have no fiduciary duties under this Section to any other party, whether as trustee, agent, bailee, or otherwise.

Bank will have no duty to inquire into or determine the existence or enforceability of Customer's agreement with Credit Party. Bank shall not be deemed to have any knowledge (imputed or otherwise) of any of the terms or conditions of the agreement between Customer and Credit Party, or any breach thereof.

Bank may rely on notices and communications it believes in good faith to be genuine and given by the appropriate party, without any independent investigation and Bank shall have no duty to inquire into the authority of the person in giving such notice or instruction. Bank may accept, acknowledge or act upon any notice, instructions or other directions hereunder that contain minor mistakes or other irregularities. Bank may reject, except when prohibited by law, at its sole discretion, any Reverse Wire from Credit Party for any reason.

Notwithstanding any of the other provisions in this Section, in the event of the commencement of a case pursuant to Title 11, United States Code, filed by or against Customer, or in the event of the commencement of any similar case under then applicable federal or state law providing for the relief of debtors or the protection of creditors by or against Customer, Bank may act as Bank deems reasonably necessary to comply with all applicable provisions of governing statutes and shall not be in violation of this Agreement as a result.

(k) Indemnity. **CUSTOMER AGREES TO PROTECT, DEFEND, INDEMNIFY AND HOLD BANK, AND ALL OF ITS OFFICERS, DIRECTORS, SHAREHOLDERS AND EMPLOYEES HARMLESS FROM AND AGAINST ANY AND ALL CLAIMS, DEMANDS, CAUSES OF ACTION, SUITS OR OTHER LITIGATION (INCLUDING COSTS THEREOF AND ATTORNEYS' FEES) OF EVERY KIND OR CHARACTER ARISING OUT OF OR RELATING TO BANK'S PERFORMANCE OR FAILURE TO PERFORM UNDER THIS AGREEMENT OR ANY LOSS RESULTING THEREFROM, INCLUDING ANY LOSSES CAUSED IN WHOLE OR PART BY ANY NEGLIGENT ACT AND/OR OMISSION BY BANK OR ITS EMPLOYEES, OTHER THAN THOSE ULTIMATELY DETERMINED TO BE FOUNDED ON GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE BANK. THE DUTY TO DEFEND HEREUNDER IS INDEPENDENT AND SEPARATE FROM THE DUTY TO INDEMNIFY AND THE DUTY TO DEFEND EXISTS REGARDLESS OF ANY ULTIMATE LIABILITY OF CUSTOMER AND/OR CREDIT PARTY. THE DUTY TO INDEMNIFY CONTAINED HEREIN EXISTS INDEPENDENT OF CUSTOMER'S INSURANCE.**

WITHOUT LIMITING THE FOREGOING, CUSTOMER ACKNOWLEDGES AND AGREES THAT BANK SHALL BE ENTITLED TO CONCLUSIVELY PRESUME THAT ANY PERSON PURPORTING TO BE CREDIT PARTY OR AN AUTHORIZED REPRESENTATIVE OF CREDIT PARTY WHO INITIATES A REVERSE WIRE FROM CUSTOMER'S DESIGNATED ACCOUNTS SHALL BE DEEMED TO HAVE BEEN DULY AUTHORIZED FOR ALL PURPOSES. CUSTOMER FURTHER ACKNOWLEDGES AND AGREES THAT BANK SHALL INCUR NO LIABILITY TO CUSTOMER OR CREDIT PARTY FOR ACTING ON INSTRUCTIONS OR VERIFICATIONS GIVEN BY CREDIT PARTY OR A PERSON PURPORTING TO BE AN AUTHORIZED REPRESENTATIVE OF CREDIT PARTY AND CUSTOMER SHALL INDEMNIFY BANK FROM ANY LIABILITY ENSUING FROM SO ACTING, REGARDLESS OF ANY CONTRIBUTING FAULT OR NEGLIGENCE OF BANK EXCEPT IN CASES ULTIMATELY DETERMINED TO BE FOUNDED ON GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE BANK.

(l) Release and Waiver of Claims. **CUSTOMER HEREBY RELEASES, ACQUITS AND FOREVER WAIVES, DISCLAIMS AND DISCHARGES BANK FROM ANY AND ALL LIABILITIES, CLAIMS, DEMANDS AND/OR CAUSES OF ACTION ARISING OUT OF OR RELATING TO BANK'S PERFORMANCE OR FAILURE TO PERFORM UNDER THIS AGREEMENT OTHER THAN THOSE ULTIMATELY DETERMINED TO BE FOUNDED ON GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE BANK.**

CIF# _____

Payroll Card – Employer Terms and Conditions Agreement

First Financial Bank, N.A. **Region** Cleburne

Employer: _____

Introduction

This "Agreement" explains the Terms and Condition for Employer's participation in the Payroll Card Program offered by First Financial Bank. **It is important that Employer reads this Agreement in full and keeps a copy for its records.** This Agreement is a binding contract between First Financial Bank and Employer. By signing this Agreement, Employer agrees to be bound hereby, subject solely to modification hereof by the Bank as may be adopted pursuant to the terms of this Agreement.

Definitions

The "**Bank**" means First Financial Bank as the issuer and owner of the Card. The "**Card(s)**" mean(s) the MasterCard® branded Payroll Card issued by the Bank and subject to the Payroll Card Terms and Conditions Agreement. "**Employer**" means the commercial customer of the Bank who is direct depositing payroll funds for stored value on the Cards issued to said commercial customer's employees. "**Employee**" means someone who is paid by the Employer for work or services performed on Employer's behalf. "**Secondary Card**" means a Card ordered for someone by the Employee. The Payroll Card Program, offered by the Bank through TransCard LLC may be referred to herein as "**the Program**."

Program Participation

The Bank will enroll Employer in the Program and the Employer will offer participation in the Program to Employer's eligible Employees and eligible Secondary Card holders. Eligibility is established for Card holder through employment with Employer and through the Card ordering process as Employees and Secondary Card holders are screened against the Office of Foreign Assets Control's list of Specially Designated Nationals. Employees and Secondary Cardholders are subject to the Payroll Card Terms and Conditions Agreement. Employer will participate in the Program under the terms stated in this Agreement and any additional policies established by the Bank and communicated to Employer in connection with the Program. Employer may only participate in the Program for its internal business purposes and will not offer participation in the Program to any person other than Employees and eligible Secondary Card holders.

Fees and Payment

Employer agrees to pay the cost for the Initial Card Issuance Fee. Fees will be applied and deducted as negotiated with the Bank.

Transmission of Data and Security

Employer or Bank will enter the enrollment data for the Cards for each Employee in accordance with instructions provided by the Bank. Certain actions with respect to the Program will be conducted over the Internet. If Employer's enrollment data is not received, the enrollment will not be processed. The acceptance of Employer's data does not indicate confirmation that the data is error-free. The Bank understands the need to safeguard Employer's information and records from unauthorized use and disclosure. The Program application incorporates measures, including the use of data encryption, network firewalls and other security devices and systems, to attempt to protect Employer's and Employee's personal and business information. However, Employer acknowledges that the Internet is an open system and the Bank cannot and does not warrant or guarantee that third parties will not intercept business or personal information transmitted over the Internet related to the Program. The Bank or its respective agents may contact Employer or Employee by email, telephone, or other manner to communicate important maintenance, administrative, or security issues.

Employer Obligations

Employer shall ensure that each Employee provided with a Card has been properly identified by using the US Department of Homeland Security Employment Eligibility Verification, OMB No 16150047 or such other form as may be required by law or as may be required by the Bank from time to time.

Cards will be issued to Employees based on information provided by Employer. The Employer's representative signing this Agreement is duly authorized to execute the Agreement on behalf of the Employer. The Bank will take all instructions regarding Employer's participation in the Program from the person(s) named on the Payroll Card Program Set Up Form included with this Agreement. The Bank will not be liable for following such instructions. Employer will promptly review any Program confirmation prepared by the Bank for validity and accuracy according to Employer's records, and Employer will be solely responsible for any inaccuracies contained in such confirmation. Employer understands that funds delivered to the Employee(s) belong(s) to the Employee(s) and may not be returned to the Employer. Any adjustments due to overpayment must be negotiated directly with the Employee(s).

Employer shall adhere to Automated Clearing House guidelines as to submission of direct deposit information to provide allowable time for the direct deposit transaction to be applied to the Cards on the date due and acknowledges that failure to do so may result in a delay in loading the Cards.

Modification of the Program/the Agreement; Notices

The Bank reserves the right to change, modify, or add to the terms and provisions relating to the Program and this Agreement, including the fees required in connection therewith, at any time upon notice to Employer provided at least 30 days in advance of the effective date of such change, except that any change to the terms made to comply with laws or regulations may be effective immediately upon notice. Such changes, modifications, or additions will become effective upon the effective date specified in the notice. Notwithstanding the foregoing, changes to the Payroll Card Terms and Conditions Agreement may be made in accordance with that agreement. Employer's continued use of the Program following the effective date of the notice will constitute Employer's agreement to and acceptance of such changes, modifications, or additions. The Bank reserves the right to change, modify, or cancel the Program or any portion thereof at any time.

Terms and Termination of this Agreement

This Agreement will remain in effect, unless cancelled or terminated by either party upon 30-days prior written notice. Either party may terminate this Agreement at any time if the other party is in material breach of this Agreement and the breaching party fails to cure such breach within 10 days of receiving notice thereof. Employer's failure to fully pay any fees due within 10 days after the applicable due date shall be deemed a material breach. Upon termination, all rights and obligations hereunder will cease, except that Employer's obligation to pay the applicable fees and provide indemnification with respect to Employer's participation in the Program prior to the effective date of termination will survive. The Payroll Card Terms and Conditions Agreements will remain in effect for so long as the applicable Cards remain active in accordance with their terms. Employer will not be entitled to a refund of any fees paid by Employer in connection with the Program prior to termination.

Disclaimer of Warranties and Representations

THE PROGRAM IS PROVIDED ON AN "AS IS," "WHERE IS" AND "WHERE AVAILABLE" BASIS, WITHOUT WARRANTY OF ANY KIND. THE BANK AND ITS PROVIDERS EXPRESSLY DISCLAIM ALL WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING WITHOUT LIMITATION, ANY IMPLIED WARRANTY OF MERCHANTABILITY, FITNESS FOR PARTICULAR PURPOSE, NON-INFRINGEMENT, AND ANY IMPLIED WARRANTY ARISING OUT OF COURSE OF PERFORMANCE, COURSE OF DEALING, OR USAGE OF TRADE.

EMPLOYER ACKNOWLEDGES THAT NEITHER BANK NOR ITS AFFILIATES, NOR ANY OF THE RESPECTIVE EMPLOYEES, AGENTS, SUBCONTRACTORS, INDEPENDENT CONTRACTORS, THIRD-PARTY SERVICE PROVIDERS, THIRD PARTY CONTENT PROVIDERS OR LICENSORS OF EITHER OF THE FOREGOING, WARRANT THAT THE PROGRAM OR ANY ASSOCIATED SERVICES WILL BE

UNINTERRUPTED OR ERROR FREE; NOR DO THEY MAKE ANY WARRANTY AS TO THE RESULTS THAT MAY BE OBTAINED FROM THE USE OF THE SERVICE, OR AS TO TIMELINESS, SEQUENCE, ACCURACY, RELIABILITY OR COMPLETENESS OF CONTENT OF ANY INFORMATION SERVICE OR MERCHANDISE PROVIDED THROUGH THE PROGRAM.

EMPLOYER SHALL NOT RELY SOLELY ON ITS USE OF THE PROGRAM TO COMPLY WITH ANY LAWS OR GOVERNMENT REGULATIONS.

Limitation of Liability

IN THE EVENT THE BANK FAILS TO TIMELY LOAD A CARD, THE BANK'S SOLE RESPONSIBILITY WILL BE TO CORRECT THE ERROR. UNLESS THE FAILURE IS A DIRECT RESULT OF BANK'S WILLFUL AND INTENTIONAL FAILURE, THE BANK WILL NOT BE LIABLE FOR ANY OTHER DAMAGES RESULTING THEREFROM WHATSOEVER, WHETHER DIRECT OR INDIRECT, FORESEEABLE OR UNFORESEEABLE, CONSEQUENTIAL, PUNITIVE OR OTHERWISE, ALL OF WHICH ARE SPECIFICALLY AND EXPRESSLY WAIVED BY THE EMPLOYER.

IN NO EVENT WILL THE BANK'S LIABILITY TO EMPLOYER FOR DAMAGES HEREUNDER FOR ANY CAUSE WHATSOEVER, AT LAW OR IN EQUITY, EXCEED THE AMOUNT PAID BY THE EMPLOYER FOR PARTICIPATION IN THE PROGRAM DURING THE TWELVE MONTHS IMMEDIATELY PRECEDING THE DATE OF THE EVENT WHICH GAVE RISE TO THE LOSS OR INJURY. IN NO EVENT WILL THE BANK BE LIABLE FOR ANY LOST PROFITS, SPECIAL, DIRECT, INDIRECT, INCIDENTAL OR CONSEQUENTIAL OR OTHER SIMILAR DAMAGES ARISING OUT OF THIS AGREEMENT OR EMPLOYER'S USE OR INABILITY TO USE THE PROGRAM, HOWEVER CAUSED AND UNDER WHATEVER THEORY OF LIABILITY, EVEN IF THE BANK HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

THIS DISCLAIMER OF LIABILITY APPLIES TO ANY EXPENSES, DAMAGES OR INJURY CAUSED BY ANY FAILURE OF PERFORMANCE, ERROR OF OMISSION, INTERRUPTION, DELETION, DEFECT, DELAY IN OPERATION OR TRANSMISSION, COMPUTER VIRUS, COMMUNICATION LINE FAILURE, THEFT, DESTRUCTION, OR UNAUTHORIZED ACCESS TO, ALTERATION OF, OR USE OF RECORDS, WHETHER FOR BREACH OF CONTRACT, STRICT LIABILITY, TORTUOUS BEHAVIOR, NEGLIGENCE, OR FOR ANY OTHER CAUSE OF ACTION.

Miscellaneous provisions

The Bank performs this Agreement independently, not as an employee of the Employer. Nothing in this Agreement is intended to constitute the existence of a partnership, joint venture, or agency relationship between the Employer and the Bank.

EMPLOYER WILL INDEMNIFY AND HOLD HARMLESS THE BANK AND THE BANK'S PROVIDERS, OFFICERS, DIRECTORS, AGENTS, SUBSIDIARIES, AND EMPLOYEES FROM ANY AND ALL CLAIMS, LAWSUITS, DEMANDS, DAMAGES, COSTS OR OTHER EXPENSES, (INCLUDING REASONABLE ATTORNEYS' FEES) RESULTING FROM OR IN ANY WAY RELATED TO EMPLOYER'S USE OF THE PROGRAM, INCLUDING BUT NOT LIMITED TO, (I) EMPLOYERS BREACH OF ANY REPRESENTATION OR WARRANTY CONTAINED HEREIN OR ARISING BY OPERATION OF LAW, (II) ANY ACT OR OMISSION BY EMPLOYER TO EMPLOYER'S EMPLOYEES OR AGENTS, INCLUDING FRAUDULENT OR INCORRECT TRANSMISSION OF INFORMATION OR DATA, OR UNAUTHORIZED OR INAPPROPRIATE ACCESS TO THE BANK'S DATA FILES, (III)EMPLOYER'S FAILURE TO COMPLY WITH ANY APPLICABLE LAW, REGULATION OR RULE, (IV) EMPLOYER'S VIOLATION OF THE RIGHTS OF A THIRD PARTY RELATING TO EMPLOYER'S USE OF THE PROGRAM, OR (V) EMPLOYER' S OBLIGATIONS TO ITS EMPLOYEES.

Nothing in this Agreement creates or will be deemed to create any third party beneficiaries of or under this Agreement; the Bank will have no obligation to Employees or any other third party by virtue of this Agreement. Employer may not assign the

Agreement without the prior written consent of Bank. Any purported assignment without the consent of Bank will not be effective.

Notices may be given by the Bank in writing such as by mail or courier, or may be given electronically, such as by posting the modified Agreement on the Bank's website, by email, or by other electronic message to Employer as part of a session. Employer is responsible for reviewing these changes, amendments, and additions.

The Agreement and any modifications thereto by the Bank, including modification of the Program contain the entire agreement between Bank and Employer and supersede and cancel any prior or contemporaneous agreements, negotiations, or understandings between Employer and the Bank, whether written or verbal, with respect to the subject matter herein. No modification to this Agreement nor any failure or delay in enforcing any term, exercising any option, or requiring performance contained in the Agreement are cumulative and in addition to all other rights and remedies available to the Bank hereunder, by operation of law or otherwise. In the event that any provision of this Agreement is found invalid or unenforceable pursuant to judicial decree, to the greatest extent possible the remainder of this Agreement shall be valid and enforceable according to its terms.

This agreement shall be construed and governed by the laws of the State of Texas without giving effect to the conflict of laws provisions thereof. Any and all disputes between the Parties which may arise hereunder shall be heard and determined before an appropriate federal or state court located in Taylor County, Texas and not elsewhere. The Parties waive any objection they could otherwise assert to jurisdiction or venue in any of the above-identified courts.

EMPLOYER

Signature: _____

Name: _____

Title: _____

Date: _____

FIRST FINANCIAL BANK

Signature: _____

Name: _____

Title: _____

Date: _____

Payroll Card – Employer Terms and Conditions Agreement

Attachment A - Fees

Employer's initial card issue fee will be direct debited to the company account unless the company is on account analysis, then the appropriate account analysis charges will apply.

Employer Fees	Fee	Charged
Payroll Card - Initial Issue	$5.95	One Time per Card

Cardholder Fees

Schedule of Services & Fees†

Monthly Maintenance Fee	Free
Point of Sale Signature Transactions	Free
Money Move - Card To Card Transfer	Free
Money Load at Financial Institution	Free
Web Access Cardholder Portal	Free
Paynuver App Access	Free
Customer Service	Free
IVR Customer Service Support	Free
SMS / Email Alerts	Free
Balance Inquiry VRU	Free
Direct Deposit Load - Payroll / Tax Refunds / Government Benefits	Free
Online Statement	Free

Monthly Inactivity Fee	$4.95 (Cards with a balance will be assessed a monthly fee after 12 months of no activity.)
ATM Withdrawal - Domestic	$2.95
ATM Withdrawal - International	$3.50
ATM Balance Inquiry - Domestic	$1.25
ATM Balance Inquiry - International	$1.75
Point of Sale PIN Transaction - Domestic	$0.50
Point of Sale PIN Transaction - International	$0.50
Money Move - Card to Bank Transfer	$2.00
Over the Counter Cash Withdrawal	$5.00 (one free per pay period)
Currency Conversion Fee – International	3%
Card Replacement	$5.95
Card Replacement – Express	$25.00
Secondary Card Order	$5.95
Paper Statement	$5.00
Print a Check	$1.50 per check (one free per pay period)

Account Information

Routing Number	111301122
Account Number	
Charge Method	Select One:

Customer:_____ Billing Account #_____

Rep Name:_____ Pricing Approval:_____

Date_____ Waive Exp. Date_____

Officer:

Treasury Management Billing Sheet

Instructions: Indicate services sold by placing a check mark in the box to the left of the description and indicate agreed upon special price in the space to the right of the description. For special/exception pricing on other services, or for special instructions please make notes in the designated space at the bottom. Include this sheet with the agreement documents to be scanned to Treasury Management.

- ☐ ACH Origination Monthly Maint.
- ☐ ACH File
- ☐ ACH Item
- ☐ ACH Low Volume
- ☐ RDC Monthly Maint.
- ☐ RDC Item
- ☐ RDC Low Volume
- ☐ Account Reconciliation Services
- ☐ Account Reconciliation Item
- ☐ ACH Debit Block/Filter
- ☐ Positive Pay Monthly Maint.
- ☐ Positive Pay Exception Item
- ☐ Cash Management Service
- ☐ Repurchase Sweep
- ☐ Loan Sweep
- ☐ ZBA Sweep

- ☐ RDC Item Archive
- ☐ Enhanced Business OLB (SSO) Opt Out

NOTES:

* Exception pricing on Account Maintenance, Wire Transfers, or ECR subject to approval.

Payroll Card Program
Set-up Form

Section 1 – Employer Information			
Employer Name:			
Contact:			
Phone:		Email:	
Physical Address: **(to send cards)**			
City, State, Zip			

Section 2 – Program Set-up Information			
Card Type:	☐ Instant Issue	☐ Personalized	☐ Both
Quantity of Instant Issue Cards: **(to be sent upon implementation)**			

First Financial Bank Treasury Management will submit this form to tmclientsupport@ffin.com.

Payroll Card Application

EMPLOYER: _____

All fields must be completed to process your application.

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT: To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means to you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying information.

CARDHOLDER INFORMATION

_____
*Social Security Number or Taxpayer ID Number

_____
*Employee First Name MI Last Name

_____
*Mailing Address (No PO Boxes)

_____
*City *State *Zip

_____
*Date of Birth (MM/DD/YYYY)

_____
*Primary Phone Number Secondary Phone Number (optional)

_____
Email Address (optional)

Citizenship: ☐ U. S. Citizen ☐ Non-U.S. Citizen

If you are not a citizen of the United States, please provide one of the following forms of identification:

☐ U.S. issued Alien Identification ☐ Passport

☐ Other Government Issued Identification
(Example: Matricula Consular Card)

Type:_____

_____
Country of Issuance

_____
Number Expiration Date (month/day/year)

Address where card is to be mailed: (No PO Boxes)

_____

_____

_____

AUTHORIZATION AGREEMENT

Return completed, signed and dated application to your Employer

I hereby authorize First Financial Bank to issue a Payroll Card to me. I understand that by accepting, activating, and using this card I agree to: (1) the Payroll Card Cardholder Agreement that accompanies my card, and (2) changes to, or replacement for, the Cardholder Agreement, which may be sent or made available to me from time to time. This Authorization Agreement for a First Financial Payroll Card will authorize my employer to electronically Direct Deposit via ACH my periodic salary/compensation payments, and if necessary, debit entries and adjustments for any credit entries in error to my Payroll Card account. This authority will remain in effect until I notify my employer in writing to cancel it and my employer and First Financial Bank have a reasonable opportunity to act upon my request. I understand that I may withdraw funds using an Automated Teller Machine (ATM) (subject to certain withdrawal limits as disclosed in the Payroll Card Terms and Conditions), point-of-sale ("POS") terminals, and wherever MasterCard® debit cards are accepted. By signing this application, I also hereby authorize First Financial Bank to debit my First Financial Payroll Card Account, without notifying me, for the fees described on the card carrier. I understand First Financial Bank may charge those fees at any time. As the property of First Financial Bank, the surrender of this card may be required at any time.

_____
Applicant's Signature

_____
Date

You will receive your card by mail or from your employer before payday.

You must activate your new Payroll Card to begin using it. To activate online, visit www.ffin.com/mypayrollcard, enter your card number under New User Registration, and click Register. To activate by phone, **call 1-800-416-6373**.

Unauthorized Transaction Amounts by Authorized Persons
If you authorize someone else to use your Card and/or PIN, you are and shall be held responsible for all Transactions, which that person initiates at any time, even if the amount of the Transaction(s) exceeds what you had authorized.

Documentation
You should receive a receipt from the merchant when you make a purchase or withdraw cash using the Card at either a POS device or ATM. You should retain this receipt to compare it with the Transactions recorded by the Bank. You will not receive any statement detailing your Transactions or Card Value unless you request a sixty (60) day written history of account Transactions and pay the applicable Print Transaction Fee specified in the Fee Schedule on your card carrier. You may make this request by calling 1-800-416-6343 or by writing to us at TransCard Customer Service, 4080 Jenkins Rd., Suite 200, Chattanooga, TN 37421. You are waiving the right to receive any statement other than by following the procedures specified herein. However, **you can receive your Card Value information free of charge by calling 1-800-416-6373. This information, along with a sixty (60) day history of your Transaction activity, is also available online by logging onto www.ffin.com/mypayrollcard. Both of these services are available 24-hours a day, seven (7) days a week.**

Lock Box Operating Agreement

This Agreement is entered into between _____ (the "Customer") and **FIRSTFINANCIAL BANK, N.A.** (the "Bank"). References to the Lock Box Set Up Sheet shall mean the Operating Instructions, including any and all additions attached, and made a part of this agreement.

STANDARD LOCK BOX

1. Remittance Collection: The Bank will collect the contents of the post office box identified on the Lock Box Set Up Sheet or each banking day (any day on which the Bank is open for normal business) at such times as the Bank may establish. The Bank will open the envelopes or other contents of the box, remove and inspect the checks and enclosures and handle the checks and enclosures as provided herein. An acceptable check is one which conforms with the following:
    a. Payee: The name of the payee on the check shall be one of the names listed on the Lock Box Set Up Sheet or a reasonable variation thereof.
    b. Date: The date of the check may be any date which is not six months old or older and not postdated, or the date may be missing, in which event the Bank shall insert the current date with a date stamp.
    c. Amount: Either a written or numerical amount shall be given, but if they differ the Bank will guarantee the written amount. If the check contains protectograph figures, such amount will be guaranteed by the Bank.
    d. Signature: The check must bear the drawer's signature or indicate the drawer's name. If there is no signature, the check will be bundled as an unprocessable item and delivered to the Customer with the daily work.
    e. Alterations or Restrictions: The checks shall not contain any handwritten or typed alterations or, unless otherwise stated in the Lock Box Set Up Sheet, contain any notations stating "payment in full" or the like. The Bank will deliver checks with Alterations or Restrictions bundled with other unprocessable items.
2. Processing Acceptable Checks: Acceptable checks shall be processed and deposited as received in the following manner:
    a. Endorsement: The Bank will endorse each check as follows: Cr to Account of Payee, Endorsement Guaranteed, First Financial Bankshares.
    b. Deposits: The Customer's account will be credited in an amount equal to each check, as indicated on the instructions, at which time the Customer shall become a depositor of the Bank with respect to those checks and the collection of such checks shall be governed by the Uniform Commercial Code as adopted in the State of Texas and the Customer's Signature Card Agreement as well as this Agreement.
    c. Remittance Material Disposition: All statements, invoices, communications and other papers accompanying such checks shall be delivered to the Customer in the customary manner of the Bank, or in such other manner as may be specified in the Lock Box Set Up Sheet. A photocopy or copy of the image of each check deposited will be made and will be enclosed and attached to the envelope and accompanying papers with respect to the check, upon request.
    d. Record Maintenance: The Bank will maintain record of each check deposited, which record will be retained by the Bank for 7 years, in order to reconstruct any specific deposit by means of duplicate images or copies should the need arise and a request be made by the Customer (subject to the payment of the Bank's then prevailing charge for such service).
3. Processing of Unacceptable Checks: All items which are not acceptable checks shall be returned to the Customer along with all statements, invoices, communications and other papers accompanying such item which item and papers shall be delivered in the customary manner of the Bank or in such other manner as may be specified in the Lock Box Set Up Sheet.

4. Returned Checks: Checks deposited to the Customer's account which are returned un-paid because of "insufficient funds" or "uncollected Fund, " or the like, will be redeposited and handled for collection by the Bank only once. If redeposit is not warranted for reasons such as "account closed" or "payment stopped" or if a check is returned unpaid a second time, the Bank will charge the Customer's account for the amount of the check and send the check with debit advice to Customer at the address stated on the Lock Box Set Up Sheet. The charge for returned checks will be the prevailing rate as specified by the Bank.
5. Remittances Received at the Customer's Office: Remittances which are sent directly to the Customer may be forwarded to the post office box indicated on the Lock Box Set Up Sheet and used in connection with the Agreement. The Customer should place remittances including any accompany papers in the original envelopes into another envelope appropriately addressed.
6. Foreign Currency: Checks drawn in foreign currency will be processed on a collection basis only. Credit will be posted upon receipt of paid collections less all fees and charges.
7. Price: In consideration of the Bank's services as specified herein, the Customer will pay the Bank the price or fee for such service as specified on Attachment A. The price specified thereon is to be subject to change, however, upon the Bank's giving the Customer thirty (30) days prior written notice.
8. Expenses:
    a. Any expenses incurred by the Bank in connection with this Lock Box Agreement (i.e. post office rental, postage & exchange charges) may be initially paid by the Bank. The Customer agrees it shall be responsible for all such expenses and the Bank may obtain reimbursement by charging the Customer's account concurrently with providing the Customer an advice of such charge.
    b. Any expenses incurred by the Bank in clearing non-par checks will be charged to the Customer's account.
9. Hold Harmless and Indemnification: The Customer agrees that the Bank shall not be liable to the Customer for any acts done or steps taken or omitted by it in good faith, or for any mistake in fact or law, or for anything it may do or refrain from doing in connection with or as required by this Agreement, except for gross negligence or willful misconduct. In addition, with respect to all claims, demands, suits or controversies raised by third parties (including judgments related thereto), the Customer agrees to reimburse and indemnify the Bank for, and hold it harmless against, any loss, liability, claim, demand, suit, controversy and/or judgment arising out of or in connection with 1) the Bank acting as the collector/processor/administrator for the Customer's Lock Box; and 2) any and all acts done or steps taken or omitted by the Bank, or for any mistake in fact or law, or for anything it may do or refrain from doing in connection with or as required by this Agreement, except for gross negligence or willful misconduct. This indemnity agreement includes Customer paying all costs and expenses, including but not limited to reasonable attorney's fees, incurred in defending against any claim or liability arising out of relating to this Agreement, regardless of whether such cost or expense is incurred by the Bank or the Customer.
10. No Oral Agreement: With the exception of price changes, which require only prior written notice to the Customer as provided above, this Agreement may be amended only by written agreement signed by both parties.
11. Termination: This Agreement may be terminated by either party at any time by giving thirty (30) days prior written notice to the other party.
12. Entire Agreement: This Agreement supersedes all prior agreements between the parties relating to its subject matter. There are no understandings or agreements between the parties concerning the subject matter of this Agreement other than as set forth herein and in the Lock Box Set Up Sheet.
13. Notices: Any notices given under this Agreement by a party shall be sufficient if in writing and mailed by certified mail, return receipt requested, postage prepaid, to the other party at the address listed in the signature section of this Agreement, unless such party gives the other party written

notice by certified mail, return receipt requested, postage prepaid, of a change of address, in which case the notice shall be sent to the updated address.

14. Non-Waiver: No delay or failure by either of the parties hereto to exercise any right under this Agreement and no partial or single exercise of that right shall constitute a waiver of that or any other right unless otherwise expressly provided herein.
15. Counterparts: This Agreement may be exercised in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
16. Binding Effect: The provisions of this Agreement shall be binding upon and inure to the benefit to the parties hereto and the parties' respective successors or assigns.
17. Governing Law: This Agreement shall be governed according to the laws of the State of Texas. The venue for any action arising out of the subject matter of this Agreement shall be Taylor County, Texas.
18. Invalid Provisions: In case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.
19. Headings: Headings in this Agreement are for convenience only and shall not be used to interpret or construe its provisions.

This Agreement is acceptable to both the undersigned parties and executed this _____ day of _____, 2017

CUSTOMER
Address: _____
_____

By: _____
Name: _____
Title: _____

BANK
Attention:
P.O. Box 701
Abilene, Texas 79604

By: _____
Name: _____
Title: _____

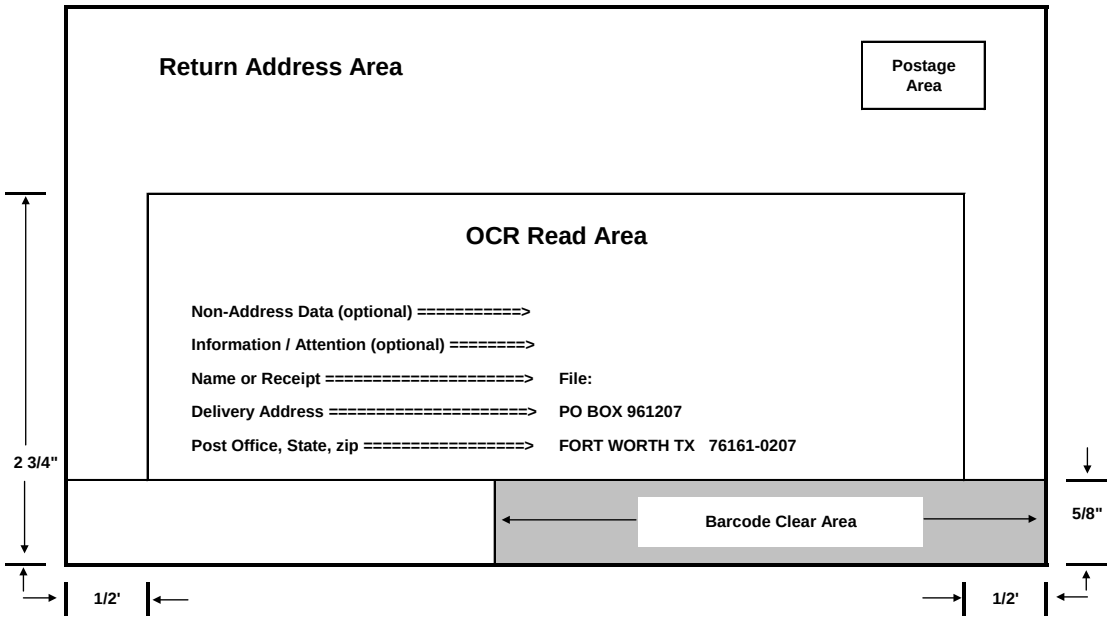
Bank
And
Customer
Lock Box Agreement
Attachment A

Pricing Schedule

Lock Box Services	
Monthly Maintenance	**$150.00**
Caller PO Box per month	**$ 20.00**
Wholesale per item	**.60**
Price per keystroke	**.01**
Online Reporting	**$125.00**
Scanned Check	**.05**
Scanned Document	**.05**
Report Delivery	**Variable**
Optional Services	
CD-ROM Weekly	**$ 10.00**

REMITTERS' ADDRESS SPECIFICATIONS

For Addressing of US Mail to the Caller Box



FIRST FINANCIAL BANK

Wholesale Lockbox Service Setup Detail

Completed by _____ Date Completed _____	_____ Phone	☐ New ☐ Change ☐ Delete	
Approximate # of items expected to receive per day (This # will determine size of PO box needed)	**# of Items**		**Customer Lockbox Address** _____ Identifier/Department **P.O. Box** _____ _____
Company _____			**1 Customer Name** As displayed on Account
Contact Name _____ Contact Phone _____			**2 Lockbox Customer Contact** For all questions related to lockbox services. Area code required, extension if applicable.
☐No ☐Yes – Business Associate Agreement Required when handling mail from health care providers			**Health Insurance Portability and Accountability Act (HIPAA)** Does payment remittance contain customer medical information?
FFB Account Number _____ Billing Account Number ☐ same as deposit account or _____			**3 Lockbox Deposit Account and Billing Account Number(s)**
Payees or ☐ Accept All _____ _____ _____ _____ _____ _____			**4 Acceptable Payees** List name(s) of acceptable payees for the checks coming into the Lockbox.
☐ No (credit card pymts will be considered as non-financial data, viewable in Online Banking with ability to enter payment manually) ☐ Yes: First Data Corp. Merchant ID _____			**5 Credit Card Payment Instructions** Only available for First Data Corp. Merchants
☐ Standard Remittance Handling or ☐ Return Envelopes ☐ No copies required ☐ Staple ☐ Reassociate check image with remittance ☐ Reassociate check image with remittance and envelope ☐ Hold for 30 business days then destroy (complete 8 for correspondence and unprocessables)			**6 Remittance Processing** Standard handling means return check copies and remittance materials, discard envelopes. Make any additions or deletions from Standard by checking all that apply, additional charges may apply
☐ Standard Distribution, US mail to _____ _____ _____ _____ ☐ Hold in Lockbox for pickup by Company or Company's Courier ☐ Next day delivery to _____ banking center for customer pickup ☐ Courier to Company/Express Mail (Customers' Expense) Courier Company and account number _____ For delivery to this address _____ _____ _____ _____ Who is authorized for package pickup:			**7 Primary Remittance Distribution** Indicate how you want the original set of remittance materials distributed. Any selection other than Standard or Hold for pick up will cause additional charges to apply.

☐ None or Number of additional check images _____ Number of additional CD ROM's 1 ☐ Send with Remittance Materials, packaged separately ☐ US Mail to _____ _____ _____ _____ ☐ Next day delivery to _____ banking center for customer pickup. ☐ Hold in Lockbox for pickup by Company or Company's Courier ☐ Courier to Company/Express Mail (Customers' Expense) Courier Company and account number _____ For delivery to this address _____ _____ _____ _____	**8 Alternate Remittance Distribution** Provided instructions for any additional check images. Or Additional CD ROM's
☐ None, skip to 11 ☐ Yes, for Financial Transactions; list required data entry fields (payee, invoice number, etc) _____ ☐ Yes, for Non-Financial Transactions(if selected in Number 11 below); list required data entry fields (payee, invoice number, etc) _____	**9 Data Entry Requirements** Please provide samples of all remittance materials Provide the payment data requested for daily spreadsheet.
☐ Fax to _____, Attn _____ ☐ Data Transmission through Message Center in Online Banking (Lockbox Data Transmission and Com Detail SSDs required)	**10 Data Entry Report Delivery Method** Allow for a four week lead time for a data transmission.
☐ No ☐ Yes, Online Banking Company Name _____ ☐ Checks only ☐ Checks and Remittance Materials ☐ Checks, Remittance Materials, and envelopes ☐ Non-Financial Transactions only ☐ Non-Financial Transactions and envelopes ☐ Download of System/Deposit Report ☐ PDF file of images (includes front and back) Company Name on PO Box _____ Online Banking User Name(s) requested:	**11 Internet delivery of Images on Cash Manager** If you choose Internet delivery of Images your deposit amounts will be provided in Online Banking automatically, on the Lockbox pages. Indicate any online images options desired. PDF files recommended for high volume customers. Provide names of Online Banking users for Online Access to Lockbox payment information.

☐ No ☐ Yes, Company Name (as in Online Banking) ☐ Cancel Long Term Archive Lockbox payment images are stored for 45 days, then deleted. If long term access is required, customers must copy items to a location on their network or subscribe to Long Term Image Archive.	**12 Long Term Image Archive** Must have Internet Delivery of Images as described in Section 11. This option provides for access to Lockbox Images, as identified in Section 11, for up to 7 years. If cancelling Long Term Archive option, customer will convert to the standard 45 day option, unless otherwise requested.
For customers accessing information in Online Banking: You must notify TM Client Support immediately, if a Lockbox Payment you view online needs to be returned. Email address for lockbox exception notice(s): _____ _____ _____ Processing site: Esters Blvd, Irving, Texas	**13 Online Exception Processing:** Must have internet delivery of images as described in Section 11. (provide multiple email addresses to cover for vacations) Users who have access to Lockbox reporting in Cash Manager will have the authority to make decisions on exceptions. Deadlines and processing details must be coordinated with Lockbox Site Manager and Statewide Lockbox Coordinator. Identify Lockbox Processing Site
☐ No If yes, ☐ Checks only ☐ Checks and Remittance Materials ☐ Checks, Remittance Materials, and envelopes ☐ Non-Financial Transactions ☐ Non-Financial Transactions and envelopes Frequency: ☐ Monthly, ☐ Weekly, ☐ Daily Date to begin _____ Distribution of CD's ☐ Primary address (#7 above), Quantity _____ ☐ Alternate Address: (#8 above) Quantity _____	**14 Images on CD ROM** Sample remittance materials & envelopes must be tested prior to implementation.
A. Name _____ E-mail _____ Telephone _____ Fax _____ **B.** Name _____ E-mail _____ Telephone _____ Fax _____ **C**. Name _____ E-mail _____ Telephone _____ Fax _____	**15 Authorized Transactional Users:** these individuals will be authorized contacts for Lockbox inquiries.

Comments or Special Instructions _____	**Things to Discuss** - Customers who get images on the internet and on a CD are not charged twice for the images - Checks that are missing dates, postdated, stale dated and missing signature will be processed. - Lockbox deposits can be seen on the Current Day report in Online Banking.

FOR INTERNAL USE ONLY:

Billing Account # : Primary Relationship # :

Monthly Maintenance (500) ☐ yes or ☐ no (Retail Exceptions only)

☐ Image Delivery - Internet (516) ☐[1] CD Monthly (519) ☐ Branch Delivery (570)

☐ Image File Delivery (571) ☐ FTP Customer Report (574) ☐ Data Transmission (560)

☐ Long Term Storage up to 7 yrs (578-check, 580-invoice) ☐ Extended Storage-up to 180 days(573)

NIGHT DEPOSITORY AGREEMENT

(Name of Financial Institution) | Title of Account

(Address of Financial Institution) | Account Number

In consideration of the Financial Institution furnishing Night Depository service, undersigned consents and agrees to the rules and regulations with respect thereto as set forth on page 2 of this agreement and as the same may be amended by Financial Institution from time to time, said rules, regulations and amendments thereto, being hereby made a part of this agreement.

Until further notice to Financial Institution in writing, any one of the persons whose specimen signatures appear below under the caption "Authorized Signatures for pickup of Lock Bag Deposits" may be regarded by Financial Institution as duly authorized to act for the undersigned to do and perform all acts required or deemed advisable under this agreement.

Receipt is hereby acknowledged of ____ keys to the entrance door of said Depository, also a copy of this agreement and the rules and regulations referred to above.

This agreement shall not be transferred or assigned by the undersigned without your written consent. By execution, you and we agree to be bound by this agreement. You also acknowledge receipt of the lock bag(s) and keys described below and a copy of this agreement.

By: (Authorized Signer) | (Title) | (Date)

By: (If Two Signatures Required) | (Title) | (Date)

(Address) | (Telephone Number)

By: (For the Financial Institution) | (Date)

Authorized Signatures for pickup of Lock Bag Deposits

Name | Signature

Name | Signature

Name | Signature

Name | Signature

Plan No. ____ (Plan No. 2, as explained on page 2, will be used if Plan No. is not specified in the blank.)

Lock Bag No. _____, _____, _____, _____, _____, _____, _____

Release

Date: _____

The undersigned User hereby acknowledges that all of the property deposited in the Night Depository of the Financial Institution pursuant to the foregoing Agreement has been returned to the User and all keys to the depository are hereby surrendered.

Title of Account

By: (Authorized Signer, Title)

By: (For the Financial Institution)

Keys received by:

Night Depository Service

1. Deposits may be placed in the Night Depository under either of the following plans:

Plan No. 1: Financial Institution shall furnish to User a depository pouch with padlock and keys. User shall reimburse Financial Institution for the cost of such pouch and keys. User shall list the deposit on the deposit slip and shall itemize the currency and each check, draft, or other item included in the deposit. The User must retain for his own records a duplicate of such deposit slip. The deposit shall then be placed in the bag or other instrumentality provided by the Financial Institution and deposited in the Night Depository. Financial Institution may remove the pouch from the Depository and hold the same until called for. Upon the next business day following the night when any such deposit shall have been made, User or his Accredited Representative will appear in person at the Financial Institution and identify and claim the pouch. Financial Institution will deliver such pouch to User, or to his said Accredited Representative, upon his written receipt therefor. If desired by User, User or the Accredited Representative may then open the pouch and deposit the contents to the credit of the User. No relationship of debtor and creditor shall arise between the Financial Institution and User until such deposit shall have been made in the usual manner and credit entered in User's account. If the pouch is not claimed by User within five (5) business days after it is found by the Financial Institution in the Night Depository, the Financial Institution may then, or at any time thereafter, forcibly open the same in the presence of any two of its officers and employees, remove the contents therefrom and hold the contents in safekeeping for the User or deposit the same to the credit of User's account as Financial Institution may elect.

Plan No. 2: Financial Institution shall furnish to User a pouch, bag, envelopes, or other similar means and keys by which User can make a deposit in the Night Depository. User shall reimburse Financial Institution for the cost of such items and keys. User shall list the deposit on the deposit slip and shall itemize the currency and each check, draft, or other item included in the deposit. The User must retain for his own records a duplicate of such deposit slip. The deposit shall then be placed in the bag or other instrumentality provided by the Financial Institution and deposited in the Night Depository. Upon the next business day following the night when any such deposit shall have been made, or sooner if the Financial Institution so elects, the Financial Institution shall open the deposit bag, pouch, or envelope, verify the deposit and credit the account of the User in an amount equal to the amount of the deposit actually received. If the verification discloses any discrepancy between the amount of the deposit as shown on the deposit slip and the amount of the deposit actually received, Financial Institution shall promptly notify User of such discrepancy. No relationship of debtor or creditor between Financial Institution and User shall arise until the bag or pouch has been opened by the Financial Institution and the deposit has been credited to the User's account, and the Financial Institution shall be liable only for the deposit actually received and credited by it to User's account as hereinbefore described.

2. The findings and records of the Financial Institution made jointly by any two officers or employees as to the presence in or absence from the Depository of any deposit and as to the contents thereof shall be conclusive and binding upon User.
3. If the key to the entrance door is lost, a new one may be purchased from the Financial Institution.
4. The Financial Institution may terminate the Night Depository Agreement with any User at any time by mailing notice to the User and in the event of such termination, or of any other discontinuance of the use of the Depository by the User, all keys to the entrance door of said Night Depository furnished under the agreement will be immediately returned to the Financial Institution or if not returned the User will reimburse the Financial Institution for the value thereof.
5. The Night Depository is to be used only for the deposit therein of cash and checks, drafts or other like items, and is not to be used for any dangerous or unlawful purpose.
6. The Financial Institution reserves the right to withdraw the Night Depository from use at any time without notice in case of emergency or need for repairs and shall not be liable for any loss resulting therefrom. The Financial Institution shall not be responsible or liable at any time for the operation, safety or condition of the Night Depository or of any keys, locks, pouches, or envelopes for use in connection therewith.
7. The relationship between the User and the Financial Institution as to all property placed in the Night Depository shall be that of bailor and bailee of such property and the Financial Institution shall not be liable to the User as an insurer of said property.
8. These rules and regulations may be amended or rescinded or new rules and regulations may be made by the Financial Institution and any changes so made shall be binding upon the User of the Night Depository from and after the personal delivery or mailing to him of a copy of such changes.

Statement on CD Request Form
Information Necessary for the Imaging CD-ROM Disk

Primary Account Number: _____

Title on Primary Account: _____

Contact Person for Bus.: _____

Bus. Phone #: _____ Statement Cycle on Primary Account: _____

Please charge this account for the $10 monthly fee: _____ OR

Please charge the monthly fee to analysis: _____

PLEASE LIST OTHER ACCOUNTS THAT NEED TO BE COMBINED ON THIS CD

Account Number	Stmt Cycle	Account Number	Stmt Cycle

Mail CD-ROM Disk to the Following Add _____

_____

OR

_____

Hold CD-ROM Disk for Pick-Up at the Following Lobby Location:

PLEASE FORWARD A COPY TO FIRST TECHNOLOGY SERVICES HELP DESK

FORM COMPLETED BY: _____

Electronic Data Interchange (EDI)
Services Request Form

First Financial Bank will send, through the secure Message Center within Online Banking, payment related addenda records attached to your ACH transactions posting to the accounts listed below.

Please establish EDI services for the following company (Name & Mailing Address):

Company Name: _____

Address: _____

_____

_____

Tax ID: _____ CIF: _____

Primary Contact: _____ Phone: (____) _____

Alternate Contact: _____ Phone: (____) _____

FAX: (____) _____

Company Representative: _____ Online Banking User ID: _____

Company Representative: _____ Online Banking User ID: _____

Company Representative: _____ Online Banking User ID: _____

Company Representative: _____ Online Banking User ID: _____

Account Numbers: _____

_____

_____

_____ _____

Signature of Requesting Official
(Authorized signer on checking account)

Date

Please send completed forms to Treasury Management.
Email: tmclientsupport@ffin.com or Fax: 325 627-7352 (internal # 3 01 7352)

No worries. You always know
where your cash is with **SafePoint.®**
LOOMIS
SafePoint®

SafePoint® lets you focus on your customers and employees,

instead of on the day-to-day management of your cash.

"At our 29 stations, it's safe to say we're pleased with the **SafePoint®** *solution. SafePoint® has improved our store security, enhanced information reporting, reduced time spent counting cash and reconciling deposits, reduced banking fees, and increased our overall cash flow."*

– David Burrow, Conico Management

As a business owner, you often focus valuable time on managing each step of the cash handling process.

Manually counting cash, preparing and making deposits, and attempting to control cash shortages takes away valuable focus from running your business.

Frequently, this loss of focus results in increased operating costs, lost sales, less time spent with customers, and lost profits.

The **SafePoint®** solution from Loomis helps you to redirect your focus to the critical task of growing your business.

Through the integration of our smart safe, cash management services and armored transportation, we close the gaps in the cash handling loop where your revenue disappears.

With **SafePoint®** you reduce cash shortages, improve security, and increase profits.

The SafePoint® solution delivers:

- **Reduced or eliminated cash shortages.**
  SafePoint® pushes employee accountability through your operation, and closes the gaps where cash disappears.

- **Improved security for you and your employees.**
  SafePoint® dramatically reduces the risks of robbery, injury and the liability associated with making bank cash deposits. The risks of having large amounts of cash available on-site are also minimized.

- **Increased profitability.**
  The reduction of cash shortages that SafePoint® provides and the reduction in time spent managing cash handling frees up time for improving business operations and increasing the quality of customer service, resulting in higher profitability.

The small footprint of the SafePoint® smart safe expedites installation, while rugged construction provides a strong deterrence to unauthorized access.

SafePoint® provides businesses with:

Dramatic **Risk** Reduction

- *Increased security and safety means employees aren't at risk making daily deposits.*
- *Increased employee accountability and tracking visibility leads to a dramatic reduction in cash shortages.*

Renewed **Operations** Focus

- *The need for cashier deposit counting and bank deposit preparation is eliminated, freeing up valuable management time.*
- *Improved productivity and accountability allows for greater focus on running your business.*
- *Daily armored car pick-up is cut back, reducing associated labor, payroll and operating costs.*

Enhanced **Financial** Reporting

- *Improved liquidity and cash flow with provisional credit and daily deposit posting saves valuable time at every level of your organization.*
- *Increased accounting information simplifies following and reconciling the cash.*

The SafePoint® solution provides:

- **Secure, accurate cash handling.** SafePoint® smart safes count and validate your cash, reject counterfeit money, and secure your cash – streamlining all cash handling procedures and improving cash position accuracy.

- **Data at your fingertips.** The SafePoint® automated reporting system provides detailed reports at each step of your cash flow in realtime online or via dedicated wireless modem.

- **The secure presence of armored transportation.** Armored transportation discourages robberies by conveying to potential criminals the message that targeting your operation isn't worth the risk involved.

- **The Loomis Guarantee.** Once your cash is in the safe, your funds are guaranteed against loss, robbery or theft. To expedite availability of your funds, Loomis partners with over 85 financial institutions so that once cash is verified in your safe, it posts to your bank as provisional credit.*

With SafePoint,® you don't have to worry about all the risks that managing cash brings to your business.

No worries. You know where your cash is with **SafePoint.®**

* See your Loomis representative for more information on this service. The Loomis Guarantee is subject to certain limitations and restrictions.

Closing the gaps where cash shortages occur increases both employee accountability and security, ultimately improving profitability for your business.

How **SafePoint®** works.

1

You collect cash from your customers for SafePoint® deposit. Deposit information is accessible for bank credit purposes or sent to your corporate headquarters.

2

You deposit your cash into your onsite SafePoint® safe.

3

Loomis messengers arrive at your location to empty safe of contents or to deliver free change orders.

4

Deposits are delivered to Loomis for deposit consolidation and verification for final delivery to the bank.

5

Deposit information is accessible for bank credit purposes or sent to your corporate headquarters.

The Loomis **Guarantee**

SAFEPOINT® VALIDATED CASH
THE LOOMIS GUARANTEE
100% AUDIT REPORT GUARANTEED
LOOMIS SafePoint®

Loomis guarantees that once your cash is validated with the SafePoint® safe, your money is insured against loss and destruction due to external theft, robbery, flood or fire.

Loomis guarantees that the amount listed on any SafePoint® validating safe's Audit Report will accurately reflect the contents of that safe.*

No worries. **You always know where your cash is with SafePoint®.**

** See your Loomis representative for more information on this service. The Loomis Guarantee is subject to certain limitations and restrictions.*

LOOMIS SafePoint®

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The Loomis **Guarantee**

The Loomis Guarantee is our promise to close the loop with SafePoint® by providing you with a comprehensive audit trail that will lower cash errors and guarantee your funds at the moment they are validated by our safe.

*For more information on SafePoint,® contact us at (713) 435-6700 or visit us at **www.loomis.us.***

LOOMIS

Managing **cash** in society.

2500 CityWest Blvd., Suite 900 • Houston, Texas 77042 • Ph. (713) 435-6700 • www.loomis.us

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FOR SECURITY PURPOSES, COMPLETED APPLICATIONS MAY NOT BE RETURNED VIA EMAIL

VISA® CommUNITY CARD APPLICATION

GROW YOUR ORGANIZATION

WITH PURCHASING POWER AND SPENDING TOOLS.

Give your non-profit or municipality the opportunity to get something more.

The Visa CommUNITY Card is the perfect way to manage finances for your organization. Take a look at what it offers...

- Consolidated statements
- Free management reporting
- Generous credit line
- Dedicated cardmember service
- Rewards program
- Pay in full

Take Control of Your Organization's Finances.

The Visa CommUNITY Card is designed for non-profits and municipalities seeking an easier way to manage cash flow and expenses. Enhanced reporting helps document expenses, track purchases, reveal spending patterns, organize budgeting information and save time on accounting procedures.

No Personal Guarantee Needed
Credit approval is based on your Organization, not your personal assets.

Dedicated Servicing Group
To ensure all your needs are handled quickly and efficiently, Cardmember Service is your single point of contact to assist with account changes or additions, or to answer any questions you may have. Cardmember Service, based in the U.S., is available 24 hours a day, seven days a week.

Consolidated Statements
Organization will receive central billing in one statement each month showing all charges at a single glance. Charges are grouped by cardmember.

Rewards Program
Help reduce expenses with a rewards program. Earn one point per dollar spent on eligible net purchases[1] and redeem for flights with no blackout dates, 1% cash back†, gift cards or merchandise with no earnings caps! Rewards points from all CommUNITY cards are pooled to one central account.

CASH BACK unlimited 1%.

TRAVEL no black-out dates.

MERCHANDISE electronics, decor, gifts and more.

GIFT CARDS leading restaurants, retailers and more.

Free Online Reporting
Our free, comprehensive online management reporting tool can track spending on a monthly, quarterly, annual or YTD basis. You can view your spending by category. Your reports can be customized and your data displays in a clean, easy-to-read format that can be downloaded to a PDF.

Apply Today!

We may change fees and other Account terms in the future based on your experience with Elan Financial Services and its affiliates as provided under the Cardmember Agreement and applicable law.

[1] See Rewards Program Rules on page 6.

† See footnote after Rewards Program Rules on page 6.

VISA® CommUNITY CARD APPLICATION

CHECK LIST

EVERYTHING LISTED BELOW MUST BE INCLUDED IN THE FAX.

REQUIRED **ENTIRELY COMPLETED Application Pages 4 and 5.**

APPLICATION

- **1. Product Selection**
  - ☐ Ensure product is selected (Non-Profit or Municipality, Rewards or No Rewards)
- **2. Organization Information**
  - ☐ Ensure all fields have been completed.
    Note: Any missing information could delay the processing of your application and require additional calls.
- **3. Authorized Officer Information**
  - ☐ Ensure all fields have been completed.
  - ☐ Ensure AO has signed in **both** areas on page 5
    Note: Any missing information could delay the processing of your application and require additional calls.
- **4. Certificate of Authority**
  - ☐ Ensure this section is signed by the Authorized Officer of your Organization (President, SVP, VP, CEO, CFO, etc.)
  - ☐ Ensure this section is also signed by a second signer (if required by your Organization)

DOCUMENTATION AND REQUIREMENTS

- **Legal Identity Documentation**
  Must be established a minimum of two years. Legal Organization name on the Application must match the Legal Organization name on the Identity Document and Financial Documentation (e.g. Balance Sheets, Income/Cash Flow Statements, Tax Returns or Audited Financial Statements).

REQUIRED **Include one of the following documents:**

- ☐ Articles of Incorporation, or
- ☐ Trust Instrument, or
- ☐ Secretary of State Filing, or
- ☐ Certificate in Good Standing, or
- ☐ Government-Issued Business License

- **Financial Documentation:**

REQUIRED ☐ **Two Most Recent Years of Complete Financial Statements:**

- ☐ Balance Sheet **(Required)**
- ☐ Income Statement **(Required)**
- ☐ Cash Flow Statement (Preferred)
- ☐ Organization's Tax Returns (3rd Party Prepared) (Preferred)

Audited Financial Statements are Preferred.

- ☐ If most recent full-year financial statements are more than 4 months old, please also include interim financial statements.
- ☐ Organization's Tax Returns (3rd Party Prepared Financial Statements or Organization's Tax Returns) are **required** if line request is for over $50,000.

Missing or incomplete information or documentation could delay the processing of your application and require additional calls.

FOR SECURITY PURPOSES, COMPLETED APPLICATIONS MAY NOT BE RETURNED VIA EMAIL

VISA® CommUNITY CARD APPLICATION

FAX COVER LETTER

FOR INTERNAL USE ONLY

REQUIRED **1. MUST BE COMPLETED by the Financial Institution.**

Organization Legal Name:		
Employee Receiving Credit – Elan Location Code (not Branch or ID number)	Employee Receiving Credit – Officer ID (eight characters max, alpha or numeric)	Employee Receiving Credit – Branch ID (your Branch number, nine characters max, alpha or numeric)
Employee Receiving Credit – First Name	Employee Receiving Credit – Last Name	Employee Receiving Credit – Phone Number

REQUIRED **2.** Enter **Elan Location Code** on the top of the Application, Pages 4 and 5.

REQUIRED **3.** Include **ALL REQUIRED** Documentation listed above and the **COMPLETED** Application Pages 4 and 5 with this FAX Cover Letter.

FAX TO: 866.509.6772 Number of Pages (including Cover Letter):_____

FROM: _____ Telephone Number: ( ) _____ - _____

Email Address: _____

Financial Institution Name: _____

FOR SECURITY PURPOSES, COMPLETED APPLICATIONS MAY NOT BE RETURNED VIA EMAIL

VISA® CommUNITY CARD APPLICATION

Elan Location Code (Required)

CARD OPTIONS CHOOSE ONE

ATTENTION **APPLICATION MUST BE COMPLETED AND ALL SECTIONS MUST BE SIGNED**
Any missing information or signatures could delay the processing of your application and require additional calls.

Non-Profit (NP)
☐ **Visa CommUNITY Card (No Rewards)** COCV SC 07415 PC 4045
☐ **Visa CommUNITY Card w/Rewards** COCV SC 07416 PC 4047

Municipalities (MU)
☐ **Visa CommUNITY Card (No Rewards)** COCV SC 07417 PC 4045
☐ **Visa CommUNITY Card w/Rewards** COCV SC 07418 PC 4047

Note: If no selection is made or both products are selected, we will process your application for a Visa CommUNITY Card (No Rewards).
SEE SUMMARY OF ACCOUNT TERMS ON PAGE 6 FOR FEES AND OTHER COST INFORMATION.

ORGANIZATION INFORMATION

Organization Name to Appear on Card (maximum of 21 characters)				Tax ID Number
Organization Legal Name				
Street Address (Required – No PO Boxes Allowed, U.S. Addresses Only)			Suite/Unit #	City
State	ZIP Code	# of Years at Address	Organization Website Address (if applicable)	
Doing Business As (DBA) Name			Doing Business As (DBA) Street Address (NO PO Boxes Allowed, U.S. Addresses Only)	
City			State	ZIP Code
Mailing Address (If Different Than Above)			City / State / ZIP Code	
Year Organization Established	Organization Phone Number ( ) –		Organization Fax Number ( ) –	
Gross Annual Sales: $			Total Organization Anticipated Monthly Credit Card Spend: $	

ORGANIZATION STRUCTURE AND CASH ACCESS

Legal Structure: ☐ Non-Profit ☐ Municipality

Nature of Business (Describe your organization in 5 words or less.)

Expected Monthly Cash Transactions (Provide the average of all expected monthly cash transactions that you may make on this card account. Cash transactions include any cash advances or cash equivalent transactions such as purchasing traveler's checks.)
$ (If none, write $0)

Expected Monthly International Transactions (Provide the average of all expected monthly international transactions that you may make on this card account, including credit card purchases originating from or going to another country.)
$ (If none, write $0)

Does the Organization offer check cashing services, issue traveler's checks or money orders, provide money transmission services or foreign exchange services, or offer prepaid cards? ☐ Yes ☐ No

Type of Industry: ☐ Agriculture, Forestry, Fishing ☐ Construction ☐ Finance, Insurance, Real Estate ☐ Manufacturing ☐ Mining ☐ Public Administration ☐ Retail Trade ☐ Services ☐ Transportation ☐ Other

Industry Sub Group (e.g. Women's clothing if Retail Trade selected above)

NAICS Code: 6-digit Business Classification Code. (See www.naics.com/search to locate code.)

Cash access enabled on any organization cards? ☐ Yes ☐ No

ORGANIZATION ACCOUNT RELATIONSHIP INFORMATION

Enter your total assets and length of relationship with this Financial Institution.

Combined Checking, Savings and Money Market Accounts $

Combined Investment and Retirement Accounts $

Please provide the length of time, in years, that you have had a financial relationship with this Institution (if applicable):
Years

ORGANIZATION LOCATIONS

Country of Formation: (If "Other" provide country name.)
☐ USA ☐ Other

Can the business entity issue bearer shares?
☐ Yes ☐ No

Country of Primary Organization Operations: (If "Other" provide country name.)
☐ USA ☐ Other

FOR SECURITY PURPOSES, COMPLETED APPLICATIONS MAY NOT BE RETURNED VIA EMAIL

VISA® CommUNITY CARD APPLICATION

Elan Location Code (Required)

AUTHORIZED OFFICER INFORMATION

The Authorized Officer must be authorized by the Organization to execute binding agreements on the Organization's behalf and is required to be a cardmember. Upon approval, the Authorized Officer will automatically be issued a card.

Authorized Officer Name (First, Middle, Last)	Suffix	Authorized Officer's Organization Title ☐ President ☐ Owner/Proprietor ☐ Vice President ☐ Treasurer ☐ Partner/Principal ☐ COO ☐ CEO ☐ CFO ☐ General Manager ☐ Managing Member
Home Street Address (Required – No PO Boxes Allowed, U.S. Addresses Only)		Suite/Unit #
City	State	ZIP Code
Date of Birth / /	Social Security Number – –	
Primary Phone Number ( ) –	Organization Phone Number ( ) –	Anticipated Monthly Spend $
Cash Access? ☐ Yes ☐ No		

IMPORTANT TERMS AND APPLICANT AGREEMENT

The Authorized Officer (the "Applicant") signing this application is applying, on behalf of Organization, for a Visa CommUNITY Card Account ("Account") issued by Elan Financial Services ("we," "us" or "our"). If the Organization is approved for an Account, the Applicant requests and directs us to open an Account and to issue Visa CommUNITY Cards ("Card", "Cards") to the Applicant and to any individual employee applicants ("Employee Applicants") of the Organization as designated by the Applicant on this application or its addendum, or by any process agreed to by us and the Organization. The Applicant certifies that (i) the execution, delivery and performance of this application has been authorized by all necessary corporate action by the Organization, evidence of which action will be provided upon request; and (ii) the Applicant is authorized to bind the Organization to the terms of this application and the Applicant Agreement, as further evidenced in a duly executed Organization Certificate of Authority. At the time the Account is opened, the Applicant and each Employee Applicant will be issued a Card and a Cardmember Agreement governing individual use of the Account and Cards. Use of the Card or the Account will signify acceptance of the terms of the Cardmember Agreement, which may be amended from time to time. We reserve the right to consider the Organization for a lower spending limit if one was requested. As long as the Account is open, we may obtain credit reports about the Organization from time to time. The Applicant understands and agrees that the Organization is solely liable for all charges made to the Account, including all Cards designated by the Organization. The Applicant understands and agrees that we may increase or decrease the spending limit assigned to the Account and/or the Cards within the Account or close the Account at any time based on our credit guidelines, credit report information, Account history, or the financial circumstances of the Organization. By providing us with a telephone number for a cellular phone or other wireless device, including a number that you later convert to a cellular number, you are expressly consenting to receiving communications - including but not limited to prerecorded or artificial voice message calls, text messages, and calls made by an automatic telephone dialing system - from us and our affiliates and agents at that number. This express consent applies to each such telephone number that you provide to us now or in the future and permits such calls for non-marketing purposes. Calls and messages may incur access fees from your cellular provider. All applicants must be at least 18 years old and agree that Accounts and Cards will be used primarily for business purposes, and not personal, family, or household purposes. You further agree that in order to open and administer the Account that may be established as a result of this application that we and the correspondent financial institution that solicited this application may share certain information about you and your ongoing Account activity. Information from this application may be shared with our affiliates. Cash access is subject to credit approval. You certify that to the best of your knowledge, the information provided about yourself, the name and address provided for the legal entity customer, and the information provided about the individual(s) with control over the legal entity customer is complete and correct.

SIGNATURE

By signing below, you certify that you read and understood the Important Terms and Applicant Agreement and you agree to the terms of this application.

Signature of Authorized Officer X	**Date** / /

ORGANIZATION CERTIFICATE OF AUTHORITY

Authorized Officer signing this section must be the same person listed in the section above.

The Undersigned certifies that

_____(Name), _____(Title), ("Authorized Officer") is authorized by Organization to enter into and execute this Visa CommUNITY Card Application on behalf of Organization, thereafter binding the Organization to the terms of the Visa CommUNITY Card Applicant Agreement, and further, that the signature appearing below is his/her genuine signature.

Signature of Authorized Officer X	Signed this day of (month) (year)
Signature of Secretary or Assistant Secretary (If required by your Organization.) X	**Printed Name of Secretary or Assistant Secretary**
Legal Name of Organization (Legal Organization name must match the Legal Organization name on the Identity Document.)	

INDIVIDUAL EMPLOYEE INFORMATION

(Photocopy the application for additional employees.) — Complete if you would like to allow other users on this account. The Individual Employee information will not be used to determine creditworthiness for approving this application, nor will they share liability for the account.

Name of Employee (First, Middle, Last)	Suffix	Date of Birth / /	Social Security Number – –
Anticipated Monthly Spend: $	Cash Access? ☐ Yes ☐ No		
Name of Employee (First, Middle, Last)	Suffix	Date of Birth / /	Social Security Number – –
Anticipated Monthly Spend: $	Cash Access? ☐ Yes ☐ No		
Name of Employee (First, Middle, Last)	Suffix	Date of Birth / /	Social Security Number – –
Anticipated Monthly Spend: $	Cash Access? ☐ Yes ☐ No		

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT: To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. What this means for you: When you open an account, we will ask for your name, address, date of birth and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

Summary of Visa Account Terms

Payment Information	Visa CommUNITY Card (No Rewards)	Visa CommUNITY Card with Rewards
All charges made on this CommUNITY Card are due and payable by the Payment Due Date shown on your periodic statement.		
Fees		
Annual Fees	**None**	**$99.00** (Authorized Officer) **None** (Authorized Employees)
Transaction Fees		
• Convenience Check Cash Advance[1]	Either **4%** of the amount of each advance or **$10** minimum, whichever is greater	
• Cash Advance	Either **4%** of the amount of each advance or **$10** minimum, whichever is greater	
• Cash Equivalent Advance	Either **4%** of the amount of each advance or **$20** minimum, whichever is greater	
• Overdraft Protection[2]	Either **4%** of the amount of each advance or **$10** minimum, whichever is greater	
• Foreign Transaction	**2%** of each foreign purchase transaction or foreign ATM advance transaction in U.S. Dollars. **3%** of each foreign purchase transaction or foreign ATM advance transaction in Foreign Currency.	**None**
Penalty Fees		
• Late Payment	Either **3%** of the amount of the outstanding balance or **$39** minimum, whichever is greater	
• Returned Payment	**$35**	
• Overlimit	**$35**	**None**

Contact For Updates: The information about the costs of the card described in this application is accurate as of January 1, 2018. This information may have changed after that date. To find out what may have changed, call us at 866.552.8855 (we accept relay calls) or write us at PO Box 6353, Fargo, ND 58125-6353.

[1] Not all products receive Convenience Checks.

[2] Not all products/financial institutions offer Overdraft Protection.

Notice to Ohio Residents: The Ohio laws against discrimination require that all creditors make credit equally available to all creditworthy customers, and that credit reporting agencies maintain separate credit histories on each individual upon request. The Ohio Civil Rights Commission administers compliance with the law.

Rewards Program Rules: Rewards are earned on eligible Net Purchases. Net Purchases are purchases minus credit and returns. Not all transactions are eligible to earn rewards, such as Advances, Balance transfers, and Convenience Checks. Account must be open and in good standing to earn and redeem rewards and benefits. Upon approval, refer to your Cardmember Agreement for additional information. From the date you open your Account until your Account is closed, you will receive one reward point for each dollar of Net Purchases charged to a Visa CommUNITY card with Rewards Account during each statement period. Reward points will not be awarded to a cardmember for net purchases during a statement period if the cardmember's Account is not open and current (not past due or overlimit) on the statement closing date. You may not redeem Points, and you will immediately lose all of your Points, if your Account is closed to future transactions (including, but not limited to, Program misuse, failure to pay, bankruptcy, or death). Reward points will be earned and redeemed at the organization level. Reward points may be redeemed for airfare (subject to the maximum ticket price and redemption schedule set forth in the Rewards Program Rules), name brand merchandise, gift certificates or Cash Back†. We cannot control how merchants choose to classify their business and reserve the right to determine which purchases qualify. Points expire three years from the end of the quarter in which they are earned. Rewards are administered by a third party.

† Rewards points can be redeemed as a cash deposit to a checking or savings account with this Financial Institution only within seven business days or as a statement credit to your CommUNITY Card account within one to two billing cycles.

The creditor and issuer of your CommUNITY Card is Elan Financial Services, pursuant to a license from Visa U.S.A. Inc.

Section 1: 10-K (FORM 10-K)

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

FORM 10-K

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

For the fiscal year ended December 31, 2018

Commission file number 0-7674

First Financial Bankshares, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Texas	**75-0944023**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
400 Pine Street, Abilene, Texas	**79601**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's telephone number, including area code: (325) 627-7155

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

Title of Class	Name of Exchange on Which Registered
Common Stock, par value $0.01 per share	**Nasdaq Global Select Market**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 file", "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	☐

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

As of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates was $3.28 billion.

As of February 19, 2019, there were 67,816,714 shares of common stock outstanding.

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Documents Incorporated by Reference

Certain information called for by Part III is incorporated by reference to the proxy statement for our 2019 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2018.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Form 10-K, words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project," and similar expressions, as they relate to us or our management, identify forward-looking statements. These forward-looking statements are based on information currently available to our management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including, but not limited, to those listed in "Item 1A-Risk Factors" and the following:

- general economic conditions, including our local, state and national real estate markets and employment trends;
- effect of severe weather conditions, including hurricanes, tornadoes, flooding and droughts;
- volatility and disruption in national and international financial and commodity markets;
- government intervention in the U.S. financial system, including the effects of recent legislative, tax, accounting and regulatory actions and reforms, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Jumpstart Our Business Startups Act, the Consumer Financial Protection Bureau, the capital ratios of Basel III as adopted by the federal banking authorities and the Tax Cuts and Jobs Act;
- political instability;
- the ability of the Federal government to address the national economy;
- changes in our competitive environment from other financial institutions and financial service providers;
- the effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System ("the Federal Reserve Board");
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;
- the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which we and our subsidiaries must comply;
- changes in the demand for loans;
- fluctuations in the value of collateral securing our loan portfolio and in the level of the allowance for loan losses;
- the accuracy of our estimates of future loan losses;
- the accuracy of our estimates and assumptions regarding the performance of our securities portfolio;
- soundness of other financial institutions with which we have transactions;
- inflation, interest rate, market and monetary fluctuations;
- changes in consumer spending, borrowing and savings habits;
- changes in commodity prices (e.g., oil and gas, cattle, and wind energy);

- our ability to attract deposits and increase market share;
- changes in our liquidity position;
- changes in the reliability of our vendors, internal control system or information systems;
- cyber attacks on our technology information systems, including fraud from our customers and external third party vendors;
- our ability to attract and retain qualified employees;
- acquisitions and integration of acquired businesses;
- the possible impairment of goodwill associated with our acquisitions;
- consequences of continued bank mergers and acquisitions in our market area, resulting in fewer but much larger and stronger competitors;
- expansion of operations, including branch openings, new product offerings and expansion into new markets;
- changes in our compensation and benefit plans; and
- acts of God or of war or terrorism.

Such forward-looking statements reflect the current views of our management with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this paragraph. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise (except as required by law).

PART I

ITEM 1. BUSINESS

General

First Financial Bankshares, Inc., a Texas corporation (the "Company"), is a financial holding company registered under the Bank Holding Company Act of 1956, as amended, or BHCA. As such, we are supervised by the Federal Reserve Board, as well as several other bank regulators. We were formed as a bank holding company in 1956 under the original name F & M Operating Company, but our banking operations date back to 1890, when Farmers and Merchants National Bank opened for business in Abilene, Texas. On January 1, 2018, we acquired Commercial Bancshares, Inc. and its wholly owned subsidiary, Commercial State Bank, Kingwood, Texas and merged these entities with and into the Company and our subsidiary bank, respectively. As of December 31, 2018, our subsidiaries are:

- First Financial Bank, National Association, Abilene, Texas;
- First Technology Services, Inc., Abilene, Texas, a wholly owned subsidiary of First Financial Bank, National Association, Abilene, Texas;
- First Financial Trust & Asset Management Company, National Association, Abilene, Texas;
- First Financial Insurance Agency, Inc., Abilene, Texas; and
- First Financial Investments, Inc., Abilene, Texas.

Through our subsidiaries, we conduct a full-service commercial banking business. Our banking centers are located primarily in Central, North Central, Southeast and West Texas. As of December 31, 2018, we had 73 financial centers across Texas, with eleven locations in Abilene, three locations in Weatherford, two locations in Cleburne, Conroe, San Angelo, Stephenville, and Granbury, and one location each in Acton, Albany, Aledo, Alvarado, Beaumont, Boyd, Bridgeport, Brock, Burleson, Cisco, Clyde, Cut and Shoot, Decatur, Eastland, El Campo, Fort Worth, Fulshear, Glen Rose, Grapevine, Hereford, Huntsville, Keller, Kingwood, Magnolia, Mauriceville, Merkel, Midlothian, Mineral Wells, Montgomery, Moran, New Waverly, Newton, Odessa, Orange, Palacios, Port Arthur, Ranger, Rising Star, Roby, Southlake, Spring, Sweetwater, Tomball, Trent, Trophy Club, Vidor, Waxahachie, Willis and Willow Park, all in Texas. On January 1, 2018, we completed our acquisition of Commercial Bancshares, Inc. and its wholly owned bank subsidiary, Commercial State Bank and, as a result, added branch locations in Kingwood, Fulshear, El Campo and Palacios.

Even though we operate in a growing number of Texas markets, we continue to believe that decisions are best made at the local level. Although we consolidated our bank charters into one charter in 2013, we continue to regionally manage our operations with local advisory boards of directors, local bank region presidents and local decision-makers. We have consolidated substantially all of the backroom operations, such as investment securities, accounting, check processing, technology and employee benefits, which improved our efficiency and freed management of our bank regions to concentrate on serving the banking needs of their local communities. On January 1, 2016, we combined our Huntsville and Conroe Regions and our Abilene, Sweetwater and Eastland Regions and established a Fort Worth Region that previously was a branch of our Weatherford Region. On January 1, 2018, we combined our Mineral Wells and Stephenville Regions.

In the past, we have chosen to keep our Company focused on the State of Texas, one of the nation's largest, fastest-growing and most economically diverse states. With approximately 28.8 million residents, Texas has more people than any other state except California. The population of Texas grew 20.5% from 2007-2017 according to the U.S. Census Bureau. Many of the communities in which we operate are also experiencing positive growth as shown below:

Population Growth 2007-2017*

Bridgeport and Wise County	20.4%	Weatherford, Willow Park, Aledo and Parker County	33.1%
Fort Worth and Tarrant County	19.1%	Stephenville and Erath County	14.8%
Cleburne and Johnson County	13.4%	Conroe and Montgomery County	41.7%
Granbury and Hood County	15.9%	*Source: U. S. Census Bureau	

These economies include dynamic centers of higher education, agriculture, wind energy and natural resources, retail, military, healthcare, tourism, retirement living, manufacturing and distribution.

We believe our community approach to doing business works best for us in small and mid-size markets, where we can play a prominent role in the economic, civic and cultural life of the community. Our goal is to serve these communities well and to experience growth as these markets continue to expand. In many instances, banking competition is less intense in smaller markets, making it easier for us to operate rationally and attract and retain high-caliber employees who prefer not only our community-banker concept but the high quality of life in smaller cities.

Over the years, we have grown in three ways: by growing organically, by opening new branch locations and by acquiring other banks. Since 1997, we have completed thirteen bank acquisitions and have increased our total assets from $1.57 billion to $7.73 billion as of December 31, 2018. We also established a trust and asset management company and a technology services company. First Financial Trust and Asset Management Company, National Association operates as a subsidiary of First Financial Bankshares, Inc. and First Technology Services, Inc. operates as a subsidiary of First Financial Bank, National Association, Abilene, Texas. Looking ahead, we intend to continue to grow organically by better serving the needs of our customers and putting them first in all of our decisions. We continually look for new branch locations, such as our newest branch in Spring, Texas which opened in January 2019, so we can provide more convenient service to our customers. We are actively pursuing acquisition opportunities by calling on banks that we are interested in possibly acquiring.

When targeting a bank for acquisition, the subject bank generally needs to be well managed and profitable, while being located in the type of community that fits our profile. We seek to enter growing communities with good amenities – schools, infrastructure, commerce and lifestyle. We prefer non-metropolitan markets, either around Dallas/Fort Worth, Houston, San Antonio or Austin or along the Interstate 35, 45, 10 and 20 corridors in Texas. We might also consider the acquisition of banks in East Texas, the Texas Hill Country area or in states contiguous to Texas. Banks between $300 million and $1.0 billion in asset size fit our "sweet spot" for acquisition, but we would consider banks that are larger or smaller, or that are in other areas of Texas if we believe they would be a good fit for our Company.

Information on our revenues, profits and losses and total assets appears in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 7 hereof.

First Financial Bankshares, Inc.

We provide management, technical resources and policy direction to our subsidiaries, which enable them to improve or expand their services while continuing their local activity and identity. Each of our subsidiaries operates under the day-to-day management of its own board of directors and officers, including advisory boards of directors for our bank regions. We provide resources and policy direction in, among other things, the following areas:

- asset and liability management;
- investments;
- accounting;
- budgeting;
- training;
- marketing;
- planning;
- risk management;
- loan review;
- loan analysis;
- human resources;
- insurance;
- capitalization;
- regulatory compliance; and
- internal audit.

In particular, we assist our subsidiaries with, among other things, decisions concerning major capital expenditures, employee fringe benefits, including retirement plans and group medical coverage, dividend policies, and appointment of officers and directors, including advisory directors, and their compensation. We also perform, through corporate staff groups or by outsourcing to third parties, internal audits, compliance oversight and loan reviews of our subsidiaries. We provide advice and specialized services for our bank regions related to lending, investing, purchasing, advertising, public relations, and technology services.

We evaluate various potential financial institution acquisition opportunities and approve potential locations for new branch offices. We anticipate that funding for any acquisitions or expansions would be provided from our existing cash balances, available dividends from our subsidiaries, utilization of available lines of credit and future debt or equity offerings.

Services Offered by Our Subsidiaries

Our subsidiary bank, First Financial Bank, National Association, is a separate legal entity that operates under the day-to-day management of its board of directors and officers. Our multiple banking regions, which operate under our subsidiary bank, each have separate advisory boards that make recommendations and provide assistance to regional management of the bank regarding the operations of their respective region. Each of our bank regions provides general commercial banking services, which include accepting and holding checking, savings and time deposits, making loans, automated teller machines, drive-in and night deposit services, safe deposit facilities, remote deposit capture, internet banking, mobile banking, payroll cards, transmitting funds, and performing other customary commercial banking services. We also conduct full service trust and wealth management activities through First Financial Trust & Asset Management Company, National Association, our trust company. Our trust company has eight locations which are located in Abilene, Fort Worth, Kingwood, Odessa, Beaumont, San Angelo, Stephenville and Sweetwater, all in Texas. Through our trust company, we offer personal trust services, which include wealth management, the administration of estates, testamentary trusts, revocable and irrevocable trusts and agency accounts. We also administer all types of retirement and employee benefit accounts, which include 401(k) profit sharing plans and IRAs. In addition, we provide securities brokerage services through arrangements with an unrelated third party in our Abilene, San Angelo and Weatherford banking regions.

Competition

Commercial banking in Texas is highly competitive, and because we hold less than 1% of the state's deposits, we represent only a minor segment of the industry. To succeed in this industry, we believe that we must have the capability to compete effectively in the areas of (1) interest rates paid or charged; (2) scope of services offered; and (3) prices charged for such services. Our bank regions compete in their respective service areas against highly competitive banks, thrifts, savings and loan associations, small loan companies, credit unions, mortgage companies, insurance companies, and brokerage firms, all of which are engaged in providing financial products and services and some of which are larger than us in terms of capital, resources and personnel.

Our business does not depend on any single customer or any few customers, and the loss of any one would not have a materially adverse effect upon our business. Although we have a broad base of customers that are not related to us, our customers also occasionally include our officers and directors, as well as other entities with which we are affiliated. Through our bank regions we may make loans to our officers and directors, and entities with which we are affiliated, in the ordinary course of business. We make these loans on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. Loans to our directors, officers and their affiliates are also subject to numerous restrictions under federal and state banking laws, which we describe in greater detail below, under the heading "Supervision and Regulation – Loans to Directors, Executive Officers and Principal Shareholders."

Employees

Including all of our subsidiaries, we employed approximately 1,350 full-time equivalent employees at December 31, 2018. Our management believes that our employee relations have been and will continue to be good.

Supervision and Regulation

Both federal and state laws extensively regulate bank holding companies, financial holding companies and banks. These laws (and the regulations promulgated thereunder) are primarily intended to protect depositors and the deposit insurance fund (the "DIF") of the Federal Deposit Insurance Corporation, or the FDIC. The following information describes particular laws and regulatory provisions relating to financial holding companies and banks. This discussion is qualified in its entirety by reference to the particular laws and regulatory provisions. A change in any of these laws or regulations may have a material effect on our business and the business of our subsidiaries. Recent political developments, including the change in administration of the United States federal government, have added additional uncertainty in the implementation, scope and timing of regulatory reforms.

Bank Holding Companies and Financial Holding Companies

Historically, the activities of bank holding companies were limited to the business of banking and activities closely related or incidental to banking. Bank holding companies were generally prohibited from acquiring control of any company that was not a bank and from engaging in any business other than the business of banking or managing and controlling banks. The Gramm-Leach-Bliley Act, which took effect on March 12, 2000, dismantled many Depression-era restrictions against affiliations between banking, securities and insurance firms by permitting bank holding companies to engage in a broader range of financial activities, so long as certain safeguards are observed. Specifically, bank holding companies may elect to become "financial holding companies" that may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental to a financial activity. Thus, with the enactment of the Gramm-Leach-Bliley Act, banks, security firms and insurance companies find it easier to acquire or affiliate with each other and cross-sell financial products. The Gramm-Leach-Bliley Act permits a single financial services organization to offer a more complete array of financial products and services than historically was permitted.

A financial holding company is essentially a bank holding company with significantly expanded powers. Under the Gramm-Leach-Bliley Act, in addition to traditional lending activities, the following activities are among those that are deemed "financial in nature" for financial holding companies: securities underwriting, dealing in or making a market in securities, sponsoring mutual funds and investment companies, insurance underwriting and agency activities, activities which the Federal Reserve Board determines to be closely related to banking, and certain merchant banking activities.

We elected to become a financial holding company in September 2001. As a financial holding company, we have very broad discretion to affiliate with securities firms and insurance companies, provide merchant banking services, and engage in other activities that the Federal Reserve Board has deemed financial in nature. In order to continue as a financial holding company, we must continue to be well-capitalized, well-managed and maintain compliance with the Community Reinvestment Act. Depending on the types of financial activities that we may elect to engage in, under the Gramm-Leach-Bliley Act's functional regulation principles, we may become subject to supervision by additional government agencies. The election to be treated as a financial holding company increases our ability to offer financial products and services that historically we were either unable to provide or were only able to provide on a limited basis. As a result, we will face increased competition in the markets for any new financial products and services that we may offer. Likewise, an increased amount of consolidation among banks and securities firms or banks and insurance firms could result in a growing number of large financial institutions that could compete aggressively with us.

Mergers and Acquisitions

We generally must obtain approval from the banking regulators before we can acquire other financial institutions. We may not engage in certain acquisitions if we are undercapitalized. Furthermore, the BHCA provides that the Federal Reserve Board cannot approve any acquisition, merger or consolidation that may substantially lessen competition in the banking industry, create a monopoly in any section of the country, or be a restraint of trade. However, the Federal Reserve Board may approve such a transaction if the convenience and needs of the community clearly outweigh any anti-competitive effects. Specifically, the Federal Reserve Board would consider, among other factors, the expected benefits to the public (greater convenience, increased competition, greater efficiency, etc.) against the risks of possible adverse effects (undue concentration of resources, decreased or unfair competition, conflicts of interest, unsound banking practices, etc.).

Under the BHCA, the Company must obtain the prior approval of the Federal Reserve Board, or acting under delegated authority, the Federal Reserve Bank of Dallas before (1) acquiring direct or indirect ownership or control of any class of voting securities of any bank or bank holding company if, after the acquisition, the Company would directly or indirectly own or control 5% or more of the class; (2) acquiring all or substantially all of the assets of another bank or bank holding company; or (3) merging or consolidating with another bank holding company.

The Change in Bank Control Act of 1978, as amended, or the CIBCA, and the related regulations of the Federal Reserve Board require any person or groups of persons acting in concert (except for companies required to make application under the BHCA), to file a written notice with the Federal Reserve Board before the person or group acquires control of the Company. The CIBCA defines "control" as the direct or indirect power to vote 25% or more of any class of voting securities or to direct the management or policies of a bank holding company or an insured bank. A rebuttable presumption of control arises under the CIBCA where a person or group controls 10% or more, but less than 25%, of a class of the voting stock of a company or insured bank which is a reporting company under the Securities Exchange Act of 1934, as amended, such as the Company, or such ownership interest is greater than the ownership interest held by any other person or group.

Banks

Federal and state laws and regulations that govern banks have the effect of, among other things, regulating the scope of business, investments, cash reserves, the purpose and nature of loans, the maximum interest rate chargeable on loans, the amount of dividends declared, and required capitalization ratios.

Banks organized as national banking associations under the National Bank Act are subject to regulation and examination by the Office of the Comptroller of the Currency, or OCC. Effective December 30, 2012, we consolidated our then eleven bank charters into one, that being our Abilene charter. As a result, the OCC now supervises, regulates and regularly examines the following subsidiaries:

- First Financial Bank, National Association, Abilene, Texas;
- First Financial Trust & Asset Management Company, National Association; and
- First Technology Services, Inc. (a wholly owned subsidiary of First Financial Bank, National Association)

The OCC's supervision and regulation of banks is primarily intended to protect the interests of depositors. The National Bank Act:

- requires each national banking association to maintain reserves against deposits;
- restricts the nature and amount of loans that may be made and the interest that may be charged; and
- restricts investments and other activities.

Deposit Insurance Coverage and Assessments

Our subsidiary bank is a member of the FDIC. Through the DIF, the FDIC provides deposit insurance protection that covers all deposit accounts in FDIC-insured depository institutions up to applicable limits (currently, $250,000 per depositor).

Our subsidiary bank must pay assessments to the FDIC under a risk-based assessment system for this federal deposit insurance protection. FDIC-insured depository institutions that are members of the Bank Insurance Fund pay insurance premiums at rates based on their risk classification. Institutions assigned to higher risk classifications (i.e., institutions that pose a greater risk of loss to the DIF) pay assessments at higher rates than institutions assigned to lower risk classifications. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to bank regulators. Through December 31, 2018, the assessment rate for our subsidiary bank was at the lowest risk-based premium available, which was 3.00% of the assessment base per annum. In addition, the FDIC can impose special assessments to cover shortages in the DIF and has imposed special assessments in the past.

In October 2010, the FDIC adopted a new Restoration Plan for the DIF to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. On April 26, 2016, the FDIC adopted a rule amending pricing for deposit insurance for institutions with less than $10 billion in assets effective the quarter after the fund reserve ratio reached 1.15%. As of June 30, 2016, the FDIC announced that the fund reserve ratio had reached 1.15%. As a result, the Company's assessment rate was decreased to the rate stated above. The Dodd-Frank Act also eliminated the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. The Dodd-Frank Act required the FDIC to offset the effect of increasing the reserve ratio on institutions with total consolidated assets of less than $10 billion, such as the Company.

As required by the Dodd-Frank Act, the FDIC also revised the deposit insurance assessment system, effective April 1, 2011, to base assessments on the average total consolidated assets of insured depository institutions during the assessment period, less the average tangible equity of the institution during the assessment period as opposed to solely bank deposits at an institution. This base assessment change necessitated that the FDIC adjust the assessment rates to ensure that the revenue collected under the new assessment system will approximately equal that under the existing assessment system.

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, or FIRREA, an FDIC-insured depository institution can be held liable for any losses incurred by the FDIC in connection with (1) the "default" of one of its FDIC-insured subsidiaries or (2) any assistance provided by the FDIC to one of its FDIC-receivers, and "in danger of default" is defined generally as the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance.

The FDIC is also empowered to regulate interest rates paid by insured banks. Approval of the FDIC is also required before an insured bank retires any part of its common or preferred stock, or any capital notes or debentures.

Payment of Dividends

We are a legal entity separate and distinct from our banking and other subsidiaries. We receive most of our revenue from dividends paid to us by our bank and trust company subsidiaries. Described below are some of the laws and regulations that apply when either we or our subsidiaries pay or paid dividends.

The Federal Reserve Board, the OCC and the FDIC have issued policy statements that recommend that bank holding companies and insured banks should generally only pay dividends to the extent net income is sufficient to cover both cash dividends and a rate of earnings retention consistent with capital needs, asset quality and overall financial condition. Further, the Federal Reserve Board's policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries. In addition, the Federal Reserve Board has indicated that each bank holding company should carefully review its dividend policy, and has discouraged payment ratios that are at maximum allowable levels, which is the maximum dividend amount that may be issued and allow the company to still maintain its target Tier 1 capital ratio, unless both asset quality and capital are very strong.

To pay dividends, our subsidiaries must maintain adequate capital above regulatory guidelines. Under federal law, our subsidiary bank cannot pay a dividend if, after paying the dividend, the bank would be "undercapitalized." In addition, if the FDIC believes that a bank under its jurisdiction is engaged in, or is about to engage in, an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), the FDIC may require, after notice and hearing, that such bank cease and desist from the unsafe practice. The FDIC and the OCC have each indicated paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice.

National banks are required by federal law to obtain the prior approval of the OCC in order to declare and pay dividends if the total of all dividends declared in any calendar year would exceed the total of (1) such bank's net profits (as defined and interpreted by regulation) for that year plus (2) its retained net profits (as defined and interpreted by regulation) for the preceding two calendar years, less any required transfers to surplus. In addition, these banks may only pay dividends to the extent that retained net profits (including the portion transferred to surplus) exceed bad debts (as defined by regulation).

Our subsidiaries paid aggregate dividends to us of $74.10 million in 2018 and $30.08 million in 2017. Under the dividend restrictions discussed above, as of December 31, 2018, our subsidiaries could have declared in the aggregate additional dividends of approximately $233.96 million from retained net profits, without obtaining regulatory approvals.

Federal Income Tax

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law with sweeping modifications to the Internal Revenue Code. The primary change for the Company was to lower the corporate income tax rate to 21% from 35%. The Company's deferred tax assets and liabilities were re-measured based on the income tax rates at which they are expected to reverse in the future, which is generally 21%. The provisional amount recorded related to the re-measurement of the Company's deferred tax balance was $7.65 million, a reduction of income tax expense for the year ended December 31, 2017. In 2018, the Company continued to analyze certain aspects of the Tax Cuts and Jobs Act resulting in refinement of the calculation and recorded an additional reduction in its deferred tax balance of $664 thousand, a reduction of income tax expense for year ended December 31, 2018.

Affiliate Transactions

The Federal Reserve Act, the Federal Deposit Insurance Act ("FDIA") and the rules adopted under these statutes restrict the extent to which we can borrow or otherwise obtain credit from, or engage in certain other transactions with, our subsidiaries. These laws regulate "covered transactions" between insured depository institutions and their subsidiaries, on the one hand, and their nondepository affiliates, on the other hand. The Dodd-Frank Act expanded the definition of affiliate to make any investment fund, including a mutual fund, for which a depository institution or its affiliates serve as investment advisor an affiliate of the depository institution. "Covered transactions" include a loan or extension of credit to a non-depository affiliate, a purchase of securities issued by such an affiliate, a purchase of assets from such an affiliate (unless otherwise exempted by the Federal Reserve Board), an acceptance of securities issued by such an affiliate as collateral for a loan, and an issuance of a guarantee, acceptance, or letter of credit for the benefit of such an affiliate. The Dodd-Frank Act extended the limitations to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider. The "covered transactions" that an insured depository institution and its subsidiaries are permitted to engage in with their non-depository affiliates are limited to the following amounts: (1) in the case of any one such affiliate, the aggregate amount of "covered transactions" cannot exceed ten percent of the capital stock and the surplus of the insured depository institution; and (2) in the case of all affiliates, the aggregate amount of "covered transactions" cannot exceed twenty percent of the capital stock and surplus of the insured depository institution. In addition, extensions of credit that constitute "covered transactions" must be collateralized in prescribed amounts. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services. Finally, when we and our subsidiaries conduct transactions internally among us, we are required to do so at arm's length.

Loans to Directors, Executive Officers and Principal Shareholders

The authority of our subsidiary bank to extend credit to our directors, executive officers and principal shareholders, including their immediate family members, corporations and other entities that they control, is subject to substantial restrictions and requirements under Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated thereunder, as well as the Sarbanes-Oxley Act of 2002. These statutes and regulations impose specific limits on the amount of loans our subsidiary bank may make to directors and other insiders, and specified approval procedures must be followed in making loans that exceed certain amounts. In addition, all loans our subsidiary bank makes to directors and other insiders must satisfy the following requirements:

- the loans must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not affiliated with us or our subsidiary bank;
- the subsidiary bank must follow credit underwriting procedures at least as stringent as those applicable to comparable transactions with persons who are not affiliated with us or our subsidiary bank; and
- the loans must not involve a greater than normal risk of non-payment or include other features not favorable to our subsidiary bank.

Furthermore, our subsidiary bank must periodically report all loans made to directors and other insiders to the bank regulators, and these loans are closely scrutinized by the regulators for compliance with Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O. Each loan to directors or other insiders must be pre-approved by the bank's board of directors with the interested director abstaining from voting.

Capital

We and our bank subsidiary are each required to comply with applicable capital adequacy standards established by the Federal Reserve Board and the OCC, respectively. The current risk-based capital standards applicable to us and our bank subsidiary, parts of which are currently in the process of being phased-in, are based on the December 2010 final capital framework for strengthening international capital standards, known as Basel III, of the Basel Committee on Banking Supervision (the "Basel Committee").

In July 2013, the federal bank regulators approved final rules (the "Basel III Rules") implementing the Basel III framework as well as certain provisions of the Dodd-Frank Act. The Basel III Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries. The Basel III Rules became effective for us and our subsidiary bank on January 1, 2015 (subject to a phase-in period for certain provisions).

The Basel III Rules established three components of regulatory capital: (1) common equity tier 1 capital ("CET1"), (2) additional tier 1 capital, and (3) tier 2 capital. Tier 1 capital is the sum of CET1 and additional tier 1 capital instruments meeting certain revised requirements. Total capital is the sum of tier 1 capital and tier 2 capital. Under the Basel III Rules, for most banking organizations, the most common form of additional tier 1 capital is non-cumulative perpetual preferred stock and the most common form of tier 2 capital is subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the Basel III Rules' specific requirements. As of December 31, 2018, we do not have any non-cumulative perpetual preferred stock or subordinated notes. CET1, tier 1 capital, and total capital serve as the numerators for three prescribed regulatory capital ratios. Risk-weighted assets, calculated using the standardized approach in the Basel III Capital Rules for us and our subsidiary bank, provide the denominator for such ratios. There is also a leverage ratio that compares tier 1 capital to average total assets.

Pursuant to the Basel III Rules, the effects of certain accumulated other comprehensive income or loss ("AOCI") items are not excluded; however, "non-advanced approaches banking organizations," including us and our subsidiary bank, could make a one-time permanent election to continue to exclude these items. The Company made its a one-time, permanent election to continue to exclude AOCI from capital in its filing with the Federal Reserve Board for the quarter ended March 31, 2015. If the Company would not have made this election, unrealized gains and losses would have been included in the calculation of its regulatory capital. The Basel III Rules also preclude certain hybrid securities, such as trust preferred securities issued prior to May 19, 2010, from inclusion in our Tier 1 capital, subject to grandfathering in the case of companies, such as us, that had less than $15 billion in total consolidated assets as of December 31, 2009.

Under the Basel III Rules, the minimum capital ratios effective as of January 1, 2015 are:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital to risk-weighted assets;
- 8.0% Total capital to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

The Basel III Rules established a fully-phased "capital conservation buffer" of 2.5% above the new regulatory minimum risk-based capital requirements. The conservation buffer, when added to the capital requirements, resulted in the following minimum ratios: (i) a CET1 risk-based capital ratio of 7.0%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%. The new capital conservation buffer requirement began being phased in beginning in January 2016 at 0.625% of risk-weighted assets and increased by that amount each year until fully implemented in January 2019. At December 31, 2018, the required capital conservation buffer was 1.875%. An institution is subject to limitations on certain activities including payment of dividends, share repurchases and discretionary bonuses to executive officers if its capital level is below the buffer amount.

The Basel III Rules prescribed a standardized approach for risk weightings that expanded the risk-weighting categories from the general risk-based capital rules to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

With respect to our bank subsidiary, the Basel III Rules also revised the "prompt corrective action" regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under "Prompt Corrective Action."

As of December 31, 2018, we had a total risk-based capital ratio of 20.61%, a Tier 1 capital to risk-weighted asset ratio of 19.47%, a common equity Tier 1 to risk-weighted assets ratio of 19.47% and a Tier 1 leverage ratio of 11.85%. These regulatory capital ratios were calculated under the Basel III rules.

In November 2018, the banking regulators issued a proposal for a depository institution with assets less than $10 billion. The proposal would establish a Community Bank Leverage Ratio (CBLR) defined as total bank equity capital, excluding accumulated other comprehensive income, deferred tax assets and other intangible assets, divided by the average total consolidated assets. If the CBLR ratio is maintained at greater than nine percent, the depository organization will be considered to be in compliance with the Basel III capital requirements and exempt from calculating existing risk-based capital ratio requirements.

Prompt Corrective Action.

A banking organization's capital plays an important role in connection with regulatory enforcement as well. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate that the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

Under current regulations, our subsidiary bank was "well capitalized" as of December 31, 2018.

Our Support of Our Subsidiaries

Under Federal Reserve Board policy, we are expected to commit resources to act as a source of strength to support each of our subsidiaries. The Dodd-Frank Act codified this policy as a statutory requirement. This support may be required at times when, absent such Federal Reserve Board policy, we would not otherwise be required to provide it. In addition, any loans we make to our subsidiaries would be subordinate in right of payment to deposits and to other indebtedness of our subsidiaries. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and be subject to a priority of payment.

Under the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC (either as a result of the default of a banking subsidiary or related to FDIC assistance provided to a subsidiary in danger of default) our other subsidiaries may be assessed for the FDIC's loss.

Safe and Sound Banking Practices.

Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board's Regulation Y, for example, generally requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the bank holding company's consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Depending upon the circumstances, the Federal Reserve Board could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their nonbanking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as $1.0 million for each day the activity continues.

Interstate Banking and Branching

Effective June 1, 1997, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 amended the Federal Deposit Insurance Act and certain other statutes to permit state and national banks with different home states to merge across state lines, with approval of the appropriate federal banking agency, unless the home state of a participating bank had passed legislation prior to May 31, 1997 expressly prohibiting interstate mergers. Under the Riegle-Neal Act amendments, once a state or national bank has established branches in a state, that bank may establish and acquire additional branches at any location in the state at which any bank involved in the interstate merger transaction could have established or acquired branches under applicable federal or state law. If a state opted out of interstate branching within the specified time period, no bank in any other state may establish a branch in the state which has opted out, whether through an acquisition or de novo.

However, under the Dodd-Frank Act, the national branching requirements have been relaxed and national banks and state banks are able to establish branches in any state if that state would permit the establishment of the branch by a state bank chartered in that state.

The Federal Deposit Insurance Act, or FDIA, requires that the FDIC review (1) any merger or consolidation by or with an insured bank, or (2) any establishment of branches by an insured bank. Additionally, the Texas Department of Banking accepts applications for interstate merger and branching transactions, subject to certain limitations on ages of the banks to be acquired and the total amount of deposits within the state a bank or financial holding company may control. Since our primary service area is Texas, we do not expect that the ability to operate in other states will have any material impact on our growth strategy. We may, however, face increased competition from out-of-state banks that branch or make acquisitions in our primary markets in Texas.

Community Reinvestment Act of 1977

The Community Reinvestment Act of 1977, or CRA, subjects a bank to regulatory assessment to determine if the institution meets the credit needs of its entire community, including low- and moderate-income neighborhoods served by the bank, and to take that determination into account in its evaluation of any application made by such bank for, among other things, approval of the acquisition or establishment of a branch or other depository facility, an office relocation, a merger, or the acquisition of shares of capital stock of another financial institution. The regulatory authority prepares a written evaluation of an institution's record of meeting the credit needs of its entire community and assigns a rating. These ratings are "Outstanding," "Satisfactory," "Needs Improvement" and "Substantial Non-Compliance." Institutions with ratings lower than "Satisfactory" may be restricted from engaging in the aforementioned activities. We believe our subsidiary bank has taken and takes significant actions to comply with the CRA, and received a "satisfactory" rating in its most recent review by federal regulators with respect to its compliance with the CRA.

Monitoring and Reporting Suspicious Activity

Under the Bank Secrecy Act, or BSA, we are required to monitor and report unusual or suspicious account activity that might signify money laundering, tax evasion or other criminal activities, as well as transactions involving the transfer or withdrawal of amounts in excess of prescribed limits. The BSA is sometimes referred to as an "anti-money laundering" law ("AML"). Several AML acts, including provisions in Title III of the USA PATRIOT Act of 2001, have been enacted up to the present to amend the BSA. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures and controls generally require financial institutions to take reasonable steps:

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;
- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
- to ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
- to ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA PATRIOT Act, financial institutions are also required to establish anti-money laundering programs. The USA PATRIOT Act sets forth minimum standards for these programs, including:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

In addition, under the USA PATRIOT Act, the Secretary of the U.S. Department of the Treasury, or Treasury, has adopted rules addressing a number of related issues, including increasing the cooperation and information sharing between financial institutions, regulators, and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institution complying with these rules will not be deemed to violate the privacy provisions of the Gramm-Leach-Bliley Act that are discussed below. Finally, under the regulations of the Office of Foreign Asset Control, or OFAC, we are required to monitor and block transactions with certain "specially designated nationals" who OFAC has determined pose a risk to U.S. national security.

Incentive Compensation

In June 2010, the Federal Reserve Board, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The Federal Reserve Board will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In addition, Section 956 of the Dodd-Frank Act required certain regulators (including the FDIC, SEC and Federal Reserve Board) to adopt requirements or guidelines prohibiting excessive compensation. In April and May 2016, the Federal Reserve, jointly with five other federal regulators, published a proposed rule in response to Section 956 of the Dodd-Frank Act, which requires implementation of regulations or guidelines to: (1) prohibit incentive-based payment arrangements that encourage inappropriate risks by certain financial institutions by providing excessive compensation or that could lead to material financial loss, and (2) require those financial institutions to disclose information concerning incentive-based compensation arrangements to the appropriate federal regulator.

The proposed rule identifies three categories of institutions that would be covered by these regulations based on average total consolidated assets, applying less prescriptive incentive-based compensation program requirements to the smallest covered institutions (Level 3) and progressively more rigorous requirements to the larger covered institutions (Level 1). Under the proposed rule, we would fall into the smallest category (Level 3), which applies to financial institutions with average total consolidated assets greater than $1 billion and less than $50 billion. The proposed rules would establish general qualitative requirements applicable to all covered entities, which would include (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements; and (v) mandating appropriate recordkeeping. Under the proposed rule, larger financial institutions with total consolidated assets of at least $50 billion would also be subject to additional requirements applicable to such institutions' "senior executive officers" and "significant risk-takers." These additional requirements would not be applicable to us because we currently have less than $50 billion in total consolidated assets. Comments on the proposed rule were due by July 22, 2016. As of the date of this document, the final rule has not yet been published by these regulators.

In addition, the Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders. The new legislation also authorizes the Securities and Exchange Commission ("SEC") to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1.0 billion, regardless of whether the company is publicly traded or not. The Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Consumer Laws and Regulations

We are also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the following list is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, The Fair and Accurate Credit Transactions Act, The Real Estate Settlement Procedures Act and the Fair Housing Act, among others. These laws and regulations, among other things, prohibit discrimination on the basis of race, gender or other designated characteristics and mandate various disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. These and other laws also limit finance charges or other fees or charges earned in our activities. We must comply with the applicable provisions of these consumer protection laws and regulations as part of our ongoing customer relations.

Consumer Financial Protection Bureau

The Dodd-Frank Act created a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB"), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits the state attorney general to enforce compliance with both the state and federal laws and regulations.

The CFPB has finalized rules relating to, among other things, remittance transfers under the Electronic Fund Transfer Act, which requires companies to provide consumers with certain disclosures before the consumer pays for a remittance transfer. These rules became effective in October 2013. The CFPB has also amended certain rules under Regulation C relating to home mortgage disclosure to reflect a change in the asset-size exemption threshold for depository institutions based on the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers. In addition, on January 10, 2013, the CFPB released its final "Ability-to-Repay/Qualified Mortgage" rules, which amended the Truth in Lending Act (Regulation Z). Regulation Z prohibits a creditor from making a higher-priced mortgage loan without regard to the consumer's ability to repay the loan. The final amended rule implemented sections 1411 and 1412 of the Dodd-Frank Act, which generally require creditors to make a reasonable, good faith determination of a consumer's ability to repay any consumer credit transaction secured by a dwelling (excluding an open-end credit plan, timeshare plan, reverse mortgage, or temporary loan) and establishes certain protections from liability under this requirement for "qualified mortgages." The final rule also implemented section 1414 of the Dodd-Frank Act, which limits prepayment penalties. Finally, the final rule requires creditors to retain evidence of compliance with the rule for three years after a covered loan is consummated. This rule became effective January 10, 2014.

Technology Risk Management and Consumer Privacy

State and federal banking regulators have issued various policy statements emphasizing the importance of technology risk management and supervision in evaluating the safety and soundness of depository institutions with respect to banks that contract with outside vendors to provide data processing and core banking functions. The use of technology-related products, services, delivery channels and processes exposes a bank to various risks, particularly operational, privacy, security, strategic, reputation and compliance risk. Banks are generally expected to prudently manage technology-related risks as part of their comprehensive risk management policies by identifying, measuring, monitoring and controlling risks associated with the use of technology.

Under Section 501 of the Gramm-Leach-Bliley Act, the federal banking agencies have established appropriate standards for financial institutions regarding the implementation of safeguards to ensure the security and confidentiality of customer records and information, protection against any anticipated threats or hazards to the security or integrity of such records and protection against unauthorized access to or use of such records or information in a way that could result in substantial harm or inconvenience to a customer. Among other matters, the rules require each bank to implement a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information.

Under the Gramm-Leach-Bliley Act, a financial institution must also provide its customers with a notice of privacy policies and practices. Section 502 prohibits a financial institution from disclosing nonpublic personal information about a customer to nonaffiliated third parties unless the institution satisfies various notice and opt-out requirements and the customer has not elected to opt out of the disclosure. Under Section 504, the agencies are authorized to issue regulations as necessary to implement notice requirements and restrictions on a financial institution's ability to disclose nonpublic personal information about customers to nonaffiliated third parties. Under the final rule the regulators adopted, all banks must develop initial and annual privacy notices which describe in general terms the bank's information sharing practices. Banks that share nonpublic personal information about customers with nonaffiliated third parties must also provide customers with an opt-out notice and a reasonable period of time for the customer to opt out of any such disclosure (with certain exceptions). Limitations are placed on the extent to which a bank can disclose an account number or access code for credit card, deposit or transaction accounts to any nonaffiliated third party for use in marketing.

Concentrated Commercial Real Estate Lending Regulations

The federal banking agencies, including the FDIC, have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and non-farm residential properties and loans for construction, land development, and other land represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Owner occupied loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address the following key elements: including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending.

UDAP and UDAAP

Banking regulatory agencies have increasingly used a general consumer protection statute to address "unethical" or otherwise "bad" business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. The law of choice for enforcement against such business practices has been Section 5 of the Federal Trade Commission Act, referred to as the FTC Act, which is the primary federal law that prohibits unfair or deceptive acts or practices, referred to as UDAP, and unfair methods of competition in or affecting commerce. "Unjustified consumer injury" is the principal focus of the FTC Act. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with UDAP laws and regulations. However, UDAP laws and regulations have been expanded under the Dodd-Frank Act to apply to "unfair, deceptive or abusive acts or practices," referred to as UDAAP, which have been delegated to the CFPB for supervision. The CFPB has published its first Supervision and Examination Manual that addresses compliance with and the examination of UDAAP.

Monetary Policy

Banks are affected by the credit policies of monetary authorities, including the Federal Reserve Board, that affect the national supply of credit. The Federal Reserve Board regulates the supply of credit in order to influence general economic conditions, primarily through open market operations in United States government obligations, varying the discount rate on financial institution borrowings, varying reserve requirements against financial institution deposits, and restricting certain borrowings by financial institutions and their subsidiaries. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banks in the past and are expected to continue to do so in the future.

Enforcement Powers of Federal Banking Agencies

The Federal Reserve Board and other state and federal banking agencies and regulators have broad enforcement powers, including the power to terminate deposit insurance, issue cease-and-desist orders, impose substantial fines and other civil and criminal penalties and appoint a conservator or receiver. Our failure to comply with applicable laws, regulations and other regulatory pronouncements could subject us, as well as our officers and directors, to administrative sanctions and potentially substantial civil penalties.

Regulatory Reform and Legislation

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company. A change in statutes, regulations or regulatory policies applicable to the Company or our subsidiaries could have a material effect on the Company's business, financial condition and results of operations.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act, which was enacted in July 2010, effected a fundamental restructuring of federal banking regulation. In addition to those provisions discussed above, among the Dodd-Frank Act provisions that have affected us are the following:

- creation of a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial firms;
- elimination of the federal statutory prohibition against the payment of interest on business checking accounts;
- prohibition on state-chartered banks engaging in derivatives transactions unless the loans to one borrower of the state in which the bank is chartered takes into consideration credit exposure to derivative transactions. For this purpose, derivative transactions include any contract, agreement, swap, warrant, note or option that is based in whole or in part on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to, one or more commodity securities, currencies, interest or other rates, indices or other assets;
- requirement that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer. On June 29, 2011, the Federal Reserve Board set the interchange rate cap at $0.21 per transaction and 5 basis points multiplied by the value of the transaction. While the restrictions on interchange fees do not apply to banks that, together with their affiliates, have assets of less than $10 billion, the rule could affect the competitiveness of debit cards issued by smaller banks; and
- restrictions under the Volcker Rule of the Company's ability to engage in proprietary trading and to invest in, sponsor and engage in certain types of transactions with certain private funds. The Company had until July 15, 2015 to fully conform to the Volcker Rules restrictions.

Many of the Dodd-Frank Act's provisions are still subject to the final rulemaking by federal banking agencies, and the implication of the Dodd-Frank Act for the Company's business will depend to a large extent on how such rules are adopted and implemented. The Company's management continues to review actively the provisions of the Dodd–Frank Act and assess its probable impact on its business, financial condition, and results of operations.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public at the SEC's web site at http://www.sec.gov. Our web site is http://www.ffin.com. You may also obtain copies of our annual, quarterly and special reports, proxy statements and certain other information filed with the SEC, as well as amendments thereto, free of charge from our web site. These documents are posted to our web site after we have filed them with the SEC. Our corporate governance guidelines, including our code of conduct applicable to all our employees, officers and directors, as well as the charters of our audit and nominating committees, are available at www.ffin.com. The foregoing information is also available in print to any shareholder who requests it. Except as explicitly provided, information on any web site is not incorporated into this Form 10-K or our other securities filings and is not a part of them.

ITEM 1A. RISK FACTORS

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, including but not limited to those set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results and other forward-looking statements that we make from time to time in our news releases, annual reports and other written communications, as well as oral forward-looking statements, and other statements made from time to time by our representatives.

Our business faces unpredictable economic conditions, which could have an adverse effect on us.

General economic conditions impact the banking industry. The credit quality of our loan portfolio necessarily reflects, among other things, the general economic conditions in the areas in which we conduct our business. Our continued financial success depends somewhat on factors beyond our control, including:

- general economic conditions, including national and local real estate markets and the price of oil and gas, wind farm subsidies from the federal government and other commodity prices;
- the supply of and demand for investable funds;
- demand for loans and access to credit;
- interest rates; and
- federal, state and local laws affecting these matters.

Any substantial deterioration in any of the foregoing conditions could have a material adverse effect on our financial condition, results of operations and liquidity, which would likely adversely affect the market price of our common stock.

Our business is concentrated in Texas and a downturn in the economy of Texas may adversely affect our business.

Our network of bank regions is concentrated in Texas, primarily in the Central, North Central, Southeast and Western regions of the state. Most of our customers and revenue are derived from this area. These economies include dynamic centers of higher education, agriculture, energy and natural resources, retail, military, healthcare, tourism, retirement living, manufacturing and distribution. Because we generally do not derive revenue or customers from other parts of the state or nation, our business and operations are dependent on economic conditions in our Texas markets. Any significant decline in one or more segments of the local economies could adversely affect our business, revenue, operations and properties.

The significant volatility in oil and gas prices has resulted in uncertainty about the Texas economy. While we consider our exposure to credits related to the oil and gas industry to not be significant, at approximately 2.86% of total loans as of December 31, 2018, should the price of oil and gas decline further and/or remain at low prices for an extended period, the general economic conditions in our Texas markets could be negatively affected, which could have a material adverse affect on our business, financial condition and results of operations.

Our Company lends primarily to small to medium-sized businesses that may have fewer resources to weather a downturn in the economy, which could adversely impact the Company's operating results.

The Company makes loans to privately-owned businesses, many of which are considered to be small to medium-sized businesses. Small to medium-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need additional capital to expand or compete and may experience more volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of a small to medium-sized businesses often depends on the management talents and efforts of a small group of persons, and the death, disability or resignation of one or more of these persons could have adverse impact on the business and its ability to repay our loans. Economic downturns, a sustained decline in commodity prices and other events that could negatively impact the businesses could cause the Company to incur credit losses that could negatively affect the Company's results of operations and financial condition.

In our business, we must effectively manage our credit risk.

As a lender, we are exposed to the risk that our loan customers may not repay their loans according to the terms of these loans and the collateral securing the payment of these loans may be insufficient to fully compensate us for the outstanding balance of the loan plus the costs to dispose of the collateral. We may experience significant loan losses, which could have a material adverse effect on our operating results and financial condition. Management makes various assumptions and judgments about the collectability of our loan portfolio, including the diversification by industry of our commercial loan portfolio, the amount of nonperforming loans and related collateral, the volume, growth and composition of our loan portfolio, the effects on the loan portfolio of current economic indicators and their probable impact on borrowers and the evaluation of our loan portfolio through our internal loan review process and other relevant factors.

We maintain an allowance for credit losses, which is an allowance established through a provision for loan losses charged to expense that represents management's best estimate of probable losses inherent in our loan portfolio. Additional credit losses will likely occur in the future and may occur at a rate greater than we have experienced to date. In determining the amount of the allowance, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions. If our assumptions prove to be incorrect, our current allowance may not be sufficient and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Material additions to the allowance could materially decrease our net income.

In addition, banking regulators periodically review our allowance for credit losses and may require us to increase our provision for credit losses or recognize further charge-offs, based on judgments different than those of our management. Any increase in our allowance for credit losses or charge-offs as required by these regulatory agencies could have a material negative effect on our operating results, financial condition and liquidity.

Hurricanes, extended drought conditions, severe weather and natural disasters could significantly impact the Company's business.

Hurricanes, extended drought conditions, severe weather and natural disasters and other adverse external events could have a significant impact on the Company's ability to conduct business. In late August 2017 and continuing into the fourth quarter of 2017, Houston and the surrounding area around the Gulf Coast were significantly affected by Hurricane Harvey. Our Southeast Texas and Conroe regions of the Company are in these areas and were impacted by the severe winds and floods. See Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 34 for specific information of the impact of Hurricane Harvey on our Company. Such events affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of the collateral securing our loans, cause significant property damage, result in loss of revenue and/or cause the Company to incur additional expenses. The occurrence of any such event in the future could have a material adverse effect on the Company's business, which in turn, could have a material adverse effect on the Company's business, financial condition and result of operations.

Changes in economic conditions could cause an increase in delinquencies and non-performing assets, including loan charge-offs, which could depress our net income and growth.

Our loan portfolio includes many real estate secured loans, demand for which may decrease during economic downturns as a result of, among other things, an increase in unemployment, a decrease in real estate values and a slowdown in housing. If we see negative economic conditions develop in the United States as a whole or in the portions of Texas that we serve, we could experience higher delinquencies and loan charge-offs, which would reduce our net income and adversely affect our financial condition. Furthermore, to the extent that real estate collateral is obtained through foreclosure, the costs of holding and marketing the real estate collateral, as well as the ultimate values obtained from disposition, could reduce our earnings and adversely affect our financial condition.

The value of real estate collateral may fluctuate significantly resulting in an under-collateralized loan portfolio.

The market value of real estate, particularly real estate held for investment, can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. If the value of the real estate serving as collateral for our loan portfolio were to decline materially, a significant part of our loan portfolio could become under-collateralized. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then, in the event of foreclosure, we may not be able to realize the amount of collateral that we anticipated at the time of originating the loan. This could have a material adverse effect on our provision for loan losses and our operating results and financial condition.

New lines of business or new products and services may subject the Company to additional risks.

From time to time, the Company may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or products and services the Company may invest significant time and resources. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. If we are unable to successfully manage these risks in the development and implementation of new lines of business or new products or services, it could have a material adverse effect on the Company's business, financial condition and result of operations.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Environmental reviews of real property before initiating foreclosure actions may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, financial condition and results of operations.

We depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions, we must rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business, financial condition and results of operations.

We do business with other financial institutions that could experience financial difficulty.

We do business through the purchase and sale of Federal funds, check clearing and through the purchase and sale of loan participations with other financial institutions. Because these financial institutions have many risks, as do we, we could be adversely affected should one of these financial institutions experience significant financial difficulties or fail to comply with our agreements with them.

If we are unable to continue to originate residential real estate loans and sell them into the secondary market for a profit, our earnings could decrease.

We derive a portion of our noninterest income from the origination of residential real estate loans and the subsequent sale of such loans into the secondary market. If we are unable to continue to originate and sell residential real estate loans at historical or greater levels, our residential real estate loan volume would decrease, which could decrease our earnings. A rising interest rate environment, general economic conditions or other factors beyond our control could adversely affect our ability to originate residential real estate loans. We also are experiencing an increase in regulations and compliance requirements related to mortgage loan originations necessitating technology upgrades and other changes. If new regulations continue to increase and we are unable to make technology upgrades, our ability to originate mortgage loans will be reduced or eliminated. Additionally, we sell a large portion of our residential real estate loans to third party investors, and rising interest rates could negatively affect our ability to generate suitable profits on the sale of such loans. If interest rates increase after we originate the loans, our ability to market those loans is impaired as the profitability on the loans decreases. These fluctuations can have an adverse effect on the revenue we generate from residential real estate loans and in certain instances, could result in a loss on the sale of the loans.

Further, for the mortgage loans we sell in the secondary market, the mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first sixty to ninety days, or if documentation is determined not to be in compliance with regulations. While the Company's historic losses as a result of these indemnities have been insignificant, we could be required to repurchase the mortgage loans or reimburse the purchaser of our loans for losses incurred. Both of these situations could have an adverse effect on the profitability of our mortgage loan activities and negatively impact our net income.

Difficult or changes in market conditions could adversely affect the financial services industry.

The financial markets have experienced volatility over the past several years. In some cases, the financial markets have produced downward pressure on stock prices and credit availability for certain companies without regard to those companies' underlying financial strength. If financial market volatility worsens, or there are disruptions in these financial markets, including disruptions to the United States banking systems, there can be no assurance that we will not experience an adverse effect on our ability to access capital and our business, financial condition and result of operations could be adversely impacted.

We may need to raise additional capital and such funds may not be available when needed.

We may need to raise additional capital in the future to provide us with sufficient capital resources to meet our commitments and business needs, particularly if our asset quality or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital and financial markets at that time, which are outside of our control, and our financial performance. Economic conditions and the loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, other financial institution borrowings and borrowings from the discount window of the Federal Reserve. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of other financial institutions, or counterparties participating in the capital markets, may adversely affect our costs and our ability to raise capital. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our financial condition and results of operations.

We may be subject to more stringent capital and liquidity requirements which would adversely affect our net income and future growth.

On July 2, 2013, the Federal Reserve Board, and on July 9, 2013, the FDIC and OCC, adopted a final rule that implements the Basel III changes to the international regulatory capital framework and revises the U.S. risk-based and leverage capital requirements for U.S. banking organizations to strengthen identified areas of weakness in capital rules and to address relevant provisions of the Dodd-Frank Act.

The final rule established a stricter regulatory capital framework that requires banking organizations to hold more and higher-quality capital to act as a financial cushion to absorb losses and help banking organizations better withstand periods of financial stress. The final rule increased capital ratios for all banking organizations and introduced a "capital conservation buffer" which is in addition to each capital ratio. If a banking organization dips into its capital conservation buffer, it may be restricted in its ability to pay dividends and discretionary bonus payments to its executive officers. The final rule assigned a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also required unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out is exercised. We exercised this opt-out right in our March 31, 2015 quarterly financial filing. The final rule also included changes in what constitutes regulatory capital, some of which are subject to a two-year transition period. These changes included the phasing-out of certain instruments as qualifying capital. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock are required to be deducted from capital, subject to a two-year transition period.

The final rule became effective for us on January 1, 2015. As of December 31, 2018, we met all of these new requirements, including the full capital conservation buffer.

Although we currently cannot predict the specific impact and long-term effects that Basel III will have on our Company and the banking industry more generally, the Company will be required to maintain higher regulatory capital levels which could impact our operations, net income and ability to grow. Furthermore, the Company's failure to comply with the minimum capital requirements could result in our regulators taking formal or informal actions against us which could restrict our future growth or operations.

The trust wealth management fees we receive may decrease as a result of poor investment performance, in either relative or absolute terms, which could decrease our revenues and net earnings.

Our trust company subsidiary derives its revenues primarily from investment management fees based on assets under management. Our ability to maintain or increase assets under management is subject to a number of factors, including investors' perception of our past performance, in either relative or absolute terms, market and economic conditions, including changes in oil and gas prices, and competition from investment management companies. Financial markets are affected by many factors, all of which are beyond our control, including general economic conditions, including changes in oil and gas prices; securities market conditions; the level and volatility of interest rates and equity prices; competitive conditions; liquidity of global markets; international and regional political conditions; regulatory and legislative developments; monetary and fiscal policy; investor sentiment; availability and cost of capital; technological changes and events; outcome of legal proceedings; changes in currency values; inflation; credit ratings; and the size, volume and timing of transactions. A decline in the fair value of the assets under management, caused by a decline in general economic conditions, would decrease our wealth management fee income.

Investment performance is one of the most important factors in retaining existing clients and competing for new wealth management clients. Poor investment performance could reduce our revenues and impair our growth in the following ways:

- existing clients may withdraw funds from our wealth management business in favor of better performing products;
- asset-based management fees could decline from a decrease in assets under management;
- our ability to attract funds from existing and new clients might diminish; and
- our wealth managers and investment advisors may depart, to join a competitor or otherwise.

Even when market conditions are generally favorable, our investment performance may be adversely affected by the investment style of our wealth management and investment advisors and the particular investments that they make. To the extent our future investment performance is perceived to be poor in either relative or absolute terms, the revenues and profitability of our wealth management business will likely be reduced and our ability to attract new clients will likely be impaired. As such, fluctuations in the equity and debt markets can have a direct impact upon our net earnings. In addition, as approximately 17% of trust fees comes from management of oil and gas properties, a decline in the prices of oil and gas could lead to a loss of material amounts of our trust income.

Certain of our investment advisory and wealth management contracts are subject to termination on short notice, and termination of a significant number of investment advisory contracts could have a material adverse impact on our revenue.

Certain of our investment advisory and wealth management clients can terminate, with little or no notice, their relationships with us, reduce their aggregate assets under management, or shift their funds to other types of accounts with different rate structures for any number of reasons, including investment performance, changes in prevailing interest rates, inflation, changes in investment preferences of clients, changes in our reputation in the marketplace, change in management or control of clients, loss of key investment management personnel and financial market performance. We cannot be certain that our trust company subsidiary will be able to retain all of its clients. If its clients terminate their investment advisory and wealth management contracts, our trust company subsidiary, and consequently we, could lose a substantial portion of our revenues.

We are subject to possible claims and litigation pertaining to fiduciary responsibility.

From time to time, customers could make claims and take legal action pertaining to our performance of our fiduciary responsibilities. Whether customer claims and legal action related to our performance of our fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect our market perception of our products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Our business is subject to significant government regulation.

We operate in a highly-regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Texas Department of Banking, the Federal Reserve Board, the OCC, and the FDIC. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels and other aspects of our operations. The bank regulatory agencies possess broad authority to prevent or remedy unsafe or unsound practices or violations of law.

The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Other changes to statues, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to reduced revenues, additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition and results of operations. Additionally, the banking regulations could prohibit and significantly delay the Company's acquisition of other financial institutions.

Included in the Dodd-Frank Act are, for example, changes related to interchange fees and overdraft services. While the changes for interchange fees that can be charged for electronic debit transactions by payment card issuers relate only to banks with assets greater than $10 billion, concern exists that the regulations will also impact our Company. Beginning in the third quarter of 2010, we were prohibited from charging customers fees for paying overdrafts on automated teller machine and debit card transactions, unless the consumer opts in. We continue to monitor the impact of these new regulations and other developments on our service charge revenue.

Federal income tax reform could have unforeseen effects on our financial condition and results of operations.

On December 22, 2017, the President of the United States signed into law H.R. 1, originally known as the "Tax Cuts and Jobs Act." The Tax Cuts and Jobs Act included a number of provisions, including the lowering of the U.S. corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. There are also provisions that may partially offset the benefit of such rate reduction. Financial statement impacts include adjustments for, among other things, the re-measurement of deferred tax assets and liabilities. The intended and unintended consequences of Tax Cuts and Jobs Act on our business and on holders of our common shares is uncertain and could be adverse. The Company anticipates that the impact of Tax Cuts and Jobs Act may be material to our business, financial condition and results of operations. Changes in the political makeup of the Senate and House of Representatives in the U.S. Congress could result also in the reversal of some or all of the effects of the Tax Cuts and Jobs Act.

A new accounting standard will result in a significant change in how we recognize credit losses and may have a material impact on our financial condition or results of operations.

In June 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standard update, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL") model. Under the CECL model, we will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current generally accepted accounting principles ("GAAP"), which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will materially affect how we determine our allowance for loan losses and could require us to significantly increase our allowance. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses. If we are required to materially increase our level of allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

The new CECL standard will become effective for us on January 1, 2020 and for interim periods within that year. We are currently evaluating the impact the CECL model will have on our accounting, but we expect to recognize a one-time cumulative-effect adjustment to our allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. We cannot yet determine the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on our business, financial condition and results of operations.

Our FDIC insurance assessments could increase substantially resulting in higher operating costs.

We have historically paid the lowest premium rate available due to our sound financial position. Should the number of bank failures increase, FDIC premiums could increase or additional special assessments could be imposed. These increased premiums would have an adverse effect on our net income and results of operations.

We compete with many larger financial institutions which have substantially greater financial resources than we have.

Competition among financial institutions in Texas is intense. We compete with other bank holding companies, state and national commercial banks, savings and loan associations, consumer financial companies, credit unions, securities brokers, insurance companies, mortgage banking companies, money market mutual funds, asset-based non-bank lenders and other financial institutions. Many of these competitors have substantially greater financial resources, larger lending limits, larger branch networks, enhanced technology and less regulatory oversight than we do, and are able to offer a broader range of products and services than we can. Failure to compete effectively for deposit, loan and other banking customers in our markets could cause us to lose market share, slow our growth rate and may have an adverse effect on our financial condition, results of operations and liquidity.

We are subject to interest rate risk.

Our profitability is dependent to a large extent on our net interest income, which is the difference between interest income we earn as a result of interest paid to us on loans and investments and interest we pay to third parties such as our depositors and those from whom we borrow funds. Like most financial institutions, we are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, and (iii) the average duration of our securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and investments, our net interest income, and earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and investments fall more quickly than the interest rates paid on deposits and other borrowings.

The Federal Reserve began raising interest rates in late 2015 and have continued to increase through 2018. However, there is substantial uncertainty regarding the extent to which interest rates may increase in future periods and what the future effects of any such increases will be. There is no assurance that recent expectations of increasing interest rates in future periods will be realized. Increases in interest rates can have negative impacts on our business, including reducing our customers' desire to borrow money from us or adversely affecting their ability to repay their outstanding loans by increasing their debt obligations through the periodic reset of adjustable interest rate loans. If our borrowers' ability to pay their loans is impaired by increasing interest payment obligations, our level of non-performing assets would increase, producing an adverse effect on operating results. Asset values, especially commercial real estate as collateral, securities or other fixed rate earning assets, can decline significantly with relatively minor changes in interest rates. Although we have implemented strategies which we believe reduce the potential effects of adverse changes in interest rates on our results of operations, these strategies may not always be successful. Any of these events could adversely affect our results of operations, financial condition and liquidity.

We are subject to liquidity risk.

The Company requires liquidity to meet our deposit and other obligations as they come due. The Company's access to funding sources in amounts adequate to finance its activities or on terms that are acceptable to it could be impaired by factors that affect it specifically or the financial services industry or the general economy. Factors that could reduce its access to liquidity sources include a downturn in the Texas market, difficult credit markets or adverse regulatory actions against the Company. The Company's access to deposits may also be affected by the liquidity needs of its depositors. In particular, a substantial majority of the Company's liabilities are demand, savings, interest checking and money market deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial portion of its assets are loans, which cannot be called or sold in the same time frame. The Company may not be able to replace maturing deposits and advances as necessary in the future, especially if a large number of its depositors sought to withdraw their accounts, regardless of the reason. A failure to maintain adequate liquidity could have a material adverse effect on the Company's business, financial condition and result of operations.

The value of certain securities in our investment portfolio may be negatively affected by changes or disruptions in the market for these securities.

Our investment portfolio securities include obligations of, and mortgage-backed securities guaranteed by, government sponsored enterprises such as the Federal National Mortgage Association, referred to as Fannie Mae, the Government National Mortgage Association, referred to as Ginnie Mae, the Federal Home Loan Mortgage Corporation, referred to as Freddie Mac, and the Federal Home Loan Bank or otherwise backed by Federal Housing Administration or Veteran's Administration guaranteed loans; however, volatility or illiquidity in financial markets may cause investment securities held within our investment portfolio to fall in value or become less liquid. The FRB's actions to increase interest rates may cause a decline in the value of securities held by the Company. Uncertainty surrounding the credit risk associated with mortgage collateral or guarantors may cause material discrepancies in valuation estimates obtained from third parties. Volatile market conditions may reduce valuations due to the perception of heightened credit and liquidity risks in addition to interest rate risk typically associated with these securities. There can be no assurance that declines in market value associated with these disruptions will not result in impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our results of operations, equity and capital ratios.

First Financial Bankshares, Inc. relies on dividends from its subsidiaries for most of its revenue.

First Financial Bankshares, Inc. is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends paid by its subsidiaries. These dividends are the principal source of funds to pay dividends on the Company's common stock and interest and principal on First Financial Bankshares, Inc. debt (if we had balances outstanding). Various federal and/or state laws and regulations limit the amount of dividends that our bank and trust subsidiaries may pay to First Financial Bankshares, Inc. In the event our subsidiaries are unable to pay dividends to First Financial Bankshares, Inc., First Financial Bankshares, Inc. may not be able to service debt, if any, or pay dividends on the Company's common stock. The inability to receive dividends from our subsidiaries could have a material adverse effect on the Company's business, financial condition, results of operations and liquidity.

To continue our growth, we are affected by our ability to identify and acquire other financial institutions.

We intend to continue our current growth strategy. This strategy includes opening new branches and acquiring other banks that serve customers or markets we find desirable. The market for acquisitions remains highly competitive, and we may be unable to find satisfactory acquisition candidates in the future that fit our acquisition and growth strategy. To the extent that we are unable to find suitable acquisition candidates, an important component of our growth strategy may be lost. Additionally, our completed acquisitions, or any future acquisitions, may not produce the revenue, earnings or synergies that we anticipated.

We may not be able to complete future acquisitions, may not be successful in realizing the benefits of any acquisitions that are completed, or may choose not to pursue acquisition opportunities we might find beneficial.

A substantial part of our historical growth has been a result of acquisitions of other financial institutions, and we may, from time to time, evaluate and engage in the acquisition of other financial institutions. We must generally satisfy a number of conditions prior to completing any such transaction, including certain bank regulatory approvals. Bank regulators consider a number of factors with regard to all institutions involved in the transaction when determining whether to approve a proposed transaction, including, among others, the ratings and compliance history, anti-money laundering and Bank Secrecy Act compliance history, CRA examination results and the effect of the proposed transaction on the financial stability of the institutions involved and the market as a whole.

The process for obtaining required regulatory approvals has become substantially more difficult, time-consuming and unpredictable as a result of the financial crisis. We may fail to pursue, evaluate or complete strategic and competitively significant business opportunities as a result of our inability, or our perceived inability, to obtain required regulatory approvals in a timely manner or at all.

Assuming we are able to successfully complete one or more transactions, we may not be able to successfully integrate and realize the expected synergies from any completed transaction in a timely manner or at all. In particular, we may be charged by federal and state regulators with regulatory and compliance failures at an acquired business prior to the date of the acquisition, and these failures by the acquired company may have negative consequences for us, including the imposition of formal or informal enforcement actions. Completion and integration of any transaction may also divert management's attention from other matters, result in additional costs and expenses, or adversely affect our relationships with our customers and employees, any of which may adversely affect our business or results of operations. As a result, our financial condition may be affected, and we may become more susceptible to general economic conditions and competitive pressures.

Use of our common stock for future acquisitions or to raise capital may be dilutive to existing stockholders.

When we determine that appropriate strategic opportunities exist, we may acquire other financial institutions and related businesses, subject to applicable regulatory requirements. We may use our common stock for such acquisitions. We may also seek to raise capital through selling additional common stock, although we have not historically done so. It is possible that the issuance of additional common stock in such acquisition or capital transactions may be dilutive to the interests of our existing shareholders.

If we are unable to continue our historical levels of growth, we may not be able to maintain our historical earnings trends.

To achieve our past levels of growth, we have focused on both internal growth and acquisitions. We may not be able to sustain our historical rate of growth or may not be able to grow at all. Additionally, we may not be able to obtain the financing necessary to fund additional growth and may not be able to find suitable acquisition candidates. Various factors, such as economic conditions, competition and heightened regulatory scrutiny, may impede or prohibit the opening of new banking centers and the completion of acquisitions. Further, we may be unable to attract and retain experienced bankers, which could adversely affect our internal growth. If we are not able to continue our historical levels of growth, we may not be able to maintain our historical earnings trends.

Our accounting estimates and risk management processes rely on analytical and forecasting models.

The processes we use to estimate our allowance for loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates depends upon the use of analytical and forecasting models. In addition, these models are used to calculate fair value of our assets and liabilities when we acquire other financial institutions. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for determining our probable loan losses are inadequate, the allowance for loan losses may not be sufficient to support future charge-offs. If the models we use to measure the fair value financial instruments is inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

The value of our goodwill and other intangible assets may decline in the future.

As of December 31, 2018, we had $174.68 million of goodwill and other intangible assets. A significant decline in our financial condition, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of our common stock may necessitate taking charges in the future related to the impairment of our goodwill and other intangible assets. If we were to conclude that a future write-down of goodwill and other intangible assets is necessary, we would record the appropriate charge, which could have a material adverse effect on our financial condition and results of operations.

We rely heavily on our management team, and the unexpected loss of key management or inability to recruit qualified personnel in the future may adversely affect our operations.

Our success to date has been strongly influenced by our ability to attract and to retain senior management experienced in banking in the markets we serve. Our ability to retain executive officers and the current management teams will continue to be important to the successful implementation of our strategies. We do not have employment agreements with these key employees other than executive agreements in the event of a change of control and a confidential information, non-solicitation and non-competition agreements related to our stock options. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business and financial results. In addition, the scope and content of U.S. banking regulators' policies on incentive compensation, as well as changes to these policies, could adversely affect our ability to hire, retain and motivate our key employees.

The Company's stock price can be volatile.

Stock price volatility may make it more difficult for our shareholders to resell their common stock when they want and at prices they find attractive. The Company's stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to the Company;
- new reports relating to trends, concerns and other issues in the financial services industry or Texas economy, including oil and gas and cattle prices;
- perceptions in the marketplace regarding the Company and/or its competitors;

- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations involving the Company or its competitors; and
- changes in government regulations, including tax laws.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends could also cause the Company's stock price to decrease regardless of operational results.

We may not continue to pay dividends on our common stock in the future.

Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividends in the future. This could adversely affect the market price of our common stock. Also, we are a bank holding company, and our ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve Board regarding capital adequacy and dividends.

Certain banking laws may have an anti-takeover effect.

Provisions of federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. These provisions effectively inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock.

The trading volume in our common stock is less than other larger financial institutions.

Although the Company's common stock is listed for trading on the Nasdaq Global Select Market, the trading volume in our common stock is less than that of other, larger financial services companies although such volume has increased in recent years. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company's common stock, significant sales of the Company's common stock, or the expectation of these sales, could cause the Company's stock price to fall.

Our stock ownership has shifted to larger institutional shareholders.

Our ownership base has shifted over the past several years whereby the ownership in larger investors and indexed funds is a much larger percentage of our stock ownership base as compared to shareholders located in our footprint. These larger shareholders could decide to sell their holdings in our common stock and as such could result in lower market prices of our stock.

Breakdowns in our internal controls and procedures could have an adverse effect on us.

We believe our internal control system as currently documented and functioning is adequate to provide reasonable assurance over our internal controls. Nevertheless, because of the inherent limitation in administering a cost effective control system, misstatements due to error or fraud may occur and not be detected. Breakdowns in our internal controls and procedures could occur in the future, and any such breakdowns could have an adverse effect on us. See "Item 9A – Controls and Procedures" for additional information.

Our operations rely on certain external vendors.

We rely on certain external vendors to provide products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted agreements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements, because of changes in the vendor's organizational structure, financial condition, support for existing products or services or strategic focus or for any other reason, could be disruptive to our operations, which could have a material adverse effect on our business and, in turn, our financial condition and results of operations.

We compete in an industry that continually experiences technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services and new fintech companies. In addition to improving the ability to serve customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for conveniences, as well as to create additional efficiencies in our operations. Many of our larger competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

System failure or cybersecurity breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.

The computer systems and network infrastructure we use could be vulnerable to unforeseen hardware and cybersecurity issues, including "hacking" and "identity theft." Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us, including our Internet banking activities, against damage from physical break-ins, cybersecurity breaches and other disruptive problems caused by the Internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us, damage our reputation and inhibit current and potential customers from our Internet banking services. Each year, we add additional security measures to our computer systems and network infrastructure to mitigate the possibility of cybersecurity breaches including firewalls and penetration testing. We continue to investigate cost effective measures as well as insurance protection.

Furthermore, our customers could incorrectly blame the Company and terminate their accounts with the Company for a cyber-incident which occurred on their own system or with that of an unrelated third party. In addition, a security breach could also subject us to additional regulatory scrutiny and expose us to civil litigation and possible financial liability.

Our business may be adversely affected by security breaches at third parties.

Our customers interact with their own and other third party systems, which pose operational risks to us. We may be adversely affected by data breaches at retailers and other third parties who maintain data relating to our customers that involve the theft of customers data, including the theft of customers' debit card, merchant credit card, wire transfer and other identifying and/or access information used to make purchases or payments at such retailers and to other third parties.

In the event of a data breach at one or more retailers of considerable magnitude, the Company's business, financial condition and results of operations may be adversely affected.

Our reputation and business could be damaged from negative publicity.

Reputation risk, or the risk to our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion could adversely affect our ability to keep and attract customers and expose us to adverse legal and regulatory consequences. Negative public opinion could result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance, regulatory compliance, mergers and acquisitions, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct. Negative public opinion could also result from adverse news or publicity that impairs the reputation of the financial services industry.

We are subject to claims and litigation pertaining to intellectual property.

We rely on technology companies to provide information technology products and services necessary to support our day-to-day operations. Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. Competitors of our vendors, or other individuals or companies, have from time to time claimed to hold intellectual property sold to us by its vendors. Such claims may increase in the future as the financial services sector becomes more reliant on information technology vendors. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, we may have to engage in litigation that could be expensive, time-consuming, disruptive to our operations, and distracting to management. If we are found to infringe one or more patents or other intellectual property rights, we may be required to pay substantial damages or royalties to a third-party. In certain cases, we may consider entering into licensing agreements for disputed intellectual property, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase our operating expenses. If legal matters related to intellectual property claims were resolved against us or settled, we could be required to make payments in amounts that could have a material adverse effect on our business, financial condition and results of operations.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this “Risk Factors” section and elsewhere in this Report. As a result, if you acquire our common stock, you may lose some or all of your investment.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal office is located in the First Financial Bank Building at 400 Pine Street in downtown Abilene, Texas. We lease four spaces in buildings owned by First Financial Bank, National Association, Abilene totaling approximately 9,000 square feet. As of December 31, 2018, our subsidiaries collectively own 72 banking facilities, some of which are detached drive-ins, and also lease 13 banking facilities and 15 ATM locations. Our management considers all our existing locations to be well-suited for conducting the business of banking. We believe our existing facilities are adequate to meet our requirements and our subsidiaries’ requirements for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we and our subsidiaries are parties to lawsuits arising in the ordinary course of our banking business. However, there are no material pending legal proceedings to which we, our subsidiaries or our other direct and indirect subsidiaries, or any of their properties, are currently subject. Other than regular, routine examinations by state and federal banking authorities, there are no proceedings pending or known to be contemplated by any governmental authorities.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock, par value $0.01 per share, is traded on the Nasdaq Global Select Market under the trading symbol FFIN. See "Item 8—Financial Statements and Supplementary Data—Quarterly Financial Data" for the high, low and closing sales prices as reported by the Nasdaq Global Select Market for our common stock for the periods indicated.

Record Holders

As of February 1, 2019, we had 1,025 registered shareholders of record with our stock transfer agent.

Dividends

See "Item 8—Financial Statements and Supplementary Data—Quarterly Results of Operations" for the frequency and amount of cash dividends paid by us. Also, see "Item 1 – Business – Supervision and Regulation – Payment of Dividends" and "Item 7 – Management's Discussion and Analysis of the Financial Condition and Results of Operations – Liquidity – Dividends" for restrictions on our present or future ability to pay dividends, particularly those restrictions arising under federal and state banking laws.

Equity Compensation Plans

See "Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters".

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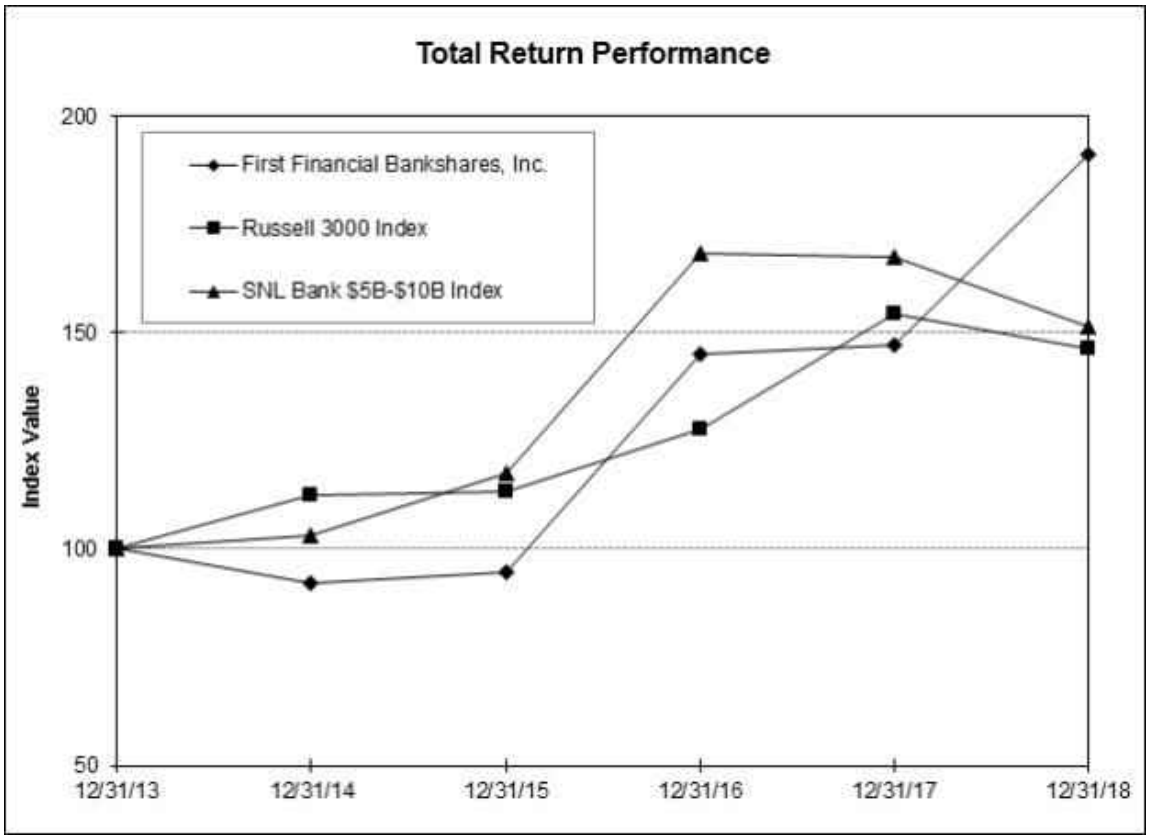
PERFORMANCE GRAPH

The following performance graph compares cumulative total shareholder returns for our common stock, the Russell 3000 Index, and the SNL Bank Index, which is a banking index prepared by SNL Financial LC and is comprised of banks with $5 billion to $10 billion in total assets, for a five-year period (December 31, 2013 to December 31, 2018). The performance graph assumes $100 invested in our common stock at its closing price on December 31, 2013, and in each of the Russell 3000 Index and the SNL Bank Index on the same date. The performance graph also assumes the reinvestment of all dividends. The dates on the performance graph represent the last trading day of each year indicated. The amounts noted on the performance graph have been adjusted to give effect to all stock splits and stock dividends.

First Financial Bankshares, Inc.



	Period Ending					
Index	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/18**
First Financial Bankshares, Inc.	100.00	92.04	94.84	144.96	147.06	191.13
Russell 3000	100.00	112.56	113.10	127.50	154.44	146.34
SNL Bank $5B-$10B Index	100.00	103.01	117.34	168.11	167.48	151.57

Source : SNL Financial, an offering of S&P Global Market Intelligence
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ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below as of and for the years ended December 31, 2018, 2017, 2016, 2015, and 2014, have been derived from our audited consolidated financial statements. The selected financial data should be read in conjunction with "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and accompanying notes presented elsewhere in this Form 10-K. The results of operations presented below are not necessarily indicative of the results of operations that may be achieved in the future. Management's Discussion and Analysis of Financial Condition and Results of Operations incorporates information required to be disclosed by the SEC's Industry Guide 3, "Statistical Disclosure by Bank Holding Companies."

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands, except per share data)				
Summary Income Statement Information:					
Interest income	$ 291,690	$ 245,975	$ 232,288	$ 221,623	$ 198,539
Interest expense	18,930	9,288	5,451	4,088	4,181
Net interest income	272,760	236,687	226,837	217,535	194,358
Provision for loan losses	5,665	6,530	10,212	9,685	4,465
Noninterest income	101,764	91,017	85,132	73,432	66,624
Noninterest expense	190,684	173,986	165,830	149,464	137,925
Earnings before income taxes	178,175	147,188	135,927	131,818	118,592
Income tax expense	27,537	26,817	31,153	31,437	29,033
Net earnings	$ 150,638	$ 120,371	$ 104,774	$ 100,381	$ 89,559
Per Share Data:					
Earnings per share, basic	$ 2.23	$ 1.82	$ 1.59	$ 1.55	$ 1.40
Earnings per share, assuming dilution	2.22	1.81	1.59	1.54	1.39
Cash dividends declared	0.82	0.75	0.70	0.62	0.55
Book value at period-end	15.55	13.93	12.68	12.20	10.63
Earnings performance ratios:					
Return on average assets	1.98%	1.72%	1.59%	1.61%	1.65%
Return on average equity	15.37	13.63	12.36	13.60	14.00
Summary Balance Sheet Data (Period-end):					
Securities	$3,158,777	$3,087,473	$2,860,958	$2,734,177	$2,416,297
Loans	3,975,308	3,500,699	3,384,205	3,350,593	2,937,991
Total assets	7,731,854	7,254,715	6,809,931	6,665,070	5,848,202
Deposits	6,180,389	5,962,961	5,478,539	5,190,169	4,750,255
Total liabilities	6,678,559	6,331,947	5,972,046	5,860,084	5,166,665
Total shareholders' equity	1,053,295	922,768	837,885	804,986	681,537
Asset quality ratios:					
Allowance for loan losses/period-end loans	1.29%	1.38%	1.35%	1.25%	1.25%
Nonperforming assets/period-end loans plus foreclosed assets	0.75	0.57	0.86	0.89	0.74
Net charge offs/average loans	0.07	0.12	0.19	0.15	0.06
Capital ratios:					
Average shareholders' equity/average assets	12.89%	12.65%	12.85%	11.86%	11.78%
Leverage ratio (1)	11.85	11.09	10.71	9.96	9.89
Tier 1 risk-based capital (2)	19.47	18.66	17.30	15.90	16.05
Common equity tier 1 capital (3)	19.47	18.66	17.30	15.90	N/A
Total risk-based capital (4)	20.61	19.85	18.45	16.97	17.16
Dividend payout ratio	36.84	41.24	44.14	40.20	39.34

(1) Calculated by dividing at period-end, shareholders' equity (before accumulated other comprehensive earnings/loss) less intangible assets by fourth quarter average assets less intangible assets.

(2) Calculated by dividing at period-end, shareholders' equity (before accumulated other comprehensive earnings/loss) less intangible assets by risk-adjusted assets.

(3) Calculated by dividing at period-end, shareholders' equity (before accumulated other comprehensive earnings/loss) less intangible assets by risk-adjusted assets.

(4) Calculated by dividing at period-end, shareholders' equity (before accumulated other comprehensive earnings/loss) less intangible assets plus allowance for loan losses to the extent allowed under regulatory guidelines by risk-adjusted assets.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to those listed in "Item 1A – Risk Factors" and in the "Cautionary Statement Regarding Forward-Looking Statements" notice on page 1.

Introduction

As a financial holding company, we generate most of our revenue from interest on loans and investments, trust fees, and service charges. Our primary source of funding for our loans and investments are deposits held by our bank subsidiary, First Financial Bank, National Association, Abilene, Texas. Our largest expenses are salaries and related employee benefits. We measure our performance by calculating our return on average assets, return on average equity, our regulatory leverage and risk based capital ratios and our efficiency ratio, which is calculated by dividing noninterest expense by the sum of net interest income on a tax equivalent basis and noninterest income.

The following discussion and analysis of the major elements of our consolidated balance sheets as of December 31, 2018 and 2017, and consolidated statements of earnings for the years 2016 through 2018 should be read in conjunction with our consolidated financial statements, accompanying notes, and selected financial data presented elsewhere in this Form 10-K.

Critical Accounting Policies

We prepare consolidated financial statements based on generally accepted accounting principles ("GAAP") and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions.

We deem a policy critical if (1) the accounting estimate required us to make assumptions about matters that are highly uncertain at the time we make the accounting estimate; and (2) different estimates that reasonably could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the financial statements.

We deem our most critical accounting policies to be (1) our allowance for loan losses and our provision for loan losses and (2) our valuation of securities. We have other significant accounting policies and continue to evaluate the materiality of their impact on our consolidated financial statements, but we believe these other policies either do not generally require us to make estimates and judgments that are difficult or subjective, or it is less likely they would have a material impact on our reported results for a given period. A discussion of (1) our allowance for loan losses and our provision for loan losses and (2) our valuation of securities is included in Note 1 to our Consolidated Financial Statements beginning on page F-8.

Hurricane Harvey

Houston and the surrounding Gulf Coast region were significantly affected by Hurricane Harvey beginning in late August 2017 and continuing into the fourth quarter of 2017. Our Company has locations (i) north of Houston in Conroe, Willis, Tomball, Huntsville, Montgomery, Magnolia, New Waverly and Cut and Shoot and (ii) in Southeast Texas in Orange, Beaumont, Vidor, Newton, Mauriceville and Port Arthur. We continue to evaluate the effect of the hurricane on our branch facilities and our loan and investment portfolios. Our assessment of our physical buildings and equipment indicated damage primarily at our Mauriceville branch and amounts not covered by insurance were not significant. At December 31, 2018, we had loans totaling $474.42 million in our Conroe region and $405.79 million in the Southeast Texas/Orange region. We continue to evaluate these loans and the related collateral and business operations underlying such loans as we learn more information about the damage caused by the hurricane and the impact of such damage on our customers' ability to repay loans in accordance with their contractual terms. Our tax exempt municipal bonds in the counties of Texas affected by the hurricane have also been evaluated, including insurance on the bonds. At December 31, 2018, our municipal bonds in these counties totaled $422.86 million, but only $109.36 million do not have bond insurance. Based on analysis of these bonds and the related municipality, at December 31, 2018, we do not believe we have any credit related losses other than temporary impairment.

Acquisition

On October 12, 2017, we entered into an agreement and plan of reorganization to acquire Commercial Bancshares, Inc. and its wholly owned bank subsidiary, Commercial State Bank, Kingwood, Texas. On January 1, 2018, the transaction closed. Pursuant to the agreement, we issued 1,289,371 shares of the Company's common stock in exchange for all of the outstanding shares of Commercial Bancshares, Inc. In addition, in accordance with the plan of reorganization, Commercial Bancshares, Inc. paid a special dividend totaling $22.08 million to its shareholders prior to the closing of this transaction. At the closing, Kingwood Merger Sub., Inc., a wholly-owned subsidiary of the Company, merged into Commercial Bancshares Inc., with Commercial Bancshares, Inc. surviving as a wholly-owned subsidiary of the Company. Immediately following such merger, Commercial Bancshares, Inc. was merged into the Company and Commercial State Bank, Kingwood, Texas was merged into First Financial Bank, National Association, Abilene, Texas, a wholly owned subsidiary of the Company. The total purchase price exceeded the estimated fair value net of assets acquired by approximately $31.59 million and the Company recorded such excess as goodwill. The balance sheet and results of operations of Commercial Bancshares, Inc. are included in the financial statements of the Company effective January 1, 2018.

Results of Operations

Performance Summary. Net earnings for 2018 were $150.64 million, an increase of $30.27 million, or 25.14%, over net earnings for 2017 of $120.37 million. Net earnings for 2016 were $104.77 million. The increases in net earnings for 2018 over 2017 were primarily attributable to the change in income tax rates and 2017 over 2016 were primarily attributable to growth in net interest income and noninterest income.

On a basic net earnings per share basis, net earnings were $2.23 for 2018, as compared to $1.82 for 2017 and $1.59 for 2016. The return on average assets was 1.98% for 2018, as compared to 1.72% for 2017 and 1.59% for 2016. The return on average equity was 15.37% for 2018, as compared to 13.63% for 2017 and 12.36% for 2016.

Net Interest Income. Net interest income is the difference between interest income on earning assets and interest expense on liabilities incurred to fund those assets. Our earning assets consist primarily of loans and investment securities. Our liabilities to fund those assets consist primarily of noninterest-bearing and interest-bearing deposits. Tax-equivalent net interest income was $281.75 million in 2018, as compared to $262.18 million in 2017 and $251.78 million in 2016. The increases in 2018 compared to 2017 were largely attributable to increases in the volume of earning assets offset by rate increases on our interest-bearing liabilities. Average earning assets were $7.12 billion in 2018, as compared to $6.54 billion in 2017 and $6.17 billion in 2016. Average earning assets increased $570.96 million in 2018, when compared to 2017, due primarily from increases in loans and taxable securities. Average earning assets increased $373.50 million in 2017, when compared to 2016, due primarily from increases in loans and taxable securities. Average interest bearing liabilities were $4.47 billion in 2018, as compared to $4.21 billion in 2017 and $4.02 billion in 2016. The yield on earning assets increased eight basis points in 2018, although this yield was negatively impacted from the change in income tax rate from 35% to 21% and the related effect on the tax-exempt investment securities. The rate paid on interest-bearing liabilities increased twenty basis points when compared to 2017. The yield on earning assets decreased two basis points in 2017, whereas the rate paid on interest-bearing liabilities increased eight basis points when compared to 2016.

Table 1 allocates the change in tax-equivalent net interest income between the amount of change attributable to volume and to rate.

Table 1 — Changes in Interest Income and Interest Expense (in thousands):

	2018 Compared to 2017			2017 Compared to 2016		
	Change Attributable to		Total	Change Attributable to		Total
	Volume	Rate	Change	Volume	Rate	Change
Short-term investments	$ (636)	$ 583	$ (53)	$ 443	$ 899	$ 1,342
Taxable investment securities	10,082	7,145	17,227	3,464	1,735	5,199
Tax-exempt investment securities (1)	(10,184)	(10,433)	(20,617)	1,173	677	1,850
Loans (1) (2)	19,293	13,362	32,655	4,998	851	5,849
Interest income	18,555	10,657	29,212	10,078	4,162	14,240
Interest-bearing deposits	583	8,149	8,732	409	3,300	3,709
Short-term borrowings	(8)	917	909	(223)	351	128
Interest expense	575	9,066	9,641	186	3,651	3,837
Net interest income	$ 17,980	$ 1,591	$ 19,571	$ 9,892	$ 511	$ 10,403

(1) Computed on tax-equivalent basis assuming marginal tax rate of 21% for 2018 and 35% for 2017 and 2016.
(2) Non-accrual loans are included in loans.

The net interest margin in 2018 was 3.96%, a decrease of five basis points from 2017 which also decreased an additional seven basis points from 2016. The decrease in our net interest margin in 2018 from 2017 was primarily due to (i) the change in the income tax rate from 35% to 21% from the Tax Cuts and Jobs Act and its effect on our tax free municipal bonds and tax free loans and (ii) the result of the extended period of historically low levels of short-term interest rates, although rates have begun to increase in the past 24 months. We have been able to somewhat mitigate the impact of lower short-term interest rates by establishing minimum interest rates on certain of our loans, improving the pricing for loan risk, and minimizing rates paid on interest bearing liabilities. As rates have begun to increase, we are adjusting loan rates, upon maturities, and converting to variable rates when we are able. We have also begun increasing rates paid on our interest-bearing deposits. The Federal Reserve increased rates 100 basis points in 2018, 75 basis points in 2017 and 25 basis points in 2016 and continues to issue forward guidance plans to increase rates further.

The net interest margin, which measures tax-equivalent net interest income as a percentage of average earning assets, is illustrated in Table 2 for the years 2016 through 2018.

Table 2 — Average Balances and Average Yields and Rates (in thousands, except percentages):

	2018			2017			2016		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets									
Short-term investments (1)	$ 90,374	$ 1,631	1.80%	$ 144,464	$ 1,684	1.17%	$ 63,882	$ 342	0.54%
Taxable investment securities (2)	1,934,160	50,052	2.59	1,479,698	32,825	2.22	1,314,820	27,626	2.10
Tax-exempt investment securities (2)(3)	1,262,947	47,501	3.76	1,484,952	68,118	4.59	1,459,121	66,268	4.54
Loans (3)(4)	3,828,040	201,498	5.26	3,435,447	168,843	4.91	3,333,241	162,994	4.89
Total earning assets	7,115,521	$300,682	4.23%	6,544,561	$271,470	4.15%	6,171,064	$257,230	4.17%
Cash and due from banks	176,799			162,255			152,648		
Bank premises and equipment, net	129,715			123,595			120,538		
Other assets	62,595			56,007			55,694		
Goodwill and other intangible assets, net	172,425			142,473			143,986		
Allowance for loan losses	(50,323)			(47,380)			(44,811)		
Total assets	$7,606,732			$6,981,511			$6,599,119		
Liabilities and Shareholders' Equity									
Interest-bearing deposits	$4,052,614	$ 16,945	0.42%	$3,783,960	$ 8,213	0.22%	$3,469,005	$ 4,504	0.13%
Short-term borrowings	418,977	1,984	0.47	422,285	1,075	0.25	552,041	947	0.17
Total interest-bearing liabilities	4,471,591	$ 18,929	0.42%	4,206,245	$ 9,288	0.22%	4,021,046	$ 5,451	0.14%
Noninterest-bearing deposits	2,124,004			1,843,973			1,666,598		
Other liabilities	30,931			48,480			63,609		
Total liabilities	6,626,526			6,098,698			5,751,253		
Shareholders' equity	980,206			882,813			847,866		
Total liabilities and shareholders' equity	$7,606,732			$6,981,511			$6,599,119		
Net interest income		$281,753			$262,182			$251,779	
Rate Analysis:									
Interest income/earning assets			4.23%			4.15%			4.17%
Interest expense/earning assets			0.27			0.14			0.09
Net yield on earning assets			3.96%			4.01%			4.08%

(1) Short-term investments are comprised of Fed Funds sold, interest bearing deposits in banks and interest bearing time deposits in banks.
(2) Average balances include unrealized gains and losses on available-for-sale securities.
(3) Computed on a tax-equivalent basis assuming a marginal tax rate of 21% for 2018 and 35% for 2017 and 2016.
(4) Nonaccrual loans are included in loans.

Noninterest Income. Noninterest income for 2018 was $101.76 million, an increase of $10.75 million, or 11.81%, as compared to 2017. Increases in certain categories of noninterest income included **(**1) trust fees of $4.49 million (2) ATM, interchange and credit card fees of $2.85 million and (3) service charges on deposit accounts of $2.25 million when compared to 2017. The increase in trust fees resulted from an increase in assets under management over the prior year and an increase in oil and gas production for the majority of 2018 that increased related to trust fees by $2.61 million over 2017. The fair value of our trust assets managed, which are not reflected in our consolidated balance sheets, totaled $5.60 billion at December 31, 2018, as compared to $5.13 billion at December 31, 2017. The increases in ATM, interchange and credit card fees increased due to continued growth in debit cards and the Kingwood acquisition. Service charges on deposit accounts increased primarily due to continued growth in net new accounts, product and pricing changes made to better align the Company's account offerings and the Kingwood acquisition. Offsetting these increases were decreases in interest on net recoveries of $190 thousand and gains on sale of available-for-sale securities of $474 thousand.

Noninterest income for 2017 was $91.02 million, an increase of $5.89 million, or 6.91%, as compared to 2016. Increases in certain categories of noninterest income included **(**1) trust fees of $4.06 million (2) ATM, interchange and credit card fees of $1.78 million and (3) service charges on deposit accounts of $1.03 million when compared to 2016. The increase in trust fees resulted from an increase in assets under management over the prior year and an increase in oil and gas production that increased related trust fees by $364 thousand over 2016. The fair value of our trust assets managed, which are not reflected in our consolidated balance sheets, totaled $5.13 billion at December 31, 2017, as compared to $4.37 billion at December 31, 2016. The increases in ATM, interchange and credit card fees and service charges on deposit accounts were primarily the result of increases in the number of net new accounts and debit cards. Offsetting these increases were decreases in net recoveries of $984 thousand and real estate mortgage fees of $977 thousand.

ATM and interchange fees are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. ATM and interchange fees consist of income from debit card usage, point of sale income for debit card transactions and ATM service fees. Federal Reserve rules applicable to financial institutions that have assets of $10 billion or more provide that the maximum permissible interchange fee for an electronic debit transaction in the sum of 21 cents per transaction and five basis points multiplied by the value of the transaction. While we currently have assets under $10 billion, we are monitoring the effect of this reduction in per transaction fee income as we approach the $10 billion asset level.

Table 3 — Noninterest Income (in thousands):

	2018	Increase (Decrease)	2017	Increase (Decrease)	2016
Trust fees	$ 28,181	$ 4,487	$23,694	$ 4,058	$19,636
Service charges on deposit accounts	21,663	2,247	19,416	1,030	18,386
ATM, interchange and credit card fees	28,532	2,846	25,686	1,776	23,910
Real estate mortgage operations	15,157	48	15,109	(977)	16,086
Net gain on sale of available-for-sale securities	1,354	(474)	1,828	558	1,270
Net gain (loss) on sale of foreclosed assets	116	166	(50)	(506)	456
Net gain (loss) on sale of assets	(147)	249	(396)	(564)	168
Interest on loan recoveries	938	(190)	1,128	(984)	2,112
Other:					
Check printing fees	216	43	173	(17)	190
Safe deposit rental fees	544	15	529	(2)	531
Credit life and debt protection fees	741	124	617	(2)	619
Brokerage commissions	1,707	417	1,290	717	573
Miscellaneous income	2,762	769	1,993	798	1,195
Total other	5,970	1,368	4,602	1,494	3,108
Total Noninterest Income	$101,764	$ 10,747	$91,017	$ 5,885	$85,132

Noninterest Expense. Total noninterest expense for 2018 was $190.68 million, an increase of $16.70 million, or 9.60%, as compared to 2017. Noninterest expense for 2017 amounted to $173.99 million, an increase of $8.16 million, or 4.92%, as compared to 2016. An important measure in determining whether a financial institution effectively manages noninterest expenses is the efficiency ratio, which is calculated by dividing noninterest expense by the sum of net interest income on a tax-equivalent basis and noninterest income. Lower ratios indicate better efficiency since more income is generated with a lower noninterest expense total. Our efficiency ratio for 2018 was 49.72%, as compared to 49.26% for 2017 and 49.22% for 2016.

Salaries and employee benefits for 2018 totaled $105.19 million, an increase of $9.90 million, or 10.39%, as compared to 2017. The increase was primarily driven by (i) annual merit pay increases that were effective March 1, 2018, (ii) an increase in our profit sharing expenses, and (iii) increases in all categories from the Kingwood acquisition.

All other categories of noninterest expense for 2018 totaled $85.50 million, an increase of $6.80 million, or 8.64%, as compared to 2017. Included in noninterest expense in 2018 was $1.55 million, before income tax, resulting from the Company's partial settlement of its frozen defined benefit pension plan. Other notable increases in noninterest expense include a $1.83 million increase in ATM, interchange and credit card expenses and a $652 thousand increase in net occupancy expense. In addition, included in other miscellaneous expense for 2018 were technology contract termination and conversion related costs totaling $1,747,000 related to the Kingwood acquisition.

Salaries and employee benefits for 2017 totaled $95.29 million, an increase of $4.55 million, or 5.01%, as compared to 2016. The increase was primarily driven by (i) annual merit pay increases that were effective March 1, 2017, (ii) an increase in our profit sharing expenses and (iii) an increase in stock option and stock grant expense due to the stock option grant in June 2017 and restricted stock grant in October 2017.

All other categories of noninterest expense for 2017 totaled $78.70 million, an increase of $3.61 million, or 4.80%, as compared to 2016. The increase in noninterest expense was largely attributable to increases in software amortization and expense of $1.29 million from the write-off of internally developed software, operational and other losses of $1.02 million due to fraud and weather related losses and professional and service fees of $1.19 million. Offsetting these increases in 2017 were a decrease of $463 thousand in FDIC insurance due to the lower rate charged by the FDIC beginning in the third quarter of 2016.

Table 4 — Noninterest Expense (in thousands):

	2018	Increase (Decrease)	2017	Increase (Decrease)	2016
Salaries	$ 79,474	$ 7,342	$ 72,132	$ 2,135	$ 69,997
Medical	8,699	114	8,585	(174)	8,759
Profit sharing	7,049	2,314	4,735	1,514	3,221
Pension	(178)	(305)	127	(232)	359
401(k) match expense	2,588	196	2,392	61	2,331
Payroll taxes	5,369	360	5,009	200	4,809
Stock option expense	1,508	(237)	1,745	863	882
Restricted stock expense	680	118	562	181	381
Total salaries and employee benefits	105,189	9,902	95,287	4,548	90,739
Loss from partial settlement of pension plan	1,546	1,546	—	(267)	267
Net occupancy expense	11,173	652	10,521	101	10,420
Equipment expense	13,841	76	13,765	286	13,479
FDIC insurance premiums	2,333	116	2,217	(463)	2,680
ATM, interchange and credit card expenses	9,282	1,830	7,452	221	7,231
Professional and service fees	8,894	831	8,063	1,186	6,877
Printing, stationery and supplies	1,997	8	1,989	(104)	2,093
Amortization of intangible assets	1,272	659	613	(125)	738
Other:					
Data processing fees	1,462	343	1,119	656	463
Postage	1,749	86	1,663	(1)	1,664
Advertising	3,603	88	3,515	(21)	3,536
Correspondent bank service charges	772	(96)	868	(96)	964
Telephone	3,562	454	3,108	(145)	3,253
Public relations and business development	3,061	242	2,819	71	2,748
Directors' fees	1,745	192	1,553	233	1,320
Audit and accounting fees	1,625	(4)	1,629	(83)	1,712
Legal fees	1,148	(632)	1,780	(316)	2,096
Regulatory exam fees	1,275	98	1,177	46	1,131
Travel	1,465	255	1,210	(32)	1,242
Courier expense	830	(49)	879	31	848
Operational and other losses	2,188	(1,004)	3,192	1,022	2,170
Other real estate	129	(59)	188	6	182
Software amortization and expense	2,297	(998)	3,295	1,289	2,006
Other miscellaneous expense	8,246	2,162	6,084	113	5,971
Total other	35,157	1,078	34,079	2,773	31,306
Total Noninterest Expense	$190,684	$ 16,698	$173,986	$ 8,156	$165,830

Income Taxes. Income tax expense was $27.54 million for 2018, as compared to $26.82 million for 2017 and $31.15 million for 2016. Our effective tax rates on pretax income were 15.46%, 18.22% and 22.92%, respectively, for the years 2018, 2017 and 2016. The effective tax rates differ from the statutory federal tax rate of 21.0% in 2018 and 2017 and 35.0% in 2016 largely due to tax exempt interest income earned on certain investment securities and loans, the deductibility of dividends paid to our employee stock ownership plan and income tax deductions from the partial donation of two of our branch buildings to municipalities.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law with sweeping modifications to the Internal Revenue Service Code. The primary change for the Company was to lower the corporate income tax rate to 21% from 35%. The Company's deferred tax assets and liabilities were re-measured based on the income tax rates at which they are expected to reverse in the future, which is generally 21%. The provisional amount recorded related to the re-measurement of the Company's deferred tax balance was $7.65 million, a reduction of income tax expense for the year ended December 31, 2017. In 2018, the Company continued to analyze certain aspects of the Tax Cuts and Jobs Act resulting in refinement of the calculation and recorded an additional reduction in its deferred tax balance of $664 thousand, which represents a reduction of income tax expense for year ended December 31, 2018.

Balance Sheet Review

Loans. Our portfolio is comprised of loans made to businesses, professionals, individuals, and farm and ranch operations located in the primary trade areas served by our subsidiary bank. Real estate loans represent loans primarily for 1-4 family residences and commercial real estate, which are primarily owner-occupied. The structure of loans in the real estate mortgage area generally provides re-pricing intervals to minimize the interest rate risk inherent in long-term fixed rate loans. As of December 31, 2018, total loans held for investment were $3.95 billion, an increase of $468.07 million, as compared to December 31, 2017. As compared to year-end 2017, real estate loans increased $336.35 million, commercial loans increased $160.85 million, agricultural loans increased $2.13 million and consumer loans decreased $31.27 million. Loans averaged $3.83 billion during 2018, an increase of $392.59 million over the 2017 average balances.

Table 5 — Composition of Loans (in thousands):

	December 31,				
	2018	2017	2016	2015	2014
Commercial	$ 844,953	$ 684,099	$ 674,410	$ 696,163	$ 639,954
Agricultural	96,677	94,543	84,021	102,351	105,694
Real estate	2,639,346	2,302,998	2,189,844	2,136,233	1,822,854
Consumer	372,660	403,929	409,032	382,303	360,686
Total loans held-for-investment	$3,953,636	$3,485,569	$3,357,307	$3,317,050	$2,929,188

As of December 31, 2018, our real estate loans represent approximately 66.76% of our loan portfolio and are comprised of (i) commercial real estate loans of 29.11%, generally owner occupied, (ii) 1-4 family residence loans of 42.32%, (iii) residential development and construction loans of 9.47%, which includes our custom and speculation home construction loans, (iv) commercial development and construction loans of 4.98% and (v) other loans, which includes ranches, hospitals and universities of 14.12%.

Loans held-for-sale, consisting of secondary market mortgage loans, totaled $21.67 million and $15.13 million at December 31, 2018 and 2017, respectively. At December 31, 2018, $2.49 million is valued at the lower of cost or fair value, and the remaining amount is valued under the fair value option. All amounts at December 31, 2017 were valued at the lower of cost or fair value.

The Company has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on an annual basis and makes changes as appropriate. Management receives and reviews monthly reports related to loan originations, quality, concentrations, delinquencies, nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geographic location.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

Agricultural loans are subject to underwriting standards and processes similar to commercial loans. These agricultural loans are based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most agricultural loans are secured by the agriculture related assets being financed, such as farm land, cattle or equipment, and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial and agricultural loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's real estate portfolio are generally diverse in terms of type and geographic location within Texas. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry. Generally, real estate loans are owner-occupied which further reduces the Company's risk.

Consumer loan underwriting utilizes methodical credit standards and analysis to supplement the Company's underwriting policies and procedures. The Company's loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimize the Company's risk.

Table 6 — Maturity Distribution and Interest Sensitivity of Loans at December 31, 2018 (in thousands):

The following tables summarize maturity and repricing information for the commercial and agricultural and the real estate-construction portion of our loan portfolio as of December 31, 2018:

	One Year or less	After One Year Through Five Years	After Five Years	Total
Commercial and agricultural	$378,169	$296,735	$266,726	$941,630
Real estate - construction	201,081	70,327	205,271	476,679

	Maturities After One Year
Loans with fixed interest rates	$ 446,838
Loans with floating or adjustable interest rates	392,221

Asset Quality. Our loan portfolio is subject to periodic reviews by our centralized independent loan review group as well as periodic examinations by bank regulatory agencies. Loans are placed on nonaccrual status when, in the judgment of management, the collectability of principal or interest under the original terms becomes doubtful. Nonaccrual, past due 90 days or more and still accruing, and restructured loans plus foreclosed assets were $29.63 million at December 31, 2018, as compared to $20.12 million at December 31, 2017 and $29.00 million at December 31, 2016. As a percent of loans and foreclosed assets, these assets were 0.75% at December 31, 2018, as compared to 0.57% at December 31, 2017 and 0.86% at December 31, 2016. As a percent of total assets, these assets were 0.38% at December 31, 2018, as compared to 0.28% at December 31, 2017 and 0.43% at December 31, 2016. We believe the level of these assets to be manageable and are not aware of any material classified credits not properly disclosed as nonperforming at December 31, 2018.

Supplemental Oil and Gas Information. At December 31, 2018, the Company's exposure to the oil and gas industry was 2.86% of gross loans, or $113.54 million, compared to 1.72% of gross loans, or $60.16 million at December 31, 2017. The increase in 2018 was primarily a result of the Kingwood acquisition. These oil and gas loans consisted (based on collateral supporting the loan) of (i) development and production loans of 0.34%, (ii) oil and gas field servicing loans of 8.52%, (iii) real estate loans of 40.78%, (iv) accounts receivable and inventory of 2.50%, (v) automobile of 39.64% and (vi) other of 8.22%. These loans have experienced increased stress due to lower oil and gas prices although such prices improved in 2018. The Company instituted additional monitoring procedures for these loans and has classified, downgraded and charged-off loans as appropriate. The following oil and gas information is as of and for the years ended December 31, 2018 and 2017:

	December 31,	
	2018	2017
Oil and gas related loans	$113,536	$60,164
Oil and gas related loans as a % of total loans	2.86%	1.72%
Classified oil and gas related loans	$ 3,894	$20,346
Nonaccrual oil and gas related loans	1,048	1,414
Net charge-offs for oil and gas related loans	—	50
Allowance for oil and gas related loans as a % of oil and gas loans	3.23%	7.90%

Table 7 — Nonaccrual, Past Due 90 Days or More and Still Accruing, Restructured Loans and Foreclosed Assets (in thousands, except percentages):

	At December 31,				
	2018	2017	2016	2015	2014
Nonaccrual loans*	$27,534	$17,670	$27,371	$28,601	$20,194
Loans still accruing and past due 90 days or more	1,008	288	284	341	261
Troubled debt restructured loans**	513	627	701	199	226
Nonperforming loans	29,055	18,585	28,356	29,141	20,681
Foreclosed assets	577	1,532	644	627	1,035
Total nonperforming assets	$29,632	$20,117	$29,000	$29,768	$21,716
As a % of loans and foreclosed assets	0.75%	0.57%	0.86%	0.89%	0.74%
As a % of total assets	0.38	0.28	0.43	0.45	0.37

* Includes $827 thousand, $618 thousand, $1.26 million, $2.18 million and $2.15 million, respectively, of purchased credit impaired loans as of December 31, 2018, 2017, 2016, 2015 and 2014.

** Troubled debt restructured loans of $3.84 million, $4.63 million, $6.86 million, $6.11 million and $9.07 million, respectively, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans as of December 31, 2018, 2017, 2016, 2015 and 2014.

We record interest payments received on non-accrual loans as reductions of principal. Prior to the loans being placed on non-accrual, we recognized interest income on impaired loans as of December 31, 2018 of approximately $395 thousand during the year ended December 31, 2018. If interest on these impaired loans had been recognized on a full accrual basis during the year ended December 31, 2018, such income would have approximated $2.57 million.

See Note 3 to the Consolidated Financial Statements beginning on page F-18 for more information on these assets.

Provision and Allowance for Loan Losses. The allowance for loan losses is the amount we determine as of a specific date to be appropriate to absorb probable losses on existing loans in which full collectability is unlikely based on our review and evaluation of the loan portfolio. For a discussion of our methodology, see our accounting policies in Note 1 to the Consolidated Financial Statements beginning on page F-8. The provision for loan losses was $5.67 million in 2018, as compared to $6.53 million in 2017 and $10.21 million in 2016. The continued provision for loan losses in 2018 reflects the continued growth in the loan portfolio and the continued levels of gross charge-offs. As a percent of average loans, net loan charge-offs were 0.07% during 2018, 0.12% during 2017 and 0.19% during 2016. The allowance for loan losses as a percent of loans was 1.29% as of December 31, 2018, as compared to 1.38% as of December 31, 2017 and 1.35% as of December 31, 2016. Included in Tables 8 and 9 are further analysis of our allowance for loan losses.

Although we believe we use the best information available to make loan loss allowance determinations, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making our initial determinations. A downturn in the economy or lower employment could result in increased levels of nonaccrual, past due 90 days or more and still accruing, restructured loans, foreclosed assets, charge-offs, increased loan loss provisions and reductions in income. Additionally, as an integral part of their examination process, bank regulatory agencies periodically review the adequacy of our allowance for loan losses. The banking agencies could require additions to the loan loss allowance based on their judgment of information available to them at the time of their examinations of our bank subsidiary.

Table 8 — Loan Loss Experience and Allowance for Loan Losses (in thousands, except percentages):

	2018	2017	2016	2015	2014
Balance at January 1,	$ 48,156	$ 45,779	$ 41,877	$ 36,824	$ 33,900
Charge-offs:					
Commercial	1,418	3,018	6,990	3,734	583
Agricultural	—	71	219	164	2
Real estate	1,479	1,215	682	441	1,075
Consumer	1,550	1,517	1,925	1,700	1,222
Total charge-offs	4,447	5,821	9,816	6,039	2,882
Recoveries:					
Commercial	839	942	952	344	346
Agricultural	15	33	25	55	18
Real estate	462	192	2,021	558	505
Consumer	512	501	508	450	472
Total recoveries	1,828	1,668	3,506	1,407	1,341
Net charge-offs	2,619	4,153	6,310	4,632	1,541
Provision for loan losses	5,665	6,530	10,212	9,685	4,465
Balance at December 31,	$ 51,202	$ 48,156	$ 45,779	$ 41,877	$ 36,824
Loans at year-end	$3,975,308	$3,500,699	$3,384,205	$3,350,593	$2,937,991
Average loans	3,828,040	3,435,447	3,333,241	3,090,538	2,786,011
Net charge-offs/average loans	0.07%	0.12%	0.19%	0.15%	0.06%
Allowance for loan losses/year-end loans*	1.29	1.38	1.35	1.25	1.25
Allowance for loan losses/nonaccrual, past due 90 days still accruing and restructured loans	176.22	259.11	161.44	143.70	178.06

* Reflects the impact of loans acquired in the Conroe acquisition in 2015 and the Kingwood acquisition in 2018, which were initially recorded at fair value with no allocated allowance for loan losses.

Table 9 — Allocation of Allowance for Loan Losses (in thousands):

	At December 31,				
	2018	2017	2016	2015	2014
	Allocation Amount	Allocation Amount	Allocation Amount	Allocation Amount	Allocation Amount
Commercial	$ 11,948	$ 10,865	$ 11,707	$ 12,644	$ 7,990
Agricultural	1,446	1,305	1,101	1,191	527
Real estate	32,342	29,896	26,864	24,375	26,657
Consumer	5,466	6,090	6,107	3,667	1,650
Total	$ 51,202	$ 48,156	$ 45,779	$ 41,877	$ 36,824

Percent of Loans in Each Category of Total Loans:

	2018	2017	2016	2015	2014
Commercial	23.34%	19.63%	20.09%	20.99%	21.84%
Agricultural	2.82	2.71	2.50	3.09	3.61
Real estate	63.17	66.07	65.23	64.40	62.23
Consumer	10.67	11.59	12.18	11.52	12.32

Included in our loan portfolio are certain other loans not included in Table 7 that are deemed to be potential problem loans. Potential problem loans are those loans that are currently performing, but for which known information about trends, uncertainties or possible credit problems of the borrowers causes management to have serious doubts as to the ability of such borrowers to comply with present repayment terms, possibly resulting in the transfer of such loans to nonperforming status. These potential problem loans totaled $3.04 million as of December 31, 2018.

Interest-Bearing Deposits in Banks. The Company had interest-bearing deposits in banks of $42.27 million at December 31, 2018 and $164.22 million at December 31, 2017, respectively. At December 31, 2018, our interest-bearing deposits in banks included $40.17 million maintained at the Federal Reserve Bank of Dallas, $1.46 million invested in FDIC-insured certificates of deposit and $645 thousand on deposit with the Federal Home Loan Bank of Dallas (FHLB). The average balance of interest-bearing deposits in banks was $87.03 million $141.37 million and $58.25 million in 2018, 2017 and 2016, respectively. The average yield on interest-bearing deposits in banks was 1.79%, 1.17% and 0.55% in 2018, 2017 and 2016, respectively.

Available-for-Sale and Held-to-Maturity Securities. At December 31, 2018, securities with a fair value of $3.16 billion were classified as securities available-for-sale. There were no securities classified as held-to-maturity at December 31, 2018. As compared to December 31, 2017, the available-for-sale portfolio at December 31, 2018, reflected (1) an increase of $9.96 million in U.S. Treasury securities; (2) a decrease of $60.03 million in obligations of U.S. government sponsored enterprises and agencies; (3) a decrease of $162.98 million in obligations of states and political subdivisions; (4) a decrease of $6.66 million in corporate bonds and other; and (5) an increase of $291.01 million in mortgage-backed securities. As compared to December 31, 2016, the available-for-sale portfolio at December 31, 2017, reflected (1) a decrease of $10.67 million in U.S. Treasury securities; (2) a decrease of $53.37 million in obligations of U.S. government sponsored enterprises and agencies; (3) an decrease of $143.43 million in obligations of states and political subdivisions; (4) a decrease of $40.93 million in corporate bonds and other; and (5) an increase of $475.04 million in mortgage-backed securities. Securities-available-for-sale included fair value adjustments of $5.21 million, $44.86 million and $33.07 million at December 31, 2018, 2017 and 2016, respectively. We did not hold any collateralized mortgage obligations or structured notes as of December 31, 2018 that we consider to be high risk. Our mortgage related securities are backed by GNMA, FNMA or FHLMC or are collateralized by securities backed by these agencies.

See Table 10 and Note 2 to the Consolidated Financial Statements for additional disclosures relating to the maturities and fair values of the investment portfolio at December 31, 2018 and 2017.

Table 10 — Maturities and Yields of Available-for-Sale Held at December 31, 2018 (in thousands, except percentages):

	Maturing									
	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
Available-for-Sale:	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U. S. Treasury securities	$ —	–%	$ 9,962	2.52%	$ —	–%	$ —	–%	$ 9,962	2.52%
Obligations of U.S. government sponsored enterprises and agencies	301	1.83	—	—	—	—	—	—	301	1.83
Obligations of states and political subdivisions	184,033	5.00	553,499	4.22	518,317	3.97	2,022	5.65	1,257,871	4.23
Corporate bonds and other securities	4,580	2.21	218	2.65	—	—	—	—	4,798	2.23
Mortgage-backed securities	26,749	2.17	1,119,800	2.51	727,640	3.06	11,656	3.01	1,885,845	2.72
Total	$215,663	4.59%	$1,683,479	3.07%	$1,245,957	3.44%	$ 13,678	3.40%	$3,158,777	3.32%

All yields are computed on a tax-equivalent basis assuming a marginal tax rate of 21%. Yields on available-for-sale securities are based on amortized cost. Maturities of mortgage-backed securities are based on contractual maturities and could differ due to prepayments of underlying mortgages. Maturities of other securities are reported at the earlier of maturity date or call date.

As of December 31, 2018, the investment portfolio had an overall tax equivalent yield of 3.32%, a weighted average life of 4.37 years and modified duration of 3.88 years.

Deposits. Deposits held by our subsidiary bank represent our primary source of funding. Total deposits were $6.18 billion as of December 31, 2018 as compared to $5.96 billion as of December 31, 2017 and $5.48 billion as of December 31, 2016. Table 11 provides a breakdown of average deposits and rates paid over the past three years and the remaining maturity of time deposits of $100,000 or more:

Table 11 — Composition of Average Deposits and Remaining Maturity of Time Deposits of $100,000 or More (in thousands, except percentages):

	2018		2017		2016	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	$2,124,004	—	$1,843,973	—	$1,666,598	—
Interest-bearing deposits						
Interest-bearing checking	2,025,810	0.53%	1,902,699	0.27%	1,713,498	0.12%
Savings and money market accounts	1,558,889	0.28	1,401,804	0.13	1,195,671	0.09
Time deposits under $100,000	204,929	0.25	267,754	0.13	237,419	0.18
Time deposits of $100,000 or more	262,987	0.48	211,703	0.40	322,417	0.31
Total interest-bearing deposits	4,052,615	0.42%	3,783,960	0.22%	3,469,005	0.13%
Total average deposits	$6,176,619		$5,627,933		$5,135,603	

	As of December 31, 2018
Three months or less	$ 88,404
Over three through six months	55,969
Over six through twelve months	68,808
Over twelve months	34,990
Total time deposits of $100,000 or more	$ 248,171

Borrowings. Included in borrowings were federal funds purchased, securities sold under repurchase agreements and advances from the FHLB of $468.71 million, $331.00 million and $445.77 million at December 31, 2018, 2017 and 2016, respectively. Securities sold under repurchase agreements are generally with significant customers of the Company that require short-term liquidity for their funds for which we pledge certain securities that have a fair value equal to at least the amount of the short-term borrowing. The average balances of federal funds purchased, securities sold under repurchase agreements and advances from the FHLB were $418.98 million, $422.29 million and $552.04 million in 2018, 2017 and 2016, respectively. The average rates paid on federal funds purchased, securities sold under repurchase agreements and advances from the FHLB were 0.47%, 0.25% and 0.17% for the years ended December 31, 2018, 2017 and 2016, respectively. The weighted average interest rate on federal funds purchased, securities sold under repurchase agreements and advances from the FHLB was 0.78%, 0.10% and 0.12% at December 31, 2018, 2017 and 2016, respectively. The highest amount of federal funds purchased, securities sold under repurchase agreements and advances from the FHLB at any month end during 2018, 2017 and 2016 was $529.64 million, $611.30 million and $598.77 million, respectively.

Capital Resources

We evaluate capital resources by our ability to maintain adequate regulatory capital ratios to do business in the banking industry. Issues related to capital resources arise primarily when we are growing at an accelerated rate but not retaining a significant amount of our profits or when we experience significant asset quality deterioration.

Total shareholders' equity was $1.05 billion, or 13.62% of total assets at December 31, 2018, as compared to $922.77 million, or 12.72% of total assets at December 31, 2017. During 2018, total shareholders' equity averaged $980.21 million, or 12.89% of average assets, as compared to $882.81 million, or 12.65% of average assets during 2017.

Banking regulators measure capital adequacy by means of the risk-based capital ratios and leverage ratio under the Basel III regulatory capital framework and prompt corrective action regulations. The risk-based capital rules provide for the weighting of assets and off-balance-sheet commitments and contingencies according to prescribed risk categories. Regulatory capital is then divided by risk-weighted assets to determine the risk-adjusted capital ratios. The leverage ratio is computed by dividing shareholders' equity less intangible assets by quarter-to-date average assets less intangible assets.

Beginning in January 2016, under the Basel III regulatory capital framework, the implementation of the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including divided payments and stock repurchase, and to pay discretionary bonuses to executive officers.

As of December 31, 2018 and 2017, we had a total risk-based capital ratio of 20.61% and 19.85%, a Tier 1 capital to risk-weighted assets ratio of 19.47% and 18.66%, a common equity Tier 1 capital to risk-weighted ratio of 19.47% and 18.66% and a Tier 1 leverage ratio of 11.85% and 11.09%, respectively. The regulatory capital ratios as of December 31, 2018 and 2017 were calculated under Basel III rules. There is no threshold for well-capitalized status for bank holding companies.

We performed an assessment and believe the Company and Bank meet the requirements upon full implementation of the Basel III rules that will be effective in 2019.

Our subsidiary bank made the election to continue to exclude most accumulated other comprehensive income from capital in connection with its March 31, 2015 quarterly financial filing and, in effect, to retain the accumulated other comprehensive income treatment under the prior capital rules.

Interest Rate Risk. Interest rate risk results when the maturity or repricing intervals of interest-earning assets and interest-bearing liabilities are different. Our exposure to interest rate risk is managed primarily through our strategy of selecting the types and terms of interest-earning assets and interest-bearing liabilities that generate favorable earnings while limiting the potential negative effects of changes in market interest rates. We use no off-balance-sheet financial instruments to manage interest rate risk.

Our subsidiary bank has an asset liability management committee that monitors interest rate risk and compliance with investment policies. The subsidiary bank utilizes an earnings simulation model as the primary quantitative tool in measuring the amount of interest rate risk associated with changing market rates. The model quantifies the effects of various interest rate scenarios on projected net interest income and net income over the next twelve months. The model measures the impact on net interest income relative to a base case scenario of hypothetical fluctuations in interest rates over the next twelve months. These simulations incorporate assumptions regarding balance sheet growth and mix, pricing and the re-pricing and maturity characteristics of the existing and projected balance sheet.

As of December 31, 2018, the model simulations projected that 100 and 200 basis point increases in interest rates would result in variances in net interest income of positive 1.68% and positive 2.96%, respectively, relative to the current financial statement structure over the next twelve months, while a decrease in interest rates of 100 basis points would result in a variance in a net interest income of negative 5.78% relative to the current financial statement structure over the next twelve months**.** We consider the likelihood of a decrease in interest rates beyond 100 basis points after December 31, 2018 remote given current interest rate levels. These are good faith estimates and assume that the composition of our interest sensitive assets and liabilities existing at each year-end will remain constant over the relevant twelve month measurement period and that changes in market interest rates are instantaneous and sustained across the yield curve regardless of duration of pricing characteristics on specific assets or liabilities. Also, this analysis does not contemplate any actions that we might undertake in response to changes in market interest rates. We believe these estimates are not necessarily indicative of what actually could occur in the event of immediate interest rate increases or decreases of this magnitude. As interest-bearing assets and liabilities re-price in different time frames and proportions to market interest rate movements, various assumptions must be made based on historical relationships of these variables in reaching any conclusion. Since these correlations are based on competitive and market conditions, we anticipate that our future results will likely be different from the foregoing estimates, and such differences could be material.

Should we be unable to maintain a reasonable balance of maturities and repricing of our interest-earning assets and our interest-bearing liabilities, we could be required to dispose of our assets in an unfavorable manner or pay a higher than market rate to fund our activities. Our asset liability committee oversees and monitors this risk.

Liquidity

Liquidity is our ability to meet cash demands as they arise. Such needs can develop from loan demand, deposit withdrawals or acquisition opportunities. Potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers are other factors affecting our liquidity needs. Many of these obligations and commitments are expected to expire without being drawn upon; therefore the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position. The potential need for liquidity arising from these types of financial instruments is represented by the contractual notional amount of the instrument, as detailed in Tables 12 and 13. Asset liquidity is provided by cash and assets which are readily marketable or which will mature in the near future. Liquid assets include cash, federal funds sold, and short-term investments in time deposits in banks. Liquidity is also provided by access to funding sources, which include core depositors and correspondent banks that maintain accounts with and sell federal funds to our subsidiary bank. Other sources of funds include our ability to borrow from short-term sources, such as purchasing federal funds from correspondent banks, sales of securities under agreements to repurchase and advances from the FHLB, which amounted to $468.71 million at December 31, 2018, and an unfunded $25.00 million revolving line of credit established with Frost Bank, a nonaffiliated bank, which matures on June 30, 2019 (see next paragraph). Our subsidiary bank also has federal funds purchased lines of credit with two non-affiliated banks totaling $130.00 million. At December 31, 2018, there were no amounts drawn on these lines of credit. Our subsidiary bank also has available a line of credit with the FHLB totaling $1.23 billion at December 31, 2018, secured by portions of our loan portfolio and certain investment securities. At December 31, 2018, the Company had $55.00 million in advances outstanding under this line of credit.

The Company renewed its loan agreement, effective June 30, 2017, with Frost Bank. Under the loan agreement, as renewed and amended, we are permitted to draw up to $25.00 million on a revolving line of credit. Prior to June 30, 2019, interest is paid quarterly at *The Wall Street Journal* Prime Rate and the line of credit matures June 30, 2019. If a balance exists at June 30, 2019, the principal balance converts to a term facility payable quarterly over five years and interest is paid quarterly at our election at *The Wall Street Journal* Prime Rate plus 50 basis points or LIBOR plus 250 basis points. The line of credit is unsecured. Among other provisions in the credit agreement, we must satisfy certain financial covenants during the term of the loan agreement, including, without limitation, covenants that require us to maintain certain capital, tangible net worth, loan loss reserve, non-performing asset and cash flow coverage ratios. In addition, the credit agreement contains certain operational covenants, which among others, restricts the payment of dividends above 55% of consolidated net income, limits the incurrence of debt (excluding any amounts acquired in an acquisition) and prohibits the disposal of assets except in the ordinary course of business. Since 1995, we have historically declared dividends as a percentage of our consolidated net income in a range of 37% (low) in 1995 to 53% (high) in 2003 and 2006. The Company was in compliance with the financial and operational covenants at December 31, 2018. There was no outstanding balance under the line of credit as of December 31, 2018 or 2017.

In addition, we anticipate that any future acquisition of financial institutions, expansion of branch locations or offering of new products could also place a demand on our cash resources. Available cash and cash equivalents at the Company, which totaled $101.26 million at December 31, 2018, investment securities which totaled $6.28 million at December 31, 2018 with maturities over 10 to 12 years, available dividends from our subsidiaries which totaled $233.96 million at December 31, 2018, utilization of available lines of credit, and future debt or equity offerings are expected to be the source of funding for these potential acquisitions or expansions.

Given the strong core deposit base and relatively low loan to deposit ratios maintained at our subsidiary bank, we consider our current liquidity position to be adequate to meet our short-term and long-term liquidity needs.

Table 12 — Contractual Obligations as of December 31, 2018 (in thousands):

		Payment Due by Period			
	Total Amounts	Less than 1 year	More than 1 year but less than 3 years	More than 3 years but less than 5 years	Over 5 years
Deposits with stated maturity dates	$ 442,161	$373,359	$ 54,207	$ 14,541	$ 54
Pension obligation	4,613	837	706	731	2,339
Operating leases	1,275	610	633	32	—
Outsourcing service contracts	2,858	2,201	657	—	—
Total Contractual Obligations	$ 450,907	$377,007	$ 56,203	$ 15,304	$2,393

Amounts above for deposits do not include related accrued interest.

Off-Balance Sheet Arrangements. We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include unfunded lines of credit, commitments to extend credit and federal funds sold to correspondent banks and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

Our exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for unfunded lines of credit, commitments to extend credit and standby letters of credit is represented by the contractual notional amount of these instruments. We generally use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments.

Unfunded lines of credit and commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, as we deem necessary upon extension of credit, is based on our credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments we issue to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The average collateral value held on letters of credit usually exceeds the contract amount.

Table 13 – Commitments as of December 31, 2018 (in thousands):

	Total Notional Amounts Committed	Less than 1 year	More than 1 year but less than 3 years	More than 3 years but less than 5 years	Over 5 years
Unfunded lines of credit	$ 632,667	$568,882	$ 25,927	$ 31,033	$ 6,825
Unfunded commitments to extend credit	301,616	193,416	8,270	18,755	81,175
Standby letters of credit	26,641	21,882	4,660	99	—
Total Commercial Commitments	$ 960,924	$784,180	$ 38,857	$ 49,887	$88,000

We believe we have no other off-balance sheet arrangements or transactions with unconsolidated, special purpose entities that would expose us to liability that is not reflected on the face of the financial statements.

Parent Company Funding. Our ability to fund various operating expenses, dividends, and cash acquisitions is generally dependent on our own earnings (without giving effect to our subsidiaries), cash reserves and funds derived from our subsidiaries. These funds historically have been produced by intercompany dividends and management fees that are limited to reimbursement of actual expenses. We anticipate that our recurring cash sources will continue to include dividends and management fees from our subsidiaries. At December 31, 2018, approximately $233.96 million was available for the payment of intercompany dividends by our subsidiaries without the prior approval of regulatory agencies. Our subsidiaries paid aggregate dividends to us of $74.10 million in 2018 and $30.80 million in 2017.

Dividends. Our long-term dividend policy is to pay cash dividends to our shareholders of approximately 40% of annual net earnings while maintaining adequate capital to support growth. We are also restricted by a loan covenant within our line of credit agreement with Frost Bank to dividend no greater than 55% of net income, as defined in such loan agreement. The cash dividend payout ratios have amounted to 36.84%, 41.24% and 44.14% of net earnings, respectively, in 2018, 2017 and 2016. Given our current capital position, projected earnings and asset growth rates, we do not anticipate any significant change in our current dividend policy.

Our bank subsidiary, which is a national banking association and a member of the Federal Reserve System, is required by federal law to obtain the prior approval of the OCC to declare and pay dividends if the total of all dividends declared in any calendar year would exceed the total of (1) such bank's net profits (as defined and interpreted by regulation) for that year plus (2) its retained net profits (as defined and interpreted by regulation) for the preceding two calendar years, less any required transfers to surplus.

To pay dividends, we and our subsidiary bank must maintain adequate capital above regulatory guidelines. In addition, if the applicable regulatory authority believes that a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), the authority may require, after notice and hearing, that such bank cease and desist from the unsafe practice. The Federal Reserve, the FDIC and the OCC have each indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice. The Federal Reserve, the OCC and the FDIC have issued policy statements that recommend that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management considers interest rate risk to be a significant market risk for the Company. See "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources—Interest Rate Risk" for disclosure regarding this market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and the report of our independent registered public accounting firm begin on page F-1.

Quarterly Results of Operations (in thousands, except per share and common stock data):

The following tables set forth certain unaudited historical quarterly financial data for each of the eight consecutive quarters in the fiscal years of 2018 and 2017. This information is derived from unaudited consolidated financial statements that include, in our opinion, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation when read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this Form 10-K.

	2018			
	4th	3rd	2nd	1st
	(dollars in thousands, except per share amounts)			
Summary Income Statement Information:				
Interest income	$76,481	$74,049	$72,078	$69,082
Interest expense	6,207	4,623	4,467	3,633
Net interest income	70,274	69,426	67,611	65,449
Provision for loan losses	1,800	1,450	1,105	1,310
Net interest income after provision for loan losses	68,474	67,976	66,506	64,139
Noninterest income	24,789	26,997	25,421	23,202
Net gain on securities transactions	8	58	67	1,221
Noninterest expense	48,235	47,506	47,144	47,798
Earnings before income taxes	45,036	47,525	44,850	40,764
Income tax expense	6,599	7,475	7,217	6,245
Net earnings	$38,437	$40,050	$37,633	$34,519
Per Share Data:				
Earnings per share, basic	$ 0.57	$ 0.59	$ 0.56	$ 0.51
Earnings per share, assuming dilution	0.56	0.59	0.55	0.51
Cash dividends declared	0.21	0.21	0.21	0.19
Book value at period-end	15.55	14.71	14.57	14.34
Common stock sales price:				
High	$ 66.83	$ 61.86	$ 56.35	$ 49.60
Low	53.45	50.55	45.05	44.05
Close	57.69	59.10	50.90	46.30

	2017			
	4th	3rd	2nd	1st
	(dollars in thousands, except per share amounts)			
Summary Income Statement Information:				
Interest income	$ 63,456	$ 62,554	$ 61,182	$ 58,783
Interest expense	2,562	2,866	2,097	1,763
Net interest income	60,894	59,688	59,085	57,020
Provision for loan losses	1,440	1,415	1,725	1,950
Net interest income after provision for loan losses	59,454	58,273	57,360	55,070
Noninterest income	22,298	23,185	22,423	21,283
Net gain on securities transactions	3	1,075	747	3
Noninterest expense	44,095	43,964	43,775	42,152
Earnings before income taxes	37,660	38,569	36,755	34,204
Income tax expense	1,517	9,195	8,500	7,605
Net earnings	$ 36,143	$ 29,374	$ 28,255	$ 26,599
Per Share Data:				
Earnings per share, basic	$ 0.55	$ 0.44	$ 0.43	$ 0.40
Earnings per share, assuming dilution	0.54	0.44	0.43	0.40
Cash dividends declared	0.19	0.19	0.19	0.18
Book value at period-end	13.93	13.69	13.41	12.99
Common stock sales price:				
High	$ 48.85	$ 46.00	$ 44.80	$ 46.45
Low	43.05	37.31	36.85	37.55
Close	45.05	45.20	44.20	40.10

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of December 31, 2018, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934). Our management, which includes our principal executive officer and our principal financial officer, does not expect that our disclosure controls and procedures will prevent all errors and all fraud.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Our principal executive officer and principal financial officer have concluded, based on our evaluation of our disclosure controls and procedures, that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2018.

Subsequent to our evaluation, there were no significant changes in our internal control over financial reporting or other factors that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of First Financial Bankshares, Inc. and subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting. First Financial Bankshares, Inc. and subsidiaries' internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

First Financial Bankshares, Inc. and subsidiaries' management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, it used the criteria for effective internal control over financial reporting set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (COSO) in *Internal Control – Integrated Framework*. Based on our assessment we believe that, as of December 31, 2018, the Company's internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, is effective based on those criteria.

First Financial Bankshares, Inc. and subsidiaries' independent auditors have issued an audit report, dated February 19, 2019, on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of First Financial Bankshares, Inc. and Subsidiaries

Opinion on Internal Control over Financial Reporting

We have audited First Financial Bankshares, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, First Financial Bankshares, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of earnings, comprehensive earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018 and related notes and our report dated February 19, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. 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 Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Dallas, Texas

February 19, 2019

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is hereby incorporated by reference from our proxy statement for our 2019 annual meeting of shareholders which will be filed with the SEC not later than 120 days after December 31, 2018.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated by reference from our proxy statement for our 2019 annual meeting of shareholders which will be filed with the SEC not later than 120 days after December 31, 2018.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 related to security ownership of certain beneficial owners and management is hereby incorporated by reference from our proxy statement for our 2019 annual meeting of shareholders. The following chart gives aggregate information under our equity compensation plans as of December 31, 2018.

	Number of Securities To be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Far Left Column)
Equity compensation plans approved by security holders	1,085,543	$ 34.54	2,295,448
Equity compensation plans not approved by security holders	—	—	—
Total	1,085,543	$ 34.54	2,295,448

The remainder of the information required by Item 12 is incorporated by reference from our proxy statement for our 2019 annual meeting of shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is hereby incorporated by reference from our proxy statement for our 2019 annual meeting of shareholders which will be filed with the SEC not later than 120 days after December 31, 2018.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is hereby incorporated by reference from our proxy statement for our 2019 annual meeting of shareholders which will be filed with the SEC not later than 120 days after December 31, 2018.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Financial Statements:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2018 and 2017

Consolidated Statements of Earnings for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Comprehensive Earnings for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

These schedules have been omitted because they are not required, are not applicable or have been included in our consolidated financial statements.

(3) Exhibits:

The information required by this Item 15(a)(3) is set forth in the Exhibit Index immediately following our signature pages. The exhibits listed herein will be furnished upon written request to J. Bruce Hildebrand, Executive Vice President, First Financial Bankshares, Inc., 400 Pine Street, Abilene, Texas 79601, and payment of a reasonable fee that will be limited to our reasonable expense in furnishing such exhibits.

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Exhibits Index

The following exhibits are filed as part of this report:

2.1	—	Agreement and Plan of Reorganization, dated October 12, 2017, by and among First Financial Bankshares, Inc., Kingwood Merger Sub, Inc., and Commercial Bancshares, Inc. (schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference from Exhibit 2.1 to Registrant's Form 8-K filed October 12, 2017).
3.1	—	Amended and Restated Certificate of Formation (incorporated by reference from Exhibit 3.1 of the Registrant's Form 8-K filed April 28, 2015).
3.2	—	Amended and Restated Bylaws of the Registrant (incorporated by reference from Exhibit 99.1 of the Registrant's Form 8-K filed January 24, 2012).
4.1	—	Specimen certificate of First Financial Common Stock (incorporated by reference from Exhibit 3 of the Registrant's Amendment No. 1 to Form 8-A filed on Form 8-A/A No. 1 on January 7, 1994).
10.1	—	2002 Incentive Stock Option Plan (incorporated by reference from Exhibit 10.3 of the Registrant's Form 10-Q filed May 4, 2010).++
10.2	—	2012 Incentive Stock Option Plan (incorporated by reference from Appendix A of the Registrant's Definitive Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed March 1, 2012).++
10.3	—	Loan Agreement, dated June 30, 2013, between First Financial Bankshares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed July 1, 2013).
10.4	—	First Amendment to Loan Agreement, dated June 30, 2015, between First Financial Bankshares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed June 30, 2015).
10.5	—	Second Amendment to Loan Agreement, dated June 30, 2017, between First Financial Bankhares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed June 30, 2017).
10.6	—	2015 Restricted Stock Plan (incorporated by reference from Appendix A of the Registrant's Definitive Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed March 2, 2015).++
10.7	—	Form of Executive Recognition Agreement (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed June 29, 2018).++
21.1	—	Subsidiaries of Registrant.*
23.1	—	Consent of Ernst & Young LLP.*
24.1	—	Power of Attorney (included on signature page of this Form 10-K).*
31.1	—	Rule 13a-14(a) / 15(d)-14(a) Certification of Chief Executive Officer of First Financial Bankshares, Inc.*
31.2	—	Rule 13a-14(a) / 15(d)-14(a) Certification of Chief Financial Officer of First Financial Bankshares, Inc.*
32.1	—	Section 1350 Certification of Chief Executive Officer of First Financial Bankshares, Inc.+
32.2	—	Section 1350 Certification of Chief Financial Officer of First Financial Bankshares, Inc.+
101.INS	—	XBRL Instance Document.*
101.SCH	—	XBRL Taxonomy Extension Schema Document.*
101.CAL	—	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	—	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	—	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	—	XBRL Taxonomy Extension Presentation Linkbase Document.*

* Filed herewith.

\+ Furnished herewith. This Exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section, and shall not be deemed to be incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

++ Management contract or compensatory plan on arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

FIRST FINANCIAL BANKSHARES, INC.

Date: February 19, 2019

By: /s/ F. SCOTT DUESER
F. SCOTT DUESER
Chairman of the Board, Director, President and
Chief Executive Officer
(Principal Executive Officer)

The undersigned directors and officers of First Financial Bankshares, Inc. hereby constitute and appoint J. Bruce Hildebrand, with full power to act and with full power of substitution and resubstitution, our true and lawful attorney-in-fact with full power to execute in our name and behalf in the capacities indicated below any and all amendments to this report and to file the same, with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission and hereby ratify and confirm all that such attorney-in-fact or his substitute shall lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ F. SCOTT DUESER F. Scott Dueser	Chairman of the Board, Director, President, and Chief Executive Officer (Principal Executive Officer)	February 19, 2019
/s/ J. BRUCE HILDEBRAND J. Bruce Hildebrand	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 19, 2019
/s/ APRIL K. ANTHONY April K. Anthony	Director	February 19, 2019
/s/ TUCKER S. BRIDWELL Tucker S. Bridwell	Director	February 19, 2019
/s/ DAVID COPELAND David Copeland	Director	February 19, 2019
/s/ MURRAY EDWARDS Murray Edwards	Director	February 19, 2019

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Name	Title	Date
/s/ RON GIDDIENS Ron Giddiens	Director	February 19, 2019
/s/ TIM LANCASTER Tim Lancaster	Director	February 19, 2019
/s/ KADE L. MATTHEWS Kade L. Matthews	Director	February 19, 2019
/s/ ROSS H. SMITH, JR. Ross H. Smith, Jr.	Director	February 19, 2019
/s/ JOHNNY TROTTER Johnny Trotter	Director	February 19, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of First Financial Bankshares, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of First Financial Bankshares, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of earnings, comprehensive earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018 and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 19, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. 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 Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.

Dallas, Texas

February 19, 2019

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2018 and 2017
(Dollars in thousands, except share and per share amounts)

	2018	2017
ASSETS		
CASH AND DUE FROM BANKS	$ 207,835	$ 209,583
INTEREST-BEARING DEPOSITS IN BANKS	40,812	162,764
Total cash and cash equivalents	248,647	372,347
INTEREST-BEARING TIME DEPOSITS IN BANKS	1,458	1,458
SECURITIES AVAILABLE-FOR-SALE, at fair value	3,158,777	3,087,473
LOANS:		
Held-for-investment	3,953,636	3,485,569
Less – allowance for loan losses	(51,202)	(48,156)
Net loans held for investment	3,902,434	3,437,413
Held-for-sale ($19,185 at fair value at December 31, 2018; none at December 31, 2017)	21,672	15,130
Net loans	3,924,106	3,452,543
BANK PREMISES AND EQUIPMENT, net	133,421	124,026
INTANGIBLE ASSETS	174,683	141,143
OTHER ASSETS	90,762	75,725
Total assets	$7,731,854	$7,254,715
LIABILITIES AND SHAREHOLDERS' EQUITY		
NONINTEREST-BEARING DEPOSITS	$2,116,107	$2,041,650
INTEREST-BEARING DEPOSITS	4,064,282	3,921,311
Total deposits	6,180,389	5,962,961
DIVIDENDS PAYABLE	14,227	12,589
BORROWINGS	468,706	331,000
OTHER LIABILITIES	15,237	25,397
Total liabilities	6,678,559	6,331,947
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock - $0.01 par value; authorized 120,000,000 shares; 67,753,133 and 66,260,444 shares issued at December 31, 2018 and 2017, respectively	678	663
Capital surplus	443,114	378,062
Retained earnings	606,658	517,257
Treasury stock (shares at cost: 467,811 and 495,964 at December 31, 2018 and 2017, respectively)	(7,507)	(7,148)
Deferred Compensation	7,507	7,148
Accumulated other comprehensive earnings	2,845	26,786
Total shareholders' equity	1,053,295	922,768
Total liabilities and shareholders' equity	$7,731,854	$7,254,715

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Statement of Earnings
December 31, 2018, 2017 and 2016
(Dollars in thousands, except share and per share amounts)

	2018	2017	2016
INTEREST INCOME:			
Interest and fees on loans	$200,347	$166,807	$161,018
Interest on investment securities:			
Taxable	50,052	32,825	27,626
Exempt from federal income tax	39,661	44,659	43,302
Interest on federal funds sold and interest-bearing deposits in banks	1,630	1,684	342
Total interest income	291,690	245,975	232,288
INTEREST EXPENSE:			
Interest on deposits	16,946	8,213	4,503
Other	1,984	1,075	948
Total interest expense	18,930	9,288	5,451
Net interest income	272,760	236,687	226,837
PROVISION FOR LOAN LOSSES	5,665	6,530	10,212
Net interest income after provision for loan losses	267,095	230,157	216,625
NONINTEREST INCOME:			
Trust fees	28,181	23,694	19,636
Service charges on deposit accounts	21,663	19,416	18,386
ATM, interchange and credit card fees	28,532	25,686	23,910
Real estate mortgage operations	15,157	15,109	16,086
Net gain on sale of available-for-sale securities (includes $1,354, $1,828 and $1,270 for the years ended December 31, 2018, 2017 and 2016, respectively, related to accumulated comprehensive earnings reclassifications)	1,354	1,828	1,270
Net gain (loss) on sale of foreclosed assets	116	(50)	456
Net gain (loss) on sale of assets	(147)	(396)	168
Interest on loan recoveries	938	1,128	2,112
Other	5,970	4,602	3,108
Total noninterest income	101,764	91,017	85,132
NONINTEREST EXPENSE:			
Salaries and employee benefits	105,189	95,287	90,739
Loss from partial settlement of pension plan	1,546	—	267
Net occupancy expense	11,173	10,521	10,420
Equipment expense	13,841	13,765	13,479
FDIC insurance premiums	2,333	2,217	2,680
ATM, interchange and credit card expenses	9,282	7,452	7,231
Professional and service fees	8,894	8,063	6,877
Printing, stationery and supplies	1,997	1,989	2,093
Operational and other losses	2,188	3,192	2,170
Amortization of intangible assets	1,272	613	738
Other	32,969	30,887	29,136
Total noninterest expense	190,684	173,986	165,830
EARNINGS BEFORE INCOME TAXES	178,175	147,188	135,927
INCOME TAX EXPENSE (includes $284, $640 and $445 for the years ended December 31, 2018, 2017 and 2016, respectively, related to income tax expense from reclassification items)	27,537	26,817	31,153
NET EARNINGS	$150,638	$120,371	$104,774
NET EARNINGS PER SHARE, BASIC	$ 2.23	$ 1.82	$ 1.59
NET EARNINGS PER SHARE, ASSUMING DILUTION	$ 2.22	$ 1.81	$ 1.59

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Earnings
Years Ended December 31, 2018, 2017 and 2016
(Dollars in thousands)

	2018	2017	2016
NET EARNINGS	$150,638	$120,371	$104,774
OTHER ITEMS OF COMPREHENSIVE EARNINGS (LOSS):			
Change in unrealized gain (loss) on investment securities available-for-sale, before income tax	(38,185)	23,266	(44,679)
Reclassification adjustment for realized losses (gains) on investment securities included in net earnings, before income tax	(1,354)	(1,828)	(1,270)
Minimum liability pension adjustment, before income tax	1,970	257	1,410
Total other items of comprehensive earnings (losses)	(37,569)	21,695	(44,539)
Income tax benefit (expense) related to:			
Investment securities	8,303	(13,774)	16,082
Minimum liability pension adjustment	(414)	420	(493)
Total income tax benefit (expense)	7,889	(13,354)	15,589
COMPREHENSIVE EARNINGS	$120,958	$128,712	$ 75,824

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2018, 2017 and 2016
(Dollars in thousands)

	Common Stock		Capital	Retained	Treasury Stock		Deferred	Accumulated Other Comprehensive Earnings	Total Shareholders'
	Shares	Amount	Surplus	Earnings	Shares	Amounts	Compensation	(Losses)	Equity
BALANCE, December 31, 2015	65,990,234	$ 660	$368,925	$388,006	(520,651)	$ (6,296)	$ 6,296	$ 47,395	$ 804,986
Net earnings	—	—	—	104,774	—	—	—	—	104,774
Stock option exercises	82,871	1	1,259	—	—	—	—	—	1,260
Restricted Stock grant	21,590	—	809	—	—	—	—	—	809
Cash dividends declared, $0.70 per share	—	—	—	(46,246)	—	—	—	—	(46,246)
Minimum liability pension adjustment, net of related income taxes	—	—	—	—	—	—	—	917	917
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes	—	—	—	—	—	—	—	(29,867)	(29,867)
Additional tax benefit related to directors' deferred compensation plan	—	—	370	—	—	—	—	—	370
Shares purchased in connection with directors' deferred compensation plan, net	—	—	—	—	13,242	(375)	375	—	—
Stock option expense	—	—	882	—	—	—	—	—	882
BALANCE, December 31, 2016	66,094,695	$ 661	$372,245	$446,534	(507,409)	$ (6,671)	$ 6,671	$ 18,445	$ 837,885
Net earnings	—	—	—	120,371	—	—	—	—	120,371
Stock option exercises	140,250	2	2,933	—		—	—	—	2,935
Restricted Stock grant	25,499	—	1,139	—	—	—	—	—	1,139
Cash dividends declared, $0.75 per share	—	—	—	(49,648)	—	—	—	—	(49,648)
Minimum liability pension adjustment, net of related income taxes	—	—	—	—	—	—	—	677	677
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes	—	—	—	—	—	—	—	7,664	7,664
Shares purchased (redeemed) in connection with directors' deferred compensation plan, net	—	—	—	—	11,445	(477)	477	—	—
Stock option expense	—	—	1,745	—	—	—	—	—	1,745
BALANCE, December 31, 2017	66,260,444	$ 663	$378,062	$517,257	(495,964)	$ (7,148)	$ 7,148	$ 26,786	$ 922,768

(Continued)

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2018, 2017 and 2016
(Dollars in thousands)

Net earnings	—	—	—	150,638	—	—	—	—	150,638
Stock option exercises	173,822	2	3,861	—	—	—	—	—	3,863
Restricted stock grant, net	29,496	—	1,609	—	—	—	—	—	1,609
Cash dividends declared, $0.82 per share	—	—	—	(55,499)	—	—	—	—	(55,499)
Stock issued in acquisition of Commercial Bancshares, Inc.	1,289,371	13	58,074	—	—	—	—	—	58,087
Minimum liability pension adjustment, net of related income taxes	—	—	—	—	—	—	—	1,556	1,556
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes	—	—	—	—	—	—	—	(31,235)	(31,235)
Shares purchased (redeemed) in connection with directors' deferred compensation plan, net	—	—	—	—	28,153	(359)	359	—	—
Stock option expense	—	—	1,508	—	—	—	—	—	1,508
Reclassification of certain income tax effects related to the change in the U.S. statutory federal income tax rate under the Tax Cuts and Jobs Acts to retained earnings	—	—	—	(5,759)	—	—	—	5,759	—
Reclassification of unrealized gain in equity securities at December 31, 2017 from accumulated other comprehensive earnings to retained earnings	—	—	—	21	—	—	—	(21)	—
BALANCE, December 31, 2018	67,753,133	$678	$443,114	$ 606,658	(467,811)	$(7,507)	$7,507	$ 2,845	$1,053,295

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2018, 2017 and 2016
(Dollars in thousands)

	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 150,638	$ 120,371	$ 104,774
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	12,549	12,916	11,573
Provision for loan losses	5,665	6,530	10,212
Securities premium amortization, net	27,467	30,310	29,005
Gain on sale of assets, net	(1,216)	(1,167)	(1,894)
Deferred federal income tax expense (benefit)	(250)	(53)	673
Change in loans held for sale	(5,791)	11,769	6,645
Change in other assets	(1,697)	9,313	2,397
Change in other liabilities	1,621	285	(2,643)
Total adjustments	38,348	69,903	55,968
Net cash provided by operating activities	188,986	190,274	160,742
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash received in acquisition of Commercial Bancshares, Inc., net	18,653	—	—
Net decrease in interest-bearing time deposits in banks	—	249	1,788
Activity in available-for-sale securities:			
Sales	220,259	120,576	40,510
Maturities	3,439,028	4,392,131	3,509,113
Purchases	(3,731,821)	(4,768,420)	(3,737,865)
Activity in held-to-maturity securities – maturities	—	124	157
Net increase in loans	(205,238)	(134,627)	(48,836)
Purchases of bank premises and equipment and other assets	(17,646)	(14,162)	(20,399)
Proceeds from sale of bank premises and equipment and other assets	844	6,085	3,572
Net cash used in investing activities	(275,921)	(398,044)	(251,960)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in noninterest-bearing deposits	(87,583)	323,928	(28,230)
Net increase (decrease) in interest-bearing deposits	(36,891)	160,494	316,600
Net increase (decrease) in borrowings	137,706	(114,770)	(169,905)
Common stock transactions:			
Proceeds from stock issuances	3,864	2,934	1,260
Dividends paid	(53,861)	(48,955)	(44,907)
Net cash provided by (used in) financing activities	(36,765)	323,631	74,818
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(123,700)	115,861	(16,400)
CASH AND CASH EQUIVALENTS, beginning of year	372,347	256,486	272,886
CASH AND CASH EQUIVALENTS, end of year	$ 248,647	$ 372,347	$ 256,486

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2018, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations

First Financial Bankshares, Inc. (a Texas corporation) ("Bankshares", "Company", "we" or "us") is a financial holding company which owns all of the capital stock of one bank with 73 locations located in Texas as of December 31, 2018. The subsidiary bank is First Financial Bank, National Association, Abilene, Texas. The bank's primary source of revenue is providing loans and banking services to consumers and commercial customers in the market area in which the subsidiary is located. In addition, the Company also owns First Financial Trust & Asset Management Company, National Association, First Financial Insurance Agency, Inc., and First Technology Services, Inc.

A summary of significant accounting policies of Bankshares and its subsidiaries applied in the preparation of the accompanying consolidated financial statements follows. The accounting principles followed by the Company and the methods of applying them are in conformity with both U.S. GAAP and prevailing practices of the banking industry.

The Company evaluated subsequent events for potential recognition through the date the consolidated financial statements were issued.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's significant estimates include its allowance for loan losses and its valuation of financial instruments.

Consolidation

The accompanying consolidated financial statements include the accounts of Bankshares and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated.

Stock Repurchase

On June 25, 2017, the Company's Board of Directors authorized the repurchase of up to 2,000,000 common shares through September 30, 2020. Previously, the Board of Directors had authorized the repurchase of up to 1,500,000 common shares through September 30, 2017. The stock buyback plan authorizes management to repurchase the stock at such time as repurchases are considered beneficial to stockholders. Any repurchase of stock will be made through the open market, block trades or in privately negotiated transactions in accordance with applicable laws and regulations. Under the repurchase plan, there is no minimum number of shares that the Company is required to repurchase. For the years ended December 31, 2018, 2017 and 2016, no shares were repurchased under this or the prior authorization that expired September 30, 2017.

Acquisition

On January 1, 2018, the Company acquired 100% of the outstanding capital stock of Commercial Bancshares, Inc. through the merger of a wholly-owned subsidiary with and into Commercial Bancshares, Inc. Following such merger, Commercial Bancshares, Inc. and its wholly-owned subsidiary, Commercial State Bank, Kingwood, Texas were merged into the Company and First Financial Bank, National Association, respectively. The results of operations of Commercial Bancshares, Inc. subsequent to the acquisition date, are include in the consolidated earnings of the Company. See Note 20 for additional information.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
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Investment Securities

Management classifies debt and equity securities as held-to-maturity, available-for-sale, or trading based on its intent. Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income using the interest method. Debt securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at fair value, with all unrealized gains and unrealized losses judged to be temporary, net of deferred income taxes, excluded from earnings and reported in the consolidated statements of comprehensive earnings. Available-for-sale debt securities that have unrealized gains and losses are excluded from earnings and reported net of tax in accumulated other comprehensive income until realized. Declines in the fair value of available-for-sale debt securities below their cost that are deemed to be other-than-temporary are reflected in earnings as a realized loss if there is no ability or intent to hold to recovery. If the Company does not intend to sell and will not be required to sell prior to recovery of its amortized cost basis, only the credit component of the impairment is reflected in earnings as a realized loss with the noncredit portion recognized in other comprehensive income. In estimating other-than-temporary impairment losses, we consider (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Effective January 1, 2018, in accordance with ASU 2016-01 (see note 1), increases or decreases in the fair value of equity securities are recorded in earnings. Prior to January 1, 2018, such increases or decreases were recorded similar to increases or decreases in debt securities.

The Company records its available-for-sale and equity securities portfolio at fair value. Fair values of these securities are determined based on methodologies in accordance with current authoritative accounting guidance. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, credit ratings and yield curves. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or an estimate of fair value by using a range of fair value estimates in the market place as a result of the illiquid market specific to the type of security.

When the fair value of a debt security is below its amortized cost, and depending on the length of time the condition exists and the extent the fair value is below amortized cost, additional analysis is performed to determine whether an other-than-temporary impairment condition exists. Available-for-sale and held-to-maturity debt securities are analyzed quarterly for possible other-than-temporary impairment. The analysis considers (i) whether we have the intent to sell debt our securities prior to recovery and/or maturity, (ii) whether it is more likely than not that we will have to sell our debt securities prior to recovery and/or maturity, (iii) the length of time and extent to which the fair value has been less than amortized cost, and (iv) the financial condition of the issuer. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of the debt security may be different than previously estimated, which could have a material effect on the Company's results of operations and financial condition.

The Company's investment portfolio consists of U.S. Treasury securities, obligations of U.S. government sponsored enterprises and agencies, obligations of state and political subdivisions, mortgage pass-through securities, corporate bonds and general obligation or revenue based municipal bonds. Pricing for such securities is generally readily available and transparent in the market. The Company utilizes independent third party pricing services to value its investment securities, which the Company reviews as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with pricing matrices. The Company validates prices supplied by the independent pricing services by comparison to prices obtained from other third party sources on a quarterly basis.

Loans Held-for-Investment and Allowance for Loan Losses

Loans held for investment are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amounts outstanding. The Company defers and amortizes net loan origination fees and costs as an adjustment to yield. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collectability of the principal is unlikely.

The allowance for loan losses is an amount which represents management's best estimate of probable losses that are inherent in the Company's loan portfolio as of the balance sheet date. The allowance for loan losses is comprised of three elements: (i) specific reserves determined based on probable losses on specific classified loans; (ii) a historical valuation reserve component that considers historical loss rates and estimated loss emergence periods; and (iii) qualitative reserves based upon general economic conditions and other qualitative risk factors both internal and external to the Company. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the appropriateness of the allowance is based on general economic conditions, the financial condition of borrowers, the value and liquidity of collateral, delinquency, prior loan loss experience, and the results of periodic reviews of the portfolio. For purposes of determining our historical valuation reserve, the loan portfolio, less cash secured loans, government guaranteed loans and classified loans, is multiplied by the Company's historical loss rate adjusted for the estimated loss emergence period. Specific allocations are increased or decreased in accordance with deterioration or improvement in credit quality and a corresponding increase or decrease in risk of loss on a particular loan. In addition, we adjust our allowance for qualitative factors such as current local economic conditions and trends, including, without limitations, unemployment, oil and gas prices, drought conditions, changes in lending staff, policies and procedures, changes in credit concentrations, changes in the trends and severity of problem loans and changes in trends in volume and terms of loans. This qualitative reserve serves to estimate for additional areas of losses inherent in our portfolio that are not reflected in our historic loss factors.

Although we believe we use the best information available to make loan loss allowance determinations, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making our initial determinations. A decline in the economy could result in increased levels of non-performing assets and charge-offs, increased loan provisions and reductions in income. Additionally, bank regulatory agencies periodically review our allowance for loan losses and methodology and could require, in accordance with U.S. GAAP, additional provisions to the allowance for loan losses based on their judgment of information available to them at the time of their examination as well as changes to our methodology.

Accrual of interest is discontinued on a loan and payments are applied to principal when management believes, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. Except consumer loans, generally all loans past due greater than 90 days, based on contractual terms, are placed on non-accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Consumer loans are generally charged-off when a loan becomes past due 90 days. For other loans in the portfolio, facts and circumstances are evaluated in making charge-off decisions.

Loans are considered impaired when, based on current information and events, management determines that it is probable we will be unable to collect all amounts due in accordance with the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectable.

The Company's policy requires measurement of the allowance for an impaired, collateral dependent loan based on the fair value of the collateral less cost to sell. Other loan impairments for non-collateral dependent loans are measured based on the present value of expected future cash flows or the loan's observable market price. At December 31, 2018 and 2017, all significant impaired loans have been determined to be collateral dependent and the allowance for loss has been measured utilizing the estimated fair value of the collateral less cost to sell.

From time to time, the Company modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. For all impaired loans, including the Company's troubled debt restructurings, the Company performs a periodic, well-documented credit evaluation of the borrower's financial condition and prospects for repayment to assess the likelihood that all principal and interest payments required under the terms of the agreement will be collected in full. When doubt exists about the ultimate collectability of principal and interest, the troubled debt restructuring remains on non-accrual status and payments received are applied to reduce principal to the extent necessary to eliminate such doubt. This determination of accrual status is judgmental and is based on facts and circumstances related to each troubled debt restructuring. Each of these loans is individually evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral, modified loan terms and cash flow. As of December 31, 2018 and 2017, substantially all of the Company's troubled debt restructured loans are included in the non-accrual totals.

The Company originates certain mortgage loans for sale in the secondary market. Accordingly, these loans are classified as held-for-sale and are carried at the lower of cost or fair value on an aggregate basis. The mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first three to six months, or if documentation is determined not to be in compliance with regulations. The Company's historic losses as a result of these indemnities have been insignificant.

Loans acquired, including loans acquired in a business combination, are initially recorded at fair value with no valuation allowance. Acquired loans are segregated between those considered to be credit impaired and those deemed performing. To make this determination, management considers such factors as past due status, non-accrual status and credit risk ratings. The fair value of acquired performing loans is determined by discounting expected cash flows, both principal and interest, at prevailing market interest rates. The difference between the fair value and principal balances at acquisition date, the fair value discount, is accreted into interest income over the estimated life of the acquired portfolio.

Purchased credit impaired loans are those loans that showed evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all amounts contractually owed. Their acquisition fair value, which includes a credit component at the acquisition date, was based on the estimate of cash flows, both principal and interest, expected to be collected or estimated collateral values if cash flows are not estimable, discounted at prevailing market rates of interest. The difference between the discounted cash flows expected at acquisition and the investment in the loan is recognized as interest income on a level-yield method over the life of the loan, unless management was unable to reasonably forecast cash flows in which case the loans were placed on nonaccrual. Subsequent to the acquisition date, increases in expected cash flows will generally result in a recovery of any previously recorded allowance for loan loss, to the extent applicable, and/or a reclassification from the nonaccretable difference to accretable yield, which will be recognized prospectively. Decreases in expected cash flows subsequent to acquisition are recognized as impairment. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition. The carrying amount of purchased credit impaired loans at December 31, 2018 and 2017 were $827,000 and $618,000, respectively, compared to a contractual balance of $1,157,000 and $1,865,000, respectively. Other purchased credit impaired loan disclosures were omitted due to immateriality.

Other Real Estate

Other real estate owned is foreclosed property held pending disposition and is initially recorded at fair value, less estimated costs to sell. At foreclosure, if the fair value of the real estate, less estimated costs to sell, is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Any subsequent reduction in value is recognized by a charge to income. Operating and holding expenses of such properties, net of related income, and gains and losses on their disposition are included in net gain (loss) on sale of foreclosed assets as incurred.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed principally on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized over the life of the respective lease or the estimated useful lives of the improvements, whichever is shorter.

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Business Combinations, Goodwill and Other Intangible Assets

The Company accounts for all business combinations under the purchase method of accounting. Tangible and intangible assets and liabilities of the acquired entity are recorded at fair value. Intangible assets with finite useful lives represent the future benefit associated with the acquisition of the core deposits and are amortized over seven years, utilizing a method that approximates the expected attrition of the deposits. Goodwill with an indefinite life is not amortized, but rather tested annually for impairment as of June 30 each year and totaled $171,565,000 and $139,971,000, respectively at December 31, 2018 and 2017. There was no impairment recorded for the years ended December 31, 2018, 2017 and 2016.

The carrying amount of goodwill arising from acquisitions that qualify as an asset purchase for federal income tax purposes was $22,526,000 and $26,618,000 at December 31, 2018 and 2017, respectively, and is deductible for federal income tax purposes.

For the year ended December 31, 2017, the Company sold its mortgage servicing rights totaling $1,795,000 to an unrelated third party resulting in a loss on sale of approximately $215,000.

Securities Sold Under Agreements To Repurchase

Securities sold under agreements to repurchase, which are classified as borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of the cash received in connection with the transaction. The Company may be required to provide additional collateral based on the estimated fair value of the underlying securities.

Segment Reporting

The Company has determined that its banking regions meet the aggregation criteria of the current authoritative accounting guidance since each of its banking regions offer similar products and services, operate in a similar manner, have similar customers and report to the same regulatory authority, and therefore operate one line of business (community banking) located in a single geographic area (Texas).

Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks, including interest-bearing deposits in banks with original maturity of 90 days or less, and federal funds sold.

Accumulated Other Comprehensive Income (Loss)

Unrealized net gains on the Company's available-for-sale securities (after applicable income tax expense) totaling $4,169,000 and $29,156,000 at December 31, 2018 and 2017, respectively, and the minimum pension liability (after applicable income tax benefit) totaling ($1,324,000) and ($2,370,000) at December 31, 2018 and 2017, respectively, are included in accumulated other comprehensive income.

Income Taxes

The Company's provision for income taxes is based on income before income taxes adjusted for permanent differences between financial reporting and taxable income. Deferred tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Stock Based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the grant date. The Company recorded stock option expense totaling $1,508,000, $1,745,000, and $882,000, for the years ended December 31, 2018, 2017 and 2016, respectively.

The Company also grants restricted stock for a fixed number of shares. The Company recorded expenses associated with its director and officer restricted stock grants totaling $560,000 and $680,000, respectively, for the year ended December 31, 2018, $483,000 and $562,000, respectively, for the year ended December 31, 2017, and $278,000 and $381,000, respectively, for the year ended December 31, 2016.

See Note 17 for further information.

Advertising Costs

Advertising costs are expensed as incurred.

Per Share Data

Net earnings per share ("EPS") are computed by dividing net earnings by the weighted average number of common stock shares outstanding during the period. The Company calculates dilutive EPS assuming all outstanding stock options to purchase common stock have been exercised at the beginning of the year (or the time of issuance, if later.) The dilutive effect of the outstanding options and restricted stock is reflected by application of the treasury stock method, whereby the proceeds from the exercised options and restricted stock are assumed to be used to purchase common stock at the average market price during the respective year. There were no such anti-dilutive stock options for the years ended December 31, 2018, 2017 and 2016. The following table reconciles the computation of basic EPS to dilutive EPS:

	Net Earnings (in thousands)	Weighted Average Shares	Per Share Amount
For the year ended December 31, 2018:			
Net earnings per share, basic	$ 150,638	67,609,367	$ 2.23
Effect of stock options and stock grants	—	373,647	(0.01)
Net earnings per share, assuming dilution	$ 150,638	67,983,014	$ 2.22
For the year ended December 31, 2017:			
Net earnings per share, basic	$ 120,371	66,126,863	$ 1.82
Effect of stock options and stock grants	—	197,467	(0.01)
Net earnings per share, assuming dilution	$ 120,371	66,324,330	$ 1.81
For the year ended December 31, 2016:			
Net earnings per share, basic	$ 104,774	66,013,004	$ 1.59
Effect of stock options and stock grants	—	89,882	—
Net earnings per share, assuming dilution	$ 104,774	66,102,886	$ 1.59

Recently Issued Authoritative Accounting Guidance

Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 implements a comprehensive new revenue recognition standard that supersedes substantially all existing revenue recognition guidance. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity applies the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2015-04 "Revenue from Contracts with Customers – Deferral of the Effective Date" deferred the effective date of ASU 2014-09 by one year and as a result, the new standard became effective in the first quarter of 2018. The Company's revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. The adoption of the new standard in the first quarter of 2018 did not have a significant impact on the Company's financial statements and no adjustment to opening retained earnings was recorded.

ASU 2016-01, ASU 2016-01 "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. ASU 2016-1 became effective for the Company on January 1, 2018 and did not have a significant impact on the Company's financial statements.

ASU 2016-02, "Leases." ASU 2016-02 will amend current lease accounting to require lessees to recognize (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model. The amended guidance will be effective in the first quarter of 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company evaluated the provision of the new lease standard and, due to the small dollar amounts and number of lease agreements, all considered operating leases, the effect for the Company on January 1, 2019 was not significant.

ASU 2016-09, "Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 amends current guidance such that all excess tax benefits and tax deficiencies related to share-based payment awards will be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in capital surplus. Additionally, excess tax benefits will be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that any entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, which is the current requirement, or account for forfeitures when they occur. ASU 2016-09 became effective January 1, 2017 and did not have a significant impact on the Company's financial statements.

ASU 2016-13, "Financial Instruments – Credit Losses." ASU 2016-13 implements a comprehensive change in estimating the allowances for loan losses from the current model of losses inherent in the loan portfolio to a current expected credit loss model that generally is expected to result in earlier recognition of allowances for losses. Additionally, purchase accounting rules have been modified as well as credit losses on held-to-maturity debt securities. ASU 2016-13 will be effective in the first quarter of 2020. While the Company generally expects that the implementation of ASU 2016-13 will increase their allowance for loan losses balance, the Company is continuing to evaluate the potential impact on the Company's financial statements.

ASU 2017-04, "Intangibles – Goodwill and Other." ASU 2017-04 will amend and simplify current goodwill impairment testing to eliminate Step 2 from the current provisions. Under the new guidance, an entity should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity still has the option to perform the quantitative assessment for a reporting unit to determine if a quantitative impairment test is necessary. ASU 2017-04 will be effective for the Company on January 1, 2020 and is not expected to have a significant impact on the Company's financial statements.

ASU 2017-07, "Compensation – Retirement Benefits, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost." ASU 2017-17 will require employers that sponsor defined benefit pension plans to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Other components of the net periodic benefit cost will be presented separately from the service cost component. ASU 2017-17 became effective in 2018 and, as the Company froze its defined benefit pension plan in 2004, there is no service cost component of its net periodic benefit cost and therefore did not have an impact on the Company's financial statements.

ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities." ASU 2017-08 addresses the amortization method for all callable bonds purchased at a premium to par. Under the revised guidance, entities will be required to amortize premiums on callable bonds to the earliest call date. ASU 2017-08 is effective in 2019 although early adoption is permitted. The Company elected to early adopt ASU 2017-08 in the first quarter of 2017. The adoption of this guidance did not have a material impact on the Company's financial statements.

ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 was issued to address the income tax accounting treatment of the stranded tax effects within other comprehensive income due to the prohibition of backward tracing due to an income tax rate change that was initially recorded in other comprehensive income. This issue came about from the enactment of the Tax Cuts and Jobs Act on December 22, 2017 that changed the Company's income tax rate from 35% to 21%. The ASU changed current accounting whereby an entity may elect to reclassify the stranded tax effect from accumulated other comprehensive income to retained earnings. The ASU is effective for periods beginning after December 15, 2018 although early adoption was permitted. The Company early adopted ASU 2018-02 in the first quarter of 2018 and reclassified its stranded tax debit of $5,759,000 within accumulated other comprehensive earnings to retained earnings.

ASU 2018-13, "Fair Value Measurement (Topic 820)." ASU 2018-13 eliminates, adds and modifies certain disclosure requirements for fair value measurements. ASU 2018-13 will be effective for the year ending December 31, 2020, including interim periods in that year.

ASU 2018-14, "Compensation – Retirement Benefit Plans – General (Subtopic 715-20)." ASU 2018-14 changes the disclosure requirement for employers that sponsor defined benefit pension and/or other post-retirement benefit plans, eliminating certain disclosures no longer considered cost beneficial and requiring new disclosures now considered more pertinent. ASU 2018-14 will be effective for the year ending December 31, 2020.

2. INTEREST-BEARING TIME DEPOSITS IN BANKS AND SECURITIES:

Interest-bearing time deposits in banks totaled $1,458,000 at both December 31, 2018 and 2017 and at December 31, 2018, have original maturities within twelve months.

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A summary of the Company's available-for-sale securities as of December 31, 2018 and 2017 are as follows (dollars in thousands):

	December 31, 2018			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. Treasury securities	$ 9,970	$ —	$ (8)	$ 9,962
Obligations of U.S. government sponsored enterprises and agencies	301	—	—	301
Obligations of state and political subdivisions	1,229,828	30,013	(1,970)	1,257,871
Corporate bonds and other	4,875	—	(77)	4,798
Residential mortgage-backed securities	1,472,228	3,928	(21,611)	1,454,545
Commercial mortgage-backed securities	436,366	670	(5,736)	431,300
Total securities available-for-sale	$3,153,568	$ 34,611	$ (29,402)	$3,158,777

	December 31, 2017			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
Obligations of U.S. government sponsored enterprises and agencies	$ 60,516	$ —	$ (186)	$ 60,330
Obligations of state and political subdivisions	1,369,295	52,491	(936)	1,420,850
Corporate bonds and other	11,421	43	(5)	11,459
Residential mortgage-backed securities	1,223,452	4,561	(8,916)	1,219,097
Commercial mortgage-backed securities	377,934	263	(2,460)	375,737
Total securities available-for-sale	$3,042,618	$ 57,358	$ (12,503)	$3,087,473

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The Company invests in mortgage-backed securities that have expected maturities that differ from their contractual maturities. These differences arise because borrowers may have the right to call or prepay obligations with or without a prepayment penalty. These securities include collateralized mortgage obligations (CMOs) and other asset backed securities. The expected maturities of these securities at December 31, 2018, were computed by using scheduled amortization of balances and historical prepayment rates. At December 31, 2018 and 2017, the Company did not hold any CMOs that entail higher risks than standard mortgage-backed securities.

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2018, by contractual and expected maturity, are shown below (in thousands):

	Amortized Cost Basis	Estimated Fair Value
Due within one year	$ 187,600	$ 188,914
Due after one year through five years	547,868	563,679
Due after five years through ten years	507,792	518,317
Due after ten years	1,714	2,022
Mortgage-backed securities	1,908,594	1,885,845
Total	$3,153,568	$3,158,777

The following tables disclose, as of December 31, 2018 and 2017, the Company's investment securities that have been in a continuous unrealized-loss position for less than 12 months and for 12 or more months (in thousands):

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2018	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury securities	$ 9,962	$ 8	$ —	$ —	$ 9,962	$ 8
Obligations of U.S. government sponsored enterprises and agencies	—	—	301	—	301	—
Obligations of state and political subdivisions	27,489	107	114,461	1,863	141,950	1,970
Corporate bonds and other	4,348	68	450	9	4,798	77
Residential mortgage-backed securities	119,584	483	922,289	21,128	1,041,873	21,611
Commercial mortgage-backed securities	1,994	5	343,015	5,731	345,009	5,736
Total	$163,377	$ 671	$1,380,516	$ 28,731	$1,543,893	$ 29,402

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2017	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. government sponsored enterprises and agencies	$ 60,329	$ 186	$ —	$ —	$ 60,329	$ 186
Obligations of state and political subdivisions	66,361	219	44,938	717	111,299	936
Corporate bonds and other	224	2	237	3	461	5
Residential mortgage-backed securities	701,252	3,988	239,641	4,928	940,893	8,916
Commercial mortgage-backed securities	239,548	1,500	92,549	960	332,097	2,460
Total	$1,067,714	$ 5,895	$377,365	$ 6,608	$1,445,079	$ 12,503

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The number of investments in an unrealized loss position totaled 366 at December 31, 2018. We do not believe these unrealized losses are "other-than-temporary". In estimating other-than-temporary impairment losses, management considers, among other things, the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. Additionally management does not (i) have the intent to sell our securities prior to recovery and/or maturity and, (ii) it is more likely than not that we will not have to sell our securities prior to recovery and/or maturity and (iii) that the length of time and extent that fair value has been less than cost is not indicative of recoverability. The unrealized losses noted are interest rate related due to the level of interest rates at December 31, 2018 compared to the time of purchase. We have reviewed the ratings of the issuers and have not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities. Our mortgage related securities are backed by GNMA, FNMA and FHLMC or are collateralized by securities backed by these agencies. At December 31, 2018, 84.70% of our available-for-sale securities that are obligations of states and political subdivisions were issued within the State of Texas, of which 32.65% are guaranteed by the Texas Permanent School Fund.

Securities, carried at approximately $1,988,579,000 and $2,018,420,000 at December 31, 2018 and 2017, respectively, were pledged as collateral for public or trust fund deposits, repurchase agreements and for other purposes required or permitted by law.

During 2018, 2017 and 2016, sales of investment securities that were classified as available-for-sale totaled $220,259,000, $120,576,000 and $40,510,000. Gross realized gains from 2018, 2017 and 2016, securities sales were $1,847,000, $2,643,000 and $1,579,000, respectively. Gross realized losses from 2018, 2017 and 2016 securities sales were $493,000, $815,000 and $309,000, respectively. The specific identification method was used to determine cost in order to compute the realized gains and losses.

3. LOANS HELD FOR INVESTMENT AND ALLOWANCE FOR LOAN LOSSES:

Loans held-for-investment by class of financing receivables are as follows (dollars in thousands):

	December 31,	
	2018	2017
Commercial	$ 844,953	$ 684,099
Agricultural	96,677	94,543
Real estate	2,639,346	2,302,998
Consumer	372,660	403,929
Total loans held-for-investment	$3,953,636	$3,485,569

The Company's non-accrual loans, loan still accruing and past due 90 days or more and restructured loans are as follows (dollars in thousands):

	December 31,	
	2018	2017
Non-accrual loans*	$27,534	$17,670
Loans still accruing and past due 90 days or more	1,008	288
Troubled debt restructured loans**	513	627
Total	$29,055	$18,585

* Includes $827,000 and $618,000, respectively, of purchased credit impaired loans as of December 31, 2018 and 2017.

** Our troubled debt restructured loans of $3,840,000 and $4,629,000, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans as of December 31, 2018 and 2017, respectively.

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The Company's recorded investment in impaired loans and the related valuation allowance are as follows (dollars in thousands):

December 31, 2018		December 31, 2017	
Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
$ 27,534	$ 4,069	$ 17,670	$ 3,996

The Company had $29,632,000 and $20,117,000 in non-accrual, past due 90 days or more and still accruing, restructured loans and foreclosed assets at December 31, 2018 and 2017, respectively. Non-accrual loans totaled $27,534,000 and $17,670,000 at December 31, 2018 and 2017, respectively, and consisted of the following amounts by type (dollars in thousands):

	December 31,	
	2018	2017
Commercial	$ 9,334	$ 3,612
Agricultural	759	134
Real Estate	16,714	12,838
Consumer	727	1,086
Total	$27,534	$17,670

No significant additional funds are committed to be advanced in connection with impaired loans as of December 31, 2018.

The Company's impaired loans and related allowance as of December 31, 2018 and 2017 are summarized in the following tables by class of financing receivables (in thousands). No interest income was recognized on impaired loans subsequent to their classification as impaired.

December 31, 2018	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	12 Month Average Recorded Investment
Commercial	$ 10,808	$ 6,728	$ 2,606	$ 9,334	$ 1,133	$ 7,986
Agricultural	799	213	546	759	170	842
Real Estate	24,072	6,699	10,015	16,714	2,409	16,042
Consumer	935	101	626	727	357	914
Total	$ 36,614	$ 13,741	$ 13,793	$ 27,534	$ 4,069	$ 25,784

* Includes $827,000 of purchased credit impaired loans.

December 31, 2017	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	12 Month Average Recorded Investment
Commercial	$ 5,597	$ 518	$ 3,094	$ 3,612	$ 1,194	$ 4,849
Agricultural	147	—	134	134	31	120
Real Estate	16,823	2,348	10,490	12,838	2,316	13,835
Consumer	1,284	143	943	1,086	455	1,258
Total	$ 23,851	$ 3,009	$ 14,661	$ 17,670	$ 3,996	$ 20,062

* Includes $618,000 of purchased credit impaired loans.

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The Company recognized interest income on impaired loans prior to being recognized as impaired of approximately $948,000, $624,000 and $829,000 during the years ended December 31, 2018, 2017 and 2016, respectively.

From a credit risk standpoint, the Company rates its loans in one of four categories: (i) pass, (ii) special mention, (iii) substandard or (iv) doubtful. Loans rated as loss are charged-off.

The ratings of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on our credits as part of our on-going monitoring of the credit quality of our loan portfolio. Ratings are adjusted to reflect the degree of risk and loss that are felt to be inherent in each credit as of each reporting period. Our methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on non-accrual.

The following summarizes the Company's internal ratings of its loans held-for-investment by class of financing receivables and portfolio segments, which classes are the same, at December 31, 2018 and 2017 (in thousands):

December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 804,584	$ 23,392	$ 16,977	$ —	$ 844,953
Agricultural	92,864	46	3,767	—	96,677
Real Estate	2,559,379	26,626	53,341	—	2,639,346
Consumer	370,510	315	1,835	—	372,660
Total	$3,827,337	$ 50,379	$ 75,920	$ —	$3,953,636

December 31, 2017	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 649,166	$ 6,282	$ 28,651	$ —	$ 684,099
Agricultural	90,457	1,527	2,559	—	94,543
Real Estate	2,227,302	29,089	46,607	—	2,302,998
Consumer	401,434	181	2,314	—	403,929
Total	$3,368,359	$ 37,079	$ 80,131	$ —	$3,485,569

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At December 31, 2018 and 2017, the Company's past due loans are as follows (dollars in thousands):

December 31, 2018	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due Still Accruing
Commercial	$ 3,546	$ 682	$ 677	$ 4,905	$ 840,048	$ 844,953	$ —
Agricultural	791	19	26	836	95,841	96,677	—
Real Estate	13,185	881	2,020	16,086	2,623,260	2,639,346	960
Consumer	782	263	54	1,099	371,561	372,660	48
Total	$18,304	$1,845	$2,777	$22,926	$3,930,710	$3,953,636	$ 1,008

December 31, 2017	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due Still Accruing
Commercial	$ 2,039	$1,104	$1,081	$ 4,224	$ 679,875	$ 684,099	$ 7
Agricultural	640	—	—	640	93,903	94,543	—
Real Estate	12,308	511	1,198	14,017	2,288,981	2,302,998	216
Consumer	1,360	361	135	1,856	402,073	403,929	65
Total	$16,347	$1,976	$2,414	$20,737	$3,464,832	$3,485,569	$ 288

* The Company monitors commercial, agricultural and real estate loans after such loans are 15 days past due. Consumer loans are monitored after such loans are 30 days past due.

The following table details the allowance for loan losses at December 31, 2018 and 2017 by portfolio segment (in thousands). There were no allowances for purchased credit impaired loans at December 31, 2018 or 2017. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

December 31, 2018	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 1,133	$ 170	$ 2,409	$ 357	$ 4,069
Loan collectively evaluated for impairment	10,815	1,276	29,933	5,109	47,133
Total	$ 11,948	$ 1,446	$ 32,342	$ 5,466	$51,202

December 31, 2017	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 1,194	$ 31	$ 2,316	$ 455	$ 3,996
Loan collectively evaluated for impairment	9,671	1,274	27,580	5,635	44,160
Total	$ 10,865	$ 1,305	$ 29,896	$ 6,090	$48,156

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Changes in the allowance for loan losses for the years ended December 31, 2018 and 2017 are summarized as follows (in thousands):

December 31, 2018	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	$ 10,865	$ 1,305	$ 29,896	$ 6,090	$48,156
Provision for loan losses	1,662	126	3,463	414	5,665
Recoveries	839	15	462	512	1,828
Charge-offs	(1,418)	—	(1,479)	(1,550)	(4,447)
Ending balance	$ 11,948	$ 1,446	$ 32,342	$ 5,466	$51,202

December 31, 2017	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	$ 11,707	$ 1,101	$ 26,864	$ 6,107	$45,779
Provision for loan losses	1,233	243	4,055	999	6,530
Recoveries	943	32	192	501	1,668
Charge-offs	(3,018)	(71)	(1,215)	(1,517)	(5,821)
Ending balance	$ 10,865	$ 1,305	$ 29,896	$ 6,090	$48,156

The Company's recorded investment in loans as of December 31, 2018 and 2017 related to the balance in the allowance for loan losses on the basis of the Company's impairment methodology was as follows (in thousands). Purchased credit impaired loans of $827,000 and $618,000, respectively, at December 31, 2018 and 2017 are included in loans individually evaluated for impairment.

December 31, 2018	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 9,334	$ 759	$ 16,714	$ 727	$ 27,534
Loan collectively evaluated for impairment	835,619	95,918	2,622,632	371,933	3,926,102
Total	$ 844,953	$ 96,677	$2,639,346	$372,660	$3,953,636

December 31, 2017	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 3,612	$ 134	$ 12,838	$ 1,086	$ 17,670
Loan collectively evaluated for impairment	680,487	94,409	2,290,160	402,843	3,467,899
Total	$ 684,099	$ 94,543	$2,302,998	$403,929	$3,485,569

The Company's loans that were modified in the years ended December 31, 2018 and 2017, and considered troubled debt restructurings are as follows (dollars in thousands):

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	4	$ 864	$ 864	11	$ 895	$ 895
Agricultural	1	4	4	—	—	—
Real Estate	5	643	643	5	625	625
Consumer	8	209	209	1	25	25
Total	18	$ 1,720	$ 1,720	17	$ 1,545	$ 1,545

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The balances below provide information as to how the loans were modified as troubled debt restructured loans during the years ended December 31, 2018 and 2017 (dollars in thousands):

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity
Commercial	$ —	$ 529	$ 335	$ —	$ 195	$ 700
Agricultural	—	—	4	—	—	—
Real Estate	—	280	363	—	312	313
Consumer	—	—	209	—	25	—
Total	$ —	$ 809	$ 911	$ —	$ 532	$ 1,013

During the years ended December 31, 2018 and 2017, certain loans were modified as a troubled debt restructured loans within the previous 12 months and for which there was a payment default. A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past or more due or results in the foreclosure and repossession of the applicable collateral. The loans with payment default are as follows (dollars in thousands):

	Year Ended December 31, 2018		Year Ended December 31, 2017	
	Number	Balance	Number	Balance
Commercial	1	$ 491	2	$ 88
Agriculture	—	—	—	—
Real Estate	—	—	—	—
Consumer	—	—	—	—
Total	1	$ 491	2	$ 88

As of December 31, 2018, the Company has no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

An analysis of the changes in loans to officers, directors, principal shareholders, or associates of such persons for the year ended December 31, 2018 (determined as of each respective year-end) follows (dollars in thousands):

	Beginning Balance	Additional Loans	Payments	Ending Balance
Year ended December 31, 2018	$ 55,904	$ 55,678	$ 44,188	$67,394

In the opinion of management, those loans are on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unaffiliated persons.

Our subsidiary bank has established a line of credit with the Federal Home Loan Bank of Dallas (FHLB) to provide liquidity and meet pledging requirements for those customers eligible to have securities pledged to secure certain uninsured deposits. At December 31, 2018, $2,495,150,000 in loans held by our bank subsidiary were subject to blanket liens as security for this line of credit. At December 31, 2018, there was $55,000,000 outstanding under this line of credit.

Note 4—Loans Held-for-Sale

The Company originates certain mortgage loans for sale in the secondary market. The mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first three to nine months, or if documentation is determined not to be in compliance with regulations. The Company's historic losses as a result of these indemnities have been insignificant.

Loans held for sale totaled $21,672,000 and $15,130,000 at December 31, 2018 and 2017, respectively. At December 31, 2018, $2,487,000 is valued at the lower of cost or fair value, and the remaining amount is valued under the fair value option. All of the amounts for December 31, 2017 were valued at the lower of cost or fair value. The change to the fair value option for loans held for sale was effective at June 30, 2018 and was done in conjunction with the Company's move to mandatory delivery in the secondary market and the purchase of forward mortgage-backed securities to manage the changes in fair value (see note 5 for additional information).

These loans, which are sold on a servicing released basis, are valued using a market approach by utilizing either: (i) the fair value of the securities backed by similar mortgage loans, adjusted for certain factors to approximate the fair value of a whole mortgage loan, including the value attributable to mortgage servicing and credit risk, (ii) current commitments to purchase loans or (iii) recent observable market trades for similar loans, adjusted for credit risk and other individual loan characteristics. As these prices are derived from market observable inputs, the Company classifies these valuations as Level 2 in the fair value disclosures (see note 10). Interest income on mortgage loans held for sale is recognized based on the contractual rates and reflected in interest income on loans in the consolidated statements of earnings. The Company has no continuing ownership in any of these residential mortgage loans sold.

Note 5—Derivative Financial Instruments

The Company enters into interest rate lock commitments ("IRLCs") with customers to originate residential mortgage loans at a specific interest rate that are ultimately sold in the secondary market. These commitments, which contain fixed expiration dates, offer the borrower an interest rate guarantee provided the loan meets underwriting guidelines and closes within the timeframe established by the Company.

Beginning in the second quarter of 2018, the Company purchased forward mortgage-backed securities contracts to manage the changes in fair value associated with changes in interest rates related to a portion of the IRLCs. These instruments are typically entered into at the time the IRLC is made.

These financial instruments are not designated as hedging instruments and are used for asset and liability management needs. All derivatives are carried at fair value in either other assets or other liabilities.

The fair values of IRLCs are based on current secondary market prices for underlying loans and estimated servicing value with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability (pull-through rate). The fair value of IRLCs is subject to change primarily due to changes in interest rates and the estimated pull-through rate. These commitments are classified as Level 2 in the fair value disclosures (see note 10), as the valuations are based on observable market inputs.

Forward mortgage-backed securities contracts are exchange-traded or traded within highly active dealer markets. In order to determine the fair value of these instruments, the Company utilizes the exchange price or dealer market price for the particular derivative contract and these instruments are therefore classified as Level 2 in the fair value disclosures (see note 10). The estimated fair values are subject to change primarily due to changes in interest rates.

The following table provides the outstanding notional balances and fair values of outstanding derivative positions (dollars in thousands):

December 31, 2018:	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
IRLCs	$ 37,088	$ 765	$ —
Forward mortgage-backed securities trades	45,500	—	403

December 31, 2017:	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
IRLCs	$ 37,589	$ 500	$ —

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6. BANK PREMISES AND EQUIPMENT:

The following is a summary of bank premises and equipment (in thousands):

	Useful Life	December 31, 2018	December 31, 2017
Land	–	$ 31,190	$ 29,508
Buildings	20 to 40 years	135,335	119,728
Furniture and equipment	3 to 10 years	58,969	58,672
Leasehold improvements	Lesser of lease term or 5 to 15 years	3,557	4,118
		229,051	212,026
Less- accumulated depreciation and amortization		(95,630)	(88,000)
Total Bank Premises and Equipment		$133,421	$124,026

Depreciation expense for the years ended December 31, 2018, 2017 and 2016 amounted to $10,130,000, $9,810,000 and $9,390,000, respectively, and is included in the captions net occupancy expense and equipment expense in the accompanying consolidated statements of earnings.

The Company is lessor for portions of its banking premises. Total rental income for all leases included in net occupancy expense is approximately $2,682,000, $2,367,000 and $2,139,000, for the years ended December 31, 2018, 2017 and 2016, respectively.

During the years ended December 31, 2018, 2017 and 2016, the Company recorded gains (losses) on sale of the bank premises and equipment totaling ($147,000), ($396,000) and $168,000. In 2017, the Company sold its San Angelo main region branch building for $1,586,000 and recorded a gain of $210,000 and cancelled its San Angelo grocery store branch lease and recorded a write off of leasehold improvements of $360,000. In 2016, the Company sold its Weatherford and Orange main region branch building for $1,385,000 and $2,000,000 and recorded a gain of $560,000 and a loss of $31,000, respectively.

7. DEPOSITS AND BORROWINGS:

Time deposits of $250,000 or more totaled approximately $118,590,000 and $115,203,000 at December 31, 2018 and 2017, respectively.

At December 31, 2018, the scheduled maturities of time deposits (in thousands) were, as follows:

Year ending December 31,	
2019	$373,359
2020	42,801
2021	11,406
2022	8,066
2023	6,475
Thereafter	54
	$442,161

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Deposits received from related parties at December 31, 2018 and 2017 totaled $103,413,000 and $74,270,000, respectively.

Borrowings at December 31, 2018 and 2017 consisted of the following (dollars in thousands):

	December 31,	
	2018	2017
Securities sold under agreements with customers to repurchase	$409,631	$320,450
Federal funds purchased	4,075	10,550
Advances from Federal Home Loan Bank of Dallas	55,000	—
Total	$468,706	$331,000

Securities sold under repurchase agreements are generally with significant customers of the Company that require short-term liquidity for their funds for which the Company pledges certain securities that have a fair value equal to at least the amount of the borrowings. The agreements mature daily and therefore the risk arising from a decline in the fair value of the collateral pledged is minimal. The securities pledged are mortgage-backed securities. These agreements do not include “right of set-off” provisions and therefore the Company does not offset such agreements for financial reporting purposes.

At December 31, 2018, the Company had advances from the Federal Home Loan Bank of Dallas of $55,000,000 that will be repaid in 2019. The interest rate on this advance was 2.65% at December 31, 2018. There were no such advances outstanding at December 31, 2017.

8. LINE OF CREDIT:

The Company renewed its loan agreement, effective June 30, 2017, with Frost Bank. Under the loan agreement, as renewed and amended, we are permitted to draw up to $25,000,000 on a revolving line of credit. Prior to June 30, 2019, interest is paid quarterly at *The Wall Street Journal* Prime Rate and the line of credit matures June 30, 2019. If a balance exists at June 30, 2019, the principal balance converts to a term facility payable quarterly over five years and interest is paid quarterly at our election at *The Wall Street Journal* Prime Rate plus 50 basis points or LIBOR plus 250 basis points. The line of credit is unsecured. Among other provisions in the credit agreement, we must satisfy certain financial covenants during the term of the loan agreement, including, without limitation, covenants that require us to maintain certain capital, tangible net worth, loan loss reserve, non-performing asset and cash flow coverage ratios. In addition, the credit agreement contains certain operational covenants, which among others, restricts the payment of dividends above 55% of consolidated net income, limits the incurrence of debt (excluding any amounts acquired in an acquisition) and prohibits the disposal of assets except in the ordinary course of business. Since 1995, we have historically declared dividends as a percentage of our consolidated net income in a range of 37% (low) in 1995 to 53% (high) in 2003 and 2006. The Company was in compliance with the financial and operational covenants at December 31, 2018. There was no outstanding balance under the line of credit as of December 31, 2018 or 2017.

9. INCOME TAXES:

On December 22, 2017 the Tax Cuts and Jobs Act was signed into law with sweeping modifications to the Internal Revenue Code. The primary change for the Company was to lower the corporate income tax rate to 21% from 35%. The Company’s deferred tax assets and liabilities were re-measured based on the income tax rates at which they are expected to reverse in the future, which is generally 21%. The provisional amount recorded related to the re-measurement of the Company’s deferred tax balance was $7,650,000, a reduction of income tax expense for the year ended December 31, 2017. At December 31, 2018, final regulations for the Tax Cuts and Jobs Act are still pending; however, we made a reasonable estimate of the impact to our deferred tax balances based on the proposed regulations issued to date. During the year ended December 31, 2018, we filed our 2017 U.S. federal income tax return and updated our 2017 estimated tax benefit from $7,650,000 to $8,314,000. We will continue to assess our provision for income taxes as future guidance is issued, but do not currently anticipate significant revisions will be necessary.

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The Company files a consolidated federal income tax return. Income tax expense is comprised of the following (dollars in thousands):

	Year Ended December 31 ,		
	2018	2017	2016
Current federal income tax	$28,359	$34,421	$30,381
Current state income tax	92	99	99
Deferred federal income tax expense (benefit)	(250)	(53)	673
Restatement of net deferred tax liability due to change in income tax rate	(664)	(7,650)	—
Income tax expense	$27,537	$26,817	$31,153

Income tax expense, as a percentage of pretax earnings, differs from the statutory federal income tax rate as follows:

	As a Percent of Pretax Earnings		
	2018	2017	2016
Statutory federal income tax rate	21.0%	35.0%	35.0%
Restatement of net deferred tax liability due to change in income tax rate	(0.4)	(5.3)	—
Reductions in tax rate resulting from interest income exempt from federal income tax	(5.2)	(11.5)	(12.1)
Effect of state income tax	0.1	0.1	0.1
ESOP tax deduction	(0.1)	(0.2)	(0.2)
Other	0.1	0.1	0.1
Effective income tax rate	15.5%	18.2%	22.9%

The approximate effects of each type of difference that gave rise to the Company's deferred tax assets and liabilities at December 31, 2018 and 2017 are as follows (dollars in thousands):

	2018	2017
Deferred tax assets:		
Tax basis of loans in excess of financial statement basis	$12,010	$ 10,550
Minimum liability in defined benefit plan	352	766
Recognized for financial reporting purposes but not yet for tax purposes:		
Deferred compensation	2,056	1,818
Write-downs and adjustments to other real estate owned and repossessed assets	49	11
Other deferred tax assets	208	79
Total deferred tax assets	$14,675	$ 13,224
Deferred tax liabilities:		
Financial statement basis of fixed assets in excess of tax basis	$ 4,182	3,343
Intangible asset amortization deductible for tax purposes, but not for financial reporting purposes	11,263	9,926
Recognized for financial reporting purposes but not yet for tax purposes:		
Accretion on investment securities	745	1,039
Pension plan contributions	816	1,086
Net unrealized gain on investment securities available-for-sale	1,111	9,420
Other deferred tax liabilities	34	31
Total deferred tax liabilities	$18,151	$ 24,845
Net deferred tax asset (liability)	$ (3,476)	$(11,621)

At December 31, 2018 and 2017, management believes that it is more likely than not that all of the deferred tax amounts shown above will be realized and therefore no valuation allowance was recorded.

Current authoritative accounting guidance prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of cumulative benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Current authoritative accounting guidance also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. The Company concluded the tax benefits of positions taken and expected to be taken on its tax returns should be recognized in the financial statements under this guidance. The Company files income tax returns in the U.S. federal jurisdiction and state margin tax returns in the state of Texas. We are no longer subject to U.S. federal income tax examinations by tax authorities for years before 2015 or Texas state tax examinations by tax authorities for years before 2016. As of December 31, 2018 and 2017, the Company believes that there are no uncertain tax positions.

10. FAIR VALUE DISCLOSURES:

The authoritative accounting guidance for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

The authoritative accounting guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities classified as available-for-sale and trading are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include market spreads, cash flows, the United States Treasury yield curve, live trading levels, trade execution data, dealer quotes, market consensus prepayments speeds, credit information and the security's terms and conditions, among other items.

See notes 4 and 5 related to the determination of fair value for loans held-for-sale, IRLCs and forward mortgage-backed securities traded.

There were no transfers between Level 2 and Level 3 during the years ended December 31, 2018, 2017 and 2016.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017 segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

December 31, 2018	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
U.S Treasury securities	$ 9,962	$ —	$ —	$ 9,962
Obligations of U. S. government sponsored enterprises and agencies	—	301	—	301
Obligations of state and political subdivisions	—	1,257,871	—	1,257,871
Corporate bonds	—	450	—	450
Residential mortgage-backed securities	—	1,454,545	—	1,454,545
Commercial mortgage-backed securities	—	431,300	—	431,300
Other securities	4,348	—	—	4,348
Total	$14,310	$3,144,467	$ —	$3,158,777
Loans held-for-sale	$ —	$ 19,185	$ —	$ 19,185
IRLCs	$ —	$ 765	$ —	$ 765
Forward mortgage-backed securities traded	$ —	$ 403	$ —	$ 403

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December 31, 2017	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
Obligations of U. S. government sponsored enterprises and agencies	$ —	$ 60,330	$ —	$ 60,330
Obligations of state and political subdivisions	—	1,420,850	—	1,420,850
Corporate bonds	—	7,031	—	7,031
Residential mortgage-backed securities	—	1,219,097	—	1,219,097
Commercial mortgage-backed securities	—	375,737	—	375,737
Other securities	4,428	—	—	4,428
Total	$ 4,428	$3,083,045	$ —	$3,087,473
IRLCs	$ —	$ 500	$ —	$ 500

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis include the following at December 31, 2018:

Impaired Loans – Impaired loans are reported at the fair value of the underlying collateral less selling costs if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data. At December 31, 2018, impaired loans with a carrying value of $13,793,000 were reduced by specific valuation reserves totaling $4,069,000 resulting in a net fair value of $9,724,000. The Company also had impaired loans of $13,741,000 with no specific valuation reserve at December 31, 2018, due to the loans carrying value generally being lower than the value of the collateral associated with the loan.

Loans Held-for-Sale – Loans held-for-sale are reported at the lower of cost or fair value. The Company originates conforming loans that are sold in the secondary market in which loan pricing is available. These loans are considered Level 2 of the fair value hierarchy. See note 4 related to the determination of fair value. At December 31, 2018, these loans were reported at $2,487,000 and had a fair value of $2,594,000.

Certain non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis include other real estate owned, goodwill and other intangible assets and other non-financial long-lived assets. Non-financial assets measured at fair value on a non-recurring basis during the year ended December 31, 2018 and 2017 include other real estate owned which, subsequent to their initial transfer to other real estate owned from loans, were re-measured at fair value through a write-down included in gain (loss) on sale of foreclosed assets. During the reported periods, all fair value measurements for foreclosed assets utilized Level 2 inputs based on observable market data, generally third-party appraisals, or Level 3 inputs based on customized discounting criteria. These appraisals are evaluated individually and discounted as necessary due to the age of the appraisal, lack of comparable sales, expected holding periods of property or special use type of the property. Such discounts vary by appraisal based on the above factors but generally range from 5% to 25% of the appraised value. Reevaluation of other real estate owned is performed at least annually as required by regulatory guidelines or more often if particular circumstances arise. The following table presents other real estate owned that were re-measured subsequent to their initial transfer to other real estate owned (dollars in thousands):

	Year Ended December 31,	
	2018	2017
Carrying value of other real estate owned prior to re-measurement	$1,046	$1,067
Write-downs included in gain (loss) on sale of other real estate owned	(236)	(306)
Fair value	$ 810	$ 761

At December 31, 2018 and 2017, other real estate owned totaled $448,000 and $1,347,000, respectively.

The Company is required under current authoritative accounting guidance to disclose the estimated fair value of their financial instrument assets and liabilities including those subject to the requirements discussed above. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments. Many of the Company's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

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The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

Cash and due from banks, federal funds sold, interest-bearing deposits and time deposits in banks and accrued interest receivable and payable are liquid in nature and considered Levels 1 or 2 of the fair value hierarchy.

Financial instruments with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities and are considered Levels 2 and 3 of the fair value hierarchy. Financial instrument liabilities with no stated maturities have an estimated fair value equal to both the amount payable on demand and the carrying value and are considered Level 1 of the fair value hierarchy.

The carrying value and the estimated fair value of the Company's contractual off-balance-sheet unfunded lines of credit, loan commitments and letters of credit, which are generally priced at market at the time of funding, are not material.

The estimated fair values and carrying values of all financial instruments under current authoritative guidance at December 31, 2018 and 2017, were as follows (dollars in thousands):

	2018		2017		
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Cash and due from banks	$ 207,835	$ 207,835	$ 209,583	$ 209,583	Level 1
Interest-bearing deposits in banks	40,812	40,812	162,764	162,764	Level 1
Interest-bearing time deposits in banks	1,458	1,458	1,458	1,458	Level 2
Available-for-sale securities	3,158,777	3,158,777	3,087,473	3,087,473	Levels 1 and 2
Loans held-for-investment	3,902,434	3,947,391	3,437,413	3,455,003	Level 3
Loans held-for-sale	21,672	21,779	15,130	15,314	Level 2
Accrued interest receivable	36,765	36,765	36,081	36,081	Level 2
Deposits with stated maturities	442,161	441,727	451,255	452,000	Level 2
Deposits with no stated maturities	5,738,228	5,738,228	5,511,706	5,511,706	Level 1
Borrowings	468,706	468,706	331,000	331,000	Level 2
Accrued interest payable	408	408	197	197	Level 2
IRLCs	765	765	500	500	Level 2
Forward mortgage-backed securities traded	403	403	—	—	Level 2

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11. COMMITMENTS AND CONTINGENCIES:

The Company is engaged in legal actions arising from the normal course of business. In management's opinion, the Company has adequate legal defenses with respect to these actions, and as of December 31, 2018 the resolution of these matters is not expected to have material adverse effects upon the results of operations or financial condition of the Company.

The Company leases a portion of its bank premises and equipment under operating leases. At December 31, 2018, future minimum lease commitments were: 2019—$610,000, 2020—$409,000, 2021—$224,000, 2022—$27,000 and 2023 and thereafter—$5,000.

12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK:

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include unfunded lines of credit, commitments to extend credit and federal funds sold to correspondent banks and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

Our exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for unfunded lines of credit, commitments to extend credit and standby letters of credit is represented by the contractual notional amount of these instruments. We generally use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments.

	December 31, 2018 (in thousands)
Financial instruments whose contract amounts represent credit risk:	
Unfunded lines of credit	$ 632,667
Unfunded commitments to extend credit	301,616
Standby letters of credit	26,641
Total commercial commitments	$ 960,924

Unfunded lines of credit and commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, as we deem necessary upon extension of credit, is based on our credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments we issue to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The average collateral value held on letters of credit usually exceeds the contract amount.

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We believe we have no other off-balance sheet arrangements or transactions with unconsolidated, special purpose entities that would expose us to liability that is not reflected on the face of the financial statements.

13. CONCENTRATION OF CREDIT RISK:

The Company grants commercial, retail, agriculture and residential real estate loans to customers primarily in North Central, Southeastern and West Texas. Although the Company has a diversified loan portfolio, a substantial portion of its borrowers' ability to honor their commitments is dependent upon each local economic sector. In addition, the Company holds mortgage related securities which are guaranteed by GNMA, FNMA or FHLMC or are collateralized by loans backed by these agencies.

14. PENSION AND PROFIT SHARING PLANS:

The Company's defined benefit pension plan was frozen effective January 1, 2004, whereby no new participants will be added to the Plan and no additional years of service will accrue to participants, unless the pension plan is reinstated at a future date. The pension plan covered substantially all of the Company's employees at the time. The benefits for each employee were based on years of service and a percentage of the employee's qualifying compensation during the final years of employment. The Company's funding policy was and is to contribute annually the amount necessary to satisfy the Internal Revenue Service's funding standards. Contributions to the pension plan, prior to freezing the plan, were intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. As a result of the Pension Protection Act of 2006 (the "Protection Act"), the Company will be required to contribute amounts in future years to fund any shortfalls. The Company has evaluated the provisions of the Protection Act as well as the Internal Revenue Service's funding standards to develop a plan for funding in future years. As a result, the Company made no contribution in 2018 and 2017, and is continuing to evaluate future funding amounts.

In December 2018, due to the rising interest rate environment, the Company determined it was in the best interest of its shareholders to settle its pension obligation to its retiree group in payout, approximately 53% of the pension benefit obligation on that date, and recorded a loss on settlement totaling $1,546,000 for the year ended December 31, 2018. In 2019, the Company began steps to terminate and settle the remaining obligation in its pension plan. Termination of the plan is expected to be in late 2019 but is subject to regulatory approval and changes in interest rates and, therefore there is no certainty that it will be consummated.

Using an actuarial measurement date of December 31, 2018 and 2017, benefit obligation activity and fair value of plan assets for the years ended December 31, 2018 and 2017, and a statement of the funded status as of December 31, 2018 and 2017, are as follows (dollars in thousands):

	2018	2017
Reconciliation of benefit obligations:		
Benefit obligation at January 1	$15,531	$15,453
Interest cost on projected benefit obligation	523	635
Actuarial (gain) loss	(811)	486
Benefits paid, including settlement of certain participant balances	(8,630)	(1,043)
Benefit obligation at December 31	$ 6,613	$15,531
Reconciliation of fair value of plan assets:		
Fair value of plan assets at January 1	$17,046	$15,787
Actual return on plan assets	365	2,302
Employer contributions	—	—
Benefits paid, including settlement of certain participant balances	(8,630)	(1,043)
Fair value of plan assets at December 31	8,781	17,046
Funded status	$ 2,168	$ 1,515

Amounts recognized as a component of accumulated other comprehensive earnings as of year-end that have not been recognized as a component of the net period benefit cost of the Company's defined benefit pension plan are as follows (dollars in thousands):

	2018	2017
Net actuarial loss	$(1,717)	$(3,597)
Deferred tax benefit	393	1,227
Amounts included in accumulated other comprehensive earnings, net of tax	$(1,324)	$(2,370)

Net periodic benefit cost for the years ended December 31, 2018, 2017 and 2016, are as follows (dollars in thousands):

	Year Ended December 31,		
	2018	2017	2016
Service cost—benefits earned during the period	$ —	$ —	$ —
Interest cost on projected benefit obligation	523	635	665
Expected return on plan assets	(1,028)	(974)	(912)
Amortization of unrecognized net loss	186	249	375
Recognized loss on partial settlement of certain participant balances	1,546	—	267
Net periodic pension benefit expense (benefit)	$ 1,227	$ (90)	$ 395

The following table sets forth the rates used in the actuarial calculations of the present value of benefit obligations and net periodic pension cost and the rate of return on plan assets:

	2018	2017	2016
Weighted average discount rate	4.25%	3.50%	4.25%
Expected long-term rate of return on assets	6.25%	6.25%	6.25%

The weighted average discount rate is estimated based on setting a discount rate to establish an obligation for pension benefits equivalent to an amount that, if invested in high quality fixed income securities, would produce a return that matches the expected benefit payment stream. The expected long-term rate of return on plan assets is based on historical returns and expectations of future returns based on asset mix, after consultation with our investment advisors and actuaries.

The major type of plan assets in the pension plan and the targeted allocation percentage as of December 31, 2018 and 2017 is as follows:

	December 31, 2018 Allocation	December 31, 2017 Allocation	Targeted Allocation
Equity securities	72%	75%	75%
Debt securities	27%	24%	25%
Cash and equivalents	1%	1%	—

The range and weighted average final maturities of debt securities held in the pension plan as of December 31, 2018 are 2.54 to 18.76 years and approximately 6.91 years, respectively. Assets held in the pension plan are considered either Level 1 consisting of the money market funds, publicly traded common stocks and publically traded mutual funds or Level 2 consisting of obligations of state and political subdivisions, corporate bonds and mortgage-backed securities. There were no Level 3 securities. See note 10 for a discussion of the fair value hierarchy. The breakdown by level is as follows (dollars in thousands):

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	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Money market fund	$ 87	$ —	$ —	$ 87
Obligations of state and political subdivisions	—	208	—	208
Corporate bonds	—	449	—	449
Mortgage-backed securities	—	901	—	901
Corporate stocks and mutual funds	7,136	—	—	7,136
Total	$ 7,223	$ 1,558	$ —	$ 8,781

First Financial Trust & Asset Management Company, National Association, a wholly owned subsidiary of the Company, manages the pension plan assets as well as the profit sharing plan assets (see below). The investment strategy and targeted allocations are based on similar strategies First Financial Trust & Asset Management Company, National Association employs for most of its managed accounts whereby appropriate diversification is achieved. First Financial Trust & Asset Management Company, National Association is prohibited from holding investments deemed to be high risk by the Office of the Comptroller of the Currency.

An estimate of the undiscounted projected future payments to eligible participants for the next five years and the following five years in the aggregate is as follows (dollars in thousands):

Year Ending December 31,	
2019	$ 837
2020	$ 318
2021	$ 388
2022	$ 398
2023	$ 333
2024 forward	$2,339

As of December 31, 2018 and 2017, the pension plan's total assets included First Financial Bankshares, Inc. common stock valued at approximately $3,373,000 and $2,776,000, respectively.

The Company also provides a profit sharing plan, which covers substantially all full-time employees. The profit sharing plan is a defined contribution plan and allows employees to contribute a percentage of their base annual salary. Employees are fully vested to the extent of their contributions and become fully vested in the Company's contributions over a six-year vesting period. Costs related to the Company's defined contribution plan totaled approximately $7,049,000, $4,735,000 and $3,221,000 in 2018, 2017 and 2016, respectively, and are included in salaries and employee benefits in the accompanying consolidated statements of earnings. As of December 31, 2018 and 2017, the profit sharing plan's assets included First Financial Bankshares, Inc. common stock valued at approximately $68,855,000 and $55,796,000, respectively.

In 2004, after freezing our pension plan, we added a safe harbor match to the 401(k) plan. We match a maximum of 4% on employee deferrals of 5% of their employee compensation. Total expense for this matching in 2018, 2017 and 2016 was $2,588,000, $2,392,000 and $2,331,000, respectively, and is included in salaries and employee benefits in the statements of earnings.

The Company has a directors' deferred compensation plan whereby the directors may elect to defer up to 100% of their directors' fees. All deferred compensation is invested in the Company's common stock held in a rabbi trust. The stock is held in nominee name of the trustee, and the principal and earnings of the trust are held separate and apart from other funds of the Company, and are used exclusively for the uses and purposes of the deferred compensation agreement. The accounts of the trust have been consolidated in the financial statements of the Company.

15. DIVIDENDS FROM SUBSIDIARIES:

At December 31, 2018, approximately $233,956,000 was available for the declaration of dividends by the Company's subsidiaries without the prior approval of regulatory agencies.

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16. REGULATORY MATTERS:

Banking regulators measure capital adequacy by means of the risk-based capital ratios and the leverage ratio under the Basel III regulatory capital framework and prompt corrective action regulations. The risk-based capital rules provide for the weighting of assets and off-balance-sheet commitments and contingencies according to prescribed risk categories. Regulatory capital is then divided by risk-weighted assets to determine the risk-adjusted capital ratios. The leverage ratio is computed by dividing shareholders' equity less intangible assets by quarter-to-date average assets less intangible assets.

Beginning in January 2016, under the Basel III regulatory capital framework, the implementation of the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases, and to pay discretionary bonuses to executive officers.

As of December 31, 2018 and 2017, we had a total risk-based capital ratio of 20.61% and 19.85%, a Tier 1 capital to risk-weighted assets ratio of 19.47% and 18.66%; a common equity Tier 1 capital to risk-weighted assets ratio of 19.47% and 18.66%, and a Tier 1 leverage ratio of 11.85% and 11.09%, respectively. The regulatory capital ratios as of December 31, 2018 and 2017 were calculated under Basel III rules. There is no threshold for well-capitalized status for bank holding companies.

As of December 31, 2018 and 2017, the regulatory capital ratios of the Company and Bank under the Basel III regulatory capital framework are as follows:

	Actual		Minimum Capital Required Under Basel III Phase-In		Minimum Capital Required-Basel III Fully Phased-In		Required to be Considered Well-Capitalized	
As of December 31, 2018:	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital to Risk-Weighted Assets:								
Consolidated	$940,026	20.61%	$450,459	9.875%	$478,969	10.50%	—	N/A
First Financial Bank, N.A	$824,428	18.12%	$449,350	9.875%	$477,790	10.50%	$455,038	10.00%
Tier 1 Capital to Risk-Weighted Assets:								
Consolidated	$888,015	19.47%	$359,226	7.875%	$387,737	8.50%	—	N/A
First Financial Bank, N.A	$772,417	16.97%	$358,342	7.875%	$386,782	8.50%	$364,030	8.00%
Common Equity Tier 1 Capital to Risk-Weighted Assets:								
Consolidated	$888,015	19.47%	$290,802	6.375%	$319,312	7.00%	—	N/A
First Financial Bank, N.A	$772,417	16.97%	$290,087	6.375%	$318,526	7.00%	$295,775	6.50%
Leverage Ratio:								
Consolidated	$888,015	11.85%	$299,682	4.00%	$299,682	4.00%	—	N/A
First Financial Bank, N.A	$772,417	10.35%	$298,576	4.00%	$298,576	4.00%	$373,220	5.00%

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2018, 2017 and 2016

	Actual		Minimum Capital Required Under Basel III Phase-In		Minimum Capital Required-Basel III Fully Phased-In		Required to be Considered Well-Capitalized	
As of December 31, 2017:	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital to Risk-Weighted Assets:								
Consolidated	$814,634	19.85%	$379,578	9.250%	$430,872	10.50%	—	N/A
First Financial Bank, N.A	$723,563	17.68%	$378,614	9.250%	$429,777	10.50%	$409,312	10.00%
Tier 1 Capital to Risk-Weighted Assets:								
Consolidated	$765,882	18.66%	$297,507	7.250%	$348,801	8.50%	—	N/A
First Financial Bank, N.A	$674,811	16.49%	$296,751	7.250%	$347,915	8.50%	$327,450	8.00%
Common Equity Tier 1 Capital to Risk-Weighted Assets:								
Consolidated	$765,882	18.66%	$235,954	5.750%	$287,248	7.00%	—	N/A
First Financial Bank, N.A	$674,811	16.49%	$235,354	5.750%	$286,518	7.00%	$266,053	6.50%
Leverage Ratio:								
Consolidated	$765,882	11.09%	$276,296	4.000%	$276,296	4.00%	—	N/A
First Financial Bank, N.A	$674,811	9.80%	$275,320	4.000%	$275,320	4.00%	$344,151	5.00%

We have performed a preliminary assessment using the regulatory capital estimation tool made available by the OCC and believe the Company and Bank are prepared to meet the new requirements upon full adoption of Basel III that will be effective in 2019.

In connection with the adoption of the Basel III regulatory capital framework, our subsidiary bank made the election to continue to exclude most accumulated other comprehensive income ("AOCI") from capital in connection with its March 31, 2015 quarterly financial filing and, in effect, to retain the AOCI treatment under the prior capital rules.

In connection with the First Financial Trust & Asset Management Company, National Association's (the "Trust Company") application to obtain our trust charter, the Trust Company is required to maintain tangible net assets of $2,000,000 at all times. As of December 31, 2018, our Trust Company had tangible net assets totaling $22,503,000.

Our subsidiary bank may be required at times to maintain reserve balances with the Federal Reserve Bank. At December 31, 2018 and 2017, the subsidiary bank's reserve balances were $11,372,000 and $11,504,000, respectively.

17. STOCK OPTION PLAN AND RESTRICTED STOCK PLAN:

The Company has an incentive stock plan to provide for the granting of options to employees of the Company at prices not less than market at the date of grant. At December 31, 2018, the Company had allocated 3,003,000 shares of stock for issuance under the plan. The plan provides that options granted are exercisable after two years from date of grant at a rate of 20% each year cumulatively during the 10-year term of the option. Shares are issued under the stock option plan from available authorized shares. An analysis of stock option activity for the year ended December 31, 2018 is presented in the table and narrative below:

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2018, 2017 and 2016

	Shares	Weighted-Average Ex. Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding, beginning of year	1,325,965	$ 33.01		
Granted	—	—		
Exercised	(173,822)	22.23		
Cancelled	(66,600)	36.25		
Outstanding, end of year	1,085,543	34.54	6.55	$ 25,135
Exercisable at end of year	407,463	$ 27.41	4.65	$ 12,337

The options outstanding at December 31, 2018 had exercise prices ranging between $16.78 and $42.35. Stock options have been adjusted retroactively for the effects of stock dividends and splits.

The following table summarizes information concerning outstanding and vested stock options as of December 31, 2018:

Exercise Price	Number Outstanding	Remaining Contracted Life (Years)	Number Vested
$ 16.78	29,823	0.4	29,823
15.73	90,265	2.8	90,265
30.85	211,355	4.8	161,135
33.89	341,250	6.8	126,240
$ 42.35	412,850	8.5	—

The fair value of the options granted during 2017 was estimated using the Black-Scholes options pricing model with the following weighted-average assumptions: risk-free interest rate of 1.89%; expected dividend yield of 1.79%; expected life of 6.24 years; and expected volatility of 26.51%.

The weighted-average grant-date fair value of options granted during 2017 was $9.90. There were no grants during 2018 and 2016. The total intrinsic value of options exercised during the years ended December 31, 2018, 2017 and 2016, was $5,476,000, $3,082,000 and $1,226,000, respectively.

As of December 31, 2018, there was $3,522,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.89 years. The total fair value of shares vested during the years ended December 31, 2018, 2017 and 2016 was $888,000, $1,246,000 and $592,000.

The aggregate intrinsic value of vested stock options at December 31, 2018 totaled $11,170,000.

On April 28, 2015, shareholders of the Company approved a restricted stock plan for selected employees, officers, non-employee directors and consultants. At December 31, 2018, the Company had allocated 379,000 shares of stock for issuance under the plan.

On July 21, 2015, upon re-election of existing directors, 7,070 shares with a total value of $250,000 were granted to the ten non-employee directors and was expensed over the period from grant day to April 26, 2016, the Company's next shareholders' meeting at which the directors' term expired. On April 26, 2016, upon re-election of existing directors, 7,660 shares with a total value of $250,000 were granted to the ten non-employee directors and was expensed over the period from grant day to April 25, 2017, the next scheduled annual shareholders' meeting at which the directors' current term expired. On April 25, 2017, upon re-election of existing directors, 14,650 restricted shares with a total value of $600,000 were granted to the ten non-employee directors and was expensed over the period from grant day to April 24, 2018, the Company's next shareholders' meeting at which the directors' term expires. On April 24, 2018, upon re-election of nine of the existing directors, 10,710 restricted shares with a total value of $540,000 were granted to the nine non-employee directors and is being expensed over the period from grant day to April 23, 2019, the Company's next shareholders' meeting at which the directors' term expires. The Company recorded director expense related to these restricted stock grants of $560,000, $483,000 and $278,000 for the year ended December 31, 2018, 2017, and 2016, respectively.

On October 27, 2015, the Company granted 31,273 shares with a total value of $1,060,000 to certain officers that is being expensed over the vesting period of three years. On October 25, 2016, the Company granted 15,405 shares with a total value of $560,000 to certain officers that is being expensed over the vesting period of three years. On October 24, 2017, the Company granted 14,191 restricted shares with a total value of $655,000 to certain officers that is being expensed over the vesting period of one to three years. On October 23, 2018, the Company granted 26,021 restricted shares with a total value of $1,440,000 to certain officers that will be expensed over a three year vesting period. The Company recorded restricted stock expense for officers of $680,000, $562,000 and $381,000, respectively, for the year ended December 31, 2018, 2017 and 2016.

18. CONDENSED FINANCIAL INFORMATION—PARENT COMPANY:

Condensed Balance Sheets-December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash in subsidiary bank	$ 16,981	$ 14,272
Cash in unaffiliated banks	2	2
Interest-bearing deposits in subsidiary bank	84,279	64,195
Total cash and cash equivalents	101,262	78,469
Securities available-for-sale, at fair value	6,276	8,515
Investment in and advances to subsidiaries, at equity	959,352	847,445
Intangible assets	723	723
Other assets	2,647	2,654
Total assets	$1,070,260	$937,806
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total liabilities	$ 16,965	$ 15,038
Shareholders' equity:		
Common stock	678	663
Capital surplus	443,114	378,062
Retained earnings	606,658	517,257
Treasury stock	(7,507)	(7,148)
Deferred compensation	7,507	7,148
Accumulated other comprehensive earnings	2,845	26,786
Total shareholders' equity	1,053,295	922,768
Total liabilities and shareholders' equity	$1,070,260	$937,806

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2018, 2017 and 2016

Condensed Statements of Earnings-
For the Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
Income:			
Cash dividends from subsidiaries	$ 74,100	$ 30,800	$ 48,800
Excess of earnings over dividends of subsidiaries	82,323	92,929	58,809
Other	7,269	6,590	4,184
Total income	163,692	130,319	111,793
Expenses:			
Salaries and employee benefits	9,966	8,606	5,655
Other operating expenses	4,781	3,871	3,531
Total expense	14,747	12,477	9,186
Earnings before income taxes	148,945	117,842	102,607
Income tax benefit	1,693	2,529	2,167
Net earnings	$150,638	$120,371	$104,774

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2018, 2017 and 2016

Condensed Statements of Cash Flows-
For the Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
Cash flows from operating activities:			
Net earnings	$150,638	$120,371	$104,774
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Excess of earnings over dividends of subsidiary bank	(82,323)	(92,929)	(58,809)
Depreciation and amortization, net	331	207	208
Decrease (increase) in other assets	560	438	1,702
Increase (decrease) in other liabilities	1,932	183	(1,374)
Other	(2)	2	8
Net cash provided by operating activities	71,136	28,272	46,509
Cash flows from investing activities:			
Cash received in connection with acquisition of banks	—	—	—
Maturity of available-for-sale security	2,000	2,997	—
Purchases of bank premises and equipment and software	(346)	(30)	(94)
Other	—	—	10
Net cash provided by (used in) investing activities	1,654	2,967	(84)
Cash flows from financing activities:			
Proceeds of stock issuances	3,864	2,934	1,260
Cash dividends paid	(53,861)	(48,955)	(44,907)
Net cash used in financing activities	(49,997)	(46,021)	(43,647)
Net increase (decrease) in cash and cash equivalents	22,793	(14,782)	2,778
Cash and cash equivalents, beginning of year	78,469	93,251	90,473
Cash and cash equivalents, end of year	$101,262	$ 78,469	$ 93,251

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2018, 2017 and 2016

19. CASH FLOW INFORMATION:

Supplemental information on cash flows and noncash transactions is as follows (dollars in thousands):

	Year Ended December 31,		
	2018	2017	2016
Supplemental cash flow information:			
Interest paid	$18,709	$ 9,316	$ 5,465
Federal income taxes paid	26,578	29,695	28,348
Schedule of noncash investing and financing activities:			
Assets acquired through foreclosure	126	2,211	2,269
Investment securities purchased but not settled	—	—	12,381
Restricted stock grant to officers and directors	1,609	1,139	810

20. ACQUISITION

On October 12, 2017, we entered into an agreement and plan of reorganization to acquire Commercial Bancshares, Inc. and its wholly owned bank subsidiary, Commercial State Bank, Kingwood, Texas. On January 1, 2018, the transaction was completed. Pursuant to the agreement, we issued 1,289,371 shares of the Company's common stock in exchange for all of the outstanding shares of Commercial Bancshares, Inc. In addition, Commercial Bancshares, Inc. made a $22,075,000 special dividend to its shareholders prior to closing of the transaction, which was increased for the amount by which Commercial Bancshares, Inc.'s consolidated shareholders' equity as of January 1, 2018 exceeded $42,402,000, after certain adjustments per the merger agreement.

At closing, Commercial Bancshares, Inc. was merged into the Company and Commercial State Bank, Kingwood, Texas, was merged into First Financial Bank, National Association, Abilene, Texas, a wholly owned subsidiary of the Company. The primary purpose of the acquisition was to expand the Company's market share around Houston. Factors that contributed to a purchase price resulting in goodwill include Commercial State Bank's record of earnings, strong management and board of directors, strong local economic environment and opportunity for growth. The results of operations from this acquisition are included in the consolidated earnings of the Company commencing January 1, 2018.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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The following table presents the amounts recorded on the consolidated balance sheet on the acquisition date (dollars in thousands):

Fair value of consideration paid:	
Common stock issued (1,289,371 shares)	$ 58,087
Fair value of identifiable assets acquired:	
Cash and cash equivalents	18,653
Securities available-for-sale	64,501
Loans	266,327
Identifiable intangible assets	3,167
Other assets	15,375
Total identifiable assets acquired	368,023
Fair value of liabilities assumed:	
Deposits	341,902
Other liabilities	(373)
Total liabilities assumed	341,529
Fair value of net identifiable assets acquired	26,494
Goodwill resulting from acquisition	$ 31,593

Goodwill recorded in the acquisition was accounted for in accordance with the authoritative business combination guidance. Accordingly, goodwill will not be amortized but will be tested for impairment annually. The goodwill recorded is not deductible for federal income tax purposes.

The fair value of total loans acquired was $266,327,000 at acquisition compared to contractual amounts of $271,714,000. The fair value of purchased credit impaired loans at acquisition was $3,013,000 compared to contractual amounts of $3,806,000. Additional purchased credit impaired loan disclosures were omitted due to immateriality. All other acquired loans were considered performing loans.

Commercial State Bank had branches in Kingwood, Fulshear, El Campo and Palacios, all located around Houston, Texas.

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Section 2: EX-21.1 (EX-21.1)

Exhibit 21.1

SUBSIDIARIES OF REGISTRANT

Names of Subsidiary	Place of Organization	Percentage of Voting Securities Owned
First Financial Investments, Inc. Abilene, Texas	Texas	100%
First Technology Services, Inc. Abilene, Texas	Texas	100%
First Financial Trust & Asset Management Company, National Association* Abilene, Texas	Texas	100%
First Financial Bank, National Association* Abilene, Texas	Texas	100%
First Financial Insurance Agency, Inc. Abilene, Texas	Texas	100%

* National charter.

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Section 3: EX-23.1 (EX-23.1)

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-190247) pertaining to the 2012 Incentive Stock Option Plan of First Financial Bankshares, Inc.;

(2) Registration Statement (Form S-8 No. 333-114121) pertaining to the 2002 Incentive Stock Option Plan of First Financial Bankshares, Inc.; and

(3) Registration Statement (Form S-8 No. 333-205406) pertaining to the First Financial Bankshares, Inc. 2015 Restricted Stock Plan;

of our reports dated February 19, 2019, with respect to the consolidated financial statements of First Financial Bankshares, Inc. and subsidiaries and the effectiveness of internal control over financial reporting of First Financial Bankshares, Inc. and subsidiaries included in this Annual Report (Form 10-K) for the year ended December 31, 2018.

/s/Ernst & Young LLP

Dallas, Texas
February 19, 2019
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Section 4: EX-31.1 (EX-31.1)

Exhibit 31.1

Certification of
Chief Executive Officer
of First Financial Bankshares, Inc.

I, F. Scott Dueser, Chairman of the Board, President and Chief Executive Officer of First Financial Bankshares, Inc., certify that:

1. I have reviewed this Form 10-K of First Financial Bankshares, Inc.;

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 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officers 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: February 19, 2019

By: /s/ F. SCOTT DUESER
F. Scott Dueser
Chairman of the Board, President and Chief Executive

Officer

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Section 5: EX-31.2 (EX-31.2)

Exhibit 31.2

Certification of
Chief Financial Officer
of First Financial Bankshares, Inc.

I, J. Bruce Hildebrand, Executive Vice President and Chief Financial Officer of First Financial Bankshares, Inc., certify that:

1. I have reviewed this Form 10-K of First Financial Bankshares, Inc.;

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 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officers 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: February 19, 2019

By: /s/ J. Bruce Hildebrand
J. Bruce Hildebrand
Executive Vice President and Chief Financial Officer

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Section 6: EX-32.1 (EX-32.1)

Exhibit 32.1

Certification of
Chief Executive Officer
of First Financial Bankshares, Inc.

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and accompanies the annual report on Form 10-K (the "Form 10-K") for the year ended December 31, 2018 of First Financial Bankshares, Inc. (the "Issuer").

I, F. Scott Dueser, the Chairman of the Board, President and Chief Executive Officer of the Issuer certify, to the best of my knowledge, that:

1. the Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Dated: February 19, 2019

By: /s/ F. SCOTT DUESER
F. Scott Dueser
Chairman of the Board, President and
Chief Executive Officer

Subscribed and sworn to before me this 19th day of February, 2019.

/s/ Melissa A. Lomax

Notary Public

My commission expires: October 11, 2020

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Section 7: EX-32.2 (EX-32.2)

Exhibit 32.2

Certification of
Chief Financial Officer
of First Financial Bankshares, Inc.

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and accompanies the annual report on Form 10-K (the "Form 10-K") for the year ended December 31, 2018 of First Financial Bankshares, Inc. (the "Issuer").

I, J. Bruce Hildebrand, the Executive Vice President and Chief Financial Officer of the Issuer certify, to the best of my knowledge, that:

1. the Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Dated: February 19, 2019

By: /s/ J. Bruce Hildebrand
J. Bruce Hildebrand
Chief Financial Officer

Subscribed and sworn to before me this 19th day of February, 2019.

/s/ Melissa A. Lomax

Notary Public

My commission expires: October 11, 2020

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