

QCR HOLDINGS INC
Form 10-Q
November 08, 2016

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, 2016

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 7th Street, Moline, Illinois 61265

(Address of principal executive offices, including zip code)

(309) 743-7724

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

(Registrant's telephone number, including area code)

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 2, 2016, the Registrant had outstanding 13,075,670 shares of common stock, \$1.00 par value per share.

QCR HOLDINGS, INC. AND SUBSIDIARIES**TABLE OF CONTENTS**

	Page Number(s)
<u>Part</u>	
<u>I</u>	
FINANCIAL INFORMATION	
Item 1 Consolidated Financial Statements (Unaudited)	
Consolidated Balance Sheets As of September 30, 2016 and December 31, 2015	3
Consolidated Statements of Income For the Three Months Ended September 30, 2016 and 2015	4
Consolidated Statements of Income For the Nine Months Ended September 30, 2016 and 2015	5
Consolidated Statements of Comprehensive Income For the Three and Nine Months Ended September 30, 2016 and 2015	6
Consolidated Statements of Changes in Stockholders' Equity For the Three and Nine Months Ended September 30, 2016 and 2015	7
Consolidated Statements of Cash Flows For the Nine Months Ended September 30, 2016 and 2015	9
Notes to Consolidated Financial Statements	
Note 1. Summary of Significant Accounting Policies	11
Note 2. Investment Securities	13
Note 3. Loans/Leases Receivable	18
Note 4. Borrowings	28
Note 5. Earnings Per Share	30
Note 6. Fair Value	31
Note 7. Business Segment Information	34
Note 8. Regulatory Capital Requirements	36
Note 9. Acquisition of Community State Bank and Common Stock Offering	38
Note 10. Related Party Transactions	41
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	
Introduction	42

General	42
Executive Overview	43
Long-Term Financial Goals	44
Strategic Developments	45
GAAP to Non-GAAP Reconciliations	47
Net Interest Income (Tax Equivalent Basis)	49
Critical Accounting Policies	54

Results of Operations	
Interest Income	55
Interest Expense	55
Provision for Loan/Lease Losses	56
Noninterest Income	57
Noninterest Expense	61
Income Taxes	63
Financial Condition	64
Investment Securities	64
Loans/Leases	66
Allowance for Estimated Losses on Loans/Leases	68
Nonperforming Assets	70
Deposits	71
Borrowings	71
Stockholders' Equity	73
Liquidity and Capital Resources	73
Special Note Concerning Forward-Looking Statements	76
Item 3 Quantitative and Qualitative Disclosures About Market Risk	77
Item 4 Controls and Procedures	79
<u>Part II</u> OTHER INFORMATION	
Item 1 Legal Proceedings	80
Item 1A Risk Factors	80
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	80
Item 3 Defaults upon Senior Securities	80
Item 4 Mine Safety Disclosures	80
Item 5 Other Information	80
Item 6 Exhibits	81
Signatures	82

Throughout the Notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, we use certain acronyms and abbreviations, as defined in Note 1.

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS (UNAUDITED)****As of September 30, 2016 and December 31, 2015**

	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$61,213,134	\$41,742,321
Federal funds sold	21,022,000	19,850,000
Interest-bearing deposits at financial institutions	75,025,417	36,313,965
Securities held to maturity, at amortized cost	306,740,174	253,674,159
Securities available for sale, at fair value	258,190,081	323,434,982
Total securities	564,930,255	577,109,141
Loans receivable held for sale	1,377,875	565,850
Loans/leases receivable held for investment	2,359,222,637	1,797,456,825
Gross loans/leases receivable	2,360,600,512	1,798,022,675
Less allowance for estimated losses on loans/leases	(28,826,835)	(26,140,906)
Net loans/leases receivable	2,331,773,677	1,771,881,769
Bank-owned life insurance	56,810,035	55,485,655
Premises and equipment, net	59,484,141	37,350,352
Restricted investment securities	14,999,425	14,835,925
Other real estate owned, net	5,807,603	7,150,658
Goodwill	13,631,626	3,222,688
Core deposit intangible	7,613,593	1,471,409
Other assets	68,675,203	26,784,392
Total assets	\$3,280,986,109	\$2,593,198,275
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	\$764,614,548	\$615,292,211
Interest-bearing	1,830,298,205	1,265,373,973
Total deposits	2,594,912,753	1,880,666,184
Short-term borrowings	60,015,417	144,662,716
Federal Home Loan Bank advances	138,642,529	151,000,000
Other borrowings	80,000,000	110,000,000
Junior subordinated debentures	33,446,578	38,499,052
Other liabilities	93,111,672	42,484,573
Total liabilities	3,000,128,949	2,367,312,525

STOCKHOLDERS' EQUITY

Preferred stock, \$1 par value; shares authorized 250,000	-	-
September 2016 and December 2015 - No shares issued or outstanding		
Common stock, \$1 par value; shares authorized 20,000,000	13,075,307	11,761,083
September 2016 - 13,075,307 shares issued and outstanding		
December 2015 - 11,761,083 shares issued and outstanding		
Additional paid-in capital	155,950,678	123,282,851
Retained earnings	110,610,144	92,965,645
Accumulated other comprehensive income (loss):		
Securities available for sale	2,379,584	(1,324,408)
Interest rate cap derivatives	(1,158,553)	(799,421)
Total stockholders' equity	280,857,160	225,885,750
Total liabilities and stockholders' equity	\$3,280,986,109	\$2,593,198,275

See Notes to Consolidated Financial Statements (Unaudited)

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

	2016	2015
Interest and dividend income:		
Loans/leases, including fees	\$23,001,107	\$19,278,335
Securities:		
Taxable	1,057,204	1,639,534
Nontaxable	2,510,169	2,021,804
Interest-bearing deposits at financial institutions	103,216	66,604
Restricted investment securities	132,047	127,172
Federal funds sold	12,992	7,663
Total interest and dividend income	26,816,735	23,141,112
Interest expense:		
Deposits	1,472,031	1,140,419
Short-term borrowings	12,541	63,815
Federal Home Loan Bank advances	420,570	537,473
Other borrowings	974,634	944,903
Junior subordinated debentures	306,182	316,976
Total interest expense	3,185,958	3,003,586
Net interest income	23,630,777	20,137,526
Provision for loan/lease losses	1,607,986	1,635,263
Net interest income after provision for loan/lease losses	22,022,791	18,502,263
Noninterest income:		
Trust department fees	1,518,600	1,531,964
Investment advisory and management fees	765,977	782,442
Deposit service fees	1,150,869	984,631
Gains on sales of residential real estate loans, net	144,105	84,609
Gains on sales of government guaranteed portions of loans, net	218,785	759,668
Swap fee income	333,772	62,700
Securities gains, net	4,251,773	56,580
Earnings on bank-owned life insurance	450,251	407,018
Debit card fees	475,182	333,144
Correspondent banking fees	253,823	310,759
Participation service fees on commercial loan participations	237,456	201,822
Fee income from early termination of leases	95,129	89,332
Credit card issuing fees	137,620	133,904
Lawsuit award	-	387,045
Other	390,059	277,068

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Total noninterest income	10,423,401	6,402,686
Noninterest expense:		
Salaries and employee benefits	11,202,460	10,583,361
Occupancy and equipment expense	2,086,331	1,863,648
Professional and data processing fees	1,931,329	1,742,268
Acquisition costs	2,046,036	-
FDIC insurance, other insurance and regulatory fees	582,835	702,136
Loan/lease expense	102,678	90,415
Net cost of operations of other real estate	133,055	(1,117,671)
Advertising and marketing	547,768	460,411
Postage and communications	237,569	220,895
Stationery and supplies	167,887	144,967
Bank service charges	415,401	392,352
Losses on debt extinguishment, net	4,137,310	-
Correspondent banking expense	205,998	176,977
Other	683,826	687,332
Total noninterest expense	24,480,483	15,947,091
Net income before income taxes	7,965,709	8,957,858
Federal and state income tax expense	1,858,208	2,468,871
Net income	\$6,107,501	\$6,488,987
Basic earnings per common share	\$0.47	\$0.55
Diluted earnings per common share	\$0.46	\$0.55
Weighted average common shares outstanding	13,066,777	11,713,993
Weighted average common and common equivalent shares outstanding	13,269,703	11,875,930
Cash dividends declared per common share	\$0.04	\$-

See Notes to Consolidated Financial Statements (Unaudited)

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

	2016	2015
Interest and dividend income:		
Loans/leases, including fees	\$62,939,656	\$55,528,578
Securities:		
Taxable	3,605,948	5,317,794
Nontaxable	7,028,387	5,642,692
Interest-bearing deposits at financial institutions	225,775	208,323
Restricted investment securities	396,157	377,651
Federal funds sold	36,155	18,416
Total interest and dividend income	74,232,078	67,093,454
Interest expense:		
Deposits	4,106,227	3,296,351
Short-term borrowings	73,672	181,084
Federal Home Loan Bank advances	1,278,207	2,982,834
Other borrowings	2,624,154	3,285,231
Junior subordinated debentures	912,706	937,375
Total interest expense	8,994,966	10,682,875
Net interest income	65,237,112	56,410,579
Provision for loan/lease losses	4,878,821	5,694,384
Net interest income after provision for loan/lease losses	60,358,291	50,716,195
Noninterest income:		
Trust department fees	4,606,590	4,676,535
Investment advisory and management fees	2,117,100	2,250,918
Deposit service fees	3,028,758	2,790,456
Gains on sales of residential real estate loans, net	288,904	266,284
Gains on sales of government guaranteed portions of loans, net	2,701,203	899,987
Swap fee income	1,358,312	1,182,630
Securities gains, net	4,628,283	473,513
Earnings on bank-owned life insurance	1,324,380	1,318,909
Debit card fees	1,126,581	912,030
Correspondent banking fees	800,892	915,759
Participation service fees on commercial loan participations	694,175	647,598
Fee income from early termination of leases	172,922	250,892
Credit card issuing fees	413,348	403,713
Lawsuit award	-	387,045
Other	746,827	775,142

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Total noninterest income	24,008,275	18,151,411
Noninterest expense:		
Salaries and employee benefits	32,920,840	32,709,765
Occupancy and equipment expense	5,797,875	5,507,533
Professional and data processing fees	4,921,064	4,683,480
Acquisition costs	2,401,005	-
FDIC insurance, other insurance and regulatory fees	1,866,804	2,151,756
Loan/lease expense	419,846	601,888
Net cost of operations of other real estate	513,149	(1,088,696)
Advertising and marketing	1,367,478	1,368,152
Postage and communications	711,226	683,993
Stationery and supplies	490,682	424,330
Bank service charges	1,246,682	1,088,806
Losses on debt extinguishment, net	4,220,507	6,894,185
Correspondent banking expense	564,763	517,770
Other	1,736,813	1,775,637
Total noninterest expense	59,178,734	57,318,599
Net income before income taxes	25,187,832	11,549,007
Federal and state income tax expense	6,030,375	1,405,949
Net income	\$ 19,157,457	\$ 10,143,058
Basic earnings per common share	\$ 1.55	\$ 1.03
Diluted earnings per common share	\$ 1.52	\$ 1.01
Weighted average common shares outstanding	12,398,491	9,878,882
Weighted average common and common equivalent shares outstanding	12,580,042	10,024,441
Cash dividends declared per common share	\$ 0.12	\$ 0.04

See Notes to Consolidated Financial Statements (Unaudited)

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Less reclassification adjustment for ineffectiveness and caplet amortization before tax	82,281	30,562
	(634,791)	(702,731)
Other comprehensive income, before tax	5,364,958	3,422,355
Tax expense	2,020,098	1,323,928
Other comprehensive income, net of tax	3,344,860	2,098,427
Comprehensive income	\$22,502,317	\$12,241,485

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

Three and Nine Months Ended September 30, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance December 31, 2015	\$11,761,083	\$123,282,851	\$92,965,645	\$ (2,123,829)	\$225,885,750
Net income	-	-	6,373,489	-	6,373,489
Other comprehensive income, net of tax	-	-	-	2,525,411	2,525,411
Common cash dividends declared, \$0.04 per share	-	-	(470,873)	-	(470,873)
Proceeds from issuance of 5,054 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	5,054	94,560	-	-	99,614
Proceeds from issuance of 46,020 shares of common stock as a result of stock options exercised	46,020	729,473	-	-	775,493
Stock compensation expense	-	382,761	-	-	382,761
Tax benefit of nonqualified stock options exercised	-	22,508	-	-	22,508
Restricted stock awards	22,382	(22,382)	-	-	-
Exchange of 15,689 shares of common stock in connection with stock options exercised	(15,689)	(346,834)	-	-	(362,523)
Exchange of 3,939 shares of common stock in connection with restricted stock vested, net	(3,939)	(84,972)	-	-	(88,911)
Balance March 31, 2016	\$11,814,911	\$124,057,965	\$98,868,261	\$ 401,582	\$235,142,719
Net income	-	-	6,676,467	-	6,676,467
Other comprehensive income, net of tax	-	-	-	1,180,633	1,180,633
Common cash dividends declared, \$0.04 per share	-	-	(520,701)	-	(520,701)
Proceeds from the issuance of 1,215,000 shares of common stock, net of issuance costs	1,215,000	28,613,916	-	-	29,828,916
Proceeds from issuance of 6,982 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	6,982	142,887	-	-	149,869

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Proceeds from issuance of 20,975 shares of common stock as a result of stock options exercised	20,975	230,671	-	-	251,646
Tax basis adjustment related to the acquisition of noncontrolling interest in m2 Lease Funds	-	2,132,415	-	-	2,132,415
Stock compensation expense	-	187,569	-	-	187,569
Tax benefit of nonqualified stock options exercised	-	87,858	-	-	87,858
Restricted stock awards	(500)	500	-	-	-
Balance June 30, 2016	\$13,057,368	\$155,453,781	\$105,024,027	\$ 1,582,215	\$275,117,391
Net income	-	-	6,107,501	-	6,107,501
Other comprehensive loss, net of tax	-	-	-	(361,184)	(361,184)
Common cash dividends declared, \$0.04 per share	-	-	(521,384)	-	(521,384)
Proceeds from issuance of 4,085 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	4,085	85,217	-	-	89,302
Proceeds from issuance of 14,692 shares of common stock as a result of stock options exercised	14,692	173,890	-	-	188,582
Stock compensation expense	-	190,211	-	-	190,211
Tax benefit of nonqualified stock options exercised	-	72,694	-	-	72,694
Exchange of 838 shares of common stock in connection with stock options exercised	(838)	(25,115)	-	-	(25,953)
Balance September 30, 2016	\$13,075,307	\$155,950,678	\$110,610,144	\$ 1,221,031	\$280,857,160

(Continued)

QCR HOLDINGS, INC. AND SUBSIDIARIES

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

Three and Nine Months Ended September 30, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance December 31, 2014	\$8,074,443	\$61,668,968	\$77,876,824	\$ (1,935,216)	\$(1,606,510)	\$144,078,509
Net income	-	-	4,177,889	-	-	4,177,889
Other comprehensive income, net of tax	-	-	-	2,220,865	-	2,220,865
Proceeds from issuance of 5,679 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	5,679	82,641	-	-	-	88,320
Proceeds from issuance of 9,688 shares of common stock as a result of stock options exercised	9,688	94,728	-	-	-	104,416
Stock compensation expense	-	367,775	-	-	-	367,775
Tax benefit of nonqualified stock options exercised	-	15,651	-	-	-	15,651
Exchange of 3,272 shares of common stock in connection with restricted stock vested, net	(3,272)	(54,188)	-	-	-	(57,460)
Restricted stock awards	26,502	(26,502)	-	-	-	-
Balance March 31, 2015	\$8,113,040	\$62,149,073	\$82,054,713	\$ 285,649	\$(1,606,510)	\$150,995,965
Net loss	-	-	(523,818)	-	-	(523,818)
Other comprehensive loss, net of tax	-	-	-	(2,378,921)	-	(2,378,921)
Common cash dividends declared, \$0.04 per share	-	-	(464,706)	-	-	(464,706)
	3,680,000	59,804,123	-	-	-	63,484,123

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Proceeds from issuance of 3,680,000 shares of common stock, net of issuance costs						
Proceeds from issuance of 8,558 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	8,558	128,927	-	-	-	137,485
Proceeds from issuance of 17,240 shares of common stock as a result of stock options exercised	17,240	238,717	-	-	-	255,957
Tax benefit of nonqualified stock options exercised	-	15,827	-	-	-	15,827
Exchange of 630 shares of common stock in connection with stock options exercised	(630)	(10,616)	-	-	-	(11,246)
Stock compensation expense	-	186,751	-	-	-	186,751
Restricted stock awards	1,616	(1,616)	-	-	-	-
Balance June 30, 2015	\$11,819,824	\$122,511,186	\$81,066,189	\$(2,093,272)	\$(1,606,510)	\$211,697,417
Net income	-	-	6,488,987	-	-	6,488,987
Other comprehensive income, net of tax	-	-	-	2,256,483	-	2,256,483
Adjustment to common cash dividends declared	-	-	(1,393)	-	-	(1,393)
Proceeds from issuance of 5,394 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	5,394	81,309	-	-	-	86,703
Proceeds from issuance of 24,711 shares of common stock as a result of stock options exercised	24,711	318,732	-	-	-	343,443
Tax benefit of nonqualified stock options exercised	-	39,632	-	-	-	39,632
Retirement of treasury stock, 121,246 shares of common stock	(121,246)	(580,886)	(904,378)	-	1,606,510	-
Stock compensation expense	-	203,967	-	-	-	203,967
Restricted stock awards	228	(228)	-	-	-	-

Balance September 30, 2015	\$ 11,728,911	\$ 122,573,712	\$ 86,649,405	\$ 163,211	\$-	\$ 221,115,239
---------------------------------------	----------------------	-----------------------	----------------------	-------------------	------------	-----------------------

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****Nine Months Ended September 30, 2016 and 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 19,157,457	\$ 10,143,058
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,422,257	2,283,558
Provision for loan/lease losses	4,878,821	5,694,384
Stock-based compensation expense	760,541	758,493
Deferred compensation expense accrued	910,439	767,292
Losses (gains) on other real estate owned, net	130,280	(1,204,016)
Amortization of premiums on securities, net	968,553	756,876
Securities gains, net	(4,628,283)	(473,513)
Loans originated for sale	(57,160,485)	(29,968,289)
Proceeds on sales of loans	59,838,717	31,154,335
Gains on sales of residential real estate loans	(288,904)	(266,284)
Gains on sales of government guaranteed portions of loans	(2,701,203)	(899,987)
Losses on debt extinguishment, net	4,220,507	6,894,185
Amortization of core deposit intangible	210,469	149,634
Accretion of acquisition fair value adjustments, net	(690,379)	(334,990)
Increase in cash value of bank-owned life insurance	(1,324,380)	(1,318,909)
Increase in other assets	(2,480,461)	(5,211,555)
Decrease in other liabilities	1,614,477	4,269,482
Net cash provided by operating activities	\$ 25,838,423	\$ 23,193,754
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in federal funds sold	(474,000)	12,450,000
Net decrease (increase) in interest-bearing deposits at financial institutions	(23,981,295)	3,059,051
Proceeds from sales of other real estate owned	1,913,775	6,774,151
Activity in securities portfolio:		
Purchases	(111,622,489)	(200,249,686)
Calls, maturities and redemptions	109,421,584	187,029,003
Paydowns	21,939,878	11,859,406
Sales	87,772,898	65,889,838
Activity in restricted investment securities:		
Purchases	(25,700)	(2,806,650)
Redemptions	1,375,100	3,435,200
Net increase in loans/leases originated and held for investment	(144,605,204)	(129,356,790)
Purchase of premises and equipment	(3,871,166)	(4,327,671)
Net cash paid for Community State Bank acquisition	(69,905,355)	-
Net cash used in investing activities	\$ (132,061,974)	\$ (46,244,148)

CASH FLOWS FROM FINANCING ACTIVITIES

Net increase in deposit accounts	227,918,002	175,656,866
Net decrease in short-term borrowings	(84,647,299)	(100,787,458)
Activity in Federal Home Loan Bank advances:		
Term advances	-	5,000,000
Calls and maturities	(19,000,000)	(24,000,000)
Net change in short-term and overnight advances	1,300,000	24,000,000
Prepayments	(10,524,197)	(81,192,185)
Activity in other borrowings:		
Proceeds from other borrowings	35,000,000	-
Calls, maturities and scheduled principal payments	-	(7,350,000)
Prepayments	(50,320,407)	(29,177,000)
Retirement of junior subordinated debentures	(3,955,000)	-
Payment of cash dividends on common stock	(1,460,157)	(782,054)
Net proceeds from the common stock offering, 3,680,000 shares issued	-	63,484,123
Net proceeds from the common stock offering, 1,215,000 shares issued	29,828,916	-
Proceeds from issuance of common stock, net	1,554,506	1,016,324
Net cash provided by financing activities	\$ 125,694,364	\$ 25,868,616
Net increase in cash and due from banks	19,470,813	2,818,222
Cash and due from banks, beginning	41,742,321	38,235,019
Cash and due from banks, ending	\$ 61,213,134	\$ 41,053,241

(Continued)

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - continued****Nine Months Ended September 30, 2016 and 2015**

	2016	2015
Supplemental disclosure of cash flow information, cash payments for:		
Interest	\$9,081,850	\$10,880,589
Income/franchise taxes	\$9,487,002	\$1,985,275
Supplemental schedule of noncash investing activities:		
Change in accumulated other comprehensive income, unrealized gains on securities available for sale and derivative instruments, net	\$3,344,860	\$2,098,427
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	\$(477,387)	\$(68,706)
Tax benefit of nonqualified stock options exercised	\$183,060	\$71,110
Transfers of loans to other real estate owned	\$51,000	\$942,782
Due from broker for sales of securities	\$32,078,011	\$-
Due to broker for purchases of securities	\$15,190,000	\$-
Due to counterparties for prepayment of FHLB advances and other borrowings	\$(24,575,903)	\$-
Tax basis adjustment related to the acquisition of noncontrolling interest in m2 Lease Funds	\$2,132,415	\$-
Supplemental disclosure of cash flow information for Community State Bank acquisition:		
Fair value of assets acquired:		
Cash and due from banks *	\$10,094,645	\$-
Federal funds sold	698,000	-
Interest-bearing deposits at financial institutions	14,730,157	-
Securities	102,640,029	-
Loans/leases receivable held for investment, net	419,029,277	-
Premises and equipment, net	20,684,880	-
Core deposit intangible	6,352,653	-
Restricted investment securities	1,512,900	-
Other real estate owned	650,000	-
Other assets	4,763,224	-
Total assets acquired	\$581,155,765	\$-

Fair value of liabilities assumed:

Deposits	\$486,298,262	\$-
FHLB advances	20,368,877	-
Other liabilities	4,897,564	-
Total liabilities assumed	\$511,564,703	\$-

Net assets acquired	\$69,591,062	\$-
---------------------	--------------	-----

Consideration paid:

Cash paid *	\$80,000,000	\$-
Total consideration paid	\$80,000,000	\$-

Goodwill	\$10,408,938	\$-
----------	--------------	-----

* Net cash paid at closing totaled \$69,905,355

See Notes to Consolidated Financial Statements (Unaudited)

Part I

Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2016

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, 2015, included in the Company's Annual Report on Form 10-K filed with the SEC on March 11, 2016. 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. GAAP 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, 2016, are not necessarily indicative of the results expected for the year ending December 31, 2016, or for any other period.

The acronyms and abbreviations identified below are used throughout this Quarterly Report on Form 10-Q. It may be helpful to refer back to this page as you read this report.

Allowance: Allowance for estimated losses on loans/leases

AOCI: Accumulated other comprehensive income (loss)

AFS: Available for sale

ASC: Accounting Standards Codification

ASC 805: Business Combinations Standard

ASU: Accounting Standards Update

FRB: Federal Reserve Bank of Chicago

GAAP: Generally Accepted Accounting Principles

HTM: Held to maturity

m2: m2 Lease Funds, LLC

MD&A: Management's Discussion & Analysis

NIM: Net interest margin

BOLI: Bank-owned life insurance	NPA: Nonperforming asset
Caps: Interest rate cap derivatives	NPL: Nonperforming loan
Community National: Community National Bancorporation	OREO: Other real estate owned
CNB: Community National Bank	OTTI: Other-than-temporary impairment
CRBT: Cedar Rapids Bank & Trust Company	PCI: Purchased credit impaired
CRE: Commercial real estate	Provision: Provision for loan/lease losses
CSB: Community State Bank	QCBT: Quad City Bank & Trust Company
C&I: Commercial and industrial	RB&T: Rockford Bank & Trust Company
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act	ROAA: Return on Average Assets
EPS: Earnings per share	SBA: U.S. Small Business Administration
Exchange Act: Securities Exchange Act of 1934, as amended	SEC: Securities and Exchange Commission
FASB: Financial Accounting Standards Board	TA: Tangible assets
FDIC: Federal Deposit Insurance Corporation	TCE: Tangible common equity
FHLB: Federal Home Loan Bank	TDRs: Troubled debt restructurings
	The Company: QCR Holdings, Inc.
	USDA: U.S. Department of Agriculture

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries which include four commercial banks: QCBT, CRBT, CSB and RB&T. All are state-chartered commercial banks. The Company also engages in direct financing lease contracts through m2 Lease Funds, a wholly-owned subsidiary of QCBT. All material intercompany transactions and balances have been eliminated in consolidation.

The acquisition of CSB closed on August 31, 2016. CSB is headquartered in Ankeny, Iowa. The financial results of CSB for the period since acquisition are included in this report. See Note 9 to the Consolidated Financial Statements for additional information.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Recent accounting developments: 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 was originally effective for the Company on January 1, 2017, however, FASB issued ASU 2015-14 which defers the effective date in order to provide additional time for both public and private entities to evaluate the impact. ASU 2014-09 will now be effective for the Company on January 1, 2018 and it is not expected to have a significant impact on the Company's consolidated financial statements.

In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall*. ASU 2016-01 makes targeted adjustments to GAAP by eliminating the AFS classification for equity securities and requiring equity investments to be measured at fair value with changes in fair value recognized in net income. The standard also requires public business entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes. The standard clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to AFS securities in combination with the entity's other deferred tax assets. It also requires an entity to present separately (within other comprehensive income) the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Additionally, the standard eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is in the process of analyzing the impact of adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases*. Under ASU 2016-02, lessees will be required to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases (with the exception of short-term leases). Lessor accounting is largely unchanged under ASU 2016-02. However, the definition of initial direct costs was updated to include only initial direct costs that are considered incremental. This change in definition will change the manner in which the Company recognizes the costs associated with originating leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for all entities. The Company is in the process of analyzing the impact of adoption on the Company's

consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation*. ASU 2016-09 aims to simplify the accounting for companies that issue share-based payment awards to their employees. Simplification includes the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows of share-based payment awards. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years and it is not expected to have a significant impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*. Under the standard, assets measured at amortized costs (including loans, leases and AFS securities) will be presented at the net amount expected to be collected. Rather than the “incurred” model that is currently being utilized, the standard will require the use of a forward-looking approach to recognizing all expected credit losses at the beginning of an asset's life. For public companies, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Companies may choose to early adopt for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is in the process of analyzing the impact of adoption on the Company's consolidated financial statements.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and fair value of investment securities as of September 30, 2016 and December 31, 2015 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2016:				
Securities HTM:				
Municipal securities	\$305,690,174	\$5,533,151	\$(778,982)	\$310,444,343
Other securities	1,050,000	-	-	1,050,000
	\$306,740,174	\$5,533,151	\$(778,982)	\$311,494,343
Securities AFS:				
U.S. govt. sponsored agency securities	\$66,966,328	\$992,084	\$(73,463)	\$67,884,949
Residential mortgage-backed and related securities	131,496,011	1,824,345	(147,552)	133,172,804
Municipal securities	53,887,898	816,063	(63,499)	54,640,462
Other securities	2,002,113	492,980	(3,227)	2,491,866
	\$254,352,350	\$4,125,472	\$(287,741)	\$258,190,081
December 31, 2015:				
Securities HTM:				
Municipal securities	\$252,624,159	\$3,190,558	\$(1,173,432)	\$254,641,285
Other securities	1,050,000	-	-	1,050,000
	\$253,674,159	\$3,190,558	\$(1,173,432)	\$255,691,285
Securities AFS:				
U.S. govt. sponsored agency securities	\$216,281,416	\$104,524	\$(2,848,561)	\$213,537,379

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Residential mortgage-backed and related securities	81,442,479	511,095	(1,283,439)	80,670,135
Municipal securities	26,764,981	872,985	(59,378)	27,578,588
Other securities	1,108,124	540,919	(163)	1,648,880
	\$325,597,000	\$2,029,523	\$(4,191,541)	\$323,434,982

13

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The Company's HTM municipal securities consist largely of private issues of municipal debt. The large majority of the municipalities are located within the Midwest. 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.

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, 2016 and December 31, 2015, 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
September 30, 2016:						
Securities HTM:						
Municipal securities	\$23,632,888	\$(251,558)	\$14,150,396	\$(527,424)	\$37,783,284	\$(778,982)
Securities AFS:						
U.S. govt. sponsored agency securities	\$9,547,746	\$(73,463)	\$-	\$-	\$9,547,746	\$(73,463)
Residential mortgage-backed and related securities	9,326,000	(78,305)	8,464,738	(69,247)	17,790,738	(147,552)
Municipal securities	25,921,780	(49,087)	846,894	(14,412)	26,768,674	(63,499)
Other securities	641,430	(3,227)	-	-	641,430	(3,227)
	\$45,436,956	\$(204,082)	\$9,311,632	\$(83,659)	\$54,748,588	\$(287,741)

December 31, 2015:

Securities HTM:

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Municipal securities	\$14,803,408	\$(294,438)	\$19,927,581	\$(878,994)	\$34,730,989	\$(1,173,432)
Securities AFS:						
U.S. govt. sponsored agency securities	\$112,900,327	\$(1,397,591)	\$64,476,661	\$(1,450,970)	\$177,376,988	\$(2,848,561)
Residential mortgage-backed and related securities	40,356,921	(730,466)	19,836,637	(552,973)	60,193,558	(1,283,439)
Municipal securities	2,220,800	(31,807)	848,329	(27,571)	3,069,129	(59,378)
Other securities	411	(163)	-	-	411	(163)
	\$155,478,459	\$(2,160,027)	\$85,161,627	\$(2,031,514)	\$240,640,086	\$(4,191,541)

At September 30, 2016, the investment portfolio included 526 securities. Of this number, 92 securities were in an unrealized loss position. The aggregate losses of these securities totaled less than 1% of the total amortized cost of the portfolio. Of these 92 securities, 17 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, 2016 and December 31, 2015, equity securities represented less than 1% of the total portfolio.

The Company did not recognize OTTI on any debt or equity securities for the three or nine months ended September 30, 2016 and 2015.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

All sales of securities for the three and nine months ended September 30, 2016 and 2015, respectively, were from securities identified as AFS. 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, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Proceeds from sales of securities*	\$58,775,764	\$11,922,915	\$119,850,909	\$65,889,838
Pre-tax gross gains from sales of securities	4,281,828	102,766	4,815,373	672,317
Pre-tax gross losses from sales of securities	(30,055)	(46,186)	(187,090)	(198,804)

* Proceeds from sales of securities for the nine months ended September 30, 2016 includes \$32.1 million receivable from broker for the sale of securities

In September 2016, the Company sold an equity security and recognized a pre-tax gross gain on the sale of \$4,010,877. The equity security was acquired by the Company at no cost as part of a membership in the invested company in 2002.

The amortized cost and fair value of securities as of September 30, 2016 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 prepaid without any penalties. Therefore, these securities are not included in the maturity categories in the following table. "Other securities" AFS are excluded from the maturity categories as there is no fixed maturity date for those securities.

Amortized Cost	Fair Value
-------------------	------------

Securities HTM:

Due in one year or less	\$9,333,827	\$9,382,178
Due after one year through five years	30,899,427	31,047,261
Due after five years	266,506,920	271,064,904
	\$306,740,174	\$311,494,343

Securities AFS:

Due in one year or less	\$2,345,063	\$2,347,195
Due after one year through five years	55,691,033	56,456,647
Due after five years	62,818,130	63,721,569
	\$120,854,226	\$122,525,411
Residential mortgage-backed and related securities	131,496,011	133,172,804
Other securities	2,002,113	2,491,866
	\$254,352,350	\$258,190,081

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. These callable securities are summarized as follows:

	Amortized Cost	Fair Value
Securities HTM:		
Municipal securities	\$178,052,716	\$180,307,064
Securities AFS:		
U.S. govt. sponsored agency securities	11,042,867	11,073,088
Municipal securities	41,062,791	37,443,219
	\$52,105,658	\$48,516,307

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of September 30, 2016, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 114 issuers with fair values totaling \$115.8 million and revenue bonds issued by 112 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling \$249.3 million. The Company held investments in general obligation bonds in 24 states, including four states in which the aggregate fair value exceeded \$5.0 million. The Company held investments in revenue bonds in 13 states, including five states in which the aggregate fair value exceeded \$5.0 million.

As of December 31, 2015, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 82 issuers with fair values totaling \$67.8 million and revenue bonds issued by 92 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling \$214.4 million. The Company held investments in general obligation bonds in 19 states, including four states in which the aggregate fair value exceeded \$5.0 million. The Company held investments in revenue bonds in nine 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, 2016:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Iowa	27	\$32,289,974	\$32,746,465	\$1,212,832
Illinois	19	30,063,690	30,437,115	1,601,953
North Dakota	6	19,403,728	19,906,421	3,317,737
Missouri	13	8,304,022	8,448,994	649,923

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Other	49	23,934,196	24,247,257	494,842
Total general obligation bonds	114	\$113,995,610	\$115,786,252	\$1,015,669

December 31, 2015:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Iowa	15	\$19,974,939	\$20,247,108	\$1,349,807
Illinois	9	10,928,700	11,264,348	1,251,594
North Dakota	5	10,890,000	11,050,235	2,210,047
Missouri	12	7,924,800	7,986,856	665,571
Other	41	16,965,393	17,229,485	420,231
Total general obligation bonds	82	\$66,683,832	\$67,778,032	\$826,561

Part I

Item 1

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, 2016:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Missouri	44	\$90,171,820	\$91,084,628	\$2,070,105
Iowa	30	75,440,709	77,216,784	2,573,893
Indiana	20	43,994,737	44,605,536	2,230,277
Kansas	6	13,480,269	13,587,744	2,264,624
North Dakota	4	8,114,931	8,175,230	2,043,808
Other	8	14,379,998	14,628,631	1,828,579
Total revenue bonds	112	\$245,582,464	\$249,298,553	\$2,225,880

December 31, 2015:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer
-------------	-------------------------	-------------------	------------	--------------------------------------

(Fair
Value)

Missouri	41	\$78,593,590	\$79,015,378	\$1,927,204
Iowa	26	70,773,660	71,659,410	2,756,131
Indiana	17	40,018,381	40,210,320	2,365,313
Kansas	3	11,748,679	11,821,055	3,940,352
Other	5	11,570,998	11,735,678	2,347,136
Total revenue bonds	92	\$212,705,308	\$214,441,841	\$2,330,890

Both general obligation and revenue bonds are diversified across many issuers. As of September 30, 2016 and December 31, 2015, the Company did not hold general obligation or revenue bonds of any single issuer, the aggregate book or market value of which exceeded 4% of the Company's stockholders' equity. Of the general obligation and revenue bonds in the Company's portfolio, the majority are unrated bonds that represent small, private issuances. All unrated bonds were underwritten according to loan underwriting standards and have an average loan risk rating of 2, indicating very high quality. Additionally, many of these bonds are funding essential municipal services such as water, sewer, education, and medical facilities.

The Company's municipal securities are owned by each of the four 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, 2016, 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, 2016, the Company's standard monitoring of its municipal securities portfolio had not uncovered any facts or circumstances resulting in significantly different credit 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, 2016 and December 31, 2015 is presented as follows:

	As of September 30, 2016	As of December 31, 2015
C&I loans	\$804,307,562	\$648,159,892
CRE loans		
Owner-occupied CRE	317,899,011	252,523,164
Commercial construction, land development, and other land	160,527,094	49,083,844
Other non owner-occupied CRE	591,878,656	422,761,757
	1,070,304,761	724,368,765
Direct financing leases *	166,924,077	173,655,605
Residential real estate loans **	229,080,600	170,432,530
Installment and other consumer loans	81,917,732	73,669,493
	2,352,534,732	1,790,286,285
Plus deferred loan/lease origination costs, net of fees	8,065,780	7,736,390
	2,360,600,512	1,798,022,675
Less allowance	(28,826,835)	(26,140,906)
	\$2,331,773,677	\$1,771,881,769
* Direct financing leases:		
Net minimum lease payments to be received	\$186,183,516	\$195,476,230
Estimated unguaranteed residual values of leased assets	1,085,154	1,165,706
Unearned lease/residual income	(20,344,593)	(22,986,331)
	166,924,077	173,655,605
Plus deferred lease origination costs, net of fees	6,018,484	6,594,582
	172,942,561	180,250,187
Less allowance	(3,041,962)	(3,395,088)
	\$169,900,599	\$176,855,099

*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, which is combined with 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, 2016 and 2015.

**Includes residential real estate loans held for sale totaling \$1,377,875 and \$565,850 as of September 30, 2016, and December 31, 2015, 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, 2016 and December 31, 2015 is presented as follows:

Classes of Loans/Leases	As of September 30, 2016					Total
	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	
C&I CRE	\$796,943,072	\$358,503	\$232,297	\$266,485	\$6,507,205	\$804,307,562
Owner-Occupied CRE	316,299,798	-	-	-	1,599,213	317,899,011
Commercial Construction, Land Development, and Other Land	160,034,828	-	-	-	492,266	160,527,094
Other Non Owner-Occupied CRE	585,545,037	4,617,055	-	-	1,716,564	591,878,656
Direct Financing Leases	162,556,659	1,180,356	998,896	-	2,188,166	166,924,077
Residential Real Estate	227,061,212	122,744	114,638	104,789	1,677,217	229,080,600
Installment and Other Consumer	81,576,782	89,104	41,332	20,492	190,022	81,917,732
	\$2,330,017,388	\$6,367,762	\$1,387,163	\$391,766	\$14,370,653	\$2,352,534,732
As a percentage of total loan/lease portfolio	99.05	% 0.27	% 0.06	% 0.02	% 0.61	% 100.00

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

As of December 31, 2015

Classes of Loans/Leases	Current	30-59 Days Past	60-89 Days Past	Accruing Past Due	Nonaccrual	Total	
		Due	Due	90 Days or More	Loans/Leases		
C&I CRE	\$640,725,241	\$1,636,860	\$5,816	\$ -	\$5,791,975	\$648,159,892	
Owner-Occupied CRE	251,612,752	182,949	-	-	727,463	252,523,164	
Commercial Construction, Land Development, and Other Land	48,890,040	-	-	-	193,804	49,083,844	
Other Non Owner-Occupied CRE	420,819,874	614,732	219,383	-	1,107,768	422,761,757	
Direct Financing Leases	170,021,289	1,490,818	439,314	2,843	1,701,341	173,655,605	
Residential Real Estate Installment and Other Consumer	166,415,118	2,800,589	200,080	-	1,016,743	170,432,530	
	73,134,197	412,052	14,127	-	109,117	73,669,493	
	\$1,771,618,511	\$7,138,000	\$878,720	\$2,843	\$10,648,211	\$1,790,286,285	
As a percentage of total loan/lease portfolio	98.96	% 0.40	% 0.05	% 0.00	% 0.59	% 100.00	%

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NPLs by classes of loans/leases as of September 30, 2016 and December 31, 2015 are presented as follows:

Classes of Loans/Leases	As of September 30, 2016			Total NPLs	Percentage of	
	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases*	Accruing TDRs		Total NPLs	Total NPLs
C&I	\$266,485	\$6,507,205	\$170,113	\$6,943,803	41.86	%
CRE						
Owner-Occupied CRE	-	1,599,213	-	1,599,213	9.64	%
Commercial Construction, Land Development, and Other Land	-	492,266	-	492,266	2.97	%
Other Non Owner-Occupied CRE	-	1,716,564	-	1,716,564	10.35	%
Direct Financing Leases	-	2,188,166	1,138,335	3,326,501	20.05	%
Residential Real Estate	104,789	1,677,217	390,039	2,172,045	13.09	%
Installment and Other Consumer	20,492	190,022	126,998	337,512	2.03	%
	\$391,766	\$14,370,653	\$1,825,485	\$16,587,904	100.00	%

*Nonaccrual loans/leases included \$4,859,420 of TDRs, including \$2,241,205 in C&I loans, \$1,937,655 in CRE loans, \$463,859 in direct financing leases, \$110,702 in residential real estate loans, and \$105,999 in installment loans.

Classes of Loans/Leases	As of December 31, 2015			Total NPLs	Percentage of
	Accruing Past	Nonaccrual Loans/Leases	Accruing TDRs		

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

	Due 90 Days or More	**			Total NPLs	
C&I	\$-	\$ 5,791,975	\$ 173,087	\$ 5,965,062	50.96	%
CRE				-		
Owner-Occupied CRE	-	727,463	-	727,463	6.22	%
Commercial Construction, Land Development, and Other Land	-	193,804	-	193,804	1.66	%
Other Non Owner-Occupied CRE	-	1,107,768	-	1,107,768	9.46	%
Direct Financing Leases	2,843	1,701,341	-	1,704,184	14.56	%
Residential Real Estate	-	1,016,743	402,044	1,418,787	12.12	%
Installment and Other Consumer	-	109,117	478,625	587,742	5.02	%
	\$2,843	\$ 10,648,211	\$ 1,053,756	\$ 11,704,810	100.00	%

**Nonaccrual loans/leases included \$1,533,657 of TDRs, including \$1,164,423 in C&I loans, \$193,804 in CRE loans, \$42,098 in direct financing leases, \$119,305 in residential real estate loans, and \$14,027 in installment loans.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Changes in the allowance by portfolio segment for the three and nine months ended September 30, 2016 and 2015, respectively, are presented as follows:

	Three Months Ended September 30, 2016					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$ 10,724,506	\$ 10,987,062	\$ 3,226,194	\$ 2,014,987	\$ 1,144,741	\$ 28,097,490
Provisions charged to expense	859,031	8,962	641,435	79,221	19,337	1,607,986
Loans/leases charged off	(96,330)	-	(847,668)	(38,554)	(4,530)	(987,082)
Recoveries on loans/leases previously charged off	70,759	6,500	22,001	-	9,181	108,441
Balance, ending	\$ 11,557,966	\$ 11,002,524	\$ 3,041,962	\$ 2,055,654	\$ 1,168,729	\$ 28,826,835
	Three Months Ended September 30, 2015					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$ 10,020,866	\$ 9,929,656	\$ 3,352,303	\$ 1,720,135	\$ 1,123,040	\$ 26,146,000
Provisions charged to expense	520,058	573,119	361,071	130,742	50,273	1,635,263
Loans/leases charged off	(145,665)	(1,813,973)	(483,420)	(25,928)	(6,837)	(2,475,823)
Recoveries on loans/leases previously charged off	136,909	19,913	18,679	4,107	49,296	228,904
Balance, ending	\$ 10,532,168	\$ 8,708,715	\$ 3,248,633	\$ 1,829,056	\$ 1,215,772	\$ 25,534,344

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Nine Months Ended September 30, 2016

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$10,484,080	\$9,375,117	\$3,395,088	\$1,790,150	\$1,096,471	\$26,140,906
Provisions (credits) charged to expense	1,357,262	1,644,008	1,580,677	336,865	(39,991)	4,878,821
Loans/leases charged off	(388,879)	(23,101)	(1,983,322)	(72,261)	(22,018)	(2,489,581)
Recoveries on loans/leases previously charged off	105,503	6,500	49,519	900	134,267	296,689
Balance, ending	\$11,557,966	\$11,002,524	\$3,041,962	\$2,055,654	\$1,168,729	\$28,826,835

Nine Months Ended September 30, 2015

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$8,750,317	\$8,353,386	\$3,442,915	\$1,525,952	\$1,001,795	\$23,074,365
Provisions charged to expense	1,513,430	2,490,766	1,238,505	324,925	126,758	5,694,384
Loans/leases charged off	(391,303)	(2,165,049)	(1,496,010)	(25,928)	(40,886)	(4,119,176)
Recoveries on loans/leases previously charged off	659,724	29,612	63,223	4,107	128,105	884,771
Balance, ending	\$10,532,168	\$8,708,715	\$3,248,633	\$1,829,056	\$1,215,772	\$25,534,344

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

The allowance by impairment evaluation and by portfolio segment as of September 30, 2016 and December 31, 2015 is presented as follows:

	As of September 30, 2016						
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	
Allowance for impaired loans/leases	\$ 1,114,680	\$ 175,743	\$ 739,207	\$ 169,147	\$ 148,320	\$ 2,347,097	
Allowance for nonimpaired loans/leases	10,443,286	10,826,781	2,302,755	1,886,507	1,020,409	26,479,738	
	\$ 11,557,966	\$ 11,002,524	\$ 3,041,962	\$ 2,055,654	\$ 1,168,729	\$ 28,826,835	
Impaired loans/leases	\$ 5,874,093	\$ 3,495,386	\$ 2,925,205	\$ 2,230,829	\$ 368,924	\$ 14,894,437	
Nonimpaired loans/leases	798,433,469	1,066,809,375	163,998,872	226,849,771	81,548,808	2,337,640,295	
	\$ 804,307,562	\$ 1,070,304,761	\$ 166,924,077	\$ 229,080,600	\$ 81,917,732	\$ 2,352,534,732	
Allowance as a percentage of impaired loans/leases	18.98	% 5.03	% 25.27	% 7.58	% 40.20	% 15.76	%
Allowance as a	1.31	% 1.01	% 1.40	% 0.83	% 1.25	% 1.13	%

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

percentage of nonimpaired loans/leases												
Total allowance as a percentage of total loans/leases	1.44	%	1.03	%	1.82	%	0.90	%	1.43	%	1.22	%

As of December 31, 2015

	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Allowance for impaired loans/leases	\$2,592,270	\$76,934	\$306,193	\$185,801	\$143,089	\$3,304,287
Allowance for nonimpaired loans/leases	7,891,810	9,298,183	3,088,895	1,604,349	953,382	22,836,619
	\$10,484,080	\$9,375,117	\$3,395,088	\$1,790,150	\$1,096,471	\$26,140,906
Impaired loans/leases	\$5,286,482	\$2,029,035	\$1,701,341	\$1,418,787	\$587,742	\$11,023,387
Nonimpaired loans/leases	642,873,410	722,339,730	171,954,264	169,013,743	73,081,751	1,779,262,898
	\$648,159,892	\$724,368,765	\$173,655,605	\$170,432,530	\$73,669,493	\$1,790,286,285

Allowance as a percentage of impaired loans/leases	49.04	%	3.79	%	18.00	%	13.10	%	24.35	%	29.98	%
Allowance as a percentage of nonimpaired loans/leases	1.23	%	1.29	%	1.80	%	0.95	%	1.30	%	1.28	%
Total allowance as a percentage of total loans/leases	1.62	%	1.29	%	1.96	%	1.05	%	1.49	%	1.45	%

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, 2016 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:						
C&I	\$1,846,140	\$1,987,082	\$-	\$3,864,852	\$ 8,644	\$ 8,644
CRE						
Owner-Occupied CRE	767,032	860,806	-	621,553	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	-	-	-
Other Non Owner-Occupied CRE	2,042,391	2,042,391	-	1,789,571	-	-
Direct Financing Leases	1,860,773	1,860,773	-	1,755,969	52,595	52,595
Residential Real Estate	1,418,957	1,458,158	-	1,455,159	2,992	2,992
Installment and Other Consumer	208,916	208,916	-	430,322	-	-
	\$8,144,209	\$8,418,126	\$-	\$9,917,426	\$ 64,231	\$ 64,231
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	\$4,027,953	\$4,031,792	\$1,114,680	\$2,195,524	\$ -	\$ -

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

CRE						
Owner-Occupied CRE	322,148	322,148	57,398	401,050	-	-
Commercial Construction, Land Development, and Other Land	186,681	186,681	77,611	190,208	-	-
Other Non Owner-Occupied CRE	177,134	177,134	40,734	67,571	-	-
Direct Financing Leases	1,064,432	1,064,432	739,207	653,884	-	-
Residential Real Estate	811,872	886,004	169,147	799,427	5,409	5,409
Installment and Other Consumer	160,008	160,008	148,320	145,962	4,426	4,426
	\$6,750,228	\$6,828,199	\$2,347,097	\$4,453,626	\$ 9,835	\$ 9,835
Total Impaired Loans/Leases:						
C&I	\$5,874,093	\$6,018,874	\$1,114,680	\$6,060,376	\$ 8,644	\$ 8,644
CRE						
Owner-Occupied CRE	1,089,180	1,182,954	57,398	1,022,603	-	-
Commercial Construction, Land Development, and Other Land	186,681	186,681	77,611	190,208	-	-
Other Non Owner-Occupied CRE	2,219,525	2,219,525	40,734	1,857,142	-	-
Direct Financing Leases	2,925,205	2,925,205	739,207	2,409,853	52,595	52,595
Residential Real Estate	2,230,829	2,344,162	169,147	2,254,586	8,401	8,401
Installment and Other Consumer	368,924	368,924	148,320	576,284	4,426	4,426
	\$14,894,437	\$15,246,325	\$2,347,097	\$14,371,052	\$ 74,066	\$ 74,066

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, 2016 and 2015, respectively, are presented as follows:

Classes of Loans/Leases	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	Average Recorded	Interest Income	Recognized for	Average Recorded	Interest Income	Recognized for
	Investment	Recognized	Cash Payments Received	Investment	Recognized	Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	\$1,677,527	\$ 3,301	\$ 3,301	\$365,798	\$ 1,870	\$ 1,870
CRE						
Owner-Occupied CRE	767,032	-	-	451,851	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	9,968	-	-
Other Non Owner-Occupied CRE	1,969,034	-	-	2,868,950	-	-
Direct Financing Leases	2,008,095	21,095	21,095	634,378	325	325
Residential Real Estate	1,481,340	941	941	900,938	1,362	1,362
Installment and Other Consumer	322,738	-	-	328,669	3,912	3,912
	\$8,225,766	\$ 25,337	\$ 25,337	\$5,560,552	\$ 7,469	\$ 7,469
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	\$4,188,621	\$ -	\$ -	\$4,735,149	\$ -	\$ -
CRE						
Owner-Occupied CRE	363,911	-	-	-	-	-
Commercial Construction, Land Development, and Other Land	187,831	-	-	335,707	-	-

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Other Non Owner-Occupied CRE	135,141	-	-	-	-	-
Direct Financing Leases	793,769	-	-	488,860	-	-
Residential Real Estate	807,827	1,503	1,503	984,558	1,981	1,981
Installment and Other Consumer	160,301	1,458	1,458	723,674	1,391	1,391
	\$6,637,401	\$ 2,961	\$ 2,961	\$7,267,948	\$ 3,372	\$ 3,372
Total Impaired Loans/Leases:						
C&I	\$5,866,148	\$ 3,301	\$ 3,301	\$5,100,947	\$ 1,870	\$ 1,870
CRE						
Owner-Occupied CRE						