United States 12 Month Natural Gas Fund, LP
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PROSPECTUS

United States 12 Month Natural Gas Fund, LP®*

24,650,000 Shares

***Principal U.S. Listing Exchange: NYSE Arca, Inc.**

The United States 12 Month Natural Gas Fund, LP ("UNL") is an exchange traded fund organized as a limited partnership that issues shares that trade on the NYSE Arca stock exchange ("NYSE Arca"). UNL's investment objective is to track a benchmark of short-term natural gas futures contracts. UNL pays its general partner, United States Commodity Funds LLC ("USCF"), a limited liability company, a management fee and incurs operating costs. USCF and UNL are located at 1850 Mt. Diablo Boulevard, Suite 640, Walnut Creek, California 94596. The telephone number for both USCF and UNL is 510.522.9600. In order for a hypothetical investment in shares to break even over the next 12 months, assuming a selling price of $10.88 (the net asset value as of February 28, 2019), the investment would have to generate a 0% return or $ 0.00. The amount for this breakeven analysis takes into account a fee waiver, which USCF may terminate at any time in its discretion. Please see page 33 for more information.

UNL is an exchange traded fund. This means that most investors who decide to buy or sell shares of UNL shares place their trade orders through their brokers and may incur customary brokerage commissions and charges. Shares trade on the NYSE Arca under the ticker symbol "UNL" and are bought and sold throughout the trading day at bid and ask prices like other publicly traded securities.

Shares trade on the NYSE Arca after they are initially purchased by "Authorized Participants," institutional firms that purchase and redeem shares in blocks of 50,000 shares called "baskets" through UNL's marketing agent, ALPS Distributors, Inc. (the "Marketing Agent"). The price of a basket is equal to the net asset value ("NAV") of 50,000 shares on the day that the order to purchase the basket is accepted by the Marketing Agent. The NAV per share is calculated by taking the current market value of UNL's total assets (after close of NYSE Arca) subtracting any liabilities and dividing that total by the total number of outstanding shares. The offering of UNL's shares is a "best efforts" offering, which means that neither the Marketing Agent nor any Authorized Participant is required to purchase a specific number or dollar amount of shares. USCF pays the Marketing Agent a marketing fee consisting of a fixed annual amount plus an incentive fee based on the amount of shares sold. Authorized Participants will not receive from UNL, USCF or any of their affiliates, any fee or other compensation in connection with the sale of shares. Aggregate compensation paid to the Marketing Agent and any affiliate of USCF for distribution-related services in connection with this offering of shares will not exceed ten percent (10%) of the gross proceeds of the offering.

Investors who buy or sell shares during the day from their broker may do so at a premium or discount relative to the market value of the underlying natural gas futures contracts in which UNL invests due to supply and demand forces at work in the secondary trading market for shares that are closely related to, but not identical to, the same forces influencing the prices of natural gas and the natural gas futures contracts that serve as UNL's investment benchmark. Investing in UNL involves risks similar to those involved with an investment directly in the natural gas market, the correlation risk described above, and other significant risks. See "**Risk Factors Involved with an Investment in UNL**"

beginning on page 4.

The offering of UNL's shares is registered with the Securities and Exchange Commission ("SEC") in accordance with the Securities Act of 1933 (the "1933 Act"). The offering is intended to be a continuous offering and is not expected to terminate until all of the registered shares have been sold or three years from the date of the original offering, whichever is earlier, unless extended as permitted under the rules under the 1933 Act, although the offering may be temporarily suspended if and when no suitable investments for UNL are available or practicable. UNL is not a mutual fund registered under the Investment Company Act of 1940 ("1940 Act") and is not subject to regulation under such Act.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES OFFERED IN THIS PROSPECTUS, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

UNL is a commodity pool and USCF is a commodity pool operator subject to regulation by the Commodity Futures Trading Commission and the National Futures Association under the Commodity Exchange Act ("CEA").

THE COMMODITY FUTURES TRADING COMMISSION HAS NOT PASSED UPON THE MERITS OF PARTICIPATING IN THIS POOL NOR HAS THE COMMISSION PASSED ON THE ADEQUACY OR ACCURACY OF THIS DISCLOSURE DOCUMENT.

The date of this prospectus is April 26, 2019.

COMMODITY FUTURES TRADING COMMISSION

RISK DISCLOSURE STATEMENT

YOU SHOULD CAREFULLY CONSIDER WHETHER YOUR FINANCIAL CONDITION PERMITS YOU TO PARTICIPATE IN A COMMODITY POOL. IN SO DOING, YOU SHOULD BE AWARE THAT COMMODITY INTEREST TRADING CAN QUICKLY LEAD TO LARGE LOSSES AS WELL AS GAINS. SUCH TRADING LOSSES CAN SHARPLY REDUCE THE NET ASSET VALUE OF THE POOL AND CONSEQUENTLY THE VALUE OF YOUR INTEREST IN THE POOL. IN ADDITION, RESTRICTIONS ON REDEMPTIONS MAY AFFECT YOUR ABILITY TO WITHDRAW YOUR PARTICIPATION IN THE POOL.

FURTHER, COMMODITY POOLS MAY BE SUBJECT TO SUBSTANTIAL CHARGES FOR MANAGEMENT, AND ADVISORY AND BROKERAGE FEES. IT MAY BE NECESSARY FOR THOSE POOLS THAT ARE SUBJECT TO THESE CHARGES TO MAKE SUBSTANTIAL TRADING PROFITS TO AVOID DEPLETION OR EXHAUSTION OF THEIR ASSETS. THIS DISCLOSURE DOCUMENT CONTAINS A COMPLETE DESCRIPTION OF EACH EXPENSE TO BE CHARGED THIS POOL AT PAGE 32 AND A STATEMENT OF THE PERCENTAGE RETURN NECESSARY TO BREAK EVEN, THAT IS, TO RECOVER THE AMOUNT OF YOUR INITIAL INVESTMENT, AT PAGE 33.

THIS BRIEF STATEMENT CANNOT DISCLOSE ALL THE RISKS AND OTHER FACTORS NECESSARY TO EVALUATE YOUR PARTICIPATION IN THIS COMMODITY POOL. THEREFORE, BEFORE YOU DECIDE TO PARTICIPATE IN THIS COMMODITY POOL, YOU SHOULD CAREFULLY STUDY THIS DISCLOSURE DOCUMENT, INCLUDING A DESCRIPTION OF THE PRINCIPAL RISK FACTORS OF THIS INVESTMENT, AT PAGE 4.

YOU SHOULD ALSO BE AWARE THAT THIS COMMODITY POOL MAY TRADE FOREIGN FUTURES OR OPTIONS CONTRACTS. TRANSACTIONS ON MARKETS LOCATED OUTSIDE THE UNITED STATES, INCLUDING MARKETS FORMALLY LINKED TO A UNITED STATES MARKET, MAY BE SUBJECT TO REGULATIONS WHICH OFFER DIFFERENT OR DIMINISHED PROTECTION TO THE POOL AND ITS PARTICIPANTS. FURTHER, UNITED STATES REGULATORY AUTHORITIES MAY BE UNABLE TO COMPEL THE ENFORCEMENT OF THE RULES OF REGULATORY AUTHORITIES OR MARKETS IN NON-UNITED STATES JURISDICTIONS WHERE TRANSACTIONS FOR THE POOL MAY BE EFFECTED.

SWAPS TRANSACTIONS, LIKE OTHER FINANCIAL TRANSACTIONS, INVOLVE A VARIETY OF SIGNIFICANT RISKS. THE SPECIFIC RISKS PRESENTED BY A PARTICULAR SWAP TRANSACTION NECESSARILY DEPEND UPON THE TERMS OF THE TRANSACTION AND YOUR CIRCUMSTANCES. IN GENERAL, HOWEVER, ALL SWAPS TRANSACTIONS INVOLVE SOME COMBINATION OF MARKET RISK, CREDIT RISK, COUNTERPARTY CREDIT RISK, FUNDING RISK, LIQUIDITY RISK, AND OPERATIONAL RISK.

HIGHLY CUSTOMIZED SWAPS TRANSACTIONS IN PARTICULAR MAY INCREASE LIQUIDITY RISK, WHICH MAY RESULT IN A SUSPENSION OF REDEMPTIONS. HIGHLY LEVERAGED TRANSACTIONS MAY EXPERIENCE SUBSTANTIAL GAINS OR LOSSES IN VALUE AS A RESULT OF RELATIVELY SMALL CHANGES IN THE VALUE OR LEVEL OF AN UNDERLYING OR RELATED MARKET FACTOR.

IN EVALUATING THE RISKS AND CONTRACTUAL OBLIGATIONS ASSOCIATED WITH A PARTICULAR SWAP TRANSACTION, IT IS IMPORTANT TO CONSIDER THAT A SWAP

TRANSACTION MAY BE MODIFIED OR TERMINATED ONLY BY MUTUAL CONSENT OF THE ORIGINAL PARTIES AND SUBJECT TO AGREEMENT ON INDIVIDUALLY NEGOTIATED TERMS. THEREFORE, IT MAY NOT BE POSSIBLE FOR THE COMMODITY POOL OPERATOR TO MODIFY, TERMINATE, OR OFFSET THE POOL'S OBLIGATIONS OR THE POOL'S EXPOSURE TO THE RISKS ASSOCIATED WITH A TRANSACTION PRIOR TO ITS SCHEDULED TERMINATION DATE.

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PROSPECTUS SUMMARY

This is only a summary of the prospectus and, while it contains material information about UNL and its shares, it does not contain or summarize all of the information about UNL and the shares contained in this prospectus that is material and/or which may be important to you. You should read this entire prospectus, including "Risk Factors Involved with an Investment in UNL" beginning on page 4, before making an investment decision about the shares. For a glossary of defined terms, see Appendix A.

United States 12 Month Natural Gas Fund, LP ("UNL"), a Delaware limited partnership, is a commodity pool that continuously issues common shares of beneficial interest that may be purchased and sold on the NYSE Arca stock exchange ("NYSE Arca"). UNL is managed and controlled by United States Commodity Funds LLC ("USCF"), a Delaware limited liability company. USCF is registered as a commodity pool operator ("CPO") with the Commodity Futures Trading Commission ("CFTC") and is a member of the National Futures Association ("NFA").

UNL's Investment Objective and Strategy

The investment objective of UNL is for the daily changes in percentage terms of its shares' per share net asset value ("NAV") to reflect the daily changes in percentage terms of the price of natural gas delivered at the Henry Hub, Louisiana, as measured by the daily changes in the average of the prices of specified short-term futures contracts on natural gas called the "Benchmark Futures Contracts", plus interest earned on UNL's collateral holdings, less UNL's expenses.

What are the "Benchmark Futures Contracts"?

The Benchmark Futures Contracts are the futures contracts on natural gas as traded on the New York Mercantile Exchange (the "NYMEX") that are the near month contract to expire, and the contracts for the following 11 months, for a total of 12 consecutive months' contracts, except when the near month contract is within two weeks of expiration, in which case they are measured by the futures contracts that are the next month contract to expire and the contracts for the following 11 consecutive months. When calculating the daily movement of the average price of the 12 contracts, each contract month is equally weighted.

UNL seeks to achieve its investment objective by investing primarily in futures contracts for natural gas that are traded on the NYMEX, ICE Futures Europe and ICE Futures U.S. (together, "ICE Futures"), or other U.S. and foreign exchanges (collectively, "Futures Contracts") and, to a lesser extent, in order to comply with regulatory requirements or in view of market conditions, other natural gas investments such as cash-settled options on Futures Contracts, forward contracts for natural gas, cleared swap contracts, and non-exchange traded ("over-the-counter" or "OTC") transactions that are based on the price of natural gas, crude oil and other petroleum-based fuels, as well as futures contracts for crude oil, heating oil, gasoline, and other petroleum-based fuels, Futures Contracts and indices based on the foregoing (collectively, "Other Natural Gas-Related Investments"). Market conditions that USCF currently anticipates could cause UNL to invest in Other Natural Gas-Related Investments include those allowing UNL to obtain greater liquidity or to execute transactions with more favorable pricing. For convenience and unless otherwise specified, Futures Contracts and Other Natural Gas-Related Investments collectively are referred to as "Natural Gas Interests" in this prospectus.

In addition, USCF believes that market arbitrage opportunities will cause daily changes in UNL's share price on the NYSE Arca on a percentage basis to closely track daily changes in UNL's per share NAV on a percentage basis. USCF further believes that the daily changes in average of the prices of the Benchmark Futures Contracts have historically closely tracked the daily changes in the spot price of natural gas. USCF believes that the net effect of these two expected relationships will be that the daily changes in the price of UNL's shares on the NYSE Arca on a percentage basis will continue to closely track the daily changes in the spot price of natural gas on a percentage basis, less UNL's expenses.

Specifically, UNL seeks to achieve its investment objective by investing so that the average daily percentage change in UNL's NAV for any period of 30 successive valuation days will be within plus/minus ten percent (10%) of the average daily percentage change in the price of the Benchmark Futures Contracts over the same period.

Investors should be aware that UNL's investment objective is *not* for its NAV or market price of shares to equal, in dollar terms, the spot price of natural gas or any particular futures contract based on natural gas *nor* is UNL's investment objective for the percentage change in its NAV to reflect the percentage change of the price of any particular futures contract as measured over a time period *greater than one day*. This is because natural market forces called contango and backwardation have impacted the total return on an investment in UNL's shares during the past year relative to a hypothetical direct investment in natural gas and, in the future, it is likely that the relationship between the market price of UNL's shares and changes in the spot prices of natural gas will continue to be so impacted by contango and backwardation. (It is important to note that the disclosure above ignores the potential costs associated with physically owning and storing natural gas, which could be substantial.)

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Principal Investment Risks of an Investment in UNL

An investment in UNL involves a degree of risk. Some of the risks you may face are summarized below. A more extensive discussion of these risks appears beginning on page 4.

Investment Risk

Investors may choose to use UNL as a means of investing indirectly in natural gas. There are significant risks and hazards inherent in the natural gas industry that may cause the price of natural gas to widely fluctuate.

Correlation Risk

To the extent that investors use UNL as a means of indirectly investing in natural gas, there is the risk that the daily changes in the price of UNL's shares on the NYSE Arca on a percentage basis will not closely track the daily changes in the spot price of natural gas on a percentage basis. This could happen if the price of shares traded on the NYSE Arca does not correlate closely with the value of UNL's NAV; the changes in UNL's NAV do not correlate closely with the changes in the average price of the Benchmark Futures Contracts; or the changes in the average price of the Benchmark Futures Contracts do not closely correlate with the changes in the cash or spot price of natural gas. This is a risk because if these correlations do not exist, then investors may not be able to use UNL as a cost-effective way to indirectly invest in natural gas or as a hedge against the risk of loss in natural gas-related transactions.

USCF believes that holding futures contracts whose expiration dates are spread out over a 12 month period of time will cause the total return of such a portfolio to vary compared to a portfolio that holds only a single month's contract (such as the near month contract). In particular, USCF believes that the total return of a portfolio holding contracts with a range of expiration months will be impacted differently by the price relationship between different contract months of the same commodity future compared to the total return of a portfolio consisting of the near month contract. For example, in cases in which the near month contract's price is higher than the price of contracts that expire later in time (a situation known as "backwardation" in the futures markets), then absent the impact of the overall movement in natural gas prices, the value of the near month contract would tend to rise as it approaches expiration. Conversely, in cases in which the near month contract's price is lower than the price of contracts that expire later in time (a situation known as "contango" in the futures markets), then absent the impact of the overall movement in natural gas prices, the value of the near month contract would tend to decline as it approaches expiration. The total return of a portfolio that owned the near month contract and "rolled" forward each month by selling the near month contract as it approached expiration and purchasing the next month contract to expire would be positively impacted by a backwardation market, and negatively impacted by a contango market. Depending on the exact price relationship of the different month's prices, portfolio expenses, and the overall movement of natural gas prices, the impact of backwardation and contango could have a major impact on the total return of such a portfolio over time. USCF believes that based on historical evidence, a portfolio that held futures contracts with a range of expiration dates spread out over a 12 month period of time would typically be impacted less by the positive effect of backwardation and the negative effect of contango compared to a portfolio that held contracts of a single near month. As a result, absent the impact of any other factors, a portfolio of 12 different monthly contracts would tend to have a lower return than a near month only portfolio in a backwardation market and a higher total return in a contango market. However, there can be no assurance that such historical relationships would provide the same or similar results in the future.

Tax Risk

UNL is organized and operated as a limited partnership in accordance with the provisions of its limited partnership agreement and applicable state law, and therefore, has a more complex tax treatment than conventional mutual funds.

Over-the-Counter ("OTC") Contract Risk

UNL may also invest in Other Natural Gas-Related Investments, many of which are negotiated over-the-counter or "OTC" contracts that are not as liquid as Futures Contracts and expose UNL to credit risk that its counterparty may not be able to satisfy its obligations to UNL.

Other Risks

UNL pays fees and expenses that are incurred regardless of whether it is profitable.

Unlike mutual funds, commodity pools or other investment pools that manage their investments in an attempt to realize income and gains and distribute such income and gains to their investors, UNL generally does not distribute cash to limited partners or other shareholders. You should not invest in UNL if you will need cash distributions from UNL to pay taxes on your share of income and gains of UNL, if any, or for any other reason.

You will have no rights to participate in the management of UNL and will have to rely on the duties and judgment of USCF to manage UNL.

UNL is subject to actual and potential inherent conflicts involving USCF, various commodity futures brokers and "Authorized Participants," the institutional firms that directly purchase and redeem shares in baskets. USCF's officers, directors and employees do not devote their time exclusively to UNL. USCF's persons are directors, officers or employees of other entities that may compete with UNL for their services, including other commodity pools (funds) that USCF manages. USCF could have a conflict between its responsibilities to UNL and to those other entities. As a result of these and other relationships, parties involved with UNL have a financial incentive to act in a manner other than in the best interests of UNL and the shareholders.

UNL's Fees and Expenses

This table describes the fees and expenses that you may pay if you buy and hold shares of UNL. You should note that you may pay brokerage commissions on purchases and sales of UNL's shares, which are not reflected in the table. Authorized Participants will pay applicable creation and redemption fees. ***See*** **"Creation and Redemption of Shares—*Creation and Redemption Transaction Fee*," page 57.**

Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment)

Management Fees[(1)]	0.75 %
Other Expenses[(1)]	1.08 %
Expense Waiver[(2)]	(0.93)%
Net Expenses Excluding Management Fees	0.15 %
Total Annual Fund Operating Expenses After Fee Waiver	0.90 %

(1) Based on amounts for the year ended December 31, 2018. The individual expense amounts in dollar terms are shown in the table below. As used in this table, (i) Professional Expenses include expenses for legal, audit, tax, accounting and printing; and (ii) Independent Director and Officer Expenses include amounts paid to independent directors and for officers' liability insurance.

Management fees	$48,189
Professional Expenses	$65,849
Brokerage commissions	$1,334
Independent Director and Officer Expenses	$1,447
License fees	$964

These amounts are based on UNL's average total net assets, which are the sum of daily total net assets of UNL divided by the number of calendar days in the year. For the year ended December 31, 2018, UNL's average total net assets were $6,425,212.

(2) USCF has voluntarily agreed to pay certain expenses typically borne by UNL, to the extent that such expenses exceed 0.15% of UNL's NAV, on an annualized basis. USCF has no obligation to continue such payments. If this agreement were terminated, the Annual Fund Operating Expenses could increase, which would negatively impact your total return from an investment in UNL.

RISK FACTORS INVOLVED WITH AN INVESTMENT IN UNL

You should consider carefully the risks described below before making an investment decision. You should also refer to the other information included in this prospectus, as well as information found in our periodic reports, which include UNL's financial statements and related notes, that are incorporated by reference. See "Incorporation by Reference of Certain Information", page 60.

UNL's investment objective is for the daily changes in percentage terms of its shares' per share NAV to reflect the daily changes in percentage terms of the spot price of natural gas delivered at the Henry Hub, Louisiana, as measured by the daily changes in the average of the prices of 12 futures contracts on natural gas traded on the New York Mercantile Exchange (the "NYMEX"), consisting of the near month contract to expire and the contracts for the following 11 months, for a total of 12 consecutive months' contracts, except when the near month contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire and the contracts for the following 11 consecutive months (the "Benchmark Futures Contracts"), plus interest earned on UNL's collateral holdings, less UNL's expenses. UNL seeks to achieve its investment objective by investing so that the average daily percentage change in UNL's NAV for any period of 30 successive valuation days will be within plus/minus ten percent (10%) of the average daily percentage change in the price of the Benchmark Futures Contracts over the same period. UNL's investment strategy is designed to provide investors with a means of investing indirectly in natural gas and to hedge against movements in the spot price of natural gas. An investment in UNL involves investment risk similar to a direct investment in Natural Gas Interests. An investment in UNL involves investment risk similar to a direct investment in Futures Contracts and Other Natural Gas-Related Investments, and correlation risk, or the risk that investors purchasing shares to hedge against movements in the price of natural gas will have an efficient hedge only if the price they pay for their shares closely correlates with the price of natural gas. In addition to investment risk and correlation risk, an investment UNL involves tax risks, OTC and other risks.

Investment Risk

The NAV of UNL's shares relates directly to the value of the Benchmark Futures Contracts and other assets held by UNL and fluctuations in the prices of these assets could materially adversely affect an investment in UNL's shares. Past performance is not necessarily indicative of futures results; all or substantially all of an investment in UNL could be lost.

The net assets of UNL consist primarily of investments in Futures Contracts and, to a lesser extent, in Other Natural Gas-Related Investments. The NAV of UNL's shares relates directly to the value of these assets (less liabilities, including accrued but unpaid expenses), which in turn relates to the price of natural gas in the marketplace. Natural gas prices depend on local, regional and global events or conditions that affect supply and demand for natural gas.

Economic conditions impacting natural gas. The demand for natural gas correlates closely with general economic growth rates. The occurrence of recessions or other periods of low or negative economic growth will typically have a direct adverse impact on natural gas demand and therefore may have an adverse impact on natural gas prices.

Other natural gas demand-related factors. Other factors that may affect the demand for natural gas and therefore its price, include technological improvements in energy efficiency; seasonal weather patterns, which affect the demand for natural gas associated with heating; increased competitiveness of alternative energy sources that have so far generally not been competitive with natural gas without the benefit of government subsidies or mandates; and changes in technology or consumer preferences that alter fuel choices, such as toward alternative fueled vehicles.

Other natural gas supply-related factors. Natural gas prices also vary depending on a number of factors affecting supply. For example, increased supply from the development of new natural gas sources and technologies to enhance recovery from existing sources tends to reduce natural gas prices to the extent such supply increases are not offset by

commensurate growth in demand. Similarly, increases in industry refining or manufacturing capacity may impact the supply of natural gas. Natural gas supply levels can also be affected by factors that reduce available supplies, such natural disasters, disruptions in competitors' operations, or unexpected unavailability of distribution channels that may disrupt supplies. Technological change can also alter the relative costs for companies in the natural gas industry to find, produce, and transport natural gas, which in turn, may affect the supply of and demand for natural gas.

Other factors impacting the natural gas market. The supply of and demand for natural gas may also be impacted by changes in interest rates, inflation, and other local or regional market conditions, as well as by the development of alternative energy sources.

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Price Volatility May Possibly Cause the Total Loss of Your Investment. Futures contracts have a high degree of price variability and are subject to occasional rapid and substantial changes. Consequently, you could lose all or substantially all of your investment.

Because USCF anticipates it will "roll" UNL's positions in Natural Gas Interests, it may be subject to the potential negative impact from rolling futures positions.

USCF anticipates it will "roll" UNL's positions in Natural Gas Interests and, as a result, is subject to risks related to rolling. The contractual obligations of a buyer or seller holding a futures contract to expiration may generally be satisfied by settling in cash as designated in the contract specifications. Alternatively, futures contracts may be closed out prior to expiration by making an offsetting sale or purchase of an identical futures contract on the same or linked exchange before the designated date of settlement. Once this date is reached, the futures contract "expires." As the futures contracts held by UNL near expiration, they are generally closed out and replaced by contracts with a later expiration. This process is referred to as "rolling." UNL does not intend to hold futures contracts through expiration, but instead to "roll" its positions.

When the market for these contracts is such that the prices are higher in the more distant delivery months than in the nearer delivery months, the sale during the course of the "rolling process" of the more nearby contract would take place at a price that is lower than the price of the more distant contract. This pattern of higher futures prices for longer expiration futures contracts is often referred to as "contango." Alternatively, when the market for these contracts is such that the prices are higher in the nearer months than in the more distant months, the sale during the course of the "rolling process" of the more nearby contract would take place at a price that is higher than the price of the more distant contract. This pattern of higher futures prices for shorter expiration futures contracts is referred to as "backwardation."

The presence of contango in the Benchmark Futures Contract at the time of rolling would be expected to adversely affect UNL's position, and the presence of backwardation in the Benchmark Futures Contract at the time of rolling such contracts would be expected to positively affect UNL's position.

There have been extended periods in which contango or backwardation has existed in the futures contract markets for various types of futures contracts, and such periods can be expected to occur in the future. These extended periods have in the past and can in the future cause significant losses for UNL, and the periods can have as much or more impact over time than movements in the level of UNL's Benchmark Futures Contract.

An investment in UNL may provide little or no diversification benefits. Thus, in a declining market, UNL may have no gains to offset losses from other investments, and an investor may suffer losses on an investment in UNL while incurring losses with respect to other asset classes.

Historically, Futures Contracts and Other-Natural-Gas Related Investments have generally been non-correlated to the performance of other asset classes such as stocks and bonds. Non-correlation means that there is a low statistically valid relationship between the performance of futures and other commodity interest transactions, on the one hand, and

stocks or bonds, on the other hand.

However, there can be no assurance that such non-correlation will continue during future periods. If, contrary to historic patterns, UNL's performance were to move in the same general direction as the financial markets, investors will obtain little or no diversification benefits from an investment in UNL's shares. In such a case, UNL may have no gains to offset losses from other investments, and investors may suffer losses on their investment in UNL at the same time they incur losses with respect to other investments.

Variables such as drought, floods, weather, embargoes, tariffs and other political events may have a larger impact on natural gas prices and natural gas-linked instruments, including Futures Contracts and Other-Natural-Gas Related Investments, than on traditional securities. These additional variables may create additional investment risks that subject UNL's investments to greater volatility than investments in traditional securities.

Non-correlation should not be confused with negative correlation, where the performance of two asset classes would be opposite of each other. There is no historical evidence that the spot price of natural gas and prices of other financial assets, such as stocks and bonds, are negatively correlated. In the absence of negative correlation, UNL cannot be expected to be automatically profitable during unfavorable periods for the stock market, or vice versa.

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Historical performance of UNL and the Benchmark Futures Contract is not indicative of future performance.

Past performance of UNL or the Benchmark Futures Contract is not necessarily indicative of future results. Therefore, past performance of UNL or the Benchmark Futures Contract should not be relied upon in deciding whether to buy shares of UNL.

Correlation Risk

Investors purchasing shares to hedge against movements in the price of natural gas will have an efficient hedge only if the price investors pay for their shares closely correlates with the price of natural gas. Investing in UNL's shares for hedging purposes involves the following risks:

- The market price at which the investor buys or sells shares may be significantly less or more than NAV.
- Daily percentage changes in NAV may not closely correlate with daily percentage changes in the average of the prices of the Benchmark Futures Contracts.
- Daily percentage changes in the average of the prices of the Benchmark Futures Contracts may not closely correlate with daily percentage changes in the price of natural gas.

The market price at which investors buy or sell shares may be significantly less or more than NAV.

UNL's NAV per share will change throughout the day as fluctuations occur in the market value of UNL's portfolio investments. The public trading price at which an investor buys or sells shares during the day from their broker may be different from the NAV of the shares. Price differences may relate primarily to supply and demand forces at work in the secondary trading market for shares that are closely related to, but not identical to, the same forces influencing the prices of the natural gas and the Benchmark Futures Contracts at any point in time. USCF expects that exploitation of certain arbitrage opportunities by Authorized Participants and their clients and customers will tend to cause the public trading price to track NAV per share closely over time, but there can be no assurance of that.

The NAV of UNL's shares may also be influenced by non-concurrent trading hours between the NYSE Arca and the various futures exchanges on which natural gas is traded. While the shares trade on the NYSE Arca from 9:30 a.m. to 4:00 p.m. Eastern Time, the trading hours for the futures exchanges on which natural gas trades may not necessarily coincide during all of this time. For example, while the shares trade on the NYSE Arca until 4:00 p.m. Eastern Time, liquidity in the natural gas market will be reduced after the close of the NYMEX at 2:30 p.m. Eastern Time. As a result, during periods when the NYSE Arca is open and the futures exchanges on which natural gas is traded are closed, trading spreads and the resulting premium or discount on the shares may widen and, therefore, increase the difference between the price of the shares and the NAV of the shares.

Daily percentage changes in UNL's NAV may not correlate with daily percentage changes in the average of the prices of the Benchmark Futures Contracts.

It is possible that the daily percentage changes in UNL's NAV per share may not closely correlate to daily percentage changes in the average of the prices of the Benchmark Futures Contracts. Non-correlation may be attributable to disruptions in the market for natural gas, the imposition of position or accountability limits by regulators or exchanges, or other extraordinary circumstances. As UNL approaches or reaches position limits with respect to the Benchmark Futures Contracts and other Futures Contracts or in view of market conditions, UNL may begin investing in Other Natural Gas-Related Investments. In addition, UNL is not able to replicate exactly the changes in the average price of the Benchmark Futures Contracts because the total return generated by UNL is reduced by expenses and transaction costs, including those incurred in connection with UNL's trading activities, and increased by interest income from UNL's holdings of Treasuries (defined below). Tracking the Benchmark Futures Contracts requires

trading of UNL's portfolio with a view to tracking the Benchmark Futures Contracts over time and is dependent upon the skills of USCF and its trading principals, among other factors.

Daily percentage changes in the average price of the Benchmark Futures Contracts may not correlate with daily percentage changes in the spot price of natural gas.

The correlation between changes in average prices of the Benchmark Futures Contracts and the spot price of natural gas may at times be only approximate. The degree of imperfection of correlation depends upon circumstances such as variations in the speculative natural gas market, supply of and demand for Futures Contracts (including the Benchmark Futures Contracts) and Other Natural Gas-Related Investments, and technical influences in natural gas futures trading.

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Natural forces in the natural gas futures market known as "backwardation" and "contango" may increase UNL's tracking error and/or negatively impact total return.

The design of UNL's Benchmark Futures Contracts is such that every month it begins by using the near month contract to expire and the contracts for the following 11 months until the near month contract is within two weeks of expiration, when, over a one day period, it transitions to the next month contract to expire and the contracts for the following 11 months as its benchmark contracts and keeps those contracts as its benchmark until it becomes the near month contract and close to expiration. In the event of a natural gas futures market where near month contracts trade at a higher price than next month to expire contracts, a situation described as "backwardation" in the futures market, then absent the impact of the overall movement in natural gas prices the value of the benchmark contract would tend to rise as it approaches expiration. Conversely, in the event of a natural gas futures market where near month contracts trade at a lower price than next month contracts, a situation described as "contango" in the futures market, then absent the impact of the overall movement in natural gas prices the value of the Benchmark Futures Contracts would tend to decline as it approaches expiration. When compared to total return of other price indices, such as the spot price of natural gas, the impact of backwardation and contango may cause the total return of UNL's per share NAV to vary significantly. Moreover, absent the impact of rising or falling natural gas prices, a prolonged period of contango could have a significant negative impact on UNL's per share NAV and total return and investors could lose part or all of their investment. See "Additional Information About UNL, its Investment Objective and Investments" for a discussion of the potential effects of contango and backwardation.

Accountability levels, position limits, and daily price fluctuation limits set by the exchanges have the potential to cause tracking error, which could cause the price of shares to substantially vary from the average of the prices of the Benchmark Futures Contracts.

Designated contract markets, such as the NYMEX and ICE Futures have established accountability levels and position limits on the maximum net long or net short futures contracts in commodity interests that any person or group of persons under common trading control (other than as a hedge, which an investment by UNL is not) may hold, own or control. These levels and position limits apply to the futures contracts that UNL invests in to meet its investment objective. In addition to accountability levels and position limits, the NYMEX and ICE Futures also set daily price fluctuation limits on futures contracts. The daily price fluctuation limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price. Once the daily price fluctuation limit has been reached in a particular futures contract, no trades may be made at a price beyond that limit.

The accountability levels for the Benchmark Futures Contracts and other Futures Contracts traded on U.S.-based futures exchanges, such as the NYMEX, are not a fixed ceiling, but rather a threshold above which the NYMEX may exercise greater scrutiny and control over an investor's positions. The current accountability level for investments for any one-month in a Benchmark Futures Contract is 6,000 contracts. In addition, the NYMEX imposes an accountability level for all months of 12,000 net futures contracts for natural gas. In addition, the ICE Futures maintains the same accountability levels, position limits and monitoring authority for its natural gas contract as the NYMEX. If UNL and the Related Public Funds exceed these accountability levels for investments in the futures contracts for natural gas, the NYMEX and ICE Futures will monitor such exposure and may ask for further information on their activities, including the total size of all positions, investment and trading strategy, and the extent of liquidity resources of UNL and the Related Public Funds. If deemed necessary by the NYMEX and/or ICE Futures, UNL could be ordered to reduce its Natural Gas NG Futures Contracts to below the 6,000 single month and/or 12,000 all month accountability level. As of December 31, 2018, UNL held 201 Natural Gas NG Futures Contracts traded on the NYMEX and did not hold any Futures Contracts traded on ICE Futures. For the year ended December 31, 2018, UNL did not exceed accountability levels imposed by the NYMEX and ICE Futures, however, the aggregated total of the Related Public Funds did exceed the accountability levels.

Position limits differ from accountability levels in that they represent fixed limits on the maximum number of futures contracts that any person may hold and cannot allow such limits to be exceeded without express Commodity Futures Trading Commission ("CFTC") authority to do so. In addition to accountability levels and position limits that may apply at any time, the NYMEX and the ICE Futures impose position limits on contracts held in the last few days of trading in the near month contract to expire. It is unlikely that UNL will run up against such position limits because UNL's investment strategy is to close out its positions and "roll" from the near month contracts to expire to the next month contracts during a one day period beginning two weeks from expiration of the contracts. For the year ended December 31, 2018, UNL did not exceed any position limits imposed by the NYMEX and ICE Futures.

The CFTC has proposed to adopt limits on speculative positions in 25 physical commodity futures and option contracts as well as swaps that are economically equivalent to such contracts in the agriculture, energy and metals markets (the "Position Limit Rules"). The Position Limit Rules would, among other things: identify which contracts are subject to speculative position limits; set thresholds that restrict the size of speculative positions that a person may hold in the spot month, other individual months and all months combined; create an exemption for positions that constitute bona fide hedging transactions; impose responsibilities on designated contract markets ("DCMs") and swap execution facilities ("SEFs") to establish position limits or, in some cases, position accountability rules; and apply to both futures and swaps across four relevant venues: OTC, DCMs, SEFs as well as certain non-U.S. located platforms. The CFTC's first attempt at finalizing the Position Limit Rules, in 2011, was successfully challenged by market participants in 2012 and, since then, the CFTC has re-proposed them and solicited comments from market participants multiple times.

At this time, it is unclear how the Position Limit Rules may affect UNL, but the effect may be substantial and adverse. By way of example, the Position Limit Rules may negatively impact the ability of UNL to meet its investment objectives through limits that may inhibit USCF's ability to sell additional Creation Baskets of UNL.

Until such time as the Position Limit Rules are adopted, the regulatory architecture in effect prior to the adoption of the Position Limit Rules will govern transactions in commodities and related derivatives. Under that system, the CFTC enforces federal limits on speculation in agricultural products (e.g., corn, wheat and soy), while futures exchanges establish and enforce position limits and accountability levels for agricultural and certain energy products (e.g., oil and natural gas). As a result, UNL may be limited with respect to the size of its investments in any commodities subject to these limits.

Under existing and recently adopted CFTC regulations, for the purposes of position limits, a market participant is generally required to aggregate all positions for which that participant controls the trading decisions with all positions for which that participant has a 10 percent or greater ownership interest in an account or position, as well as the positions of two or more persons acting pursuant to an express or implied agreement or understanding with that market participant (the "Aggregation Rules"). The Aggregation Rules will also apply to the Position Limit Rules if and when such Position Limit Rules are adopted.

Tax Risk

An investor's tax liability may exceed the amount of distributions, if any, on its shares.

Cash or property will be distributed at the sole discretion of USCF. USCF has not and does not currently intend to make cash or other distributions with respect to shares. Investors will be required to pay U.S. federal income tax and, in some cases, state, local, or foreign income tax, on their allocable share of UNL's taxable income, without regard to whether they receive distributions or the amount of any distributions. Therefore, the tax liability of an investor with respect to its shares may exceed the amount of cash or value of property (if any) distributed.

An investor's allocable share of taxable income or loss may differ from its economic income or loss on its shares.

Due to the application of the assumptions and conventions applied by UNL in making allocations for tax purposes and other factors, an investor's allocable share of UNL's income, gain, deduction or loss may be different than its economic profit or loss from its shares for a taxable year. This difference could be temporary or permanent and, if permanent, could result in it being taxed on amounts in excess of its economic income.

Items of income, gain, deduction, loss and credit with respect to shares could be reallocated, UNL could be liable for U.S. federal income tax, if the U.S. Internal Revenue Service ("IRS") does not accept the assumptions and conventions applied by UNL in allocating those items, with potential adverse consequences for an investor.

The U.S. tax rules pertaining to partnerships are complex and their application to large, publicly traded partnerships such as UNL is in many respects uncertain. UNL applies certain assumptions and conventions in an attempt to comply with the intent of the applicable rules and to report taxable income, gains, deductions, losses and credits in a manner that properly reflects shareholders' economic gains and losses. These assumptions and conventions may not fully comply with all aspects of the Internal Revenue Code (the "Code") and applicable Treasury Regulations, however, and it is possible that the IRS will successfully challenge UNL's allocation methods and require UNL to reallocate items of income, gain, deduction, loss or credit in a manner that adversely affects investors.

UNL may be liable for U.S. federal income tax on any "imputed understatement" of tax resulting from an adjustment as a result of an IRS audit. The amount of the imputed understatement generally includes increases in allocations of items of income or gains to any investor and decreases in allocations of items of deduction, loss, or credit to any investor without any offset for any corresponding reductions in allocations of items of income or gain to any investor or increases in allocations of items of deduction, loss, or credit to any investor. If UNL is required to pay any U.S. federal income taxes on any imputed understatement, the resulting tax liability would reduce the net assets of UNL and would likely have an adverse impact on the value of the shares. Under certain circumstances, UNL may be eligible to make an election to cause the investors to take into account the amount of any imputed understatement, including any interest and penalties. The ability of a publicly traded partnership such as UNL to make this election is uncertain. If the election is made, UNL would be required to provide investors who owned beneficial interests in the shares in the year to which the adjusted allocations relate with a statement setting forth their proportionate shares of the adjustment ("Adjusted K-1s"). The investors would be required to take the adjustment into account in the taxable year in which the Adjusted K-1s are issued.

UNL could be treated as a corporation for federal income tax purposes, which may substantially reduce the value of the shares.

UNL has received an opinion of counsel that, under current U.S. federal income tax laws, UNL will be treated as a partnership that is not taxable as a corporation for U.S. federal income tax purposes, provided that (i) at least 90 percent of UNL's annual gross income consists of "qualifying income" as defined in the Code, (ii) UNL is organized and operated in accordance with its governing agreements and applicable law and (iii) UNL does not elect to be taxed as a corporation for federal income tax purposes. Although USCF anticipates that UNL has satisfied and will continue to satisfy the "qualifying income" requirement for all of its taxable years, that result cannot be assured. UNL has not requested and will not request any ruling from the IRS with respect to its classification as a partnership not taxable as a corporation for federal income tax purposes. If the IRS were to successfully assert that UNL is taxable as a corporation for federal income tax purposes in any taxable year, rather than passing through its income, gains, losses and deductions proportionately to shareholders, UNL would be subject to tax on its net income for the year at corporate tax rates. In addition, although USCF does not currently intend to make distributions with respect to shares, any distributions would be taxable to shareholders as dividend income. Taxation of UNL as a corporation could materially reduce the after-tax return on an investment in shares and could substantially reduce the value of the shares.

UNL is organized and operated as a limited partnership in accordance with the provisions of the LP Agreement and applicable state law, and therefore, UNL has a more complex tax treatment than traditional mutual funds.

UNL is organized and operated as a limited partnership in accordance with the provisions of the LP Agreement and applicable state law. No U.S. federal income tax is paid by UNL on its income. Instead, UNL will furnish shareholders each year with tax information on IRS Schedule K-1 (Form 1065) and each U.S. shareholder is required to report on its U.S. federal income tax return its allocable share of the income, gain, loss and deduction of UNL.

This must be reported without regard to the amount (if any) of cash or property the shareholder receives as a distribution from UNL during the taxable year. A shareholder, therefore, may be allocated income or gain by UNL but receive no cash distribution with which to pay the tax liability resulting from the allocation, or may receive a distribution that is insufficient to pay such liability.

In addition to federal income taxes, shareholders may be subject to other taxes, such as state and local income taxes, unincorporated business taxes, business franchise taxes and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which UNL does business or owns property or where the shareholders reside. Although an analysis of those various taxes is not presented here, each prospective shareholder should consider their potential impact on its investment in UNL. It is each shareholder's responsibility to file the appropriate U.S. federal, state, local and foreign tax returns.

If UNL is required to withhold tax with respect to any Non-U.S. shareholders, the cost of such withholding may be borne by all shareholders.

Under certain circumstances, UNL may be required to pay withholding tax with respect to allocations to Non-U.S. shareholders. Although the LP Agreement provides that any such withholding will be treated as being distributed to the Non-U.S. shareholder, UNL may not be able to cause the economic cost of such withholding to be borne by the Non-U.S. shareholder on whose behalf such amounts were withheld since it does not generally expect to make any distributions. Under such circumstances, the economic cost of the withholding may be borne by all shareholders, not just the shareholders on whose behalf such amounts were withheld. This could have a material impact on the value of the shares.

The impact of U.S. tax reform on UNL is uncertain.

On December 22, 2017, H.R. 1, the bill formerly known as the Tax Cuts and Jobs Act of 2017 (the "Tax Act"), was signed into law. The Tax Act substantially alters the U.S. federal tax system in a variety of ways, including significant changes to the taxation of business entities, the deductibility of interest expense, and the tax treatment of capital investment. We cannot predict with certainty how any changes in the tax laws might affect the U.S. economy or the demand for and the price of commodities. As a result, it is possible that the Tax Act, as well as any U.S. Treasury regulations, administrative interpretations or court decisions interpreting the Tax Act and any future legislation related to tax reform, could have unexpected or negative impacts on UNL and some or all of its shareholders. Shareholders are urged to consult with their tax advisor regarding tax legislative, regulatory, or administrative developments and proposals and their potential effect on an investment in UNL.

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OTC Contract Risk

UNL will be subject to credit risk with respect to counterparties to OTC contracts entered into by UNL or held by special purpose or structured vehicles.

UNL faces the risk of non-performance by the counterparties to the OTC contracts. Unlike in futures contracts, the counterparty to these contracts is generally a single bank or other financial institution, rather than a clearing organization backed by a group of financial institutions. As a result, there will be greater counterparty credit risk in these transactions. A counterparty may not be able to meet its obligations to UNL, in which case UNL could suffer significant losses on these contracts.

If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, UNL may experience significant delays in obtaining any recovery in a bankruptcy or other reorganization proceeding. UNL may obtain only limited recovery or may obtain no recovery in such circumstances.

Valuing OTC derivatives may be less certain than actively traded financial instruments.

In general, valuing OTC derivatives is less certain than valuing actively traded financial instruments such as exchange traded futures contracts and securities or cleared swaps because the price and terms on which such OTC derivatives are entered into or can be terminated are individually negotiated, and those prices and terms may not reflect the best price or terms available from other sources. In addition, while market makers and dealers generally quote indicative prices or terms for entering into or terminating OTC contracts, they typically are not contractually obligated to do so, particularly if they are not a party to the transaction. As a result, it may be difficult to obtain an independent value for an outstanding OTC derivatives transaction.

Other Risks

Certain of UNL's investments could be illiquid, which could cause large losses to investors at any time or from time to time.

Futures positions cannot always be liquidated at the desired price. It is difficult to execute a trade at a specific price when there is a relatively small volume of buy and sell orders in a market. A market disruption, such as a foreign government taking political actions that disrupt the market for its currency, its natural gas production or exports, or another major export, can also make it difficult to liquidate a position. Because both Futures Contracts and Other-Natural-Gas Related Investments may be illiquid, UNL's Natural Gas Interests may be more difficult to liquidate at favorable prices in periods of illiquid markets and losses may be incurred during the period in which positions are being liquidated. The large size of the positions that UNL may acquire increases the risk of illiquidity both by making its positions more difficult to liquidate and by potentially increasing losses while trying to do so.

OTC contracts that are not subject to clearing may be even less marketable than futures contracts because they are not traded on an exchange, do not have uniform terms and conditions, and are entered into based upon the creditworthiness of the parties and the availability of credit support, such as collateral, and in general, they are not transferable without the consent of the counterparty. These conditions make such contracts less liquid than standardized futures contracts traded on a commodities exchange and could adversely impact UNL's ability to realize the full value of such contracts. In addition, even if collateral is used to reduce counterparty credit risk, sudden changes in the value of OTC transactions may leave a party open to financial risk due to a counterparty default since the collateral held may not cover a party's exposure on the transaction in such situations.

UNL is not actively managed and tracks the Benchmark Futures Contracts during periods in which the prices of the Benchmark Futures Contracts are flat or declining as well as when the prices are rising.

UNL is not actively managed by conventional methods. Accordingly, if UNL's investments in Natural Gas Interests are declining in value, UNL will not close out such positions except in connection with paying the proceeds to an Authorized Participant upon the redemption of a basket or closing out futures positions in connection with the monthly change in a Benchmark Futures Contract. USCF will seek to cause the NAV of UNL's shares to track the Benchmark Futures Contracts during periods in which its price is flat or declining as well as when the price is rising.

The NYSE Arca may halt trading in UNL's shares, which would adversely impact an investor's ability to sell shares.

UNL's shares are listed for trading on the NYSE Arca under the market symbol "UNL." Trading in shares may be halted due to market conditions or, in light of NYSE Arca rules and procedures, for reasons that, in the view of the NYSE Arca, make trading in shares inadvisable. In addition, trading is subject to trading halts caused by extraordinary market volatility pursuant to "circuit breaker" rules that require trading to be halted for a specified period based on a specified market decline. Additionally, there can be no assurance that the requirements necessary to maintain the listing of UNL's shares will continue to be met or will remain unchanged.

The liquidity of the shares may also be affected by the withdrawal from participation of Authorized Participants, which could adversely affect the market price of the shares.

In the event that one or more Authorized Participants which have substantial interests in the shares withdraw from participation, the liquidity of the shares will likely decrease, which could adversely affect the market price of the shares and result in investors incurring a loss on their investment.

Shareholders that are not Authorized Participants may only purchase or sell their shares in secondary trading markets, and the conditions associated with trading in secondary markets may adversely affect investors' investment in the shares.

Only Authorized Participants may directly purchase shares from or redeem shares with UNL through Creation Baskets or Redemption Baskets. All other investors that desire to purchase or sell shares must do so through the NYSE Arca or in other markets, if any, in which the shares may be traded. Shares may trade at a premium or discount to NAV per share.

The lack of an active trading market for UNL's shares may result in losses on an investor's investment in UNL at the time the investor sells the shares.

Although UNL's shares are listed and traded on the NYSE Arca, there can be no guarantee that an active trading market for the shares will be maintained. If an investor needs to sell shares at a time when no active trading market for them exists, the price the investor receives upon sale of the shares, assuming they were able to be sold, likely would be lower than if an active market existed.

Limited partners and shareholders do not participate in the management of UNL and do not control USCF, so they do not have any influence over basic matters that affect UNL.

The limited partners and shareholders take no part in the management or control, and have a minimal voice in UNL's operations or business. Limited partners and shareholders must therefore rely upon the duties and judgment of USCF to manage UNL's affairs. Limited partners and shareholders have no right to elect USCF on an annual or any other continuing basis. If USCF voluntarily withdraws, however, the holders of a majority of UNL's outstanding shares (excluding for purposes of such determination shares owned, if any, by the withdrawing general partner and its affiliates) may elect its successor. USCF may not be removed as general partner except upon approval by the affirmative vote of the holders of at least 66 2/3 percent of UNL's outstanding shares (excluding shares, if any, owned by USCF and its affiliates), subject to the satisfaction of certain conditions set forth in the LP Agreement.

Limited partners may have limited liability in certain circumstances, including potentially having liability for the return of wrongful distributions.

Under Delaware law, a limited partner might be held liable for UNL's obligations as if it were a general partner if the limited partner participates in the control of the partnership's business and the persons who transact business with the partnership think the limited partner is the general partner.

A limited partner will not be liable for assessments in addition to its initial capital investment in any of UNL's shares. However, a limited partner may be required to repay to UNL any amounts wrongfully returned or distributed to it under some circumstances. Under Delaware law, UNL may not make a distribution to limited partners if the distribution causes UNL's liabilities (other than liabilities to partners on account of their partnership interests and nonrecourse liabilities) to exceed the fair value of UNL's assets. Delaware law provides that a limited partner who receives such a distribution and knew at the time of the distribution that the distribution violated the law will be liable to the limited partnership for the amount of the distribution for three years from the date of the distribution.

The LLC Agreement provides limited authority to the Non-Management Directors, and any Director of USCF may be removed by USCF's parent company, which is wholly owned by Concierge Technologies, Inc., a controlled public company where the majority of shares are owned by Nicholas Gerber along with certain other family members and certain other shareholders.

USCF's Board of Directors (the "Board") currently consists of four Management Directors, each of whom are also executive officers of employees of USCF ("Management Directors"), and three Non-Management Directors, each of whom are considered independent for purposes of applicable NYSE Arca and Securities and Exchange Commission ("SEC") rules. Under USCF's Sixth Amended and Restated Limited Liability Company Agreement, dated as of May 15, 2015 (as amended from time to time), the ("LLC Agreement"), the Non-Management Directors have only such authority as the Management Directors expressly confer upon them, which means that the Non-Management Directors may have less authority to control the actions of the Management Directors than is typically the case with the independent members of a company's Board. In addition, any Director may be removed by written consent of Wainwright Holdings, Inc. ("Wainwright"), which is the sole member of USCF. The sole shareholder of Wainwright is Concierge Technologies Inc., a company publicly traded under the ticker symbol "CNCG" ("Concierge"). Mr. Nicholas Gerber along with certain family members and certain other shareholders, own the majority of the shares in Concierge, which is the sole shareholder of Wainwright, the sole member of USCF. Accordingly, although USCF is governed by the Board, which consists of both Management Directors and Non-Management Directors, pursuant to the LLC Agreement, it is possible for Mr. Gerber to exercise his indirect control of Wainwright to effect the removal of any Director (including the Non-Management Directors which comprise the Audit Committee) and to replace that Director with another Director. Having control in one person could have a negative impact on USCF and UNL, including their regulatory obligations.

There is a risk that UNL will not earn trading gains sufficient to compensate for the fees and expenses that it must pay and as such UNL may not earn any profit.

UNL pays brokerage charges of approximately 0.03% of average total net assets based on brokerage fees of $3.50 per buy or sell, management fees of 0.75% of NAV on its average net assets and OTC spreads and extraordinary expenses (e.g., subsequent offering expenses, other expenses not in the ordinary course of business, including the indemnification of any person against liabilities and obligations to the extent permitted by law and required under the LP Agreement and under agreements entered into by USCF on UNL's behalf and the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation and the incurring of legal expenses and the settlement of claims and litigation) that cannot be quantified.

These fees and expenses must be paid in all cases regardless of whether UNL's activities are profitable. Accordingly, UNL must earn trading gains sufficient to compensate for these fees and expenses before it can earn any profit.

UNL is subject to extensive regulatory reporting and compliance.

UNL is subject to a comprehensive scheme of regulation under the federal commodities and securities laws. UNL could be subject to sanctions for a failure to comply with those requirements, which could adversely affect its financial performance (in the case of financial penalties) or ability to pursue its investment objective (in the case of a limitation on its ability to trade).

Because UNL's shares are publicly traded, UNL is subject to certain rules and regulations of federal, state and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities include the Public Company Accounting Oversight Board (the "PCAOB"), the SEC, the CFTC, the National Futures Association (the "NFA"), and NYSE Arca and these authorities have continued to develop additional regulations or interpretations of existing regulations. UNL's ongoing efforts to comply with these regulations and interpretations have resulted in, and are likely to continue resulting in, a diversion of management's time and attention from revenue-generating activities to compliance related activities.

UNL is responsible for establishing and maintaining adequate internal control over financial reporting. UNL's internal control system is designed to provide reasonable assurance to its management regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may provide only reasonable assurance with respect to financial statement preparation and presentation.

Regulatory changes or actions, including the implementation of new legislation, is impossible to predict but may significantly and adversely affect UNL.

The futures markets are subject to comprehensive statutes, regulations, and margin requirements. In addition, the CFTC and futures exchanges are authorized to take extraordinary actions in the event of a market emergency, including, for example, the retroactive implementation of speculative position limits or higher margin requirements, the establishment of daily price limits and the suspension of trading. Regulation of commodity interest transactions in the United States is a rapidly changing area of law and is subject to ongoing modification by governmental and judicial action. Considerable regulatory attention has been focused on non-traditional investment pools that are publicly distributed in the United States. In addition, the SEC, CFTC and the exchanges are authorized to take extraordinary actions in the event of a market emergency, including, for example, the retroactive implementation of speculative position limits or higher margin requirements, the establishment of daily price limits and the suspension of trading. Further, various national governments outside of the United States have expressed concern regarding the disruptive effects of speculative trading in the energy markets and the need to regulate the derivatives markets in general. The effect of any future regulatory change on UNL is impossible to predict, but it could be substantial and adverse.

UNL is not a registered investment company so shareholders do not have the protections of the 1940 Act.

UNL is not an investment company subject to the Investment Company Act of 1940 ("1940 Act"). Accordingly, investors do not have the protections afforded by that statute which, for example, requires investment companies to have a majority of disinterested directors and regulates the relationship between the investment company and its investment manager.

Trading in international markets could expose UNL to credit and regulatory risk.

UNL invests primarily in Futures Contracts, a significant portion of which are traded on United States exchanges, including the NYMEX. However, a portion of UNL's trades may take place on markets and exchanges outside the United States. Some non-U.S. markets present risks because they are not subject to the same degree of regulation as their U.S. counterparts. Trading on such non-U.S. markets or exchanges presents risks because they are not subject to the same degree of regulation as their U.S. counterparts, including potentially different or diminished investor protections. In trading contracts denominated in currencies other than U.S. dollars, UNL is subject to the risk of adverse exchange-rate movements between the dollar and the functional currencies of such contracts. Additionally, trading on non-U.S. exchanges is subject to the risks presented by exchange controls, expropriation, increased tax burdens and exposure to local economic declines and political instability. An adverse development with respect to any of these variables could reduce the profit or increase the loss earned on trades in the affected international markets.

UNL and USCF may have conflicts of interest, which may permit them to favor their own interests to the detriment of shareholders.

UNL is subject to actual and potential inherent conflicts involving USCF, various commodity futures brokers and Authorized Participants. USCF's officers, directors and employees do not devote their time exclusively to UNL and also are directors, officers or employees of other entities that may compete with UNL for their services. They could have a conflict between their responsibilities to UNL and to those other entities. As a result of these and other relationships, parties involved with UNL have a financial incentive to act in a manner other than in the best interests of UNL and the shareholders. USCF has not established any formal procedure to resolve conflicts of interest. Consequently, investors are dependent on the good faith of the respective parties subject to such conflicts of interest to resolve them equitably. Although USCF attempts to monitor these conflicts, it is extremely difficult, if not impossible, for USCF to ensure that these conflicts do not, in fact, result in adverse consequences to the shareholders.

UNL may also be subject to certain conflicts with respect to the futures commission merchant ('FCM"), including, but not limited to, conflicts that result from receiving greater amounts of compensation from other clients, or purchasing opposite or competing positions on behalf of third-party accounts traded through the FCM.

In addition, USCF's principals, officers, directors or employees may trade futures and related contracts for their own accounts. A conflict of interest may exist if their trades are in the same markets and at the same time as UNL trades using the clearing broker to be used by UNL. A potential conflict also may occur if USCF's principals, officers, directors or employees trade their accounts more aggressively or take positions in their accounts which are opposite, or ahead of, the positions taken by UNL.

UNL could terminate at any time and cause the liquidation and potential loss of an investor's investment and could upset the overall maturity and timing of an investor's investment portfolio.

UNL may terminate at any time, regardless of whether UNL has incurred losses, subject to the terms of the LP Agreement. In particular, unforeseen circumstances, including the adjudication of incompetence, bankruptcy, dissolution, or removal of USCF as the general partner of UNL could cause UNL to terminate unless a majority interest of the limited partners within 90 days of the event elects to continue the partnership and appoints a successor general partner, or the affirmative vote of a majority in interest of the limited partners subject to certain conditions. However, no level of losses will require USCF to terminate UNL. UNL's termination would cause the liquidation and potential loss of an investor's investment. Termination could also negatively affect the overall maturity and timing of an investor's investment portfolio.

UNL does not expect to make cash distributions.

UNL has not previously made any cash distributions and intends to reinvest any realized gains in additional Natural Gas Interests rather than distributing cash to limited partners or other shareholders. Therefore, unlike mutual funds, commodity pools or other investment pools that actively manage their investments in an attempt to realize income and gains from their investing activities and distribute such income and gains to their investors, UNL generally does not expect to distribute cash to limited partners. An investor should not invest in UNL if the investor will need cash distributions from UNL to pay taxes on its share of income and gains of UNL, if any, or for any other reason. Nonetheless, although UNL does not intend to make cash distributions, the income earned from its investments held directly or posted as margin may reach levels that merit distribution, *e.g.*, at levels where such income is not necessary to support its underlying investments in Natural Gas Interests and investors adversely react to being taxed on such income without receiving distributions that could be used to pay such tax. If this income becomes significant then cash distributions may be made.

An unanticipated number of redemption requests during a short period of time could have an adverse effect on UNL's NAV.

If a substantial number of requests for redemption of Redemption Baskets are received by UNL during a relatively short period of time, UNL may not be able to satisfy the requests from UNL's assets not committed to trading. As a consequence, it could be necessary to liquidate positions in UNL's trading positions before the time that the trading strategies would otherwise dictate liquidation.

The Fund may potentially lose money on its holdings in money market funds.

The SEC adopted amendments to Rule 2a-7 under the Investment Company Act of 1940, as amended ("1940 Act") which became effective in 2016, to reform money market funds ("MMFs"). While the new rule applies only to MMFs, it may indirectly affect institutional investors such as UNL. A portion of UNL's assets that are not used for margin or collateral in the Futures Contracts currently are invested in government MMFs. UNL does not hold any non-government MMFs and, particularly in light of recent changes to the rule governing the operation of MMFs, does not anticipate investing in any non-government MMFs. However, if UNL invests in other types of MMFs besides government MMFs in the future, UNL could be negatively impacted by investing in an MMF that does not maintain a stable $1.00 NAV or that has the potential to impose redemption fees and gates (temporary suspension of redemptions).

The share price of a government MMF can fall below the $1.00 share price. The government MMFs that UNL invests in may have chosen to not rely on the ability to impose fees on shareholder redemptions, or liquidity fees, or temporarily to suspend redemption privileges, or gates, if the government MMF's weekly liquid assets fall below a certain threshold. UNL cannot rely on or expect a government MMF's adviser or its affiliates to enter into support agreements or take other actions to maintain the government MMF's $1.00 share price. The credit quality of a government MMF's holdings can change rapidly in certain markets, and the default of a single holding could have an adverse impact on the government MMF's share price. Due to fluctuations in interest rates, the market value of securities held by a government MMF may vary. A government MMF's share price can also be negatively affected during periods of high redemption pressures and/or illiquid markets. Although such government MMFs seek to preserve the value of an investment at $1.00 per share, there is no guarantee that they will be able to do so and UNL may lose money by investing in a government MMF.

An investment in a government MMF is not insured or guaranteed by the FDIC or any other government agency.

The failure or bankruptcy of a clearing broker or the Fund's Custodian could result in a substantial loss of UNL's assets and could impair UNL in its ability to execute trades.

In the event of the bankruptcy of a clearing member or an exchange's clearing house, UNL could be exposed to a risk of loss with respect to its assets that are posted as margin. If such a bankruptcy were to occur, UNL would be afforded the protections granted to customers of an FCM, and participants to transactions cleared through a clearing house, under the United States Bankruptcy Code and applicable CFTC regulations. Such provisions generally provide for a pro rata distribution to customers of customer property held by the bankrupt FCM or an exchange's clearing house if the customer property held by the FCM or the exchange's clearing house is insufficient to satisfy all customer claims. In any case, there can be no assurance that these protections will be effective in allowing UNL to recover all, or even any, of the amounts it has deposited as margin.

Bankruptcy of a clearing FCM can be caused by, among other things, the default of one of the FCM's customers. In this event the exchange's clearing house is permitted to use the entire amount of margin posted by UNL (as well as margin posted by other customers of the FCM) to cover the amounts owed by the bankrupt FCM. Consequently, UNL could be unable to recover amounts due to it on its futures positions, including assets posted as margin, and could sustain substantial losses.

CFTC regulations impose several requirements on FCMs that are designed to protect customers, including mandating certain customer protections, risk management programs, internal monitoring and controls, capital and liquidity standards, customer disclosures and auditing and examination programs. There can be no assurance these regulations will prevent losses to, or not materially adversely affect, UNL or its investors.

Notwithstanding that UNL could sustain losses upon the failure or bankruptcy of its FCM, the majority of UNL's assets are held in Treasuries, cash and/or cash equivalents with Brown Brothers Harriman & Co. (the "Custodian") and would not be impacted by the bankruptcy of an FCM.

The failure or bankruptcy of UNL's Custodian could result in a substantial loss of UNL's assets.

The majority of UNL's assets are held in Treasuries, cash and/or cash equivalents with the Custodian. The failure or insolvency of the Custodian could result in a complete loss of UNL's assets held by the Custodian, which, at any given time, would likely comprise a substantial portion of UNL's total assets.

Third parties may infringe upon or otherwise violate intellectual property rights or assert that USCF has infringed or otherwise violated their intellectual property rights, which may result in significant costs and diverted attention.

It is possible that third parties might utilize UNL's intellectual property or technology, including the use of its business methods, trademarks and trading program software, without permission. USCF has a patent for UNL's business method and has registered its trademarks. UNL does not currently have any proprietary software. However, if it obtains proprietary software in the future, any unauthorized use of UNL's proprietary software and other technology could also adversely affect its competitive advantage. UNL may not have adequate resources to implement procedures for monitoring unauthorized uses of its patents, trademarks, proprietary software and other technology. Also, third parties may independently develop business methods, trademarks or proprietary software and other technology similar to that of USCF or claim that USCF has violated their intellectual property rights, including their copyrights, trademark rights, trade names, trade secrets and patent rights. As a result, USCF may have to litigate in the future to protect its trade secrets, determine the validity and scope of other parties' proprietary rights, defend itself against claims that it has infringed or otherwise violated other parties' rights, or defend itself against claims that its rights are invalid. Any litigation of this type, even if USCF is successful and regardless of the merits, may result in significant costs, divert its resources from UNL, or require it to change its proprietary software and other technology or enter into royalty or licensing agreements.

Due to the increased use of technologies, intentional and unintentional cyber-attacks pose operational and information security risks.

With the increased use of technologies such as the internet and the dependence on computer systems to perform necessary business functions, UNL is susceptible to operational and information security risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber-attacks include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites. Cyber security failures or breaches of UNL's clearing broker or third party service provider (including, but not limited to, index providers, the administrator and transfer agent, the custodian), have the ability to cause disruptions and impact business operations,

potentially resulting in financial losses, the inability of UNL shareholders to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs.

In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future. UNL and its shareholders could be negatively impacted as a result. While UNL has established business continuity plans, there are inherent limitations in such plans.

ADDITIONAL INFORMATION ABOUT UNL, ITS INVESTMENT OBJECTIVE AND INVESTMENTS

UNL is a Delaware limited partnership organized on June 27, 2007. It operates pursuant to the terms of the Third Amended and Restated Agreement of Limited Partnership dated as of December 15, 2017, (as amended from time to time, the "LP Agreement"), which grants full management control of UNL to USCF. UNL maintains its main business office at 1850 Mt. Diablo Boulevard, Suite 640, Walnut Creek, California 94596.

The net assets of UNL consist primarily of investments in Futures Contracts and, to a lesser extent, in order to comply with regulatory requirements or in view of market conditions, Other Natural Gas-Related Investments. Market conditions that USCF currently anticipates could cause UNL to invest in Other Natural Gas-Related Investments include those allowing UNL to obtain greater liquidity or to execute transactions with more favorable pricing.

UNL invests substantially the entire amount of its assets in Futures Contracts while supporting such investments by holding the amounts of its margin, collateral and other requirements relating to these obligations in short-term obligations of the United States of two years or less ("Treasuries"), cash and cash equivalents. The daily holdings of UNL are available on UNL's website at *www.uscfinvestments.com*.

UNL invests in Natural Gas Interests to the fullest extent possible without being leveraged or unable to satisfy its current or potential margin or collateral obligations with respect to its investments in Natural Gas Interests. In pursuing this objective, the primary focus of USCF is the investment in Futures Contracts and the management of UNL's investments in Treasuries, cash and/or cash equivalents for margining purposes and as collateral.

UNL seeks to invest in a combination of Natural Gas Interests such that the daily changes in its NAV, measured in percentage terms, will closely track the daily changes in the price of the Benchmark Futures Contracts, also measured in percentage terms. As a specific benchmark, USCF endeavors to place UNL's trades in Natural Gas Interests and otherwise manage UNL's investments so that "A" will be within plus/minus ten percent (10%) of "B", where:

- A is the average daily percentage change in UNL's per share NAV for any period of 30 successive valuation days, *i.e.,* any NYSE Arca trading day as of which UNL calculates its per share NAV; and
- B is the average daily percentage change in the average of the prices of the Benchmark Futures Contracts over the same period.

USCF believes that market arbitrage opportunities will cause the daily changes in UNL's share price on the NYSE Arca to closely track the daily changes in UNL's per share NAV. USCF further believes that the daily changes in UNL's NAV in percentage terms will closely track the daily changes in percentage terms in the average of the prices of the Benchmark Futures Contracts, less UNL's expenses.

The following two graphs demonstrate the correlation between the changes in the NAV of UNL and the changes in the Benchmark Futures Contracts. The first graph exhibits the daily changes for the last 30 valuation days ended December 31, 2018; the second graph measures monthly changes from December 2013 through December 2018.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

USCF employs a "neutral" investment strategy in order to track changes in the average of the prices of the Benchmark Futures Contracts regardless of whether the price goes up or goes down. UNL's "neutral" investment strategy is designed to permit investors generally to purchase and sell UNL's shares for the purpose of investing indirectly in natural gas in a cost-effective manner, and/or to permit participants in the natural gas or other industries to hedge the risk of losses in their natural gas-related transactions. Accordingly, depending on the investment objective of an individual investor, the risks generally associated with investing in natural gas and/or the risks involved in hedging may exist. In addition, an investment in UNL involves the risk that the daily changes in the average of the prices of UNL's shares, in percentage terms, will not accurately track the daily changes in the average prices of the Benchmark Futures Contracts, in percentage terms, and that daily changes in the Benchmark Futures Contracts, in percentage terms, will not closely correlate with daily changes in the spot prices of natural gas, in percentage terms.

An alternative tracking measurement of the return performance of UNL versus the return of the Benchmark Futures Contracts can be calculated by comparing the actual return of UNL, measured by changes in its per share NAV, versus the expected changes in its per share NAV under the assumption that UNL's returns had been exactly the same as the daily changes in its Benchmark Futures Contracts.

For the year ended December 31, 2018, the actual total return of UNL as measured by changes in its per share NAV was 10.80%. This is based on an initial per share NAV of $9.26 as of December 31, 2017 and an ending per share NAV as of December 31, 2018 of $10.26. During this time period, UNL made no distributions to its shareholders. However, if UNL's daily changes in its per share NAV had instead exactly tracked the changes in the daily total return of the Benchmark Futures Contracts, UNL would have had an estimated per share NAV of $10.17 as of December 31, 2018, for a total return over the relevant time period of 9.83%. The difference between the actual per share NAV total return of UNL of 10.80% and the expected total return based on the Benchmark Futures Contracts of 9.83% was an error over the time period of 0.97%, which is to say that UNL's actual total return outperformed its benchmark by that percentage. UNL incurs expenses primarily composed of the management fee, brokerage commissions for the buying and selling of futures contracts, and other expenses. The impact of these expenses, offset by interest and dividend income, and net of positive or negative execution, tends to cause daily changes in the per share NAV of UNL to track slightly lower or higher than daily changes in the price of the Benchmark Futures Contracts.

Impact of Contango and Backwardation on Total Returns

Several factors determine the total return from investing in futures contracts. One factor arises from "rolling" futures contracts that will expire at the end of the current month (the "near" or "front" month contract) forward each month prior to expiration. For a strategy that entails holding the near month contract, the price relationship between that futures contract and the next month futures contract will impact returns. For example, if the price of the near month futures contract is higher than the next futures month contract (a situation referred to as "backwardation"), then absent any other change, the price of a next month futures contract tends to rise in value as it becomes the near month futures contract and approaches expiration. Conversely, if the price of a near month futures contract is lower than the next month futures contract (a situation referred to as "contango"), then absent any other change, the price of a next month futures contract tends to decline in value as it becomes the near month futures contract and approaches expiration.

As an example, assume that the price of natural gas for immediate delivery, is $3 per MMBtu, and the value of a position in the near month futures contract is also $3. Over time, the price of natural gas will fluctuate based on a number of market factors, including demand for oil relative to supply. The value of the near month futures contract will likewise fluctuate in reaction to a number of market factors. If an investor seeks to maintain a position in a near month futures contract and not take delivery of physical MMBtu of natural gas, the investor must sell the current near month futures contract as it approaches expiration and invest in the next month futures contract. In order to continue holding a position in the current near month futures contract, this "roll" forward of the futures contract must be executed every month.

Contango and backwardation are natural market forces that have impacted the total return on an investment in UNL's shares during the past year relative to a hypothetical direct investment in natural gas. In the future, it is likely that the relationship between the market price of UNL's shares and changes in the spot prices of natural gas will continue to be impacted by contango and backwardation. It is important to note that this comparison ignores the potential costs associated with physically owning and storing natural gas, which could be substantial.

If the futures market is in backwardation, *e.g.*, when the price of the near month futures contract is higher than the price of the next month futures contract, the investor would buy a next month futures contract for a lower price than the current near month futures contract. Assuming the price of the next month futures contract was $2.94 per MMBtu, or 2% cheaper than the $3 near month futures contract, then, hypothetically, and assuming no other changes (e.g., to either prevailing natural gas prices or the price relationship between the spot price, the near month contract and the next month contract, and, ignoring the impact of commission costs and the income earned on cash and/or cash equivalents), the value of the $2.94 next month futures contract would rise to $3 as it approaches expiration. In this example, the value of an investment in the next month futures contract would tend to outperform the spot price of natural gas. As a result, it would be possible for the new near month futures contract to rise 12% while the spot price of natural gas may have risen a lower amount, e.g., only 10%. Similarly, the spot price of natural gas could have fallen 10% while the value of an investment in the futures contract might have fallen another amount, e.g., only 8%. Over time, if backwardation remained constant, this difference between the spot price and the futures contract price would continue to increase.

If the futures market is in contango, an investor would be buying a next month futures contract for a higher price than the current near month futures contract. Again, assuming the near month futures contract is $3 per MMBtu, the price of the next month futures contract might be $3.06 per MMBtu, or 2% more expensive than the front month futures contract. Hypothetically, and assuming no other changes, the value of the $3.06 next month futures contract would fall to $3 as it approaches expiration. In this example, the value of an investment in the second month would tend to underperform the spot price of natural gas. As a result, it would be possible for the new near month futures contract to rise only 10% while the spot price of natural gas may have risen a higher amount, e.g., 12%. Similarly, the spot price of natural gas could have fallen 10% while the value of an investment in the second month futures contract might have fallen another amount, e.g., 12%. Over time, if contango remained constant, this difference between the spot price and the futures contract price would continue to increase.

The chart below compares the daily price of the near month natural gas futures contract to the price of 13th month natural gas futures contract (i.e. a contract one year forward) over the last 10 years. When the price of the near month futures contract is higher than the price of the 13th month futures contract, the market would be described as being in backwardation. When the price of the near month futures contract is lower than the 13th month futures contract, the market would be described as being in contango. Although the price of the near month futures contract and the price of the 13th month futures contract tend to move together, it can be seen that at times the near month futures contract prices are higher than the 13th month futures contract prices (backwardation) and, at other times, the near month futures contract prices are lower than the 13th month futures contract prices (contango).

***PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS**

An alternative way to view the same data is to subtract the dollar price of the 13th month natural gas futures contract from the dollar price of the near month natural gas futures contract, as shown in the chart below. When the difference is positive, the market is in backwardation. When the difference is negative, the market is in contango. The natural gas market spent time in both backwardation and contango during the last ten years. The chart below shows the results from subtracting the average dollar price of the near 12 month contracts from the near month price for the 10 year period between December 31, 2008 and December 31, 2018. Investors will note that the natural gas market spent time in both backwardation and contango.

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***PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS**

An investment in a portfolio that owned only the near month natural gas futures contract would likely produce a different result than an investment in a portfolio that owned an equal number of each of the near 12 months' of natural gas futures contracts. Generally speaking, when the natural gas futures market is in backwardation, a portfolio of only the near month natural gas futures contract may tend to have a higher total return than a portfolio of 12 months' of the natural gas futures contract. Conversely, if the natural gas futures market was in contango, the portfolio containing only 12 months' of natural gas futures contracts may tend to outperform the portfolio holding only the near month natural gas futures contract.

Historically, the natural gas futures markets have experienced periods of contango and backwardation. Because natural gas demand is seasonal, it is possible for the price of natural gas futures contracts for delivery within one or two months to rapidly move from backwardation into contango and back again within the relatively short period of time of less than one year. However, at the end of November 2014, global natural gas inventories grew rapidly after two years of mild winters and the market was primarily in contango through 2017. In 2018, natural gas experienced periods of both contango and backwardation as measured between the first-to-deliver futures contract and the second-to-deliver futures contract.

Periods of contango or backwardation do not materially impact UNL's investment objective of having the daily percentage changes in its per share NAV track the daily percentage changes in the average of the prices of the Benchmark Futures Contracts since the impact of backwardation and contango tend to equally impact the daily percentage changes in price of both UNL's shares and the Benchmark Futures Contracts. It is impossible to predict with any degree of certainty whether backwardation or contango will occur in the future. It is likely that both conditions will occur during different periods and, because of the seasonal nature of natural gas demand, both may occur within a single year's time.

In managing UNL's assets USCF does not use a technical trading system that issues buy and sell orders. USCF employs a quantitative methodology whereby each time a Creation Basket is sold, USCF purchases Natural Gas Interests, such as the Benchmark Futures Contracts, that have an aggregate market value that approximates the amount of Treasuries and/or cash received from the sale of the Creation Basket.

The specific Futures Contracts purchased depend on various factors, including a judgment by USCF as to the appropriate diversification of UNL's investments in futures contracts with respect to the month of expiration, and the prevailing price volatility of particular contracts. While USCF has made significant investments in NYMEX Futures Contracts, for various reasons, including the ability to enter into the precise amount of exposure to the natural gas market, position limits or other regulatory requirements limiting UNL's holdings, and market conditions, it may invest in Futures Contracts traded on other exchanges or invest in Other Natural Gas-Related Investments. To the extent that UNL invests in Other Natural Gas-Related Investments, it would prioritize investments in contracts and instruments that are economically equivalent to the Benchmark Futures Contracts, including cleared swaps that satisfy such criteria, and then, to a lesser extent, it would invest in other types of cleared swaps and other contracts, instruments and non-cleared swaps, such as swaps in the over-the-counter (or commonly referred to as the OTC market). If UNL is required by law or regulation, or by one of its regulators, including a futures exchange, to reduce its position in the Futures Contracts to the applicable position limit or to a specified accountability level or if market conditions dictate it would be more appropriate to invest in Other Natural Gas-Related Investments, a substantial portion of UNL's assets could be invested in accordance with such priority in Other Natural Gas-Related Investments that are intended to replicate the return on the Benchmark Futures Contracts. As UNL's assets reach higher levels, it is more likely to exceed position limits, accountability levels or other regulatory limits and, as a result, it is more likely that it will invest in accordance with such priority in Other Natural Gas-Related Investments at such higher levels. In addition, market conditions that USCF currently anticipates could cause UNL to invest in Other Natural Gas-Related Investments include those allowing UNL to obtain greater liquidity or to execute transactions with more favorable pricing. See *"Risk Factors Involved with an Investment in UNL*" for a discussion of the potential impact of regulation on UNL's ability to invest in OTC transactions and cleared swaps.

USCF may not be able to fully invest UNL's assets in the Benchmark Futures Contracts having an aggregate notional amount exactly equal to UNL's NAV. For example, as standardized contracts, the Futures Contracts are for a specified amount of a particular commodity, and UNL's NAV and the proceeds from the sale of a Creation Basket are unlikely to be an exact multiple of the amounts of those contracts. As a result, in such circumstances, UNL may be better able to achieve the exact amount of exposure to changes in price of the Benchmark Futures Contracts through the use of Other Natural Gas-Related Investments, such as OTC contracts that have better correlation with changes in price of the Benchmark Futures Contracts.

UNL anticipates that to the extent it invests in Futures Contracts other than contracts on natural gas (such as futures contracts for light, sweet crude oil, diesel-heating oil and other petroleum-based fuels) and Other Natural Gas-Related Investments, it will enter into various non-exchange-traded derivative contracts to hedge the short-term price movements of such Natural Gas Interests against the current Benchmark Futures Contracts.

USCF does not anticipate letting UNL's Futures Contracts expire and taking delivery of the underlying commodity. Instead, USCF closes existing positions, *e.g.,* when it changes the Benchmark Futures Contracts or Other Natural Gas-Related Investments or it otherwise determines it would be appropriate to do so and reinvests the proceeds in new Natural Gas Interests. Positions may also be closed out to meet orders for Redemption Baskets and in such case proceeds for such baskets will not be reinvested.

The Benchmark Futures Contracts are changed from the near month contract to expire and the 11 following months to the next month contract to expire and the 11 following months during one day each month. On that day, USCF anticipates it will "roll" UNL's positions by closing, or selling, its natural gas interests and reinvests the proceeds from closing these positions in new natural gas interests.

The anticipated dates that the monthly roll period will commence are posted on UNL's website at *www.uscfinvestments.com*, and are subject to change without notice.

By remaining invested as fully as possible in Natural Gas Interests, USCF believes that the daily changes in percentage terms in UNL's per share NAV will continue to closely track the daily changes in percentage terms in the average of the prices of the Benchmark Futures Contracts. USCF believes that certain arbitrage opportunities result in the price of the shares traded on the NYSE Arca closely tracking the per share NAV of UNL. Additionally, Futures Contracts traded on the NYMEX have closely tracked the spot price of natural gas. Based on these expected interrelationships, USCF believes that the daily changes in the price of UNL's shares traded on the NYSE Arca, on a percentage basis, have closely tracked and will continue to closely track on a daily basis, the changes in the spot price of natural gas on a percentage basis.

What are the Trading Policies of UNL?

Investment Objective

The investment objective of UNL is for the daily changes in percentage terms of its shares' per share net asset value ("NAV") to reflect the daily changes in percentage terms of the price of natural gas delivered at the Henry Hub, Louisiana, as measured by the daily changes in the average of the prices of specified short-term futures contracts on natural gas called the "Benchmark Futures Contracts," plus interest earned on UNL's collateral holdings, less UNL's expenses. The Benchmark Futures Contracts are the futures contracts on natural gas as traded on the NYMEX that is the near month contract to expire, and the contracts for the following 11 months, for a total of 12 consecutive months' contracts, except when the near month contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire and the contracts for the following 11 consecutive months. When calculating the daily movement of the average price of the 12 contracts, each contract month is equally weighted.

Liquidity

UNL invests only in Futures Contracts and Other Natural Gas-Related Investments that, in the opinion of USCF, are traded in sufficient volume to permit the ready taking and liquidation of positions in these financial interests and Other Natural Gas-Related Investments that, in the opinion of USCF, may be readily liquidated with the original counterparty or through a third party assuming the position of UNL.

Spot Commodities

While the Futures Contracts traded can be physically settled, UNL does not intend to take or make physical delivery. UNL may from time to time trade in Other Natural Gas-Related Investments, including contracts based on the spot price of natural gas.

Leverage

USCF endeavors to have the value of UNL's Treasuries, cash and cash equivalents, whether held by UNL or posted as margin or other collateral, at all times approximate the aggregate market value of its obligations under its Futures Contracts and Other Natural Gas-Related Investments. Commodity pools' trading positions in futures contracts or other related investments are typically required to be secured by the deposit of margin funds that represent only a small percentage of a futures contract's (or other commodity interest's) entire market value. While USCF has not and does not intend to leverage UNL's assets, it is not prohibited from doing so under the LP Agreement.

Borrowings

Borrowings are not used by UNL, unless UNL is required to borrow money in the event of physical delivery, if UNL trades in cash commodities, or for short-term needs created by unexpected redemptions.

OTC Derivatives (including Spreads and Straddles)

In addition to Futures Contracts, there are also a number of listed options on the Futures Contracts on the principal futures exchanges. These contracts offer investors and hedgers another set of financial vehicles to use in managing exposure to the natural gas market. Consequently, UNL may purchase options on natural gas Futures Contracts on these exchanges in pursuing its investment objective.

In addition to the Futures Contracts and options on the Futures Contracts, there also exists an active non-exchange-traded market in derivatives tied to natural gas. These derivatives transactions (also known as OTC contracts) are usually entered into between two parties in private contracts. Unlike most of the exchange-traded Futures Contracts or exchange-traded options on the Futures Contracts, each party to such contract bears the credit risk of the other party, *i.e.,* the risk that the other party may not be able to perform its obligations under its contract.

To reduce the credit risk that arises in connection with such contracts, UNL will generally enter into an agreement with each counterparty based on the Master Agreement published by the International Swaps and Derivatives Association, Inc. ("ISDA") that provides for the netting of its overall exposure to its counterparty.

USCF assesses or reviews, as appropriate, the creditworthiness of each potential or existing counterparty to an OTC contract pursuant to guidelines approved by the Board.

UNL may enter into certain transactions where an OTC component is exchanged for a corresponding futures contract (an "Exchange for Related Position" or "EFRP" transactions). In the most common type of EFRP transaction entered into by UNL, the OTC component is the purchase or sale of one or more baskets of UNL shares. These EFRP transactions may expose UNL to counterparty risk during the interim period between the execution of the OTC component and the exchange for a corresponding futures contract. Generally, the counterparty risk from the EFRP transaction will exist only on the day of execution.

UNL may employ spreads or straddles in its trading to mitigate the differences in its investment portfolio and its goal of tracking the price of the Benchmark Futures Contract. UNL would use a spread when it chooses to take simultaneous long and short positions in futures written on the same underlying asset, but with different delivery months.

During the reporting period of this annual report on Form 10-K, UNL limited its OTC activities to EFRP transactions.

UNL did not engage in trading in futures contracts listed on a foreign exchange or forward contracts, including options on such contracts. UNL does not anticipate engaging in trading in futures contracts listed on a foreign exchange, forward contracts or options on such contracts, but it may do so as outlined in UNL's listing exemptive order or as permitted under current regulations.

Pyramiding

UNL has not and will not employ the technique, commonly known as pyramiding, in which the speculator uses unrealized profits on existing positions as variation margin for the purchase or sale of additional positions in the same or another commodity interest.

Prior Performance of UNL

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

USCF manages UNL which is a commodity pool that issues shares traded on the NYSE Arca. The chart below shows, as of February 28, 2019, the number of Authorized Participants, the total number of baskets created and redeemed since inception and the number of outstanding shares for UNL.

# of Authorized Participants	Baskets Redeemed	Baskets Purchased	Outstanding Shares
10	86	94	450,000

Since the commencement of the offering of UNL shares to the public on November 18, 2009 to February 28, 2019, the simple average daily change in the average price of its Benchmark Futures Contracts was (0.049)%, while the simple average daily change in the per share NAV of UNL over the same time period was (0.051)%. The average daily difference was (0.002)% (or (0.2) basis points, where 1 basis point equals 1/100 of 1%). As a percentage of the daily movement of the average price of the Benchmark Futures Contracts, the average error in daily tracking by the per share NAV was 0.067%, meaning that over this time period UNL's tracking error was within the plus or minus 10% range established as its benchmark tracking goal.

The table below shows the relationship between the trading prices of the shares and the daily NAV of UNL, since inception through February 28, 2019. The first row shows the average amount of the variation between UNL's closing market price and NAV, computed on a daily basis since inception, while the second and third rows depict the maximum daily amount of the end of day premiums and discounts to NAV since inception, on a percentage basis. USCF believes that maximum and minimum end of day premiums and discounts typically occur because trading in the shares continues on the NYSE Arca until 4:00 p.m. New York time while regular trading in the Benchmark Futures Contracts on the NYMEX ceases at 2:30 p.m. New York time and the value of the relevant Benchmark Futures Contracts, for purposes of determining its end of day NAV, can be determined at that time.

	UNL
Average Difference	$0.00
Max Premium%	6.15 %

Max Discount%	(6.58)%

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For more information on the performance of UNL, see the Performance Tables below.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

COMPOSITE PERFORMANCE DATA FOR UNL

Name of Commodity Pool: United States 12 Month Natural Gas Fund, LP

Type of Commodity Pool: Exchange traded security

Inception of Trading: November 18, 2009

Aggregate Subscriptions (from inception through February 28, 2019): $139,667,410

Total Net Assets as of February 28, 2019: $4,895,582

NAV per Share as of February 28, 2019: $10.88

Worst Monthly Percentage Draw-down: December 2014 (19.94)%

Worst Peak-to-Valley Draw-down: December 2009–February 2016 (85.18)%

	Rates of Return*					
Month	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
January	7.81 %	(5.99)%	(1.95)%	(8.94)%	4.32 %	4.68 %
February	2.58 %	1.09 %	(16.37)%	(8.22)%	(5.59)%	1.30 %
March	(3.11)%	(3.15)%	9.66 %	8.45 %	1.86 %	
April	7.69 %	1.19 %	9.61 %	1.78 %	(1.94)%	
May	(6.34)%	(3.69)%	(0.63)%	(5.81)%	4.72 %	
June	(1.21)%	4.40 %	11.76 %	(1.86) %	(0.52)%	
July	(10.38)%	(3.12)%	(0.75)%	(4.59)%	(2.95)%	
August	3.76 %	(3.95)%	(2.65)%	5.13 %	2.50 %	
September	(0.82)%	(5.45)%	(1.36)%	0.40 %	0.11 %	
October	(5.88)%	(9.04)%	1.78 %	(3.90) %	2.96 %	
November	0.71 %	(5.26)%	3.88 %	0.62 %	17.37 %	
December	(19.94)%	0.00 %	9.61 %	(4.34) %	(10.16)%	
Annual Rate of Return	(25.27)%	(29.00)%	20.88 %	(21.19)%	10.80 %	6.04 %**

* The monthly rate of return is calculated by dividing the ending NAV of a given month by the ending NAV of the previous month, subtracting 1 and multiplying this number by 100 to arrive at a percentage increase or decrease.
** Through February 28, 2019.
Draw-down: Losses experienced by the fund over a specified period. Draw-down is measured on the basis of monthly returns only and does not reflect intra-month figures.

Worst Monthly Percentage Draw-down: The largest single month loss sustained during the most recent five calendar years and year-to-date.

Worst Peak-to-Valley Draw-down: The largest percentage decline in the NAV per share over the history of the fund. This need not be a continuous decline, but can be a series of positive and negative returns where the negative returns are larger than the positive returns. Worst Peak-to-Valley Draw-down represents the greatest cumulative percentage decline in month-end per share NAV is not equaled or exceeded by a subsequent month-end per share NAV.

UNL’S Operations

USCF and its Management and Traders

USCF is a single member limited liability company that was formed in the state of Delaware on May 10, 2005. USCF maintains its main business office at 1850 Mt. Diablo Boulevard, Suite 640, Walnut Creek, California 94596. USCF is a wholly-owned subsidiary of Wainwright Holdings, Inc., a Delaware corporation (“Wainwright”), which is an intermediate holding company that owns USCF and another advisor of exchange traded funds. Wainwright is a wholly owned subsidiary of Concierge Technologies, Inc. (publicly traded under the ticker CNCG) (“Concierge”), a publicly traded holding company that owns various financial and non-financial businesses. Mr. Nicholas Gerber (discussed below), along with certain family members and certain other shareholders, owns the majority of the shares in Concierge. Wainwright is a holding company that currently holds both USCF, as well as USCF Advisers LLC, an investment adviser registered under the Investment Advisers Act of 1940, as amended, (“USCF Advisers”). USCF Advisers serves as the investment adviser for the USCF SummerHaven SHPEN Index Fund (“BUYN”), the USCF SummerHaven SHPEI Index Fund (“BUY”) and the USCF Su NOWRAP ALIGN="center" STYLE="border-bottom:1.00pt solid #000000">Unrealized Loss

	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of states and political subdivisions	$316,394	$10,973	$4,153	$346	$320,547	$11,319
Residential mortgage-backed securities	228,423	7,623	5,624	299	234,047	7,922
Commercial mortgage-backed securities	108,706	3,617			108,706	3,617

Total						
	$653,523	$22,213	$9,777	$645	$663,300	$22,858

The number of investments in an unrealized loss position totaled 114 at September 30, 2014. We do not believe these unrealized losses are other-than-temporary as (i) we do not 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. In making the determination, we also consider the length of time and extent to which fair value has been less than cost and the financial condition of the issuer. The unrealized losses noted are interest rate related due to the level of interest rates at September 30, 2014 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 September 30, 2014, $1,430,183,000 of the Company s securities were pledged as collateral for public or trust fund deposits, repurchase agreements and for other purposes required or permitted by law.

During the third quarter ended September 30, 2014 and 2013, sales and calls of investment securities that were classified as available-for-sale totaled $2,145,000 and $50,065,000, respectively. Gross realized gains from security sales and calls during the third quarter of 2014 and 2013 totaled $1,000 and $1,114,000, respectively. Gross realized losses from security sales and calls during the third quarter of 2013 totaled $1,222,000. There were no gross realized losses from security sales or calls in the third quarter of 2014. During the nine months ended September 30, 2014 and 2013, sales and calls of investment securities that were classified as available-for-sale totaled $3,590,000 and $121,420,000, respectively. Gross realized gains from security sales and calls during the nine month periods ended September 30, 2014 and 2013 totaled $1,000 and $1,371,000, respectively. Gross realized losses from security sales and calls during the nine month periods ended September 30, 2014 and 2013 totaled $5,000 and $1,224,000, respectively. The specific identification method was used to determine cost in order to compute the realized gains and losses.

Note 5 - Loans 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 Company has 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.

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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.

The allowance for loan losses is an amount management believes is appropriate to absorb probable losses that have been incurred on existing loans as of the balance sheet date based upon management s review and evaluation of the loan portfolio. The allowance for loan losses is comprised of three elements: (i) specific reserves determined based on probable losses on specific classified loans; (ii) a general reserve that considers historical loss rates; 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 general reserve, the loan portfolio, less cash secured loans, government guaranteed loans and classified loans, is multiplied by the Company s historical loss rate. Specific allocations are increased in accordance with deterioration in credit quality and a corresponding increase 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, 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 incurred losses 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 further downturn in the economy and employment 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 generally accepted accounting principles, additional provisions to the allowance for loan losses is 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. Other loan impairments are measured based on the present value of expected future cash flows or the loan s observable market price. At September 30, 2014 and 2013, and December 31, 2013, 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.

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. To date, all of the troubled debt restructurings have been such that, after considering economic and business conditions and collection efforts, the collection of interest is doubtful and therefore remain on non-accrual. 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 September 30, 2014 and 2013, and December 31, 2013, 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 each loan.

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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 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 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 non-accrual. Contractually required payments for interest and principal that exceed the cash flows expected at acquisition are not recognized as a yield adjustment. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows 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 September 30, 2014 and 2013, and December 31, 2013 was $2,383,000, $2,954,000 and $2,707,000, respectively, compared to a contractual balance of $3,525,000, $4,218,000 and $3,970,000, respectively. Other purchased credit impaired loan disclosures were omitted due to immateriality.

Loans held-for-investment by class of financing receivables are as follows (in thousands):

	September 30,		December 31,
	2014	2013	2013
Commercial	$ 612,092	$ 571,973	$ 596,730
Agricultural	86,718	66,758	75,928
Real estate	1,774,639	1,640,308	1,678,514
Consumer	354,981	330,046	333,113
Total loans held-for-investment	$ 2,828,430	$ 2,609,085	$ 2,684,285

Loans held for sale totaled $11,266,000, $5,724,000 and $5,163,000 at September 30, 2014 and 2013, and December 31, 2013, respectively, which were recorded at cost as fair value exceeded cost.

The Company s non-accrual loans, loans still accruing and past due 90 days or more and restructured loans are as follows (in thousands):

	September 30,		December 31,
	2014	2013	2013
Non-accrual loans*	$ 22,093	$ 22,809	$ 27,926
Loans still accruing and past due 90 days or more	263	54	133
Troubled debt restructured loans**			
Total	$ 22,356	$ 22,863	$ 28,059

* Includes $2,383,000, $2,954,000 and $2,707,000 of purchased credit impaired loans as of September 30, 2014 and 2013, and December 31, 2013, respectively.

** Troubled debt restructured loans of $10,114,000, $14,737,000 and $13,298,000, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans at September 30, 2014 and 2013, and December 31, 2013, respectively. At this time, all of our restructured loans are included in non-accrual loans.

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The Company s recorded investment in impaired loans and the related valuation allowance are as follows (in thousands):

September 30, 2014		September 30, 2013		December 31, 2013	
Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
$ 22,093	$ 4,634	$ 22,809	$ 4,605	$ 27,926	$ 5,338

The average recorded investment in impaired loans for the three and nine months ended September 30, 2014, and the year ended December 31, 2013 was approximately $24,893,000, $26,524,000 and $31,293,000, respectively. The Company had $23,629,000, $28,535,000 and $31,128,000 in non-accrual, past due 90 days still accruing and restructured loans and foreclosed assets at September 30, 2014 and 2013, and December 31, 2013, respectively. Non-accrual loans at September 30, 2014 and 2013, and December 31, 2013, consisted of the following by class of financing receivables (in thousands):

	September 30, 2014	September 30, 2013	December 31, 2013
Commercial	$ 3,481	$ 1,986	$ 4,281
Agricultural	102	97	131
Real estate	17,712	20,036	22,548
Consumer	798	690	966
Total	$ 22,093	$ 22,809	$ 27,926

No significant additional funds are committed to be advanced in connection with impaired loans as of September 30, 2014.

The Company s impaired loans and related allowance as of September 30, 2014 and 2013, and December 31, 2013, 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.

September 30, 2014	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year-to-Date Average Recorded Investment	Three-month Average Recorded Investment
Commercial	$ 3,928	$ 278	$ 3,203	$ 3,481	$ 1,160	$ 3,990	$ 3,713
Agricultural	113		102	102	37	113	104
Real Estate	23,559	5,546	12,166	17,712	3,256	21,510	20,212
Consumer	977	467	331	798	181	911	864
Total	$ 28,577	$ 6,291	$ 15,802	$ 22,093	$ 4,634	$ 26,524	$ 24,893

* Includes $2,383,000 of purchased credit impaired loans.

September 30, 2013	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year-to-Date Average Recorded Investment	Three-month Average Recorded Investment
Commercial	$ 2,545	$ 701	$ 1,285	$ 1,986	$ 710	$ 1,779	$ 2,113
Agricultural	105	91	6	97	6	104	99
Real Estate	25,085	4,290	15,746	20,036	3,628	19,985	20,757
Consumer	824	212	478	690	261	662	799
Total	$ 28,559	$ 5,294	$ 17,515	$ 22,809	$ 4,605	$ 22,530	$ 23,768

* Includes $2,954,000 of purchased credit impaired loans.

December 31, 2013	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial	$ 4,764	$ 934	$ 3,348	$ 4,282	$ 1,079	$ 5,017
Agricultural	139	17	114	131	41	144
Real Estate	31,704	5,794	16,753	22,547	4,006	25,060
Consumer	1,117	545	421	966	212	1,072
Total	$ 37,724	$ 7,290	$ 20,636	$ 27,926	$ 5,338	$ 31,293

* Includes $2,707,000 of purchased credit impaired loans.

The Company recognized interest income on impaired loans prior to being classified as impaired of approximately $685,000 during the year ended December 31, 2013. Such amounts for the three-month and nine-month periods ended September 30, 2014 and 2013 were not significant.

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 weakness 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 are the same, at September 30, 2014 and December 31, 2013 (in thousands):

September 30, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 597,717	$ 3,649	$ 10,726	$	$ 612,092
Agricultural	86,272	93	353		86,718
Real Estate	1,710,201	18,741	45,613	84	1,774,639
Consumer	352,850	601	1,527	3	354,981
Total	$ 2,747,040	$ 23,084	$ 58,219	$ 87	$ 2,828,430

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December 31, 2013	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 584,547	$ 3,032	$ 9,151	$	$ 596,730
Agricultural	75,382	245	298	3	75,928
Real Estate	1,609,242	20,773	48,352	147	1,678,514
Consumer	330,870	639	1,595	9	333,113
Total	$ 2,600,041	$ 24,689	$ 59,396	$ 159	$ 2,684,285

At September 30, 2014 and December 31, 2013, the Company s past due loans are as follows (in thousands):

September 30, 2014	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
Commercial	$ 2,726	$ 110	$ 316	$ 3,152	$ 608,940	$ 612,092	$ 111
Agricultural	294	59		353	86,365	86,718	
Real Estate	15,404	930	2,216	18,550	1,756,089	1,774,639	102
Consumer	1,742	292	297	2,331	352,650	354,981	50
Total	$ 20,166	$ 1,391	$ 2,829	$ 24,386	$ 2,804,044	$ 2,828,430	$ 263

December 31, 2013	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
Commercial	$ 5,303	$ 287	$ 420	$ 6,010	$ 590,720	$ 596,730	$
Agricultural	355			355	75,573	75,928	
Real Estate	13,787	2,489	1,876	18,152	1,660,362	1,678,514	55
Consumer	2,708	582	277	3,567	329,546	333,113	78
Total	$ 22,153	$ 3,358	$ 2,573	$ 28,084	$ 2,656,201	$ 2,684,285	$ 133

* 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 allowance for loan losses as of September 30, 2014 and 2013, and December 31, 2013, is presented below. Management has evaluated the appropriateness of the allowance for loan losses by estimating the probable losses in

various categories of the loan portfolio, which are identified below (in thousands):

	September 30, 2014	September 30, 2013	December 31, 2013
Allowance for loan losses provided for:			
Loans specifically evaluated as impaired	$ 4,634	$ 4,605	$ 5,338
Remaining portfolio	31,754	30,195	28,562
Total allowance for loan losses	$ 36,388	$ 34,800	$ 33,900

The following table details the allowance for loan losses at September 30, 2014 and December 31, 2013 by portfolio segment (in thousands). There were no allowances for purchased credit impaired loans at September 30, 2014 or December 31, 2013. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

September 30, 2014	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 2,837	$ 127	$ 7,081	$ 388	$ 10,433
Loans collectively evaluated for impairment	4,649	258	19,218	1,830	25,955
Total	$ 7,486	$ 385	$ 26,299	$ 2,218	$ 36,388

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December 31, 2013	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 2,755	$ 125	$ 7,215	$ 378	$ 10,473
Loans collectively evaluated for impairment	3,685	258	17,725	1,759	23,427
Total	$ 6,440	$ 383	$ 24,940	$ 2,137	$ 33,900

Changes in the allowance for loan losses for the three and nine months ended September 30, 2014 and 2013 are summarized as follows by portfolio segment (in thousands):

Three months ended September 30, 2014	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	$ 6,861	$ 364	$ 26,561	$ 2,106	$ 35,892
Provision for loan losses	635	7	(80)	334	896
Recoveries	72	14	42	86	214
Charge-offs	(82)		(224)	(308)	(614)
Ending balance	$ 7,486	$ 385	$ 26,299	$ 2,218	$ 36,388

Three months ended September 30, 2013	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	$ 6,736	$ 1,493	$ 23,902	$ 1,968	$ 34,099
Provision for loan losses	354	(999)	1,644	350	1,349
Recoveries	141	10	42	104	297
Charge-offs	(218)	(86)	(294)	(347)	(945)
Ending balance	$ 7,013	$ 418	$ 25,294	$ 2,075	$ 34,800

Nine months ended September 30, 2014	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	$ 6,440	$ 383	$ 24,940	$ 2,137	$ 33,900
Provision for loan losses	1,189	(14)	1,988	547	3,710
Recoveries	225	17	361	386	989
Charge-offs	(368)	(1)	(990)	(852)	(2,211)
Ending balance	$ 7,486	$ 385	$ 26,299	$ 2,218	$ 36,388

Nine months ended	Commercial	Agricultural	Real Estate	Consumer	Total

September 30, 2013					
Beginning balance	$ 7,343	$ 1,541	$ 24,063	$ 1,892	$ 34,839
Provision for loan losses	(77)	(1,056)	3,035	680	2,582
Recoveries	329	29	95	266	719
Charge-offs	(582)	(96)	(1,899)	(763)	(3,340)
Ending balance	$ 7,013	$ 418	$ 25,294	$ 2,075	$ 34,800

The Company s recorded investment in loans as of September 30, 2014 and December 31, 2013 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 $2,383,000 and $2,707,000 at September 30, 2014 and December 31, 2013, respectively, are included in loans individually evaluated for impairment.

September 30, 2014	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 14,375	$ 446	$ 64,438	$ 2,131	$ 81,390
Loans collectively evaluated for impairment	597,717	86,272	1,710,201	352,850	2,747,040
Total	$ 612,092	$ 86,718	$ 1,774,639	$ 354,981	$ 2,828,430

December 31, 2013	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 12,183	$ 546	$ 69,272	$ 2,243	$ 84,244
Loans collectively evaluated for impairment	584,547	75,382	1,609,242	330,870	2,600,041
Total	$ 596,730	$ 75,928	$ 1,678,514	$ 333,113	$ 2,684,285

The Company s loans that were modified in the three and nine months ended September 30, 2014 and 2013 and considered troubled debt restructurings are as follows (in thousands):

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	1	$ 158	$ 158	6	$ 557	$ 557
Agricultural				1	39	39
Real Estate	1	40	40	5	630	630
Consumer				3	11	11
Total	2	$ 198	$ 198	15	$ 1,237	$ 1,237

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial		$	$	3	$ 218	$ 218
Agricultural				1	24	24
Real Estate				8	3,779	3,779
Consumer	4	86	86	5	123	123
Total	4	$ 86	$ 86	17	$ 4,144	$ 4,144

The balances below provide information as to how the loans were modified as troubled debt restructured loans during the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity
Commercial	$	$ 158	$	$	$ 255	$ 302
Agricultural						39

Real Estate			40		118	512
Consumer					8	3
Total	$	$ 158	$ 40	$	$ 381	$ 856

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity
Commercial	$	$	$	$	$ 218	$
Agricultural					24	
Real Estate				420	350	3,009
Consumer		82	4		119	4
Total	$	$ 82	$ 4	$ 420	$ 711	$ 3,013

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Certain loans were modified as 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 due or more or results in the foreclosure and repossession of the applicable collateral. The loans with payment default are as follows (dollars in thousands):

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Number	Balance	Number	Balance
Commercial		$		$
Agriculture				
Real Estate				
Consumer			1	32
Total		$	1	$ 32

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Number	Balance	Number	Balance
Commercial	1	$ 71	6	$ 316
Agriculture				
Real Estate				
Consumer				
Total	1	$ 71	6	$ 316

As of September 30, 2014, the Company has no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

Our subsidiary bank has established a line of credit with the Federal Home Loan Bank of Dallas to provide liquidity and meet pledging requirements for those customers eligible to have securities pledged to secure certain uninsured deposits. At September 30, 2014, $1,634,405,000 in loans held by our bank subsidiary were subject to blanket liens as security for this line of credit. At September 30, 2014, $1,038,000 in advances were outstanding and $7,000,000 in letters of credit were outstanding under this line of credit. The letters of credit were pledged as collateral for public funds held by our bank subsidiary.

Note 6 - Income Taxes

Income tax expense was $7,843,000 for the third quarter of 2014 as compared to $6,121,000 for the same period in 2013. The Company s effective tax rates on pretax income were 25.08% and 23.83% for the third quarter of 2014 and 2013, respectively. Income tax expense was $21,705,000 for nine months ended September 30, 2014 as compared to $18,723,000 for same period in 2013. The Company s effective tax rate on pretax income was 24.48% and 24.52% for the nine months ended September 30, 2014 and 2013, respectively. The effective tax rates differ from the statutory federal tax rate of 35% primarily 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 the settlement of a bank owned life

insurance contract.

Note 7 - Stock Based Compensation

The Company grants incentive stock options for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant to employees. At September 30, 2014, no options have been granted in 2014. On October 22, 2013, the Company granted 395,000 shares in incentive stock options at an exercise price of $30.85 to its employees. The Company recorded stock option expense totaling $174,000 and $88,000 for the three months ended September 30, 2014 and 2013, respectively.

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The Company recorded stock option expense totaling $532,000 and $264,000 for the nine-month periods ended September 30, 2014 and 2013, respectively. The additional disclosure requirements under authoritative accounting guidance have been omitted due to immateriality.

Note 8 - Pension Plan

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. The Company made a contribution totaling $1,000,000 in 2013 and has to date made no contributions in 2014.

In October 2014, the Company approved a plan to offer plan participants that are no longer employed by the Company the option to receive a one-time lump sum payment in lieu of future benefits to be received under the plan. The lump sum payment offered approximates the respective participant s pension benefit obligation and is not expected to have a significant impact on the Company s financial statements.

Net periodic benefit costs totaling $107,000 and $208,000 were recorded for the three months ended September 30, 2014 and 2013, respectively. Net periodic benefit costs totaling $321,000 and $623,000 were recorded for the nine months ended September 30, 2014 and 2013, respectively.

Note 9 - 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. Securities are considered to be measured with Level 1 inputs at the time of purchase and for 30 days following. After 30 days, the majority of securities are transferred to Level 2 as they are considered to be measured with Level 2 inputs, with the exception of U. S. Treasury securities and any other security for which there remain Level 1 inputs. Transfers are recognized on the actual date of transfer.

There were no transfers between Level 2 and Level 3 during the three and nine months ended September 30, 2014 or 2013.

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The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 520	$	$	$ 520
Obligations of U. S. government sponsored-enterprises and agencies		107,301		107,301
Obligations of states and political subdivisions	18,546	1,083,423		1,101,969
Corporate bonds		95,038		95,038
Residential mortgage-backed securities	45,769	766,098		811,867
Commercial mortgage-backed securities		132,412		132,412
Other securities	4,655			4,655
Total	$ 69,490	$ 2,184,272	$	$ 2,253,762

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 September 30, 2014:

Impaired Loans Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data, or Level 3 inputs based on the discounting of the collateral. At September 30, 2014, impaired loans with a carrying value of $22,093,000 were reduced by specific valuation reserves totaling $4,634,000 resulting in a net fair value of $17,459,000.

Loans Held for Sale Loans held for sale are reported at the lower of cost or fair value. In determining whether the fair value of loans held for sale is less than cost when quoted market prices are not available, the Company considers investor commitments/contracts. These loans are considered Level 2 of the fair value hierarchy. At September 30, 2014, the Company s mortgage loans held for sale were recorded at cost as fair value exceeded cost.

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 three and nine months ended September 30, 2014 and 2013 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):

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	Three Months Ended September 30,	
	2014	2013
Carrying value of other real estate owned prior to re-measurement	$ 173	$ 238
Write-downs included in gain (loss) on sale of other real estate owned	(46)	(65)
Fair value	$ 127	$ 173

	Nine Months Ended September 30,	
	2014	2013
Carrying value of other real estate owned prior to re-measurement	$ 881	$ 2,065
Write-downs included in gain (loss) on sale of other real estate owned	(135)	(369)
Fair value	$ 746	$ 1,696

At September 30, 2014 and 2013, and December 31, 2013, other real estate owned totaled $1,185,000, $5,490,000 and $2,903,000, 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.

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.

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The estimated fair values and carrying values of all financial instruments under current authoritative guidance at September 30, 2014 and December 31, 2013, were as follows (in thousands):

	September 30, 2014		December 31, 2013		
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Cash and due from banks	$ 149,957	$ 149,957	$ 183,084	$ 183,084	Level 1
Federal funds sold	4,785	4,785	3,430	3,430	Level 1
Interest-bearing deposits in banks	83,994	83,994	25,498	25,498	Level 1
Interest-bearing time deposits in banks	19,234	19,285	31,917	32,059	Level 2
Available-for-sale securities	2,253,762	2,253,762	2,057,723	2,057,723	Levels 1 and 2
Held-to-maturity securities	554	560	684	694	Level 2
Loans	2,803,308	2,815,509	2,655,548	2,667,743	Level 3
Accrued interest receivable	23,420	23,420	26,865	26,865	Level 2
Deposits with stated maturities	664,221	666,123	686,627	688,876	Level 2
Deposits with no stated maturities	3,800,143	3,800,143	3,448,448	3,448,448	Level 1
Short term borrowings	341,909	341,909	463,888	463,888	Level 2
Accrued interest payable	275	275	299	299	Level 2

Note 10 - Recently Issued Authoritative Accounting Guidance

In 2014, the Financial Accounting Standards Board (the FASB) amended its authoritative guidance related to residential real estate to clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendment requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The new guidance is effective for the Company on January 1, 2015 and is not expected to have a significant impact to the Company s financial statements.

In 2014, the FASB issued a comprehensive new revenue recognition standard that will supersede 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. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the

amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard will be effective in the first quarter of 2017 and is not expected to have a significant impact to the Company s financial statements.

In 2014, the FASB amended its authoritative guidance related to repurchase-to-maturity transaction to require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendment requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. The amendment requires entities to disclose certain information about transfers accounted for as sales in transactions that economically similar to repurchase agreements. In addition, the amendment requires disclosures related to collateral, remaining contractual tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. The amendment will be effective on January 1, 2015 and is not expected to have a significant impact on the Company s financial statements.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Form 10-Q 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-Q, words such as anticipate, believe, estimate, expect, intend, predict, project, and similar expressions, as they relate to us or 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 in our Annual Report on Form 10-K and the following:

- general economic conditions, including our local, state and national real estate markets and employment trends;
- volatility and disruption in national and international financial 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 and the capital ratios of Basel III as adopted by the federal banking authorities;
- political instability;
- the ability of the Federal government to address the national economy and the fiscal cliff;
- competition from other financial institutions and financial holding companies;
- 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);
- 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;

our ability to attract deposits;

changes in our liquidity position;

changes in the reliability of our vendors, internal control system or information systems;

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 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).

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 subsidiary bank. Our largest expenses are interest on these deposits, salaries and related employee benefits. We usually 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 of operations and financial condition should be read in conjunction with the financial statements and accompanying footnotes included in Item 1 of this Form 10-Q as well as those included in the Company s 2013 Annual Report on Form 10-K.

Critical Accounting Policies

We prepare consolidated financial statements based on generally accepted accounting principles 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 5 and note 4, respectively, to our notes to consolidated financial statements (unaudited) which begins on page 9.

Stock Split

On April 22, 2014, the Company s Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend effective for shareholders of record on May 15, 2014 that was distributed on June 2, 2014. All per share amounts in this report have been restated to reflect this stock split. An amount equal to the par value of the additional common shares issued pursuant to the stock split was reflected as a transfer from retained earnings to common stock on the consolidated financial statements as of and for the nine months ended September 30, 2014.

Acquisition of Orange Savings Bank, SSB

On February 9, 2013, we entered into an agreement and plan of merger to acquire Orange Savings Bank, SSB. On May 31, 2013, the transaction was completed, which we refer to herein as the Orange acquisition . Pursuant to the agreement, we paid $39.20 million in cash and issued 420,000 shares of the Company s common stock in exchange for all of the outstanding shares of Orange Savings Bank, SSB.

At closing, Orange Savings Bank, SSB, was merged into First Financial Bank, N.A., Abilene, Texas, a wholly owned subsidiary of the Company. The total purchase price exceeded the estimated fair value of assets acquired by approximately $23.02 million and was recorded by the Company as goodwill.

Results of Operations

Performance Summary. Net earnings for the third quarter of 2014 were $23.43 million compared to $19.56 million for the same quarter in 2013, or a 19.78% increase.

Basic earnings per share for the third quarter of 2014 were $0.37 compared to $0.31 for the same quarter last year. The return on average assets was 1.71% for the third quarter of 2014, as compared to 1.56% for the same quarter of 2013. The return on average equity was 14.27% for the third quarter of 2014 as compared to 13.64% for the same quarter a year ago.

Net earnings for the nine-month period ended September 30, 2014 were $66.97 million compared to $57.63 million for the same period in 2013, or a 16.21% increase.

Basic earnings per share for the first nine months of 2014 were $1.05 compared to $0.91 for the same period last year. The return on average assets was 1.68% for the first nine months of 2014, as compared to 1.64% for the same period in 2013. The return on average equity was 14.24% for the first nine months of 2014 as compared to 13.53% a year ago.

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 $53.70 million for the third quarter of 2014, as compared to $49.85 million for the same period last year. The increase in 2014 compared to 2013 was largely attributable to the increase in volume of interest earning assets. Average earning assets increased $444.91 million for the third quarter of 2014 over the same period in 2013. Average tax exempt securities, taxable securities and average loans increased $114.09 million, $155.20 million and $177.83 million, respectively, for the third quarter of 2014 over the third quarter of 2013. Average interest bearing liabilities increased $187.06 million for the third quarter of 2014, as compared to the same period in 2013. The yield on earning assets decreased 9 basis points during the third quarter of 2014, whereas the rate paid on interest-bearing liabilities decreased 2 basis points in the third quarter of 2014 primarily due to the effects of lower interest rates.

Tax-equivalent net interest income was $158.47 million for the first nine months of 2014, as compared to $137.83 million for the same period last year. The increase in 2014 compared to 2013 was largely attributable to the increase in volume of interest earning assets. Average earning assets increased $606.19 million for the first nine months of 2014 over the same period in 2013. Average tax exempt securities, taxable securities and average loans increased $133.88 million, $110.48 million and $391.77 million, respectively, for the first nine months of 2014 over the same period in 2013. Average interest bearing liabilities increased $432.94 million for the first nine months period of 2014, as compared to the same period in 2013. The yield on earning assets increased 3 basis points during the first nine months of 2014, whereas the rate paid on interest-bearing liabilities decreased 1 basis point in the first nine months of 2014 primarily due to the effects of lower interest rates.

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):

	Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013			**Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013**		
	Change Attributable to		**Total**	**Change Attributable to**		**Total**
	Volume	**Rate**	**Change**	**Volume**	**Rate**	**Change**
Short-term investments	$ (2)	$ (27)	$ (29)	$ (142)	$ (6)	$ (148)
Taxable investment securities	941	(215)	726	2,001	213	2,214
Tax-exempt investment securities (1)	1,383	(61)	1,322	4,832	421	5,253
Loans (1) (2)	2,249	(512)	1,737	14,828	(1,372)	13,456
Interest income	4,571	(815)	3,756	21,519	(744)	20,775
Interest-bearing deposits	103	(142)	(39)	456	(320)	136
Short-term borrowings	(20)	(36)	(56)	18	(25)	(7)
Interest expense	83	(178)	(95)	474	(345)	129
Net interest income	$ 4,488	$ (637)	$ 3,851	$ 21,045	$ (399)	$ 20,646

(1) Computed on a tax-equivalent basis assuming a marginal tax rate of 35%.
(2) Non-accrual loans are included in loans.

The net interest margin for the third quarter of 2014 was 4.18%, a decrease of 7 basis points from the same period in 2013. The net interest margin for the nine months ended September 30, 2014 was 4.25%, an increase of 4 basis points from the same period in 2013. We expect interest rates to remain at the current low levels based on comments made by the Federal Reserve, which will continue to place pressure on our interest margin.

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The net interest margin, which measures tax-equivalent net interest income as a percentage of average earning assets, is illustrated in Table 2.

Table 2 - Average Balances and Average Yields and Rates (in thousands, except percentages):

	Three Months Ended September 30,					
	2014			2013		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets						
Short-term investments (1)	$ 60,832	$ 80	0.55%	$ 63,045	$ 109	0.76%
Taxable investment securities (2)	1,166,248	6,856	2.35	1,011,050	6,130	2.43
Tax-exempt investment securities (2)(3)	1,057,715	12,763	4.83	943,623	11,441	4.85
Loans (3)(4)	2,814,083	35,070	4.94	2,636,253	33,333	5.02
Total earning assets	5,098,878	$ 54,769	4.26%	4,653,971	$ 51,013	4.35%
Cash and due from banks	143,102			127,800		
Bank premises and equipment, net	100,266			94,864		
Other assets	43,670			48,988		
Goodwill and other intangible assets, net	97,424			97,297		
Allowance for loan losses	(36,093)			(34,428)		
Total assets	$ 5,447,247			$ 4,988,492		
Liabilities and Shareholders Equity						
Interest-bearing deposits	$ 2,892,065	$ 999	0.14%	$ 2,631,862	$ 1,038	0.16%
Short-term borrowings	384,768	70	0.07	457,914	126	0.11
Total interest-bearing liabilities	3,276,833	$ 1,069	0.13%	3,089,776	$ 1,164	0.15%
Noninterest-bearing deposits	1,470,682			1,292,491		
Other liabilities	48,225			37,091		
Total liabilities	4,795,740			4,419,358		
Shareholders equity	651,507			569,134		
Total liabilities and shareholders equity	$ 5,447,247			$ 4,988,492		
Net interest income		$ 53,700			$ 49,849	
Rate Analysis:						
Interest income/earning assets			4.26%			4.35%
Interest expense/earning assets			0.08			0.10
Net yield on earning assets			4.18%			4.25%

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	Nine Months Ended September 30,					
	2014			2013		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets						
Short-term investments (1)	$ 58,538	$ 257	0.62%	$ 88,475	$ 405	0.65%
Taxable investment securities (2)	1,149,156	21,032	2.44	1,038,679	18,818	2.42
Tax-exempt investment securities (2)(3)	1,029,661	37,579	4.87	895,778	32,326	4.81
Loans (3)(4)	2,750,983	102,747	4.99	2,359,216	89,291	5.06
Total earning assets	4,988,338	$ 161,615	4.33%	4,382,148	$ 140,840	4.30%
Cash and due from banks	142,023			126,198		
Bank premises and equipment, net	97,436			90,147		
Other assets	43,457			47,821		
Goodwill and other intangible assets, net	97,458			83,319		
Allowance for loan losses	(35,276)			(34,552)		
Total assets	$ 5,333,436			$ 4,695,081		
Liabilities and Shareholders Equity						
Interest-bearing deposits	$ 2,859,269	$ 2,894	0.14%	$ 2,453,370	$ 2,758	0.15%
Short-term borrowings	405,811	249	0.08	378,775	256	0.09
Total interest-bearing liabilities	3,265,080	$ 3,143	0.13%	2,832,145	$ 3,014	0.14%
Noninterest-bearing deposits	1,397,909			1,245,434		
Other liabilities	41,473			47,939		
Total liabilities	4,704,462			4,125,518		
Shareholders equity	628,974			569,563		
Total liabilities and shareholders equity	$ 5,333,436			$ 4,695,081		
Net interest income		$ 158,472			$ 137,826	
Rate Analysis:						
Interest income/earning assets			4.33%			4.30%
Interest expense/earning assets			0.08			0.09
Net yield on earning assets			4.25%			4.21%

(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 35%.
(4) Non-accrual loans are included in loans.

Noninterest Income. Noninterest income for the third quarter of 2014 was $17.32 million, an increase of $249 thousand over the same period in 2013. Trust fees increased $634 thousand, and ATM, interchange and credit card fees increased $689 thousand. The increase in trust fees reflects an increase in fees from mineral management as well as assets under management over the prior year from both market value growth and growth in assets managed. The fair value of our trust assets managed, which are not reflected in our consolidated balance sheets, totaled $3.66 billion at September 30, 2014 as compared to $3.20 billion a year ago. The increases in ATM, interchange and credit card fees are primarily a result of increases in the number of net new accounts and debit cards.

Offsetting these increases were decreases in real estate mortgage fees of $195 thousand and service charges on deposits of $396 thousand. The decline in real estate mortgage fees is a result of the overall decline in mortgage refinance activity.

Noninterest income for the nine month period ended September 30, 2014 was $49.60 million, an increase of $3.34 million over the same period in 2013. Trust fees increased $2.01 million, ATM, interchange and credit card fees increased $1.98 million and net gain on sale of foreclosed assets increased $1.07 million. The increase in trust fees reflects an increase in fees from mineral management as well as assets under management over the prior year from both market value growth and growth in assets managed. The increases in ATM, interchange and credit card fees are primarily a result of increases in the number of net new accounts and debit cards. The increase in net gain on sale of foreclosed assets is a result of several gains recognized on sales of foreclosed properties in our Orange and Weatherford regions. Also included in noninterest income in the first nine months of 2014 was a $605 thousand gain on the settlement of a bank owned life insurance contract.

Offsetting these increases was a decrease in real estate mortgage fees of $975 thousand, primarily resulting from the overall decline in mortgage refinance activity.

Table 3 - Noninterest Income (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	**Increase (Decrease)**	**2013**	**2014**	**Increase (Decrease)**	**2013**
Trust fees	$ 4,772	$ 634	$ 4,138	$ 13,897	$ 2,013	$ 11,884
Service charges on deposit accounts	4,402	(396)	4,798	12,623	(386)	13,009
ATM, interchange and credit card fees	5,093	689	4,404	14,291	1,976	12,315
Real estate mortgage operations	1,813	(195)	2,008	4,174	(975)	5,149
Net gain (loss) on sale of available-for-sale securities	1	109	(108)	(4)	(151)	147
Net gain (loss) on sale of foreclosed assets	305	269	36	804	1,067	(263)
Other:						
Check printing fees	55	(16)	71	158	(12)	170
Safe deposit rental fees	115	(1)	116	423	30	393
Credit life and debt protection fees	49	(3)	52	115	(31)	146
Brokerage commissions	212	(5)	217	670	159	511
Interest on loan recoveries	50	(54)	104	437	27	410
Gain on sale of assets	(31)	(40)	9	15	(102)	117
Miscellaneous income	488	(742)	1,230	1,998	(274)	2,272
Total other	938	(861)	1,799	3,816	(203)	4,019
Total Noninterest Income	$ 17,324	$ 249	$ 17,075	$ 49,601	$ 3,341	$ 46,260

Noninterest Expense. Total noninterest expense for the third quarter of 2014 was $34.04 million, a decrease of $1.49 million, or 4.20%, as compared to the same period in 2013. An important measure in determining whether a financial institution effectively manages noninterest expense 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 the third quarter of 2014 was 47.93%, compared to 53.10% from the same period in 2013.

Salaries and employee benefits for the third quarter of 2014 totaled $17.95 million, an increase of $449 thousand compared to 2013. The increase was largely the result of additional employees to staff new branches and annual pay increases.

All other categories of noninterest expense for the third quarter of 2014 totaled $16.09 million, a decrease of $1.94 million, or 10.77%, as compared to the same period in 2013. The decrease in non-interest expense was largely attributable to the Company s recognition of $3.40 million in technology contract termination costs related to the Orange acquisition in the third quarter of 2013. There were no such costs in 2014. Offsetting this decrease were increases in net occupancy and equipment expense and ATM, interchange and credit card expense. The increases in net occupancy and equipment expenses primarily resulted from the addition of several new branches and ATMs. ATM, interchange and credit card expenses increased due to a large growth in net new accounts and debit cards.

Total noninterest expense for the first nine months of 2014 was $101.49 million, an increase of $8.57 million, or 9.23%, as compared to the same period in 2013. Our efficiency ratio for the first nine months of 2014 was 48.78%, compared to 50.47% from the same period in 2013.

Salaries and employee benefits for the first nine months of 2014 totaled $52.64 million, an increase of $3.81 million compared to 2013. The increase was largely the result of additional employees to staff new branches, annual pay increases, our Orange acquisition and an increase in health care expenses.

All other categories of noninterest expense for the first nine months of 2014 totaled $48.85 million, an increase of $4.77 million, or 5.13%, as compared to the same period in 2013. The increase in non-interest expense was largely attributable to the Company s recognition of $2.39 million related to a litigation settlement and the deductible from damage sustained in a hail storm in Abilene. Other categories of noninterest expense with increases included net occupancy and equipment expense, printing, stationary and supplies expense, ATM, interchange and credit card expense and advertising. These increases primarily resulted from the Orange acquisition, the addition of several new branches and ATMs and significant growth in net new accounts and debit cards.

Table 4 - Noninterest Expense (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	Increase (Decrease)	2013	2014	Increase (Decrease)	2013
Salaries	$ 13,580	$ 414	$ 13,166	$ 39,623	$ 2,938	$ 36,685
Medical	1,145	(178)	1,323	4,046	429	3,617
Profit sharing	1,596	119	1,477	3,808	70	3,738
Pension	107	(101)	208	321	(302)	623
401(k) match expense	430	65	365	1,289	167	1,122
Payroll taxes	918	44	874	3,019	237	2,782
Stock option expense	174	86	88	532	268	264
Total salaries and employee benefits	17,950	449	17,501	52,638	3,807	48,831
Net occupancy expense	2,297	133	2,164	6,804	809	5,995
Equipment expense	2,758	268	2,490	8,045	899	7,146
FDIC assessment fees	693	53	640	2,035	254	1,781
ATM, interchange and credit card expense	1,819	345	1,474	4,995	834	4,161
Professional and service fees	1,205	(158)	1,363	3,249	51	3,198
Printing, stationery and supplies	632	98	534	1,960	456	1,504
Amortization of intangible assets	62	(15)	77	210	90	120
Other:						
Data processing fees	76	12	64	219	37	182
Postage	420	25	395	1,252	139	1,113
Advertising	918	219	699	2,721	861	1,860
Correspondent bank service charges	222	(28)	250	666	(8)	674
Telephone	515	(72)	587	1,616	190	1,426
Public relations and business development	673	127	546	1,710	231	1,479
Directors fees	193	(9)	202	661	19	642
Audit and accounting fees	439	33	406	1,243	69	1,174
Legal fees	221	47	174	591	64	527
Regulatory exam fees	232	8	224	691	73	618
Travel	254	(51)	305	692	(8)	700
Courier expense	235	43	192	600	30	570
Operational and other losses	393	(92)	485	3,470	2,634	836
Other real estate	128	2	126	397	19	378
Other miscellaneous expense	1,705	(2,931)	4,636	5,024	(2,978)	8,002
Total other	6,624	(2,667)	9,291	21,553	1,372	20,181
Total Noninterest Expense	$ 34,040	$ (1,494)	$ 35,534	$ 101,489	$ 8,572	$ 92,917

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 owner-occupied commercial real estate. 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 September 30, 2014, total loans held for investment were $2.83 billion, an increase of $144.15 million, as compared to December 31, 2013. As compared to December 31, 2013, commercial loans increased $15.36 million, agricultural loans increased $10.79 million, real estate loans increased $96.13 million, and consumer loans increased $21.87 million. Loans averaged $2.81 billion during the third quarter of 2014, an increase of $177.83 million from the prior year third quarter average balances. Loans averaged $2.75 billion during the nine month period ending September 30, 2014, an increase of $391.77 million from the same period average balances of 2013.

Table 5 - Composition of Loans (in thousands):

	September 30,		December 31,
	2014	2013	2013
Commercial	$ 612,092	$ 571,973	$ 596,730
Agricultural	86,718	66,758	75,928
Real estate	1,774,639	1,640,308	1,678,514
Consumer	354,981	330,046	333,113
Total loans held-for-investment	$ 2,828,430	$ 2,609,085	$ 2,684,285

At September 30, 2014, our real estate loans represent approximately 62.74% of our loan portfolio and are comprised of (i) 1-4 family residence loans of 46.66%, (ii) commercial real estate loans of 28.33%, generally owner occupied, (iii) other loans, which includes ranches, hospitals and universities, of 14.45%, (iv) residential development and construction loans of 7.33%, which includes our custom and speculation home construction loans and (v) commercial development and construction loans of 3.23%.

Loans held for sale, consisting of secondary market mortgage loans, totaled $11.27 million, $5.72 million and $5.16 million at September 30, 2014 and 2013, and December 31, 2013, respectively, which were recorded at cost as fair value exceeded cost.

Asset Quality. The loan portfolio of our bank subsidiary 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 non-accrual status when, in the judgment of management, the collectability of principal or interest under the original terms becomes doubtful. Non-accrual, past due 90 days or more and still accruing and restructured loans plus foreclosed assets were $23.63 million at September 30, 2014, as compared to $28.54 million at September 30, 2013 and $31.13 million at December 31, 2013. As a percent of loans and foreclosed assets, these assets were 0.83% at September 30, 2014, as compared to 1.09% at September 30, 2013 and 1.16% at December 31, 2013. As a percent of total assets, these assets were 0.42% at September 30, 2014 as compared to 0.56% at September 30, 2013 and 0.60% at December 31, 2013. 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 September 30, 2014.

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Table 6 Non-accrual, Past Due 90 Days or More and Still Accruing, Restructured Loans and Foreclosed Assets (in thousands, except percentages):

	September 30, 2014	September 30, 2013	December 31, 2013
Non-accrual loans*	$ 22,093	$ 22,809	$ 27,926
Loans still accruing and past due 90 days or more	263	54	133
Troubled debt restructured loans**			
Foreclosed assets	1,273	5,672	3,069
Total	$ 23,629	$ 28,535	$ 31,128
As a % of loans and foreclosed assets	0.83%	1.09%	1.16%
As a % of total assets	0.42%	0.56%	0.60%

* Includes $2.38 million, $2.95 million and $2.71 million of purchased credit impaired loans as of September 30, 2014 and 2013, and December 31, 2013, respectively.

** Troubled debt restructured loans of $10.11 million, $14.74 million and $13.30 million, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans at September 30, 2014 and 2013, and December 31, 2013, respectively. At this time, all of our restructured loans are included in non-accrual loans.

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 the December 31, 2013 impaired loans above of approximately $486 thousand during the year ended December 31, 2013. If interest on these impaired loans had been recognized on a full accrual basis during the year ended December 31, 2013, such income would have approximated $2.53 million. Such amounts for the 2014 and 2013 interim periods were insignificant.

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 note 5 to our notes to the consolidated financial statements (unaudited). The provision for loan losses was $896 thousand for the third quarter of 2014, as compared to $1.35 million for the third quarter of 2013. The provision for loan losses was $3.71 million for the first nine months of 2014, compared to $2.58 million for the same period in 2013. The continued provision for loan losses in 2014 and 2013 reflects the growth in loans and continuing levels of nonperforming and classified assets. As a percent of average loans, net loan charge-offs were 0.06% for the third quarter of 2014 compared to 0.10% during the third quarter of 2013. As a percent of average loans, net loan charge-offs were 0.06% for the first nine months of 2014, compared to 0.15% for the same period of 2013. The allowance for loan losses as a percent of loans was 1.28% as of September 30, 2014, as compared to 1.26% as of December 31, 2013 and 1.33% as of September 30, 2013. Included in Table 7 is further analysis of our allowance for loan losses.

Table 7 - Loan Loss Experience and Allowance for Loan Losses (in thousands, except percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Allowance for loan losses at period end	$ 36,388	$ 34,800	$ 36,388	$ 34,800
Loans held for investment at period end	2,828,430	2,609,085	2,828,430	2,609,085
Average loans for period	2,814,083	2,636,253	2,750,983	2,359,216
Net charge-offs/average loans (annualized)	0.06%	0.10%	0.06%	0.15%
Allowance for loan losses/period-end loans	1.28%	1.33%	1.28%	1.33%
Allowance for loan losses/non-accrual loans, past due 90 days still accruing and restructured loans	162.77%	152.21%	162.77%	152.21%

Interest-Bearing Deposits in Banks. At September 30, 2014, our interest-bearing deposits in banks were $103.23 million compared with $82.99 million and $57.42 million as of September 30, 2013 and December 31, 2013, respectively. At September 30, 2014, interest-bearing deposits in banks included $19.23 million invested in FDIC-insured certificates of deposit, $83.70 million maintained at the Federal Reserve Bank of Dallas and $296 thousand on deposit with the Federal Home Loan Bank of Dallas (FHLB).

Available-for-Sale and Held-to-Maturity Securities. At September 30, 2014, securities with a fair value of $2.25 billion were classified as securities available-for-sale and securities with an amortized cost of $554 thousand were classified as securities held-to-maturity. As compared to December 31, 2013, the available-for-sale portfolio at September 30, 2014 reflected (i) a decrease of $30.79 million in obligations of U.S. government sponsored-enterprises and agencies, (ii) an increase of $110.70 million in obligations of states and political subdivisions, (iii) a decrease of $9.35 million in corporate and other bonds, (iv) an increase of $124.95 million in mortgage-backed securities and (v) an increase of $520 thousand in U.S. Treasury securities. Our mortgage related securities are backed by GNMA, FNMA or FHLMC or are collateralized by securities guaranteed by these agencies.

See note 4 to the consolidated financial statements (unaudited) for additional disclosures relating to the maturities and fair values of the investment portfolio at September 30, 2014 and December 31, 2013.

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Table 8 - Maturities and Yields of Available-for-Sale Securities Held at September 30, 2014 (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	$	%	$ 520	1.17%	$	%	$	%	$ 520	1.17%
Obligations of U.S. government sponsored-enterprises and agencies	22,011	1.85	85,290	1.17					107,301	1.31
Obligations of states and political subdivisions	45,482	3.78	520,210	5.07	527,658	5.35	8,619	7.60	1,101,969	5.17
Corporate bonds and other securities	10,229	1.77	89,464	2.57					99,693	2.49
Mortgage-backed securities	4,637	4.59	628,363	2.54	311,066	2.54	213	2.57	944,279	2.55
Total	$ 82,359	3.06%	$ 1,323,847	3.45%	$ 838,724	4.31%	$ 8,832	7.48%	$ 2,253,762	3.77%

Amounts for held-to-maturity securities are not included herein due to insignificance.

All yields are computed on a tax-equivalent basis assuming a marginal tax rate of 35%. 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 September 30, 2014, the investment portfolio had an overall tax equivalent yield of 3.77%, a weighted average life of 4.61 years and modified duration of 4.10 years.

Deposits. Deposits held by our subsidiary bank represent our primary source of funding. Total deposits were $4.46 billion as of September 30, 2014, as compared to $4.00 billion as of September 30, 2013. Table 9 provides a breakdown of average deposits and rates paid for the three and nine month periods ended September 30, 2014 and 2013.

Table 9 - Composition of Average Deposits (in thousands, except percentages):

	Three Months Ended September 30,			
	2014		2013	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	$ 1,470,682	%	$ 1,292,491	%
Interest-bearing deposits:				
Interest-bearing checking	1,317,199	0.10	1,145,687	0.13
Savings and money market accounts	897,391	0.06	789,311	0.06
Time deposits under $100,000	277,113	0.25	298,815	0.25
Time deposits of $100,000 or more	400,362	0.34	398,049	0.34
Total interest-bearing deposits	2,892,065	0.14%	2,631,862	0.16%
Total average deposits	$ 4,362,747		$ 3,924,353	

	Nine Months Ended September 30,			
	2014		2013	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	$ 1,397,909	%	$ 1,245,434	%
Interest-bearing deposits:				
Interest-bearing checking	1,307,362	0.11	1,062,035	0.11
Savings and money market accounts	869,072	0.06	733,626	0.06
Time deposits under $100,000	283,469	0.23	286,240	0.26
Time deposits of $100,000 or more	399,366	0.31	371,469	0.34
Total interest-bearing deposits	2,859,269	0.14%	2,453,370	0.15%
Total average deposits	$ 4,257,178		$ 3,698,804	

Short-Term Borrowings. Included in short-term borrowings were federal funds purchased, securities sold under repurchase agreements and advances from the FHLB of $341.91 million and $466.50 million at September 30, 2014 and 2013, 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 balance of federal funds purchased, securities sold under repurchase agreements and advances from the FHLB was $384.77 million and $457.91 million in the third quarter of 2014 and 2013, respectively. The weighted average interest rate paid on these short-term borrowings was 0.07% and 0.11% for the third quarter of 2014 and 2013, respectively. The average balances of federal funds purchased, securities sold under repurchase agreements and advances from the FHLB was $405.81 million and $378.77 million for the nine month periods ended September 30, 2014 and 2013, respectively. The weighted average interest rate paid on these short-term borrowings was 0.08% and 0.09% for the first nine months of 2014 and 2013, 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 $658.77 million, or 11.81% of total assets at September 30, 2014, as compared to $568.24 million, or 11.20% of total assets, at September 30, 2013. Included in shareholders equity at September 30, 2014 and September 30, 2013, were $43.22 million and $12.91 million, respectively, in unrealized gains on investment securities available-for-sale, net of related income taxes. For the third quarter of 2014, total shareholders equity averaged $651.51 million, or 11.96% of average assets, as compared to $569.13 million, or 11.41% of average assets, during the same period in 2013. For the nine months ended September 30, 2014, total shareholders equity averaged $628.97 million, or 11.79% of total assets, compared to $569.56 million, or 12.13% of total assets, during the same period in 2013.

Banking regulators measure capital adequacy by means of the risk-based capital ratio and leverage ratio. The risk-based capital rules provide for the weighting of assets and off-balance-sheet commitments and contingencies according to prescribed risk categories ranging from 0% to 100%. 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. Regulatory minimums to be designated well capitalized for total risk-based, Tier 1 risk-based and leverage ratios are 10.00%, 6.00% and 5.00% respectively. As of September 30, 2014, our total risk-based, Tier 1 risk-based and leverage capital ratios on a consolidated basis were 17.20%, 16.07% and 10.10%, respectively, as compared to total risk-based, Tier 1 risk-based and leverage capital ratios of 16.49%, 15.37% and 9.77% as of September 30, 2013. We believe by all measurements our capital ratios remain well above regulatory requirements to be considered well capitalized by the regulators.

Interest Rate Risk

Interest rate risk results when the maturity or re-pricing 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 September 30, 2014, the model simulations projected that 100 and 200 basis point increases in interest rates would result in positive variances in net interest income of 0.31% and 0.46%, respectively, relative to the base case over the next twelve months, while decreases in interest rates of 50 basis points would result in a negative variance in net interest income of 2.32% relative to the base case over the next twelve months. The likelihood of a decrease in interest rates beyond 50 basis points as of September 30, 2014 is considered 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

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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 re-pricing 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. 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 $341.91 million at September 30, 2014, and an unfunded $25.00 million revolving line of credit established with Frost Bank, a nonaffiliated bank, which matures on June 30, 2015 (see next paragraph). Our subsidiary bank also has federal funds purchased lines of credit with two non-affiliated banks totaling $100.00 million. At September 30, 2014, there were no amounts drawn on these lines of credit. Our subsidiary bank also has available a line of credit with the FHLB totaling $881.56 million, at September 30, 2014, secured by portions of our loan portfolio and certain investment securities. At September 30, 2014, $1.04 million in advances and $7.00 million in letters of credit issued by the FHLB were outstanding under this line of credit. The letters of credit were pledged as collateral for public funds held by our subsidiary bank.

The Company renewed its loan agreement, effective June 30, 2013, 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, 2015, interest is paid quarterly at Wall Street Journal Prime Rate and the line of credit matures June 30, 2015. If a balance exists at June 30, 2015, the principal balance converts to a term facility payable quarterly over five years and interest is paid quarterly at our election at 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

September 30, 2014. There was no outstanding balance under the line of credit as of September 30, 2014 or December 31, 2013.

In addition, we anticipate that future acquisitions of financial institutions, expansion of branch locations or offerings of new products could also place a demand on our cash resources. Available cash and cash equivalents at our parent company which totaled $69.43 million at September 30, 2014, investment securities which totaled $12.18 million at September 30, 2014 which matures over 9 to 16 years, available dividends from our subsidiaries which totaled $69.45 million at September 30, 2014, 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. Existing cash resources at our subsidiary bank may also be used as a 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- and long-term liquidity needs.

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 our 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 10 Commitments as of September 30, 2014 (in thousands):

	Total Notional Amounts Committed
Unfunded lines of credit	$ 463,915
Unfunded commitments to extend credit	130,928
Standby letters of credit	27,829
Total commercial commitments	$ 622,672

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.

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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 September 30, 2014, approximately $69.45 million was available for the payment of intercompany dividends by our subsidiaries without the prior approval of regulatory agencies. Our subsidiaries paid aggregate dividends of $34.00 million and $30.80 million for the nine-month periods ended September 30, 2014 and 2013, respectively.

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 39.21% and 42.52% of net earnings for the first nine months of 2014 and the same period in 2013, respectively. Given our current capital position and projected earnings and asset growth rates, we do not anticipate any significant change in our current dividend policy. On April 22, 2014, the Board of Directors declared a $0.14 (post split) per share cash dividend that was paid July 1, 2014 to shareholders of record on June 16, 2014. This represented a 7.69 percent increase in quarterly dividends from the third quarter of 2013.

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 Office of the Comptroller of the Currency (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 Federal Deposit Insurance Corporation (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 FDIC and the OCC have issued policy statements that recommend that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management considers interest rate risk to be a significant market risk for the Company. See Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources - Interest Rate Risk for disclosure regarding this market risk.

Item 4. Controls and Procedures

As of September 30, 2014, 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 pursuant to Rule 13a-15 or 15d-15 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 under Rule 13a-15 or 15d-15 of the Securities Exchange Act of 1934, are effective at the reasonable assurance level as of September 30, 2014.

Subsequent to our evaluation, there were no significant changes in internal controls over financial reporting or other factors that have materially affected, or are reasonably likely to materially affect, these internal controls.

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PART II

OTHER INFORMATION

Item 1. 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 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 1A. Risk Factors

There has been no material change in the risk factors previously disclosed under Item 1A. of the Company s 2013 Annual Report on Form 10-K.

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

None

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

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Item 6. Exhibits

The following exhibits are filed as part of this report:

2.1	Agreement and Plan of Merger between First Financial Bankshares, Inc., First Financial Bank, N.A., OSB Financial Services, Inc. and Orange Savings Bank, SSB, dated as of February 20, 2013 (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 February 26, 2013).
3.1	Amended and Restated Certificate of Formation (incorporated by reference from Exhibit 3.1 of the Registrant s Form 8-K filed April 25, 2012).
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference from Exhibit 3.2 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	Executive Recognition Agreement (incorporated by reference from Exhibit 10.1 of the Registrant s Form 8-K Report filed June 30, 2014).
10.2	2002 Incentive Stock Option Plan (incorporated by reference from Exhibit 10.3 of the Registrant s Form 10-Q filed May 4, 2010).
10.3	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).
10.4	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).
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

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SIGNATURES

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

	FIRST FINANCIAL BANKSHARES, INC.
Date: November 4, 2014	**By: /s/ F. Scott Dueser** **F. Scott Dueser** **President and Chief Executive Officer**
Date: November 4, 2014	**By: /s/ J. Bruce Hildebrand** **J. Bruce Hildebrand** **Executive Vice President and** **Chief Financial Officer**