

QCR HOLDINGS INC  
Form 10-Q  
November 07, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-22208

**QCR HOLDINGS, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**42-1397595**

(I.R.S. Employer Identification No.)

**3551 7<sup>th</sup> Street, Moline, Illinois 61265**

(Address of principal executive offices, including zip code)

**(309) 743-7724**

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of November 1, 2014, the Registrant had outstanding 7,942,188 shares of common stock, \$1.00 par value per share.

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## QCR HOLDINGS, INC. AND SUBSIDIARIES

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**QCR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)****As of September 30, 2014 and December 31, 2013**

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Cash and due from banks	\$42,326,177	\$41,950,790
Federal funds sold	29,760,000	39,435,000
Interest-bearing deposits at financial institutions	34,631,773	33,044,917
Securities held to maturity, at amortized cost	185,840,139	145,451,895
Securities available for sale, at fair value	466,944,567	551,758,458
Total securities	652,784,706	697,210,353
Loans receivable held for sale	1,642,300	1,358,290
Loans/leases receivable held for investment	1,571,226,845	1,458,921,268
Gross loans/leases receivable	1,572,869,145	1,460,279,558
Less allowance for estimated losses on loans/leases	(22,767,917 )	(21,448,048 )
Net loans/leases receivable	1,550,101,228	1,438,831,510
Premises and equipment, net	36,001,748	36,755,364
Goodwill	3,222,688	3,222,688
Core deposit intangible	1,720,799	1,870,433
Bank-owned life insurance	53,278,942	52,002,041
Restricted investment securities	15,303,175	17,027,625
Other real estate owned, net	10,679,847	9,729,053
Other assets	20,784,470	23,873,150
Total assets	\$2,450,595,553	\$2,394,952,924
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$535,967,035	\$542,566,087
Interest-bearing	1,177,900,358	1,104,425,156
Total deposits	1,713,867,393	1,646,991,243
Short-term borrowings	162,186,698	149,292,967
Federal Home Loan Bank advances	196,500,000	231,350,000
Other borrowings	151,455,209	142,448,362
Junior subordinated debentures	40,389,809	40,289,830
Other liabilities	48,016,468	37,003,742
Total liabilities	2,312,415,577	2,247,376,144

**STOCKHOLDERS' EQUITY**

Preferred stock, \$1 par value; shares authorized 250,000	-	29,867
September 2014 - 0 shares issued and outstanding		
December 2013 - 29,867 shares issued and outstanding		
Common stock, \$1 par value; shares authorized 20,000,000	8,058,059	8,005,708
September 2014 - 8,058,059 shares issued and 7,936,813 outstanding		
December 2013 - 8,005,708 shares issued and 7,884,462 outstanding		
Additional paid-in capital	61,277,831	90,154,528
Retained earnings	75,199,959	64,637,173
Accumulated other comprehensive loss:		
Securities available for sale	(4,596,938 )	(13,643,986 )
Interest rate cap derivatives	(152,425 )	-
Less treasury stock, September 2014 and December 2013 - 121,246 common shares, at cost	(1,606,510 )	(1,606,510 )
Total stockholders' equity	138,179,976	147,576,780
Total liabilities and stockholders' equity	\$2,450,595,553	\$2,394,952,924

See Notes to Consolidated Financial Statements (Unaudited)

**QCR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)****Three Months Ended September 30,**

	2014	2013
Interest and dividend income:		
Loans/leases, including fees	\$ 17,735,190	\$ 18,262,579
Securities:		
Taxable	2,327,836	2,417,515
Nontaxable	1,531,534	1,090,880
Interest-bearing deposits at financial institutions	66,397	72,808
Restricted investment securities	128,153	143,640
Federal funds sold	7,532	8,821
Total interest and dividend income	21,796,642	21,996,243
Interest expense:		
Deposits	1,168,385	1,393,745
Short-term borrowings	64,665	57,277
Federal Home Loan Bank advances	1,497,456	1,704,824
Other borrowings	1,279,626	1,201,498
Junior subordinated debentures	311,179	328,563
Total interest expense	4,321,311	4,685,907
Net interest income	17,475,331	17,310,336
Provision for loan/lease losses	1,063,323	1,366,984
Net interest income after provision for loan/lease losses	16,412,008	15,943,352
Noninterest income:		
Trust department fees	1,355,700	1,312,349
Investment advisory and management fees	726,908	634,446
Deposit service fees	1,168,961	1,228,685
Gains on sales of residential real estate loans	120,627	184,596
Gains on sales government guaranteed portions of loans	158,736	338,338
Securities gains	19,429	416,936
Earnings on bank-owned life insurance	434,065	466,028
Income (losses) on other real estate owned, net	30,596	(36,745 )
Other	1,052,620	1,390,020
Total noninterest income	5,067,642	5,934,653
Noninterest expense:		
Salaries and employee benefits	10,358,783	9,802,712
Occupancy and equipment expense	1,805,949	1,914,996
Professional and data processing fees	1,530,139	1,902,799

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FDIC and other insurance	711,792	712,954
Loan/lease expense	184,908	396,477
Advertising and marketing	555,076	406,085
Postage and telephone	146,759	276,580
Stationery and supplies	138,377	143,226
Bank service charges	337,067	306,539
Acquisition and data conversion costs	-	388,663
Other	619,259	776,237
Total noninterest expense	16,388,109	17,027,268
Net income before income taxes	5,091,541	4,850,737
Federal and state income tax expense	1,028,876	1,038,793
Net income	\$4,062,665	\$3,811,944
Less: Preferred stock dividends	-	810,837
Net income attributable to QCR Holdings, Inc. common stockholders	\$4,062,665	\$3,001,107
Earnings per common share attributable to QCR Holdings, Inc. common shareholders		
Basic	\$0.51	\$0.52
Diluted	\$0.50	\$0.51
Weighted average common shares outstanding	7,931,944	5,806,019
Weighted average common and common equivalent shares outstanding	8,053,985	5,915,279
Cash dividends declared per common share	\$-	\$-

See Notes to Consolidated Financial Statements (Unaudited)



**QCR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)****Nine Months Ended September 30,**

	2014	2013
Interest and dividend income:		
Loans/leases, including fees	\$51,379,586	\$49,721,011
Securities:		
Taxable	7,484,279	7,507,796
Nontaxable	4,434,005	2,837,453
Interest-bearing deposits at financial institutions	228,167	194,286
Restricted investment securities	396,648	399,896
Federal funds sold	14,544	12,684
Total interest and dividend income	63,937,229	60,673,126
Interest expense:		
Deposits	3,371,593	3,687,391
Short-term borrowings	177,172	224,979
Federal Home Loan Bank advances	4,549,412	5,164,258
Other borrowings	3,625,751	3,555,146
Junior subordinated debentures	923,386	831,647
Total interest expense	12,647,314	13,463,421
Net interest income	51,289,915	47,209,705
Provision for loan/lease losses	3,159,364	3,944,903
Net interest income after provision for loan/lease losses	48,130,551	43,264,802
Noninterest income:		
Trust department fees	4,300,456	3,549,200
Investment advisory and management fees	2,086,758	1,938,881
Deposit service fees	3,306,769	3,190,731
Gains on sales of residential real estate loans	317,085	722,368
Gains on sales government guaranteed portions of loans	860,923	1,949,300
Securities gains	40,625	433,396
Earnings on bank-owned life insurance	1,276,901	1,328,598
Bargain purchase gain on Community National Acquisition	-	1,841,385
Losses on other real estate owned, net	(114,109 )	(566,714 )
Other	3,083,288	3,700,293
Total noninterest income	15,158,696	18,087,438
Noninterest expense:		
Salaries and employee benefits	30,298,892	27,731,628
Occupancy and equipment expense	5,539,208	4,930,707

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Professional and data processing fees	4,518,460	4,481,613
FDIC and other insurance	2,121,907	1,896,255
Loan/lease expense	908,036	893,436
Advertising and marketing	1,394,211	1,082,694
Postage and telephone	695,555	752,882
Stationery and supplies	435,763	404,614
Bank service charges	959,496	866,379
Acquisition and data conversion costs	-	1,177,567
Other	1,763,530	2,002,342
Total noninterest expense	48,635,058	46,220,117
Net income before income taxes	14,654,189	15,132,123
Federal and state income tax expense	2,694,473	4,009,804
Net income	\$11,959,716	\$11,122,319
Less: Preferred stock dividends	1,081,877	2,432,512
Net income attributable to QCR Holdings, Inc. common stockholders	\$10,877,839	\$8,689,807
Earnings per common share attributable to QCR Holdings, Inc. common shareholders		
Basic	\$1.37	\$1.62
Diluted	\$1.35	\$1.59
Weighted average common shares outstanding	7,919,201	5,375,557
Weighted average common and common equivalent shares outstanding	8,040,418	5,482,298
Cash dividends declared per common share	\$0.04	\$0.04

See Notes to Consolidated Financial Statements (Unaudited)

**QCR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)****Three and Nine Months Ended September 30, 2014 and 2013**

	Three Months Ended September 30,	
	2014	2013
Net income	\$4,062,665	\$3,811,944
Other comprehensive income loss:		
Unrealized losses on securities available for sale:		
Unrealized holding losses arising during the period before tax	(1,455,231)	(800,796 )
Less reclassification adjustment for gains included in net income before tax	19,429	416,936
	(1,474,660)	(1,217,732)
Unrealized gain on derivative instruments	98,724	-
Other comprehensive loss, before tax	(1,375,936)	(1,217,732)
Tax benefit	(563,761 )	(399,541 )
Other comprehensive loss, net of tax	(812,175 )	(818,191 )
Comprehensive income attributable to QCR Holdings, Inc.	\$3,250,490	\$2,993,753
	Nine Months Ended September 30,	
	2014	2013
Net income	\$11,959,716	\$11,122,319
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	14,691,007	(23,395,367)
Less reclassification adjustment for gains included in net income before tax	40,625	433,396
	14,650,382	(23,828,763)
Unrealized losses on derivative instruments	(152,425 )	-
Other comprehensive income (loss), before tax	14,497,957	(23,828,763)
Tax expense (benefit)	5,603,334	(9,082,725 )
Other comprehensive income (loss), net of tax	8,894,623	(14,746,038)
Comprehensive income (loss) attributable to QCR Holdings, Inc.	\$20,854,339	\$(3,623,719 )

See Notes to Consolidated Financial Statements (Unaudited)



## QCR HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

Nine Months Ended September 30, 2014

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
<b>Balance</b>							
<b>December 31, 2013</b>	<b>\$29,867</b>	<b>\$8,005,708</b>	<b>\$90,154,528</b>	<b>\$64,637,173</b>	<b>\$(13,643,986)</b>	<b>\$(1,606,510)</b>	<b>\$147,576,780</b>
Net income	-	-	-	3,889,215	-	-	3,889,215
Other comprehensive income, net of tax - unrealized gains on securities available for sale	-	-	-	-	5,230,784	-	5,230,784
Preferred cash dividends declared	-	-	-	(708,008)	-	-	(708,008)
Redemption of 15,000 shares of Series F Noncumulative Perpetual Preferred Stock	(15,000)	-	(14,985,000)	-	-	-	(15,000,000)
Proceeds from issuance of 6,189 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	6,189	78,256	-	-	-	84,445
Proceeds from issuance of 9,814 shares of common stock	-	9,814	85,582	-	-	-	95,396

as a result of stock options exercised							
Stock compensation expense	-	-	347,752				347,752
Tax benefit of nonqualified stock options exercised	-	-	18,647	-	-	-	18,647
Restricted stock awards	-	27,197	(27,197 )	-	-	-	-
Exchange of 10,300 shares of common stock in connection with restricted stock vested, net	-	(10,300 )	(167,684 )	-	-	-	(177,984 )
<b>Balance March 31, 2014</b>	<b>\$14,867</b>	<b>\$8,038,608</b>	<b>\$75,504,884</b>	<b>\$67,818,380</b>	<b>\$(8,413,202 )</b>	<b>\$(1,606,510)</b>	<b>\$141,357,027</b>
Net income	-	-	-	4,007,836	-	-	4,007,836
Other comprehensive income, net of tax - unrealized gains on securities available for sale of \$4,727,163, unrealized losses on interest rate cap derivatives of (\$251,149)	-	-	-	-	4,476,014	-	4,476,014
Common cash dividends declared, \$0.04 per share	-	-	-	(315,053 )	-	-	(315,053 )
Preferred cash dividends declared	-	-	-	(373,869 )	-	-	(373,869 )
Redemption of 14,867 shares of Series F Noncumulative Perpetual Preferred Stock	(14,867)	-	(14,809,055)	-	-	-	(14,823,922 )
Proceeds from issuance of	-	8,361	119,797	-	-	-	128,158

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8,361 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan							
Proceeds from issuance of 630 shares of common stock as a result of stock options exercised	-	630	5,159	-	-	-	5,789
Stock compensation expense	-	-	179,265				179,265
Tax benefit of nonqualified stock options exercised	-	-	1,284	-	-	-	1,284
Restricted stock awards	-	2,290	(2,290 )	-	-	-	-
<b>Balance June 30, 2014</b>	<b>\$-</b>	<b>\$8,049,889</b>	<b>\$60,999,044</b>	<b>\$71,137,294</b>	<b>\$(3,937,188 )</b>	<b>\$(1,606,510)</b>	<b>\$134,642,529</b>
Net income	-	-	-	4,062,665	-	-	4,062,665
Other comprehensive loss, net of tax - unrealized losses on securities available for sale of (\$910,899), unrealized gains on interest rate cap derivatives \$98,724	-	-	-	-	(812,175 )	-	(812,175 )
Proceeds from issuance of 5,481 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	5,481	78,533	-	-	-	84,014
	-	2,400	19,097	-	-	-	21,497

Proceeds from issuance of 2,400 shares of common stock as a result of stock options exercised							
Tax benefit of nonqualified stock options exercised		5,189				5,189	
Stock compensation expense	-	-	176,257				176,257
Restricted stock awards	-	289	(289)	)	-	-	-
<b>Balance</b>							
<b>September 30, 2014</b>	<b>\$-</b>	<b>\$8,058,059</b>	<b>\$61,277,831</b>	<b>\$75,199,959</b>	<b>\$(4,749,363)</b>	<b>\$(1,606,510)</b>	<b>\$138,179,976</b>

(Continued)



## QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED) -  
continued

Nine Months Ended September 30, 2013

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
<b>Balance</b>							
<b>December 31, 2012</b>	<b>\$54,867</b>	<b>\$5,039,448</b>	<b>\$78,912,791</b>	<b>\$53,326,542</b>	<b>\$4,706,683</b>	<b>\$(1,606,510)</b>	<b>\$140,433,821</b>
Net income	-	-	-	3,265,144	-	-	3,265,144
Other comprehensive loss, net of tax - unrealized losses on securities available for sale	-	-	-	-	(836,358 )	-	(836,358 )
Preferred cash dividends declared	-	-	-	(810,837 )	-	-	(810,837 )
Proceeds from issuance of 5,884 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	5,884	63,487	-	-	-	69,371
Proceeds from issuance of 19,278 shares of common stock as a result of stock options exercised	-	19,278	153,550	-	-	-	172,828
Exchange of 7,048 shares of common stock in connection with stock options exercised	-	(7,048 )	(111,628 )	-	-	-	(118,676 )
	-	-	293,798				293,798

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Stock compensation expense							
Tax benefit of nonqualified stock options exercised	-	-	35,251	-	-	-	35,251
Restricted stock awards	-	16,798	(16,798 )	-	-	-	-
Exchange of 16,798 shares of common stock in connection with restricted stock vested, net	-	(16,798 )	(289,113 )	-	-	-	(305,911 )
<b>Balance March 31, 2013</b>	<b>\$54,867</b>	<b>\$5,057,562</b>	<b>\$79,041,338</b>	<b>\$55,780,849</b>	<b>\$3,870,325</b>	<b>\$(1,606,510)</b>	<b>\$142,198,431</b>
Net income	-	-	-	4,045,231	-	-	4,045,231
Other comprehensive loss, net of tax - unrealized losses on securities available for sale	-	-	-	-	(13,091,489 )	-	(13,091,489 )
Common cash dividends declared, \$0.04 per share	-	-	-	(228,971 )	-	-	(228,971 )
Preferred cash dividends declared	-	-	-	(810,838 )	-	-	(810,838 )
Proceeds from issuance of 834,715 shares of common stock as a result of the acquisition of Community National Bancorporation, net	-	834,715	12,181,894	-	-	-	13,016,609
Proceeds from issuance of 9,560 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	9,560	104,221	-	-	-	113,781
	-	3,769	33,070	-	-	-	36,839

Proceeds from issuance of 3,769 shares of common stock as a result of stock options exercised			162,123				162,123
Stock compensation expense	-	-					
Tax benefit of nonqualified stock options exercised	-	-	4,197	-	-	-	4,197
Restricted stock awards	-	12,707	(12,707)	-	-	-	-
<b>Balance June 30, 2013</b>	<b>\$54,867</b>	<b>\$5,918,313</b>	<b>\$91,514,136</b>	<b>\$58,786,271</b>	<b>\$(9,221,164)</b>	<b>\$(1,606,510)</b>	<b>\$145,445,913</b>
Net income	-	-	-	3,811,944	-	-	3,811,944
Other comprehensive loss, net of tax - unrealized losses on securities available for sale	-	-	-	-	(818,191)	-	(818,191)
Preferred cash dividends declared	-	-	-	(810,837)	-	-	(810,837)
Proceeds from issuance of 5,973 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	-	5,973	65,116	-	-	-	71,089
Proceeds from issuance of 7,230 shares of common stock as a result of stock options exercised	-	7,230	76,718	-	-	-	83,948
Tax benefit of nonqualified stock options exercised			6,026				6,026
Stock compensation expense	-	-	163,585				163,585
Restricted stock awards	-	332	(332)	-	-	-	-

**Balance**

**September 30, 2013**    **\$54,867**    **\$5,931,848**    **\$91,825,249**    **\$61,787,378**    **\$(10,039,355)**    **\$(1,606,510)**    **\$147,953,477**

See Notes to Consolidated Financial Statements (Unaudited)

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**QCR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****Nine Months Ended September 30, 2014 and 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 11,959,716	\$ 11,122,319
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,092,992	1,995,829
Provision for loan/lease losses	3,159,364	3,944,903
Stock-based compensation expense	703,274	619,506
Deferred compensation expense accrued	996,941	623,781
Losses on other real estate owned, net	114,109	566,714
Amortization of premiums on securities, net	1,470,641	2,862,396
Securities gains	(40,625 )	(433,396 )
Loans originated for sale	(32,643,486 )	(70,569,738 )
Proceeds on sales of loans	33,537,484	76,372,739
Gains on sales of residential real estate loans	(317,085 )	(722,368 )
Gains on sales of government guaranteed portions of loans	(860,923 )	(1,949,300 )
Amortization of core deposit intangible	149,634	129,003
Accretion of acquisition fair value adjustments, net	(549,604 )	(592,620 )
Gain on the sale of premises and equipment	(42,554 )	-
Increase in cash value of bank-owned life insurance	(1,276,901 )	(1,328,598 )
Bargain purchase gain on Community National acquisition	-	(1,841,385 )
Decrease (increase) in other assets	(595,429 )	7,319,681
Increase in other liabilities	687,445	2,553,307
Net cash provided by operating activities	\$ 18,544,993	\$ 30,672,773
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net decrease (increase) in federal funds sold	9,675,000	(9,297,000 )
Net decrease (increase) in interest-bearing deposits at financial institutions	(1,586,856 )	8,521,233
Proceeds from sales of other real estate owned	1,172,365	662,586
Purchase of derivative instruments	(2,071,650 )	-
Activity in securities portfolio:		
Purchases	(48,493,532 )	(297,033,410)
Calls, maturities and redemptions	30,827,423	138,661,369
Paydowns	19,147,455	38,967,219
Sales	65,754,467	37,393,047
Activity in restricted investment securities:		
Purchases	(1,653,450 )	(6,184,250 )
Redemptions	3,377,900	7,243,400
Net increase in loans/leases originated and held for investment	(115,589,620)	(65,747,455 )
Net cash received from the sale of premises and equipment	291,006	-
Purchase of premises and equipment	(1,587,828 )	(1,597,434 )

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Net cash received from Community National acquisition	-	3,025,073
Net cash used in investing activities	\$(40,737,320 )	\$(145,385,622)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Net increase in deposit accounts	66,893,213	112,711,191
Net increase (decrease) in short-term borrowings	12,893,731	(1,823,399 )
Activity in Federal Home Loan Bank advances:		
Advances	17,000,000	163,000,000
Calls and maturities	(51,850,000 )	(160,000,000)
Proceeds from term debt	10,000,000	10,000,000
Principal payments on term debt	(1,000,000 )	-
Payment on 364-day revolving note	-	(5,600,000 )
Repayment of Community National's other borrowings at acquisition	-	(3,950,000 )
Payment of cash dividends on common and preferred stock	(1,964,607 )	(2,853,434 )
Redemption of 15,000 shares of Series F Noncumulative Perpetual Preferred Stock, net	(15,000,000 )	-
Redemption of 14,867 shares of Series F Noncumulative Perpetual Preferred Stock, net	(14,823,922 )	-
Proceeds from issuance of common stock, net	419,299	384,315
Net cash provided by financing activities	\$22,567,714	\$111,868,673
Net increase (decrease) in cash and due from banks	375,387	(2,844,176 )
Cash and due from banks, beginning	41,950,790	61,568,446
Cash and due from banks, ending	\$42,326,177	\$58,724,270

(Continued)

**QCR HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - continued****Nine Months Ended September 30, 2014 and 2013**

	2014	2013
<b>Supplemental disclosure of cash flow information, cash payments for:</b>		
Interest	\$ 12,445,044	\$ 13,546,215
Income/franchise taxes	\$ 3,457,500	\$ 1,371,120
<b>Supplemental schedule of noncash investing activities:</b>		
Change in accumulated other comprehensive income (loss), unrealized gains (losses) on securities available for sale and derivative instruments, net	\$ 8,894,623	\$ (14,746,038 )
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	\$ (177,984 )	\$ (424,587 )
Transfers of loans to other real estate owned	\$ 2,237,268	\$ 5,220,235
Change in due to broker	\$ 9,750,000	\$ -
<b>Supplemental disclosure of cash flow information for Community National Acquisition:</b>		
<b>Fair value of assets acquired:</b>		
Cash and due from banks *	\$ -	\$ 9,286,757
Federal funds sold	-	12,335,000
Interest-bearing deposits at financial institutions	-	2,024,539
Securities available for sale	-	45,853,826
Loans/leases receivable held for investment, net	-	195,658,486
Premises and equipment, net	-	8,132,021
Core deposit intangible	-	3,440,076
Bank-owned life insurance	-	4,595,529
Restricted investment securities	-	1,259,375
Other real estate owned	-	550,326
Other assets	-	5,178,583
Total assets acquired	\$ -	\$ 288,314,518
<b>Fair value of liabilities assumed:</b>		
Deposits	\$ -	\$ 255,045,071
Other borrowings	-	3,950,000
Junior subordinated debentures	-	4,125,175
Other liabilities	-	3,911,053
Total liabilities assumed	\$ -	\$ 267,031,299

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Net assets acquired	\$-	\$21,283,219
<b>Consideration paid:</b>		
Cash paid *	\$-	\$6,261,684
Issuance of 834,715 shares of common stock	-	13,180,150
Total consideration paid	\$-	\$19,441,834
Bargain purchase gain	\$-	\$1,841,385
* Net cash received at closing totaled \$3,025,073		

See Notes to Consolidated Financial Statements (Unaudited)



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Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation: The interim unaudited consolidated financial statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended December 31, 2013, included in QCR Holdings, Inc.'s (the "Company") Form 10-K filed with the Securities and Exchange Commission on March 10, 2014. Accordingly, footnote disclosures, which would substantially duplicate the disclosures contained in the audited consolidated financial statements, have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. Any differences appearing between the numbers presented in financial statements and management's discussion and analysis are due to rounding. The results of the interim period ended September 30, 2014, are not necessarily indicative of the results expected for the year ending December 31, 2014.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries which include three commercial banks: Quad City Bank & Trust Company ("QCBT"), Cedar Rapids Bank & Trust Company ("CRBT"), and Rockford Bank & Trust Company ("RB&T"). On May 13, 2013, the Company acquired Community National Bancorporation ("Community National") and its banking subsidiary Community National Bank ("CNB"). The Company operated CNB as a separate banking charter from the acquisition date until October 26, 2013, when CNB's charter was merged with and into CRBT. CNB's merged branch offices operate as a division of CRBT under the name of "Community Bank & Trust". QCBT, CRBT, and RB&T are all state-chartered commercial banks. The Company also engages in direct financing lease contracts through m2 Lease Funds, LLC ("m2 Lease Funds"), a wholly-owned subsidiary of QCBT. All material intercompany transactions and balances have been eliminated in consolidation.

Recent accounting developments: In January 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The objective of ASU 2014-04 is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU 2014-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014 and is not expected to have a significant impact on the Company’s consolidated financial statements.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective on January 1, 2017 and is not expected to have a significant impact on the Company’s financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

In June 2014, FASB issued ASU 2014-11, *Transfers and Servicing*. ASU 2014-11 requires that repurchase-to-maturity transactions be accounted for as secured borrowings, consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entail the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. The standard requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral and remaining tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 is effective on January 1, 2015 and is not expected to have a significant impact on the Company's consolidated financial statements.

In August 2014, FASB issued ASU 2014-14, *Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure*. ASU 2014-14 requires creditors to reclassify loans that are within the scope of the ASU to "other receivables" upon foreclosure, rather than reclassifying them as other real estate owned. The most common types of government guaranteed loans include those guaranteed by the Federal Housing Authority (FHA), U.S. Department of Housing and Urban Development (HUD), U.S. Department of Veterans Affairs (VA) and the U.S. Small Business Administration (SBA). The separate other receivable recorded upon foreclosure is to be measured based on the amount of the loan balance (principal and interest) the creditor expects to recover from the guarantor. ASU 2014-14 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014 and is not expected to have a significant impact on the Company's consolidated financial statements.

Allowance for estimated losses on loans/leases: The Company has certain loans risk-rated 7 (substandard), which are not classified as impaired based on the facts of the credit. For these non-impaired and risk-rated 7 loans, the Company does not provide a general allowance as it does for all other non-impaired loans. Rather, the Company performs a more precise analysis including evaluation of the cash flow and collateral valuation for each individual credit. A specific allowance is established based upon this evaluation. These non-impaired risk-rated 7 loans exist primarily in the commercial and industrial and commercial real estate segments.

Reclassifications: Certain amounts in the prior year consolidated financial statements have been reclassified, with no effect on net income or stockholders' equity, to conform with the current period presentation.



## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and fair value of investment securities as of September 30, 2014 and December 31, 2013 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
<b>September 30, 2014</b>				
Securities held to maturity:				
Municipal securities	\$184,790,139	\$1,861,338	\$(1,765,426)	\$184,886,051
Other securities	1,050,000	-	-	1,050,000
	\$185,840,139	\$1,861,338	\$(1,765,426)	\$185,936,051
Securities available for sale:				
U.S. govt. sponsored agency securities	\$315,019,934	\$30,913	\$(9,046,242)	\$306,004,605
Residential mortgage-backed and related securities	127,822,284	1,372,274	(1,414,809)	127,779,749
Municipal securities	30,209,955	1,149,656	(99,465)	31,260,146
Other securities	1,354,116	545,951	-	1,900,067
	\$474,406,289	\$3,098,794	\$(10,560,516)	\$466,944,567
<b>December 31, 2013:</b>				
Securities held to maturity:				
Municipal securities	\$144,401,895	\$299,789	\$(7,111,579)	\$137,590,105
Other securities	1,050,000	-	-	1,050,000
	\$145,451,895	\$299,789	\$(7,111,579)	\$138,640,105
Securities available for sale:				
U.S. govt. sponsored agency securities	\$376,574,132	\$41,696	\$(20,142,841)	\$356,472,987
Residential mortgage-backed and related securities	160,110,199	1,153,409	(3,834,157)	157,429,451
Municipal securities	35,813,866	923,315	(778,324)	35,958,857
Other securities	1,372,365	524,798	-	1,897,163
	\$573,870,562	\$2,643,218	\$(24,755,322)	\$551,758,458

The Company's held to maturity municipal securities consist largely of private issues of municipal debt. The municipalities are located within the Midwest with a portion in or adjacent to the communities of QCBT and CRBT. The municipal debt investments are underwritten using specific guidelines with ongoing monitoring.

The Company's residential mortgage-backed and related securities portfolio consists entirely of government sponsored or government guaranteed securities. The Company has not invested in commercial mortgage-backed securities or pooled trust preferred securities.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2014 and December 31, 2013, are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>September 30, 2014:</b>						
Securities held to maturity:						
Municipal securities	\$29,794,026	\$(633,024 )	\$43,172,941	\$(1,132,402 )	\$72,966,967	\$(1,765,426 )
Securities available for sale:						
U.S. govt. sponsored agency securities	\$32,208,945	\$(156,930 )	\$262,773,625	\$(8,889,312 )	\$294,982,570	\$(9,046,242 )
Residential mortgage-backed and related securities	10,125,288	(74,264 )	58,008,272	(1,340,545 )	68,133,560	(1,414,809 )
Municipal securities	1,446,532	(3,113 )	5,616,381	(96,352 )	7,062,913	(99,465 )
	\$43,780,765	\$(234,307 )	\$326,398,278	\$(10,326,209 )	\$370,179,043	\$(10,560,516 )
<b>December 31, 2013:</b>						
Securities held to maturity:						
Municipal securities	\$101,983,602	\$(6,711,240 )	\$2,697,375	\$(400,339 )	\$104,680,977	\$(7,111,579 )
Securities available for sale:						
U.S. govt. sponsored agency securities	\$333,194,820	\$(19,141,077 )	\$10,978,390	\$(1,001,764 )	\$344,173,210	\$(20,142,841 )
Residential mortgage-backed and related securities	94,723,092	(2,947,770 )	14,117,719	(886,387 )	108,840,811	(3,834,157 )
Municipal securities	13,890,692	(724,939 )	985,687	(53,385 )	14,876,379	(778,324 )

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\$441,808,604 \$(22,813,786) \$26,081,796 \$(1,941,536 ) \$467,890,400 \$(24,755,322)

At September 30, 2014, the investment portfolio included 505 securities. Of this number, 241 securities had current unrealized losses with aggregate depreciation of less than 3% from the total amortized cost basis. Of these, 190 securities had an unrealized loss for twelve months or more. All of the debt securities in unrealized loss positions are considered acceptable credit risks. Based upon an evaluation of the available evidence, including the recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary. In addition, the Company does not intend to sell these securities and it is not more-likely-than-not that the Company will be required to sell these debt securities before their anticipated recovery. At September 30, 2014 and December 31, 2013, equity securities represented less than 1% of the total portfolio.

The Company did not recognize other-than-temporary impairment on any debt or equity securities for the three and nine months ended September 30, 2014 and 2013.



## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

All sales of securities for the three and nine months ended September 30, 2014 and 2013, respectively, were from securities identified as available for sale. Information on proceeds received, as well as pre-tax gross gains and losses from sales on those securities are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Proceeds from sales of securities	\$39,876,889	\$31,225,516	\$65,754,467	\$37,393,047
Pre-tax gross gains from sales of securities	357,934	506,611	379,130	523,071
Pre-tax gross losses from sales of securities	(338,505 )	(89,675 )	(338,505 )	(89,675 )

The amortized cost and fair value of securities as of September 30, 2014 by contractual maturity are shown below. Expected maturities of residential mortgage-backed and related securities may differ from contractual maturities because the residential mortgages underlying the residential mortgage-backed and related securities may be called or prepaid without any penalties. Therefore, these securities are not included in the maturity categories in the following table. "Other securities" available for sale are excluded from the maturity categories as there is no fixed maturity date for those securities.

	Amortized Cost	Fair Value
Securities held to maturity:		
Due in one year or less	\$12,682,406	\$12,683,453
Due after one year through five years	16,825,667	16,856,667
Due after five years	156,332,066	156,395,931
	\$185,840,139	\$185,936,051
Securities available for sale:		
Due in one year or less	\$3,649,998	\$3,664,418
Due after one year through five years	60,972,541	60,242,076
Due after five years	280,607,350	273,358,257
	\$345,229,889	\$337,264,751
Residential mortgage-backed and related securities	127,822,284	127,779,749

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Other securities	1,354,116	1,900,067
	\$474,406,289	\$466,944,567

Portions of the U.S. government sponsored agency securities and municipal securities contain call options, at the discretion of the issuer, to terminate the security at par and at predetermined dates prior to the stated maturity, summarized as follows:

	Amortized Cost	Fair Value
Securities held to maturity:		
Municipal securities	\$99,883,698	\$100,074,857
Securities available for sale:		
U.S. govt. sponsored agency securities	250,617,040	243,092,527
Municipal securities	18,473,306	18,985,950
	\$269,090,346	\$262,078,477

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The Company had available for sale municipal securities with a fair value of \$31.3 million and \$36.0 million as of September 30, 2014 and December 31, 2013, respectively. In addition, the Company had held to maturity municipal securities which were reported at amortized cost totaling \$184.8 million and \$144.4 million as of September 30, 2014 and December 31, 2013, respectively.

As of September 30, 2014, the Company's municipal securities portfolios were comprised of general obligation bonds with fair values totaling \$63.2 million and revenue bonds issued by 272 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling \$153.0 million. The Company held investments in general obligation bonds in 19 states, including three states in which the aggregate fair value exceeded \$5.0 million. The Company held investments in revenue bonds in eight states, including four states in which the aggregate fair value exceeded \$5.0 million.

As of December 31, 2013, the Company's municipal securities portfolios were comprised of general obligation bonds with fair values totaling \$54.2 million and revenue bonds issued by 269 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling \$119.3 million. The Company held investments in general obligation bonds in 20 states, including two states in which the aggregate fair value exceeded \$5.0 million. The Company held investments in revenue bonds in eight states, including four states in which the aggregate fair value exceeded \$5.0 million.

The amortized cost and fair values of the Company's portfolio of general obligation bonds are summarized in the following tables by the issuer's state:

**September 30, 2014:**

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Illinois	32	\$23,058,258	\$23,431,499	\$732,234

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Iowa	25	16,557,625	16,746,965	669,879
Missouri	12	6,136,797	6,097,169	508,097
Other	52	16,674,720	16,908,510	325,164
Total general obligation bonds	121	\$62,427,400	\$63,184,143	\$522,183

**December 31, 2013:**

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Iowa	30	\$17,946,059	\$17,444,045	\$581,468
Illinois	36	15,063,325	15,264,718	424,020
Other	67	22,166,026	21,512,582	321,083
Total general obligation bonds	133	\$55,175,410	\$54,221,345	\$407,679

The general obligations bonds are diversified across many issuers. As of September 30, 2014 and December 31, 2013, the Company did not hold general obligation bonds of any single issuer, the aggregate book or market value of which exceeded 10% of the Company's stockholders' equity. Of the general obligation bonds in the Company's portfolio, the majority are unrated bonds that represent small, private issuances. All unrated general obligation bonds were underwritten according to loan underwriting standards and have an average risk rating of 2, indicating very high quality. Additionally, many of these bonds are funding essential services (water, sewer, education, medical facilities).

## Part I

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The amortized cost and fair values of the Company's portfolio of revenue bonds are summarized in the following tables by the issuer's state:

**September 30, 2014:**

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Iowa	37	\$59,955,899	\$60,603,053	\$1,637,920
Missouri	65	54,016,464	53,997,386	830,729
Indiana	12	17,991,200	17,835,277	1,486,273
Kansas	6	12,310,134	12,139,318	2,023,220
Other	31	8,298,997	8,387,020	270,549
Total revenue bonds	151	\$152,572,694	\$152,962,054	\$1,012,994

**December 31, 2013:**

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Iowa	31	\$47,903,572	\$46,257,997	\$1,492,193
Missouri	57	42,085,249	40,054,613	702,713
Indiana	8	15,020,000	14,324,717	1,790,590
Kansas	5	11,022,382	9,997,068	1,999,414
Other	35	9,009,148	8,693,222	248,378
Total revenue bonds	136	\$125,040,351	\$119,327,617	\$877,409

The revenue bonds are diversified across many issuers. As of September 30, 2014 and December 31, 2013, the Company did not hold revenue bonds of any single issuer, the aggregate book or market value of which exceeded 10% of the Company's stockholders' equity. Of the revenue bonds in the Company's portfolio, the majority are unrated bonds that represent small, private issuances. All unrated revenue bonds were underwritten according to loan underwriting standards and have an average risk rating of 2, indicating very high quality. Additionally, many of these bonds are funding essential services (water, sewer, education, medical facilities).

The Company's municipal securities are owned by each of the three charters, whose investment policies set forth limits for various subcategories within the municipal securities portfolio. Each charter is monitored individually and as of September 30, 2014, all were well-within policy limitations approved by the board of directors. Policy limits are calculated as a percentage of total risk-based capital.

As of September 30, 2014, the Company's regular monitoring of its municipal securities portfolio had not uncovered any facts or circumstances resulting in significantly different credits ratings than those assigned by a nationally recognized statistical rating organization, or in the case of unrated bonds, the rating assigned using the credit underwriting standards.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 3 – LOANS/LEASES RECEIVABLE

The composition of the loan/lease portfolio as of September 30, 2014 and December 31, 2013 is presented as follows:

	As of September 30, 2014	As of December 31, 2013
Commercial and industrial loans	\$479,747,059	\$431,688,129
Commercial real estate loans		
Owner-occupied commercial real estate	251,076,360	261,215,912
Commercial construction, land development, and other land	69,856,024	57,844,902
Other non owner-occupied commercial real estate	376,795,649	352,692,115
	697,728,033	671,752,929
Direct financing leases *	162,476,079	128,901,442
Residential real estate loans **	154,954,020	147,356,323
Installment and other consumer loans	71,760,173	76,033,810
	1,566,665,364	1,455,732,633
Plus deferred loan/lease origination costs, net of fees	6,203,781	4,546,925
	1,572,869,145	1,460,279,558
Less allowance for estimated losses on loans/leases	(22,767,917 )	(21,448,048 )
	\$1,550,101,228	\$1,438,831,510
* Direct financing leases:		
Net minimum lease payments to be received	\$184,475,603	\$145,662,254
Estimated unguaranteed residual values of leased assets	1,538,482	1,694,499
Unearned lease/residual income	(23,538,006 )	(18,455,311 )
	162,476,079	128,901,442
Plus deferred lease origination costs, net of fees	6,339,575	4,814,183
	168,815,654	133,715,625
Less allowance for estimated losses on leases	(3,106,887 )	(2,517,217 )
	\$165,708,767	\$131,198,408

\*Management performs an evaluation of the estimated unguaranteed residual values of leased assets on an annual basis, at a minimum. The evaluation consists of discussions with reputable and current vendors and management's expertise and understanding of the current states of particular industries to determine informal valuations of the equipment. As necessary and where available, management will utilize valuations by independent appraisers. The large majority of leases with residual values contain a lease options rider which requires the lessee to pay the residual value directly, finance the payment of the residual value, or extend the lease term to pay the residual value. In these cases, the residual value is protected and the risk of loss is minimal. There were no losses related to residual values for the three and nine months ended September 30, 2014 and 2013.

\*\*Includes residential real estate loans held for sale totaling \$1,642,300 and \$1,358,290 as of September 30, 2014, and December 31, 2013, respectively.



## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The aging of the loan/lease portfolio by classes of loans/leases as of September 30, 2014 and December 31, 2013 is presented as follows:

Classes of Loans/Leases	As of September 30, 2014					Total	
	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases		
Commercial and Industrial	\$470,898,126	\$638,002	\$284,380	\$-	\$7,926,551	\$479,747,059	
Commercial Real Estate Owner-Occupied	249,903,102	-	-	-	1,173,258	251,076,360	
Commercial Construction, Land Development, and Other Land	68,732,309	510,364	-	-	613,351	69,856,024	
Other Non Owner-Occupied Commercial Real Estate	363,737,989	266,956	25,543	-	12,765,161	376,795,649	
Direct Financing Leases	159,714,653	699,590	392,119	-	1,669,717	162,476,079	
Residential Real Estate	153,145,275	49,543	382,281	51,094	1,325,827	154,954,020	
Installment and Other Consumer	70,404,267	284,429	203,591	4,312	863,574	71,760,173	
	\$1,536,535,721	\$2,448,884	\$1,287,914	\$55,406	\$26,337,439	\$1,566,665,364	
As a percentage of total loan/lease portfolio	98.08	% 0.16	% 0.08	% 0.00	% 1.68	% 100.00	%

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Classes of Loans/Leases	As of December 31, 2013						
	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	Total	
Commercial and Industrial Commercial Real Estate	\$429,557,699	\$199,949	\$185,500	\$-	\$1,744,981	\$431,688,129	
Owner-Occupied Commercial Real Estate	258,557,660	465,418	993,163	60,286	1,139,385	261,215,912	
Commercial Construction, Land Development, and Other Land	56,301,186	358,626	-	-	1,185,090	57,844,902	
Other Non Owner-Occupied Commercial Real Estate	341,743,730	476,877	151,017	-	10,320,491	352,692,115	
Direct Financing Leases	126,878,515	714,464	414,005	-	894,458	128,901,442	
Residential Real Estate	142,353,936	3,088,516	275,262	20,126	1,618,483	147,356,323	
Installment and Other Consumer	74,811,489	127,082	116,468	3,762	975,009	76,033,810	
	\$1,430,204,215	\$5,430,932	\$2,135,415	\$84,174	\$17,877,897	\$1,455,732,633	
As a percentage of total loan/lease portfolio	98.25	% 0.37	% 0.15	% 0.01	% 1.23	% 100.00	%

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Nonperforming loans/leases by classes of loans/leases as of September 30, 2014 and December 31, 2013 are presented as follows:

Classes of Loans/Leases	As of September 30, 2014					Percentage of Total Nonperforming Loans/Leases
	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases *	Troubled Debt Restructurings - Accruing	Total Nonperforming Loans/Leases		
Commercial and Industrial Commercial Real Estate	\$-	\$ 7,926,551	\$ 1,437,974	\$ 9,364,525	32.83	%
Owner-Occupied Commercial Real Estate	-	1,173,258	-	1,173,258	4.11	%
Commercial Construction, Land Development, and Other Land	-	613,351	-	613,351	2.15	%
Other Non Owner-Occupied Commercial Real Estate	-	12,765,161	-	12,765,161	44.76	%
Direct Financing Leases	-	1,669,717	-	1,669,717	5.85	%
Residential Real Estate	51,094	1,325,827	333,895	1,710,816	6.00	%
Installment and Other Consumer	4,312	863,574	357,000	1,224,886	4.29	%
	\$55,406	\$ 26,337,439	\$ 2,128,869	\$ 28,521,714	100.00	%

\*Nonaccrual loans/leases includes \$9,620,674 of troubled debt restructurings, including \$81,043 in commercial and industrial loans, \$8,768,590 in commercial real estate loans, \$64,144 in direct financing leases, \$515,827 in residential real estate loans, and \$191,070 in installment loans.

Classes of Loans/Leases	As of December 31, 2013					Percentage of Total Nonperforming Loans/Leases
	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases **	Troubled Debt Restructurings - Accruing	Total Nonperforming Loans/Leases		

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Commercial and Industrial Commercial Real Estate	\$-	\$ 1,744,981	\$ 878,381	\$ 2,623,362	12.81	%
Owner-Occupied Commercial Real Estate	60,286	1,139,385	-	1,199,671	5.86	%
Commercial Construction, Land Development, and Other Land	-	1,185,090	-	1,185,090	5.79	%
Other Non Owner-Occupied Commercial Real Estate	-	10,320,491	905,205	11,225,696	54.80	%
Direct Financing Leases	-	894,458	-	894,458	4.37	%
Residential Real Estate	20,126	1,618,483	371,995	2,010,604	9.82	%
Installment and Other Consumer	3,762	975,009	367,000	1,345,771	6.57	%
	\$84,174	\$ 17,877,897	\$ 2,522,581	\$ 20,484,652	100.00	%

\*\*Nonaccrual loans/leases includes \$10,890,785 of troubled debt restructurings, including \$77,072 in commercial and industrial loans, \$10,077,501 in commercial real estate loans, \$446,996 in residential real estate loans, and \$289,216 in installment loans.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Changes in the allowance for estimated losses on loans/leases by portfolio segment for the three and nine months ended September 30, 2014 and 2013, respectively, are presented as follows:

## Three Months Ended September 30, 2014

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$6,549,378	\$10,277,692	\$3,319,131	\$1,439,185	\$1,481,638	\$23,067,024
Provisions (credits) charged to expense	851,542	(196,865 )	509,657	(53,963 )	(47,048 )	1,063,323
Loans/leases charged off	(741,127 )	(120,505 )	(741,478 )	(42,022 )	(86,370 )	(1,731,502 )
Recoveries on loans/leases previously charged off	254,265	68,346	19,577	9,870	17,014	369,072
Balance, ending	\$6,914,058	\$10,028,668	\$3,106,887	\$1,353,070	\$1,365,234	\$22,767,917

## Three Months Ended September 30, 2013

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$4,790,828	\$12,190,497	\$2,187,605	\$1,165,341	\$822,108	\$21,156,379
Provisions (credits) charged to expense	765,582	88,761	338,984	102,523	71,134	1,366,984
Loans/leases charged off	(214,920 )	(443,721 )	(203,724 )	(13,599 )	(51,673 )	(927,637 )
Recoveries on loans/leases previously charged off	26,034	375,325	644	13,240	51,420	466,663
Balance, ending	\$5,367,524	\$12,210,862	\$2,323,509	\$1,267,505	\$892,989	\$22,062,389

## Nine Months Ended September 30, 2014

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	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$5,648,774	\$10,705,434	\$2,517,217	\$1,395,849	\$1,180,774	\$21,448,048
Provisions (credits) charged to expense	1,930,050	(460,356 )	1,428,678	42,712	218,280	3,159,364
Loans/leases charged off	(967,207 )	(436,056 )	(885,966 )	(95,464 )	(102,107 )	(2,486,800 )
Recoveries on loans/leases previously charged off	302,441	219,646	46,958	9,973	68,287	647,305
Balance, ending	\$6,914,058	\$10,028,668	\$3,106,887	\$1,353,070	\$1,365,234	\$22,767,917

Nine Months Ended September 30, 2013

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$4,531,545	\$11,069,502	\$1,990,395	\$1,070,328	\$1,263,434	\$19,925,204
Provisions (credits) charged to expense	1,026,073	1,875,132	1,057,744	307,196	(321,242 )	3,944,903
Loans/leases charged off	(253,820 )	(1,264,446 )	(726,395 )	(126,490 )	(192,160 )	(2,563,311 )
Recoveries on loans/leases previously charged off	63,726	530,674	1,765	16,471	142,957	755,593
Balance, ending	\$5,367,524	\$12,210,862	\$2,323,509	\$1,267,505	\$892,989	\$22,062,389

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The allowance for estimated losses on loans/leases by impairment evaluation and by portfolio segment as of September 30, 2014 and December 31, 2013 is presented as follows:

	As of September 30, 2014						
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	
Allowance for impaired loans/leases	\$2,204,926	\$2,473,500	\$165,617	\$129,859	\$506,860	\$5,480,762	
Allowance for nonimpaired loans/leases	4,709,132	7,555,168	2,941,270	1,223,211	858,374	17,287,155	
	\$6,914,058	\$10,028,668	\$3,106,887	\$1,353,070	\$1,365,234	\$22,767,917	
Impaired loans/leases	\$8,258,681	\$14,431,006	\$1,669,717	\$1,659,722	\$1,278,089	\$27,297,215	
Nonimpaired loans/leases	471,488,378	683,297,027	160,806,362	153,294,298	70,482,084	1,539,368,149	
	\$479,747,059	\$697,728,033	\$162,476,079	\$154,954,020	\$71,760,173	\$1,566,665,364	
Allowance as a percentage of impaired loans/leases	26.70	% 17.14	% 9.92	% 7.82	% 39.66	% 20.08	%
Allowance as a percentage nonimpaired loans/leases	1.00	% 1.11	% 1.83	% 0.80	% 1.22	% 1.12	%
	1.44	% 1.44	% 1.91	% 0.87	% 1.90	% 1.45	%

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As of December 31, 2013										
	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total				
Allowance for impaired loans/leases	\$927,453	\$3,174,704	\$192,847	\$246,266	\$467,552	\$5,008,822				
Allowance for nonimpaired loans/leases	4,721,321	7,530,730	2,324,370	1,149,583	713,222	16,439,226				
	\$5,648,774	\$10,705,434	\$2,517,217	\$1,395,849	\$1,180,774	\$21,448,048				
Impaired loans/leases	\$1,761,850	\$12,956,915	\$894,458	\$2,116,747	\$1,350,450	\$19,080,420				
Nonimpaired loans/leases	429,926,279	658,796,014	128,006,984	145,239,576	74,683,360	1,436,652,213				
	\$431,688,129	\$671,752,929	\$128,901,442	\$147,356,323	\$76,033,810	\$1,455,732,633				
Allowance as a percentage of impaired loans/leases	52.64	% 24.50	% 21.56	% 11.63	% 34.62	% 26.25				
Allowance as a percentage nonimpaired loans/leases	1.10	% 1.14	% 1.82	% 0.79	% 0.95	% 1.14				
	1.31	% 1.59	% 1.95	% 0.95	% 1.55	% 1.47				



## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Information for impaired loans/leases is presented in the tables below. The recorded investment represents customer balances net of any partial charge-offs recognized on the loan/lease. The unpaid principal balance represents the recorded balance outstanding on the loan/lease prior to any partial charge-offs.

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the nine months ended September 30, 2014 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
Commercial and Industrial Commercial Real Estate	\$560,005	\$667,983	\$-	\$647,016	\$ 19,754	\$ 19,754
Owner-Occupied Commercial Real Estate	760,586	873,808	-	536,402	-	-
Commercial Construction, Land Development, and Other Land	1,385,356	1,496,556	-	1,615,643	-	-
Other Non Owner-Occupied Commercial Real Estate	4,989,393	5,044,816	-	3,169,784	13,283	13,283
Direct Financing Leases	1,109,844	1,109,884	-	966,959	-	-
Residential Real Estate	1,113,535	1,113,535	-	1,332,539	2,879	2,879
Installment and Other Consumer	455,457	455,457	-	520,020	-	-
	\$10,374,176	\$10,762,039	\$-	\$8,788,363	\$ 35,916	\$ 35,916
Impaired Loans/Leases with Specific Allowance Recorded:						
Commercial and Industrial Commercial Real Estate	\$7,698,676	\$8,464,069	\$2,204,926	\$1,702,548	\$ -	\$ -
	439,701	439,701	143,453	282,878	-	-

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Owner-Occupied Commercial Real Estate						
Commercial Construction, Land Development, and Other Land	794,703	806,703	457,086	801,643	-	-
Other Non Owner-Occupied Commercial Real Estate	6,061,267	6,760,858	1,872,961	5,971,713	-	-
Direct Financing Leases	559,873	559,873	165,617	425,472	-	-
Residential Real Estate	546,187	546,187	129,859	520,782	2,074	2,074
Installment and Other Consumer	822,632	822,632	506,860	779,968	2,670	2,670
	\$ 16,923,039	\$ 18,400,023	\$ 5,480,762	\$ 10,485,004	\$ 4,744	\$ 4,744
Total Impaired Loans/Leases:						
Commercial and Industrial Commercial Real Estate	\$ 8,258,681	\$ 9,132,052	\$ 2,204,926	\$ 2,349,564	\$ 19,754	\$ 19,754
Owner-Occupied Commercial Real Estate	1,200,287	1,313,509	143,453	819,280	-	-
Commercial Construction, Land Development, and Other Land	2,180,059	2,303,259	457,086	2,417,286	-	-
Other Non Owner-Occupied Commercial Real Estate	11,050,660	11,805,674	1,872,961	9,141,497	13,283	13,283
Direct Financing Leases	1,669,717	1,669,757	165,617	1,392,431	-	-
Residential Real Estate	1,659,722	1,659,722	129,859	1,853,321	4,953	4,953
Installment and Other Consumer	1,278,089	1,278,089	506,860	1,299,988	2,670	-
	\$ 27,297,215	\$ 29,162,062	\$ 5,480,762	\$ 19,273,367	\$ 40,660	\$ 40,660

Impaired loans/leases for which no allowance has been provided have adequate collateral, based on management's current estimates.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of and for the three months ended September 30, 2014 and 2013, respectively, are presented as follows:

Classes of Loans/Leases	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
Commercial and Industrial Commercial Real Estate	\$621,836	\$ 17,855	\$ 17,855	\$834,405	\$ 1,950	\$ 1,950
Owner-Occupied Commercial Real Estate	751,191	-	-	2,295,969	-	-
Commercial Construction, Land Development, and Other Land	1,397,733	-	-	1,943,718	-	-
Other Non Owner-Occupied Commercial Real Estate	4,051,261	-	-	1,739,053	354	354
Direct Financing Leases	1,152,456	-	-	527,153	-	-
Residential Real Estate	1,186,197	704	704	1,273,943	-	-
Installment and Other Consumer	494,498	-	-	1,012,035	1,689	1,689
	\$9,655,172	\$ 18,559	\$ 18,559	\$9,626,276	\$ 3,993	\$ 3,993
Impaired Loans/Leases with Specific Allowance Recorded:						
Commercial and Industrial Commercial Real Estate	\$3,454,429	\$ -	\$ -	\$1,913,841	\$ 9,340	\$ 9,340
Owner-Occupied Commercial Real Estate	439,701	-	-	1,181,798	-	-
Commercial Construction, Land Development, and Other Land	796,194	-	-	1,897,759	1,992	1,992
	6,034,473	-	-	8,893,535	26,484	26,484

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Other Non Owner-Occupied

Commercial Real Estate

Direct Financing Leases	578,317	-	-	172,428	-	-
Residential Real Estate	564,278	1,296	1,296	561,752	801	801
Installment and Other Consumer	826,092	890	890	422,808	-	-
	\$12,693,484	\$ 2,186	\$ 2,186	\$15,043,921	\$ 38,617	\$ 38,617

Total Impaired Loans/Leases:

Commercial and Industrial	\$4,076,265	\$ 17,855	\$ 17,855	\$2,748,246	\$ 11,290	\$ 11,290
Commercial Real Estate						
Owner-Occupied Commercial Real Estate	1,190,892	-	-	3,477,767	-	-
Commercial Construction, Land Development, and Other Land	2,193,927	-	-	3,841,477	1,992	1,992
Other Non Owner-Occupied Commercial Real Estate	10,085,734	-	-	10,632,588	26,838	26,838
Direct Financing Leases	1,730,773	-	-	699,581	-	-
Residential Real Estate	1,750,475	2,000	2,000	1,835,695	801	801
Installment and Other Consumer	1,320,590	890	890	1,434,843	1,689	1,689
	\$22,348,656	\$ 20,745	\$ 20,745	\$24,670,197	\$ 42,610	\$ 42,610

Impaired loans/leases for which no allowance has been provided have adequate collateral, based on management's current estimates.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of December 31, 2013 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired Loans/Leases with No Specific Allowance Recorded:			
Commercial and Industrial Commercial Real Estate	\$492,622	\$568,951	\$-
Owner-Occupied Commercial Real Estate	392,542	392,542	-
Commercial Construction, Land Development, and Other Land	1,943,168	2,054,368	-
Other Non Owner-Occupied Commercial Real Estate	1,790,279	1,902,279	-
Direct Financing Leases	557,469	557,469	-
Residential Real Estate	1,071,927	1,071,927	-
Installment and Other Consumer	509,667	509,667	-
	\$6,757,674	\$7,057,203	\$-
Impaired Loans/Leases with Specific Allowance Recorded:			
Commercial and Industrial Commercial Real Estate	\$1,269,228	\$1,956,755	\$927,453
Owner-Occupied Commercial Real Estate	159,247	159,247	67,498
Commercial Construction, Land Development, and Other Land	888,547	1,011,747	503,825
Other Non Owner-Occupied Commercial Real Estate	7,783,132	8,488,414	2,603,381
Direct Financing Leases	336,989	336,989	192,847
Residential Real Estate	1,044,820	1,044,820	246,266
Installment and Other Consumer	840,783	840,783	467,552
	\$12,322,746	\$13,838,755	\$5,008,822
Total Impaired Loans/Leases:			
Commercial and Industrial Commercial Real Estate	\$1,761,850	\$2,525,706	\$927,453
Owner-Occupied Commercial Real Estate	551,789	551,789	67,498
Commercial Construction, Land Development, and Other Land	2,831,715	3,066,115	503,825
Other Non Owner-Occupied Commercial Real Estate	9,573,411	10,390,693	2,603,381
Direct Financing Leases	894,458	894,458	192,847

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Residential Real Estate	2,116,747	2,116,747	246,266
Installment and Other Consumer	1,350,450	1,350,450	467,552
	\$ 19,080,420	\$ 20,895,958	\$ 5,008,822

Impaired loans/leases for which no allowance has been provided have adequate collateral, based on management's current estimates.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

For commercial and industrial and commercial real estate loans, the Company's credit quality indicator is internally assigned risk ratings. Each commercial loan is assigned a risk rating upon origination. The risk rating is reviewed every 15 months, at a minimum, and on an as needed basis depending on the specific circumstances of the loan.

For direct financing leases, residential real estate loans, and installment and other consumer loans, the Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated daily by the Company's loan system.

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of September 30, 2014 and December 31, 2013:

Internally Assigned Risk Rating	As of September 30, 2014				Total
	Commercial and Industrial	Owner-Occupied Commercial Real Estate	Commercial Real Estate Non Owner-Occupied Construction, Land Development, and Other Land	Other Commercial Real Estate	
Pass (Ratings 1 through 5)	\$448,093,142	\$241,429,419	\$66,448,462	\$349,173,522	\$1,105,144,545
Special Mention (Rating 6)	15,306,200	6,598,947	-	2,058,884	23,964,031
Substandard (Rating 7)	16,347,717	3,047,994	3,407,562	25,563,243	48,366,516
Doubtful (Rating 8)	-	-	-	-	-
	\$479,747,059	\$251,076,360	\$69,856,024	\$376,795,649	\$1,177,475,092

Delinquency Status *	As of September 30, 2014			Total
	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	

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Performing	\$ 160,806,362	\$ 153,243,203	\$ 70,535,287	\$ 384,584,852
Nonperforming	1,669,717	1,710,817	1,224,886	4,605,420
	\$ 162,476,079	\$ 154,954,020	\$ 71,760,173	\$ 389,190,272

As of December 31, 2013

Internally Assigned Risk Rating	Commercial Real Estate				Total
	Commercial and Industrial	Owner-Occupied Commercial Real Estate	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other Commercial Real Estate	
Pass (Ratings 1 through 5)	\$407,294,743	\$250,028,731	\$51,868,919	\$326,168,882	\$1,035,361,275
Special Mention (Rating 6)	11,355,713	8,318,232	1,588,086	3,310,017	24,572,048
Substandard (Rating 7)	13,037,673	2,868,949	4,387,897	23,213,216	43,507,735
Doubtful (Rating 8)	-	-	-	-	-
	\$431,688,129	\$261,215,912	\$57,844,902	\$352,692,115	\$1,103,441,058

As of December 31, 2013

Delinquency Status *	As of December 31, 2013			Total
	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	
Performing	\$ 128,006,984	\$ 145,345,719	\$ 74,688,039	\$ 348,040,742
Nonperforming	894,458	2,010,604	1,345,771	4,250,833
	\$ 128,901,442	\$ 147,356,323	\$ 76,033,810	\$ 352,291,575

\*Performing = loans/leases accruing and less than 90 days past due. Nonperforming = loans/leases on nonaccrual, accruing loans/leases that are greater than or equal to 90 days past due, and accruing troubled debt restructurings.



## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of September 30, 2014 and December 31, 2013, troubled debt restructurings totaled \$11,749,543 and \$13,413,366, respectively.

For each class of financing receivable, the following presents the number and recorded investment of troubled debt restructurings, by type of concession, that were restructured during the three and nine months ended September 30, 2014 and 2013. The difference between the pre-modification recorded investment and the post-modification recorded investment would be any partial charge-offs at the time of the restructuring.

Classes of Loans/Leases	For the three months ended September 30, 2014			For the three months ended September 30, 2013				
	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	
<b>CONCESSION - Interest rate adjusted below market</b>								
Residential Real Estate	-	\$ -	\$ -	\$ -	1	\$ 79,661	\$ 79,661	\$24,408
	-	\$ -	\$ -	\$ -	1	\$ 79,661	\$ 79,661	\$24,408
<b>CONCESSION - Extension of Maturity</b>								
Owner-Occupied Commercial Real Estate	-	\$ -	\$ -	\$ -	1	\$ 61,517	\$ 61,517	\$-
Other Non Owner-Occupied Commercial Real Estate	-	-	-	-	7	6,637,835	6,637,835	1,518,303
	-	\$ -	\$ -	\$ -	8	\$ 6,699,352	\$ 6,699,352	\$1,518,303
<b>CONCESSION - Other</b>								
Residential Real Estate	1	\$ 96,439	\$ 71,760	\$ 7,125	-	\$ -	\$ -	\$-
	1	\$ 96,439	\$ 71,760	\$ 7,125	-	\$ -	\$ -	\$-

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TOTAL	1	\$ 96,439	\$ 71,760	\$ 7,125	9	\$ 6,779,013	\$ 6,779,013	\$ 1,542,711
	For the nine months ended September 30, 2014				For the nine months ended September 30, 2013			
Classes of Loans/Leases	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Specific Allowance
CONCESSION - Significant payment delay								
Commercial and Industrial	3	\$ 889,154	\$ 889,154	\$ 239,783	-	\$ -	\$ -	\$ -
Owner-Occupied Commercial Real Estate	-	-	-	-	1	47,958	47,958	-
Direct Financing Leases	1	89,443	89,443	-	-	-	-	-
Residential Real Estate	-	-	-	-	1	91,581	91,581	-
Installment and Other Consumer	-	-	-	-	1	370,000	370,000	-
	4	\$ 978,597	\$ 978,597	\$ 239,783	3	\$ 509,539	\$ 509,539	\$ -
CONCESSION - Interest rate adjusted below market								
Commercial Construction, Land Development, and Other Land	-	\$ -	\$ -	\$ -	1	\$ 337,500	\$ 337,500	\$ -
Residential Real Estate	-	-	-	-	2	240,288	240,288	24,408
	-	\$ -	\$ -	\$ -	3	\$ 577,788	\$ 577,788	\$ 24,408
CONCESSION - Extension of maturity								
Commercial and Industrial	-	\$ -	\$ -	\$ -	3	\$ 809,494	\$ 809,494	\$ 188,700
Owner-Occupied Commercial Real Estate	-	-	-	-	1	61,517	61,517	-
Other Non Owner-Occupied Commercial Real Estate	-	-	-	-	7	6,637,835	6,637,835	1,518,303
Direct Financing Leases	1	70,144	70,144	24,246	-	-	-	-

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	1	\$ 70,144	\$ 70,144	\$ 24,246	11	\$ 7,508,846	\$ 7,508,846	\$ 1,707,003
CONCESSION - Other								
Commercial and Industrial	1	\$ 427,849	\$ 427,849	\$ 113,449	-	\$ -	\$ -	\$ -
Residential Real Estate	1	\$ 96,439	\$ 71,760	\$ 7,125				
	2	\$ 524,288	\$ 499,609	\$ 120,574	-	\$ -	\$ -	\$ -
TOTAL	7	\$ 1,573,029	\$ 1,548,350	\$ 384,603	17	\$ 8,596,173	\$ 8,596,173	\$ 1,731,411

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Of the troubled debt restructurings reported above, three with a post-modification recorded investment totaling \$75,767 were on nonaccrual as of September 30, 2014, and ten with post-modification recorded investments totaling \$6,087,296 were on nonaccrual as of September 30, 2013.

For the three and nine months ended September 30, 2014 and 2013, none of the Company's troubled debt restructurings had redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status.

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 4 - EARNINGS PER SHARE

The following information was used in the computation of earnings per share on a basic and diluted basis:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income	\$4,062,665	\$3,811,944	\$11,959,716	\$11,122,319
Less: Preferred stock dividends	-	810,837	1,081,877	2,432,512
Net income attributable to QCR Holdings, Inc. common stockholders	\$4,062,665	\$3,001,107	\$10,877,839	\$8,689,807
Earnings per common share attributable to QCR Holdings, Inc. common stockholders				
Basic	\$0.51	\$0.52	\$1.37	\$1.62
Diluted	\$0.50	\$0.51	\$1.35	\$1.59
Weighted average common shares outstanding*	7,931,944	5,806,019	7,919,201	5,375,557
Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan	122,041	109,260	121,217	106,741
Weighted average common and common equivalent shares outstanding	8,053,985	5,915,279	8,040,418	5,482,298

\*On December 23, 2013, the Company converted \$25.0 million of its outstanding shares of Series E Preferred Stock to common stock, which resulted in the issuance of 2,057,502 shares of common stock.

NOTE 5 – BUSINESS SEGMENT INFORMATION

Selected financial and descriptive information is required to be disclosed for reportable operating segments, applying a “management perspective” as the basis for identifying reportable segments. The management perspective is determined by the view that management takes of the segments within the Company when making operating decisions, allocating resources, and measuring performance. The segments of the Company have been defined by the structure of the Company’s internal organization, focusing on the financial information that the Company’s operating decision-makers routinely use to make decisions about operating matters.

The Company’s primary segment, Commercial Banking, is geographically divided by markets into the secondary segments which are the three subsidiary banks wholly-owned by the Company: QCBT, CRBT, and RB&T. CRBT includes CNB’s operations from the date of its acquisition on May 13, 2013. Each of these secondary segments offers similar products and services, but is managed separately due to different pricing, product demand, and consumer markets. Each offers commercial, consumer, and mortgage loans and deposit services.

The Company’s Wealth Management segment represents the trust and asset management and investment management and advisory services offered at the Company’s three subsidiary banks in aggregate. This segment generates income primarily from fees charged based on assets under administration for corporate and personal trusts, custodial services, and investments managed. No assets of the subsidiary banks have been allocated to the Wealth Management segment.

## Part I

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The Company's All Other segment includes the operations of all other consolidated subsidiaries and/or defined operating segments that fall below the segment reporting thresholds. This segment includes the corporate operations of the parent company.

Selected financial information on the Company's business segments is presented as follows for the three and nine months ended September 30, 2014 and 2013.

	<b>Commercial Banking</b>			<b>Wealth Management</b>	<b>All Other</b>	<b>Intercompany Eliminations</b>	<b>Consolidated Total</b>
	<b>Quad City Bank &amp; Trust</b>	<b>Cedar Rapids Bank &amp; Trust</b>	<b>Rockford Bank &amp; Trust</b>				
<b>Three Months Ended September 30, 2014</b>							
Total revenue	\$12,467,712	\$8,801,737	\$3,595,245	\$2,082,609	\$5,526,296	\$(5,609,315)	\$26,864,284
Net interest income	\$9,234,089	\$6,179,763	\$2,584,613	\$-	\$(523,134)	\$-	\$17,475,331
Net income	\$2,602,238	\$1,861,236	\$669,814	\$358,997	\$4,062,665	\$(5,492,285)	\$4,062,665
Total assets	\$1,274,033,270	\$822,348,680	\$346,791,265	\$-	\$212,236,225	\$(204,813,887)	\$2,450,595,553
Provision for loan/lease losses	\$609,657	\$331,666	\$122,000	\$-	\$-	\$-	\$1,063,323
Goodwill	\$3,222,688	\$-	\$-	\$-	\$-	\$-	\$3,222,688
Core deposit intangible	\$-	\$1,720,799	\$-	\$-	\$-	\$-	\$1,720,799
<b>Three Months Ended</b>							

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**September  
30, 2013**

Total revenue	\$12,610,738	\$10,006,670	\$3,457,684	\$1,946,795	\$5,398,152	\$(5,489,143 )	\$27,930,896
Net interest income	\$8,494,707	\$6,883,007	\$2,421,255	\$-	\$(488,633 )	\$-	\$17,310,336
Net income	\$2,541,293	\$1,941,807	\$445,521	\$458,813	\$3,811,944	\$(5,387,434 )	\$3,811,944
Total assets	\$1,248,417,915	\$927,667,522	\$333,804,180	\$-	\$214,875,126	\$(239,050,305 )	\$2,485,714,438
Provision for loan/lease losses	\$674,984	\$580,000	\$112,000	\$-	\$-	\$-	\$1,366,984
Goodwill	\$3,222,688	\$-	\$-	\$-	\$-	\$-	\$3,222,688
Core deposit intangible	\$-	\$3,311,073	\$-	\$-	\$-	\$-	\$3,311,073

**Nine  
Months  
Ended  
September  
30, 2014**

Total revenue	\$36,368,665	\$25,816,115	\$10,779,962	\$6,387,215	\$16,016,503	\$(16,272,535 )	\$79,095,925
Net interest income	\$27,235,902	\$17,820,878	\$7,637,029	\$-	\$(1,403,894 )	\$-	\$51,289,915
Net income	\$7,397,943	\$5,577,993	\$1,755,117	\$1,205,204	\$11,959,716	\$(15,936,257 )	\$11,959,716
Total assets	\$1,274,033,270	\$822,348,680	\$346,791,265	\$-	\$212,236,225	\$(204,813,887 )	\$2,450,595,553
Provision for loan/lease losses	\$1,779,698	\$881,666	\$498,000	\$-	\$-	\$-	\$3,159,364
Goodwill	\$3,222,688	\$-	\$-	\$-	\$-	\$-	\$3,222,688
Core deposit intangible	\$-	\$1,720,799	\$-	\$-	\$-	\$-	\$1,720,799

**Nine  
Months  
Ended  
September  
30, 2013**

Total revenue	\$36,476,985	\$24,911,543	\$10,291,554	\$5,488,081	\$16,570,031	\$(14,977,630 )	\$78,760,564
Net interest income	\$25,371,337	\$15,905,288	\$7,160,723	\$-	\$(1,227,643 )	\$-	\$47,209,705
Net income	\$6,989,589	\$5,430,289	\$1,261,243	\$1,000,558	\$11,122,319	\$(14,681,679 )	\$11,122,319
Total assets	\$1,248,417,915	\$927,667,522	\$333,804,180	\$-	\$214,875,126	\$(239,050,305 )	\$2,485,714,438
Provision for loan/lease	\$2,052,889	\$980,014	\$912,000	\$-	\$-	\$-	\$3,944,903



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losses							
Goodwill	\$3,222,688	\$-	\$-	\$-	\$-	\$-	\$3,222,688
Core							
deposit	\$-	\$3,311,073	\$-	\$-	\$-	\$-	\$3,311,073
intangible							

## Part I

## Item 1

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 6 – FAIR VALUE

Accounting guidance on fair value measurement uses a hierarchy intended to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in markets;

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets measured at fair value on a recurring basis comprise the following at September 30, 2014 and December 31, 2013:

		<b>Fair Value Measurements at Reporting Date Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
	<b>Fair Value</b>			
September 30, 2014:				
Securities available for sale:				
U.S. govt. sponsored agency securities	\$ 306,004,605	\$-	\$ 306,004,605	\$ -
Residential mortgage-backed and related securities	127,779,749	-	127,779,749	-

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Municipal securities	31,260,146	-	31,260,146	-
Other securities	1,900,067	317,021	1,583,046	-
Derivative instruments	1,848,119	-	1,848,119	-
	\$468,792,686	\$317,021	\$468,475,665	\$ -

December 31, 2013:

Securities available for sale:

U.S. govt. sponsored agency securities	\$356,472,987	\$-	\$356,472,987	\$ -
Residential mortgage-backed and related securities	157,429,451	-	157,429,451	-
Municipal securities	35,958,857	-	35,958,857	-
Other securities	1,897,163	317,698	1,579,465	-
	\$551,758,458	\$317,698	\$551,440,760	\$ -

There were no transfers of assets or liabilities between Levels 1, 2, and 3 of the fair value hierarchy for the three and nine months ended September 30, 2014 and 2013.

A small portion of the securities available for sale portfolio consists of common stock issued by various unrelated bank holding companies. The fair values used by the Company are obtained from an independent pricing service and represent quoted market prices for the identical securities (Level 1 inputs).

The remainder of the securities available for sale portfolio consists of securities whereby the Company obtains fair values from an independent pricing service. The fair values are determined by pricing models that consider observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems (Level 2 inputs).

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Derivative instruments consist of interest rate caps that are used for the purpose of hedging interest rate risk. See Note 8 to the Consolidated Financial Statements for the details of these instruments. The fair values are determined by pricing models that consider observable market data for derivative instruments with similar structures (Level 2 inputs).

Certain financial assets are measured at fair value on a non-recurring basis; that is, the assets 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).

Assets measured at fair value on a non-recurring basis comprise the following at September 30, 2014 and December 31, 2013:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
September 30, 2014:				
Impaired loans/leases	\$13,616,631	\$-	\$-	\$13,616,631
Other real estate owned	11,534,235	-	-	11,534,235
	\$25,150,866	\$-	\$-	\$25,150,866
December 31, 2013:				
Impaired loans/leases	\$9,009,557	\$-	\$-	\$9,009,557
Other real estate owned	10,507,377	-	-	10,507,377
	\$19,516,934	\$-	\$-	\$19,516,934

Impaired loans/leases are evaluated and valued at the time the loan/lease is identified as impaired, at the lower of cost or fair value, and are classified as Level 3 in the fair value hierarchy. Fair value is measured based on the value of the collateral securing these loans/leases. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and is determined based on appraisals by qualified licensed appraisers hired by

the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business.

Other real estate owned in the table above consists of property acquired through foreclosures and settlements of loans. Property acquired is carried at the estimated fair value of the property, less disposal costs, and is classified as a Level 3 in the fair value hierarchy. The estimated fair value of the property is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values are discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the property.

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis for which the Company has utilized Level 3 inputs to determine fair value:

**Quantitative Information about Level Fair Value Measurements**  
**Fair Value Valuation Technique Unobservable Input Range**

September 30, 2014:				
	Fair Value	Valuation Technique	Unobservable Input	Range
Impaired loans/leases	\$13,616,631	Appraisal of collateral	Appraisal adjustments	-10.00% to -50.00%
Other real estate owned	11,534,235	Appraisal of collateral	Appraisal adjustments	0.00% to -35.00%

**Quantitative Information about Level Fair Value Measurements**  
**Fair Value Valuation Technique Unobservable Input Range**

December 31, 2013:				
	Fair Value	Valuation Technique	Unobservable Input	Range
Impaired loans/leases	\$9,009,557	Appraisal of collateral	Appraisal adjustments	-10.00% to -50.00%
Other real estate owned	10,507,377	Appraisal of collateral	Appraisal adjustments	0.00% to -35.00%

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

For the impaired loans/leases and other real estate owned, the Company records carrying value at fair value less disposal or selling costs. The amounts reported in the tables above are fair values before the adjustment for disposal or selling costs.

There have been no changes in valuation techniques used for any assets measured at fair value during the three and nine months ended September 30, 2014 and 2013.

The following table presents the carrying values and estimated fair values of financial assets and liabilities carried on the Company's consolidated balance sheets, including those financial assets and liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis:

	Fair Value Hierarchy Level	As of September 30, 2014		As of December 31, 2013	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and due from banks	Level 1	\$42,326,177	\$42,326,177	\$41,950,790	\$41,950,790
Federal funds sold	Level 2	29,760,000	29,760,000	39,435,000	39,435,000
Interest-bearing deposits at financial institutions	Level 2	34,631,773	34,631,773	33,044,917	33,044,917
Investment securities:					
Held to maturity	Level 3	185,840,139	185,936,051	145,451,895	138,640,105
Available for sale	See Previous Table	466,944,567	466,944,567	551,758,458	551,758,458
Loans/leases receivable, net	Level 3	12,607,992	13,616,631	8,342,182	9,009,557
Loans/leases receivable, net	Level 2	1,537,493,236	1,544,453,008	1,430,489,328	1,441,952,443
Derivative instruments	Level 2	1,848,119	1,848,119	-	-
Deposits:					
Nonmaturity deposits	Level 2	1,298,921,913	1,298,921,913	1,256,209,352	1,256,209,352
Time deposits	Level 2	414,945,479	416,050,000	390,781,891	391,923,000
Short-term borrowings	Level 2	162,186,698	162,186,698	149,292,967	149,292,967
Federal Home Loan Bank advances	Level 2	196,500,000	202,507,000	231,350,000	241,623,000

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Other borrowings	Level 2	151,455,209	160,531,000	142,448,362	152,761,000
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