

QCR HOLDINGS INC

Form 10-Q

August 08, 2017

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 June 30, 2017

☐ 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) 736-3580**

(Registrant's telephone number, including area code)

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐

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

Yes ☐ No ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of August 2, 2017, the Registrant had outstanding 13,181,153 shares of common stock, \$1.00 par value per share.

**QCR HOLDINGS, INC. AND SUBSIDIARIES**

**TABLE OF CONTENTS**

	Page Number(s)
<b><u>Part I</u> FINANCIAL INFORMATION</b>	
<b>Item 1 Consolidated Financial Statements (Unaudited)</b>	
Consolidated Balance Sheets As of June 30, 2017 and December 31, 2016	3
Consolidated Statements of Income For the Three Months Ended June 30, 2017 and 2016	4
Consolidated Statements of Income For the Six Months Ended June 30, 2017 and 2016	5
Consolidated Statements of Comprehensive Income For the Three and Six Months Ended June 30, 2017 and 2016	6
Consolidated Statements of Changes in Stockholders' Equity For the Three and Six Months Ended June 30, 2017 and 2016	7
Consolidated Statements of Cash Flows For the Six Months Ended June 30, 2017 and 2016	8
Notes to Consolidated Financial Statements	10
Note 1. Summary of Significant Accounting Policies	10
Note 2. Investment Securities	12
Note 3. Loans/Leases Receivable	17
Note 4. Earnings Per Share	27
Note 5. Fair Value	

	27
Note 6. Business Segment Information	31
Note 7. Regulatory Capital Requirements	32
Note 8. Acquisition of Guaranty Bank and Trust Company	34
<b>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	
Introduction	35
General	35
Executive Overview	36
Long-Term Financial Goals	37
Strategic Developments	38
GAAP to Non-GAAP Reconciliations	40
Net Interest Income (Tax Equivalent Basis)	43
Critical Accounting Policies	48
Results of Operations	
Interest Income	49
Interest Expense	49
Provision for Loan/Lease Losses	50
Noninterest Income	51
Noninterest Expense	54
Income Taxes	56

Financial Condition	56
Investment Securities	57
Loans/Leases	58
Allowance for Estimated Losses on Loans/Leases	61
Nonperforming Assets	63
Deposits	64
Borrowings	64
Stockholders' Equity	66
Liquidity and Capital Resources	67
Special Note Concerning Forward-Looking Statements	69

<b>Item 3 Quantitative and Qualitative Disclosures About Market Risk</b>	<b>70</b>
--	-----------

<b>Item 4 Controls and Procedures</b>	<b>72</b>
---------------------------------------	-----------

## **Part II OTHER INFORMATION**

<b>Item 1 Legal Proceedings</b>	<b>73</b>
---------------------------------	-----------

<b>Item 1A Risk Factors</b>	<b>73</b>
-----------------------------	-----------

<b>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</b>	<b>73</b>
---	-----------

<b>Item 3 Defaults upon Senior Securities</b>	<b>73</b>
---	-----------

<b>Item 4 Mine Safety Disclosures</b>	<b>73</b>
---------------------------------------	-----------

<b>Item 5 Other Information</b>	<b>73</b>
---------------------------------	-----------

<b>Item 6 Exhibits</b>	<b>74</b>
------------------------	-----------

<b>Signatures</b>	<b>75</b>
-------------------	-----------

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.**

2

---

**QCR HOLDINGS,  
INC. AND  
SUBSIDIARIES  
CONSOLIDATED  
BALANCE  
SHEETS  
(UNAUDITED)  
As of June 30,  
2017 and  
December 31, 2016**

	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Cash and due from banks	\$77,161,353	\$70,569,993
Federal funds sold	19,183,000	22,257,000
Interest-bearing deposits at financial institutions	53,171,325	63,948,925
Securities held to maturity, at amortized cost	324,203,634	322,909,056
Securities available for sale, at fair value	269,281,713	251,113,139
Total securities	593,485,347	574,022,195
Loans receivable held for sale	705,800	1,135,500
Loans/leases receivable held for investment	2,552,859,808	2,404,351,485
Gross loans/leases receivable	2,553,565,608	2,405,486,985
Less allowance for estimated losses on loans/leases	(33,356,632 )	(30,757,448 )
Net loans/leases receivable	2,520,208,976	2,374,729,537
Bank-owned life insurance	58,186,098	57,257,051
Premises and equipment, net	61,218,425	60,643,508
Restricted investment securities	16,103,925	14,997,025
Other real estate owned, net	5,173,521	5,523,104
Goodwill	13,110,913	13,110,913
Core deposit intangible	6,919,480	7,381,213
Other assets	33,264,332	37,503,284
Total assets	\$3,457,186,695	\$3,301,943,748
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$760,624,943	\$797,415,090
Interest-bearing	2,109,609,296	1,871,846,183
Total deposits	2,870,234,239	2,669,261,273
Short-term borrowings	18,217,393	39,971,387
Federal Home Loan Bank advances	106,500,000	137,500,000
Other borrowings	72,000,000	80,000,000

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Junior subordinated debentures	33,546,425	33,480,202
Other liabilities	51,605,203	55,690,087
Total liabilities	3,152,103,260	3,015,902,949

**STOCKHOLDERS' EQUITY**

Preferred stock, \$1 par value; shares authorized 250,000 June 2017 and December 2016 - No shares issued or outstanding	-	-
Common stock, \$1 par value; shares authorized 20,000,000 June 2017 - 13,175,234 shares issued and outstanding December 2016 - 13,106,845 shares issued and outstanding	13,175,234	13,106,845
Additional paid-in capital	158,001,006	156,776,642
Retained earnings	135,254,306	118,616,901
Accumulated other comprehensive loss:		
Securities available for sale	(468,190 )	(1,527,433 )
Interest rate cap derivatives	(878,921 )	(932,156 )
Total stockholders' equity	305,083,435	286,040,799
Total liabilities and stockholders' equity	\$3,457,186,695	\$3,301,943,748

See Notes to Consolidated Financial Statements (Unaudited)



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

	2017	2016
Interest and dividend income:		
Loans/leases, including fees	\$28,114,729	\$20,238,179
Securities:		
Taxable	1,260,575	1,192,541
Nontaxable	2,688,243	2,276,203
Interest-bearing deposits at financial institutions	219,714	62,242
Restricted investment securities	131,890	133,546
Federal funds sold	38,117	10,573
Total interest and dividend income	32,453,268	23,913,284
Interest expense:		
Deposits	2,990,603	1,344,398
Short-term borrowings	19,157	18,065
FHLB advances	354,213	415,933
Other borrowings	695,669	824,437
Junior subordinated debentures	346,929	301,638
Total interest expense	4,406,571	2,904,471
Net interest income	28,046,697	21,008,813
Provision for loan/lease losses	2,022,993	1,197,850
Net interest income after provision for loan/lease losses	26,023,704	19,810,963
Noninterest income:		
Trust department fees	1,692,001	1,512,083
Investment advisory and management fees	868,835	692,738
Deposit service fees	1,458,359	946,810
Gains on sales of residential real estate loans	112,628	84,413
Gains on sales of government guaranteed portions of loans	87,053	1,603,890
Swap fee income	327,577	167,582
Securities gains, net	38,464	18,030
Earnings on bank-owned life insurance	459,359	480,520
Debit card fees	743,521	343,748
Correspondent banking fees	200,057	244,939
Other	794,664	667,648
Total noninterest income	6,782,518	6,762,401

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Noninterest expense:		
Salaries and employee benefits	12,930,944	10,917,473
Occupancy and equipment expense	2,698,336	1,884,556
Professional and data processing fees	2,340,699	1,542,322
Acquisition costs	-	354,969
FDIC insurance, other insurance and regulatory fees	645,277	649,604
Loan/lease expense	260,284	154,349
Net cost of operations of other real estate	27,957	277,911
Advertising and marketing	567,588	433,451
Bank service charges	447,445	415,350
Correspondent banking expense	201,693	181,776
Other	1,284,406	931,992
Total noninterest expense	21,404,629	17,743,753
Net income before income taxes	11,401,593	8,829,611
Federal and state income tax expense	2,635,576	2,153,144
Net income	\$8,766,017	\$6,676,467
Basic earnings per common share	\$0.67	\$0.54
Diluted earnings per common share	\$0.65	\$0.53
Weighted average common shares outstanding	13,170,283	12,335,077
Weighted average common and common equivalent shares outstanding	13,516,592	12,516,474
Cash dividends declared per common share	\$0.05	\$0.04

See Notes to  
Consolidated  
Financial  
Statements  
(Unaudited)

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

	2017	2016
Interest and dividend income:		
Loans/leases, including fees	\$55,326,146	\$39,938,549
Securities:		
Taxable	2,402,810	2,548,744
Nontaxable	5,335,965	4,518,218
Interest-bearing deposits at financial institutions	418,366	122,559
Restricted investment securities	262,320	264,110
Federal funds sold	52,760	23,163
Total interest and dividend income	63,798,367	47,415,343
Interest expense:		
Deposits	5,223,359	2,634,196
Short-term borrowings	43,117	61,131
FHLB advances	757,682	857,637
Other borrowings	1,378,877	1,649,520
Junior subordinated debentures	679,752	606,524
Total interest expense	8,082,787	5,809,008
Net interest income	55,715,580	41,606,335
Provision for loan/lease losses	4,128,102	3,270,835
Net interest income after provision for loan/lease losses	51,587,478	38,335,500
Noninterest income:		
Trust department fees	3,432,208	3,087,990
Investment advisory and management fees	1,830,434	1,351,123
Deposit service fees	2,774,749	1,877,889
Gains on sales of residential real estate loans	208,951	144,799
Gains on sales of government guaranteed portions of loans	1,037,694	2,482,418
Swap fee income	441,097	1,024,540
Securities gains, net	38,464	376,510
Earnings on bank-owned life insurance	929,046	874,129
Debit card fees	1,446,322	651,399
Correspondent banking fees	445,246	547,069
Other	1,482,061	1,167,008
Total noninterest income	14,066,272	13,584,874
Noninterest expense:		
Salaries and employee benefits	26,238,275	21,718,380
Occupancy and equipment expense	5,200,555	3,711,544
Professional and data processing fees	4,424,091	2,989,735
Acquisition costs	-	354,969
FDIC insurance, other insurance and regulatory fees	1,266,519	1,283,969
Loan/lease expense	553,822	317,168

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Net cost of operations of other real estate	42,187	380,094
Advertising and marketing	1,177,019	819,710
Bank service charges	871,346	831,281
Losses on debt extinguishment, net	-	83,197
Correspondent banking expense	400,044	358,765
Other	2,503,888	1,849,439
Total noninterest expense	42,677,746	34,698,251
Net income before income taxes	22,976,004	17,222,123
Federal and state income tax expense	5,025,022	4,172,167
Net income	\$17,950,982	\$13,049,956
Basic earnings per common share	\$1.36	\$1.08
Diluted earnings per common share	\$1.33	\$1.07
Weighted average common shares outstanding	13,151,833	12,064,349
Weighted average common and common equivalent shares outstanding	13,502,505	12,235,212
Cash dividends declared per common share	\$0.10	\$0.08

See Notes to  
Consolidated  
Financial  
Statements  
(Unaudited)

**QCR HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**  
**Three and Six Months Ended June 30, 2017 and 2016**

	Three Months Ended June 30,	
	2017	2016
Net income	\$8,766,017	\$6,676,467
Other comprehensive income:		
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period before tax	1,170,310	2,081,800
Less reclassification adjustment for gains included in net income before tax	38,464	18,030
	1,131,846	2,063,770
Unrealized losses on interest rate cap derivatives:		
Unrealized holding losses arising during the period before tax	(132,352 )	(159,691 )
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	(136,639 )	20,154
	4,287	(179,845 )
Other comprehensive income, before tax	1,136,133	1,883,925
Tax expense	434,394	703,292
Other comprehensive income, net of tax	701,739	1,180,633
Comprehensive income	\$9,467,756	\$7,857,100
	Six Months Ended June 30,	
	2017	2016
Net income	\$17,950,982	\$13,049,956
Other comprehensive income:		
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period before tax	1,768,500	6,945,518
Less reclassification adjustment for gains included in net income before tax	38,464	376,510
	1,730,036	6,569,008
Unrealized losses on interest rate cap derivatives:		
Unrealized holding losses arising during the period before tax	(177,554 )	(549,627 )
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	(259,452 )	35,591
	81,898	(585,218 )
Other comprehensive income, before tax	1,811,934	5,983,790
Tax expense	699,456	2,277,746

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Other comprehensive income, net of tax	1,112,478	3,706,044
Comprehensive income	\$ 19,063,460	\$ 16,756,000

See Notes to Consolidated Financial Statements (Unaudited)

**QCR HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)**  
**Three Months and Six Months Ended June 30, 2017 and 2016**

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, December 31, 2016</b>	<b>\$13,106,845</b>	<b>\$156,776,642</b>	<b>\$118,616,901</b>	<b>\$ (2,459,589 )</b>	<b>\$286,040,799</b>
Net income	-	-	9,184,965	-	9,184,965
Other comprehensive income, net of tax	-	-	-	410,739	410,739
Common cash dividends declared, \$0.05 per share	-	-	(656,574 )	-	(656,574 )
Proceeds from issuance of 3,573 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	3,573	83,091	-	-	86,664
Proceeds from issuance of 44,284 shares of common stock as a result of stock options exercised	44,284	630,290	-	-	674,574
Stock compensation expense	-	388,753	-	-	388,753
Restricted stock awards - 13,289 shares of common stock	13,289	(13,289 )	-	-	-
Exchange of 6,772 shares of common stock in connection with stock options exercised and restricted stock vested	(6,772 )	(283,518 )	-	-	(290,290 )
<b>Balance, March 31, 2017</b>	<b>\$13,161,219</b>	<b>\$157,581,969</b>	<b>\$127,145,292</b>	<b>\$ (2,048,850 )</b>	<b>\$295,839,630</b>
Net income	-	-	8,766,017	-	8,766,017
Other comprehensive income, net of tax	-	-	-	701,739	701,739
Common cash dividends declared, \$0.05 per share	-	-	(657,003 )	-	(657,003 )
Proceeds from issuance of 4,582 shares of common stock as a result of stock purchased under the Employee Stock Purchase Plan	4,582	170,061	-	-	174,643
Proceeds from issuance of 8,027 shares of common stock as a result of stock options exercised	8,027	109,392	-	-	117,419
Stock compensation expense	-	168,314	-	-	168,314
Restricted stock awards - 2,000 shares of common stock	2,000	(2,000 )	-	-	-
Exchange of 594 shares of common stock in connection with stock options exercised	(594 )	(26,730 )	-	-	(27,324 )

## Edgar Filing: QCR HOLDINGS INC - Form 10-Q

<b>Balance June 30, 2017</b>	<b>\$13,175,234</b>	<b>\$158,001,006</b>	<b>\$135,254,306</b>	<b>\$ (1,347,111 )</b>	<b>\$305,083,435</b>
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, December 31, 2015</b>	<b>\$11,761,083</b>	<b>\$123,282,851</b>	<b>\$92,965,645</b>	<b>\$ (2,123,829 )</b>	<b>\$225,885,750</b>
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 shares of common stock	22,382	(22,382 )	-	-	-
Exchange of 19,628 shares of common stock in connection with stock options exercised and restricted stock vested	(19,628 )	(431,806 )	-	-	(451,434 )
<b>Balance, March 31, 2016</b>	<b>\$11,814,911</b>	<b>\$124,057,965</b>	<b>\$98,868,261</b>	<b>\$ 401,582</b>	<b>\$235,142,719</b>
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
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



Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Restricted stock awards - 500 shares of common stock	(500)	) 500	-	-	-
<b>Balance June 30, 2016</b>	<b>\$13,057,368</b>	<b>\$155,453,781</b>	<b>\$105,024,027</b>	<b>\$1,582,215</b>	<b>\$275,117,391</b>

See Notes to  
Consolidated  
Financial  
Statements  
(Unaudited)

**QCR HOLDINGS,  
INC. AND  
SUBSIDIARIES  
CONSOLIDATED  
STATEMENTS  
OF CASH  
FLOWS  
(UNAUDITED)  
Six Months Ended  
June 30, 2017 and  
2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 17,950,982	\$ 13,049,956
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,847,963	1,552,176
Provision for loan/lease losses	4,128,102	3,270,835
Stock-based compensation expense	557,067	570,330
Deferred compensation expense accrued	724,422	623,831
Losses on other real estate owned, net	3,596	157,739
Amortization of premiums on securities, net	1,005,121	611,900
Securities gains, net	(38,464 )	(376,510 )
Loans originated for sale	(32,130,683 )	(43,526,263 )
Proceeds on sales of loans	33,807,027	45,160,830
Gains on sales of residential real estate loans	(208,951 )	(144,799 )
Gains on sales of government guaranteed portions of loans	(1,037,694 )	(2,482,418 )
Losses on debt extinguishment, net	-	83,197
Amortization of core deposit intangible	461,733	99,756
Accretion of acquisition fair value adjustments, net	(3,578,379 )	(61,065 )
Increase in cash value of bank-owned life insurance	(929,046 )	(874,129 )
Decrease (increase) in other assets	3,412,207	(4,330,548 )
Increase (decrease) in other liabilities	(7,059,305 )	1,386,323
Net cash provided by operating activities	\$ 18,915,698	\$ 14,771,141
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net decrease (increase) in federal funds sold	3,074,000	(975,000 )
Net decrease (increase) in interest-bearing deposits at financial institutions	10,777,600	(11,293,339 )
Proceeds from sales of other real estate owned	487,815	864,817
Activity in securities portfolio:		
Purchases	(85,169,891 )	(97,132,279 )
Calls, maturities and redemptions	33,079,683	96,704,276
Paydowns	21,606,220	13,321,512
Sales	13,554,075	61,075,145
Activity in restricted investment securities:		
Purchases	(2,407,600 )	(1,857,200 )
Redemptions	1,300,700	-

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Net increase in loans/leases originated and held for investment	(146,365,255)	(124,972,098)
Purchase of premises and equipment	(2,422,880 )	(2,953,356 )
Net cash used in investing activities	\$(152,485,534)	\$(67,217,522 )

**CASH FLOWS FROM FINANCING ACTIVITIES**

Net increase in deposit accounts	201,041,035	92,920,820
Net decrease in short-term borrowings	(21,753,994 )	(93,100,968 )
Activity in FHLB advances:		
Calls and maturities	(6,000,000 )	(9,000,000 )
Net change in short-term and overnight advances	(25,000,000 )	64,900,000
Prepayments	-	(10,524,197 )
Activity in other borrowings:		
Calls, maturities and scheduled principal payments	(8,000,000 )	-
Prepayments	-	(10,759,000 )
Retirement of junior subordinated debentures	-	(3,955,000 )
Payment of cash dividends on common stock	(1,179,146 )	(939,456 )
Net proceeds from the common stock offering, 1,215,000 shares issued	-	29,828,916
Proceeds from issuance of common stock, net	1,053,300	914,099
Net cash provided by financing activities	\$ 140,161,195	\$ 60,285,214
Net increase in cash and due from banks	6,591,360	7,838,833
Cash and due from banks, beginning	70,569,993	41,742,321
Cash and due from banks, ending	\$ 77,161,353	\$ 49,581,154

(Continued)

**QCR HOLDINGS,  
INC. AND  
SUBSIDIARIES  
CONSOLIDATED  
STATEMENTS  
OF CASH  
FLOWS  
(UNAUDITED) -  
continued  
Six Months Ended  
June 30, 2017 and  
2016**

	2017	2016
<b>Supplemental disclosure of cash flow information, cash payments for:</b>		
Interest	\$7,876,668	\$5,852,789
Income/franchise taxes, net	\$7,450,738	\$4,869,300
<b>Supplemental schedule of noncash investing activities:</b>		
Change in accumulated other comprehensive income, unrealized gains on securities available for sale and derivative instruments, net	\$1,112,478	\$3,706,044
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	\$(317,614 )	\$(451,434 )
Tax benefit of nonqualified stock options exercised	\$N/A	\$110,366
Transfers of loans to other real estate owned	\$141,828	\$51,000
Due to broker for purchases of securities	\$(4,662,631 )	\$(1,500,000)
Dividends payable	\$657,003	\$520,701
Tax basis adjustment related to the acquisition of noncontrolling interest in m2 Lease Funds	\$-	\$2,132,415
Decrease (increase) in the fair market value of interest rate swap assets and liabilities	\$(209,185 )	\$6,823,332

See Notes to  
Consolidated  
Financial  
Statements  
(Unaudited)

Part I

Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2017

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, 2016, included in the Company's Annual Report on Form 10-K filed with the SEC on March 10, 2017. 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 June 30, 2017, are not necessarily indicative of the results expected for the year ending December 31, 2017, 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  
ASU: Accounting Standards Update  
BOLI: Bank-owned life insurance  
Caps: Interest rate cap derivatives  
Community National: Community National Bancorporation  
CRBT: Cedar Rapids Bank & Trust Company  
CRE: Commercial real estate  
CSB: Community State Bank

Guaranty Bank: Guaranty Bank and Trust Company  
HTM: Held to maturity  
m2: m2 Lease Funds, LLC  
NIM: Net interest margin  
NPA: Nonperforming asset  
NPL: Nonperforming loan  
OREO: Other real estate owned  
OTTI: Other-than-temporary impairment  
PCI: Purchased credit impaired  
Provision: Provision for loan/lease losses  
QCBT: Quad City Bank & Trust Company

## Edgar Filing: QCR HOLDINGS INC - Form 10-Q

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
FRB: Federal Reserve Bank of Chicago	TEY: Tax equivalent yield
GAAP: Generally Accepted Accounting Principles	The Company: QCR Holdings, Inc.
Guaranty: Guaranty Bankshares, Ltd.	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, a wholly-owned subsidiary of QCBT. All material intercompany transactions and balances have been eliminated in consolidation.

The acquisition of CSB occurred on August 31, 2016; therefore, the Consolidated Balance Sheets included herein for both June 30, 2017 and December 31, 2016 include CSB. The Consolidated Statements of Income included herein include CSB for the quarter and six months ended June 30, 2017, however, do not include CSB for the comparative periods ending June 30, 2016.

On June 8, 2017, the Company announced the signing of a definitive agreement to acquire Guaranty Bank, headquartered in Cedar Rapids, Iowa, from Guaranty. The transaction is expected to be completed late in the third quarter or early in the fourth quarter of 2017, subject to certain customary closing conditions. The financial results of Guaranty are not recognized in this Report. See Note 8 to the Consolidated Financial Statements for additional information about the planned acquisition.

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 and it is not expected to have a significant impact on the Company's consolidated financial statements.

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 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.

Effective January 1, 2017, the Company adopted ASU 2016-09, *Compensation – Stock Compensation*. Under the standard, the excess tax benefit (deficiency) related to stock options exercised and restricted stock awards vested is recorded as an adjustment to income tax expense. In the past, this tax benefit (deficiency) was recorded directly to equity. This change in accounting resulted in \$90 thousand of reduced income tax in the second quarter of 2017 and \$623 thousand of reduced income tax expense in the first six months of 2017.



## 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 June 30, 2017 and December 31, 2016 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
<b>June 30, 2017:</b>				
Securities HTM:				
Municipal securities	\$ 323,153,634	\$ 2,027,969	\$ (3,242,226)	\$ 321,939,377
Other securities	1,050,000	-	-	1,050,000
	\$ 324,203,634	\$ 2,027,969	\$ (3,242,226)	\$ 322,989,377
Securities AFS:				
U.S. govt. sponsored agency securities	\$ 42,037,160	\$ 96,651	\$ (189,347 )	\$ 41,944,464
Residential mortgage-backed and related securities	166,063,973	245,551	(1,894,691)	164,414,833
Municipal securities	57,881,338	471,713	(252,541 )	58,100,510
Other securities	4,065,468	778,988	(22,550 )	4,821,906
	\$ 270,047,939	\$ 1,592,903	\$ (2,359,129)	\$ 269,281,713
<b>December 31, 2016:</b>				
Securities HTM:				
Municipal securities	\$ 321,859,056	\$ 2,200,577	\$ (4,694,734)	\$ 319,364,899
Other securities	1,050,000	-	-	1,050,000
	\$ 322,909,056	\$ 2,200,577	\$ (4,694,734)	\$ 320,414,899
Securities AFS:				
U.S. govt. sponsored agency securities	\$ 46,281,306	\$ 132,886	\$ (330,585 )	\$ 46,083,607
Residential mortgage-backed and related securities	150,465,222	174,993	(2,938,088)	147,702,127
Municipal securities	52,816,541	425,801	(637,916 )	52,604,426
Other securities	4,046,332	703,978	(27,331 )	4,722,979
	\$ 253,609,401	\$ 1,437,658	\$ (3,933,920)	\$ 251,113,139



## 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 private 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 June 30, 2017 and December 31, 2016, 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>June 30, 2017:</b>						
Securities HTM:						
Municipal securities	\$64,001,034	\$(1,792,524)	\$30,641,106	\$(1,449,702)	\$94,642,140	\$(3,242,226)
Securities AFS:						
U.S. govt. sponsored agency securities	\$27,793,290	\$(184,702 )	\$4,775,235	\$(4,645 )	\$32,568,525	\$(189,347 )
Residential mortgage-backed and related securities	129,347,074	(1,614,041)	8,839,471	(280,650 )	138,186,545	(1,894,691)
Municipal securities	25,578,044	(234,044 )	336,441	(18,497 )	25,914,485	(252,541 )
Other securities	926,800	(22,550 )	-	-	926,800	(22,550 )
	\$183,645,208	\$(2,055,337)	\$13,951,147	\$(303,792 )	\$197,596,355	\$(2,359,129)

**December 31, 2016:**

Securities HTM:

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Municipal securities	\$ 122,271,533	\$(4,076,647)	\$ 13,010,803	\$(618,087)	) \$ 135,282,336	\$(4,694,734)
Securities AFS:						
U.S. govt. sponsored agency securities	\$ 21,788,139	\$(257,640)	) \$ 5,499,012	\$(72,945)	) \$ 27,287,151	\$(330,585)
Residential mortgage-backed and related securities	121,506,582	(2,641,664)	7,437,615	(296,424)	) 128,944,197	(2,938,088)
Municipal securities	34,152,822	(618,462)	) 338,099	(19,454)	) 34,490,921	(637,916)
Other securities	3,177,414	(27,331)	) -	-	) 3,177,414	(27,331)
	\$ 180,624,957	\$(3,545,097)	\$ 13,274,726	\$(388,823)	) \$ 193,899,683	\$(3,933,920)

At June 30, 2017, the investment portfolio included 568 securities. Of this number, 212 securities were in an unrealized loss position. The aggregate losses of these securities totaled approximately 0.9% of the total amortized cost of the portfolio. Of these 212 securities, 30 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 lacks the intent 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 June 30, 2017 and December 31, 2016, 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 six months ended June 30, 2017 and 2016.

## Part I

## Item 1

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

All sales of securities for the three and six months ended June 30, 2017 and 2016 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		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Proceeds from sales of securities	\$ 13,554,075	\$ 5,548,294	\$ 13,554,075	\$ 61,075,145
Pre-tax gross gains from sales of securities	59,568	18,030	59,568	533,545
Pre-tax gross losses from sales of securities	(21,104 )	-	(21,104 )	(157,035 )

The amortized cost and fair value of securities as of June 30, 2017 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	\$ 7,479,990	\$ 7,478,528
Due after one year through five years	18,040,753	18,137,483
Due after five years	298,682,891	297,373,366
	\$ 324,203,634	\$ 322,989,377
Securities AFS:		
Due in one year or less	\$ 3,498,188	\$ 3,504,089
Due after one year through five years	31,550,278	31,700,139
Due after five years	64,870,032	64,840,746
	\$ 99,918,498	\$ 100,044,974
Residential mortgage-backed and related securities	166,063,973	164,414,833
Other securities	4,065,468	4,821,906
	\$ 270,047,939	\$ 269,281,713

# Edgar Filing: QCR HOLDINGS INC - Form 10-Q

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	\$ 170,556,294	\$ 170,715,228
Securities AFS:		
U.S. govt. sponsored agency securities	5,048,597	5,040,134
Municipal securities	41,135,349	41,095,251
	\$ 46,183,946	\$ 46,135,385

## Part I

## Item 1

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

As of June 30, 2017, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 124 issuers with fair values totaling \$107.9 million and revenue bonds issued by 126 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling \$272.2 million. The Company held investments in general obligation bonds in 21 states, including six states in which the aggregate fair value exceeded \$5.0 million. The Company held investments in revenue bonds in 13 states, including six states in which the aggregate fair value exceeded \$5.0 million.

As of December 31, 2016, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 116 issuers with fair values totaling \$116.5 million and revenue bonds issued by 120 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling \$255.5 million. The Company held investments in general obligation bonds in 21 states, including five states in which the aggregate fair value exceeded \$5.0 million. The Company held investments in revenue bonds in twelve states, including six 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:

**June 30, 2017:**

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Iowa	26	\$31,131,484	\$31,242,925	\$1,201,651
North Dakota	7	21,619,812	21,514,855	3,073,551
Illinois	19	14,872,773	15,051,806	792,200
Missouri	16	9,078,540	9,123,733	570,233
Ohio	10	8,716,542	8,588,019	858,802

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Texas	8	5,347,075	5,336,188	667,024
Other	38	16,886,554	16,997,159	447,294
Total general obligation bonds	124	\$107,652,780	\$107,854,685	\$869,796

**December 31, 2016:**

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer  (Fair Value)
Iowa	27	\$32,258,612	\$32,231,936	\$1,193,775
Illinois	19	29,214,559	29,308,438	1,542,549
North Dakota	7	22,169,050	21,499,075	3,071,296
Missouri	14	8,291,192	8,323,245	594,518
Ohio	8	6,790,398	6,651,897	831,487
Other	41	18,481,496	18,458,044	450,196
Total general obligation bonds	116	\$117,205,307	\$116,472,635	\$1,004,074



## 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:

**June 30, 2017:**

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Missouri	54	\$ 107,360,504	\$ 106,983,845	\$ 1,981,182
Iowa	27	57,862,675	57,834,419	2,142,016
Indiana	21	50,114,290	49,578,767	2,360,894
Ohio	5	19,691,358	19,493,348	3,898,670
Kansas	6	13,178,963	13,179,104	2,196,517
North Dakota	5	11,729,782	11,676,766	2,335,353
Other	8	13,444,620	13,438,953	1,679,869
Total revenue bonds	126	\$ 273,382,192	\$ 272,185,202	\$ 2,160,200

**December 31, 2016:**

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

(Fair  
Value)

Missouri	47	\$90,784,441	\$89,664,013	\$1,907,745
Iowa	31	70,788,393	71,142,393	2,294,916
Indiana	22	47,994,737	47,582,138	2,162,824
Kansas	6	13,476,366	13,427,491	2,237,915
North Dakota	4	8,089,067	7,796,381	1,949,095
Ohio	3	13,650,000	13,405,222	4,468,407
Other	7	12,687,286	12,479,052	1,782,722
Total revenue bonds	120	\$257,470,290	\$255,496,690	\$2,129,139

Both general obligation and revenue bonds are diversified across many issuers. As of June 30, 2017 and December 31, 2016, the Company did not hold general obligation or revenue bonds of any single issuer, the aggregate book or market value of which exceeded 5% 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 June 30, 2017, all were well within policy limitations approved by the board of directors. Policy limits are calculated as a percentage of each charter's total risk-based capital.

As of June 30, 2017, 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 June 30, 2017 and December 31, 2016 is presented as follows:

	As of June 30, 2017	As of December 31, 2016
C&I loans	\$942,538,419	\$827,637,263
CRE loans		
Owner-occupied CRE	317,225,055	332,387,621
Commercial construction, land development, and other land	179,316,027	165,149,491
Other non owner-occupied CRE	635,365,041	595,921,748
	1,131,906,123	1,093,458,860
Direct financing leases *	153,336,548	165,419,360
Residential real estate loans **	233,870,678	229,233,104
Installment and other consumer loans	84,047,403	81,665,695
	2,545,699,171	2,397,414,282
Plus deferred loan/lease origination costs, net of fees	7,866,437	8,072,703
	2,553,565,608	2,405,486,985
Less allowance	(33,356,632 )	(30,757,448 )
	\$2,520,208,976	\$2,374,729,537
* Direct financing leases:		
Net minimum lease payments to be received	\$170,143,561	\$184,274,802
Estimated unguaranteed residual values of leased assets	1,085,154	1,085,154
Unearned lease/residual income	(17,892,167 )	(19,940,596 )
	153,336,548	165,419,360
Plus deferred lease origination costs, net of fees	5,216,015	5,881,778
	158,552,563	171,301,138
Less allowance	(2,638,301 )	(3,111,898 )
	\$155,914,262	\$168,189,240

\*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 six months ended June 30, 2017 and 2016.

\*\*Includes residential real estate loans held for sale totaling \$705,800 and \$1,135,500 as of June 30, 2017, and December 31, 2016, respectively.

## Part I

## Item 1

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

Changes in accretable yield for acquired loans were as follows:

	Three months ended June 30, 2017			Six months ended June 30, 2017		
	PCI Loans	Performing Loans	Total	PCI Loans	Performing Loans	Total
Balance at the beginning of the period	\$(127,616)	\$(6,944,074)	\$(7,071,690)	\$(194,306)	\$(9,115,614)	\$(9,309,920)
Accretion recognized	43,756	1,618,603	1,662,359	110,446	3,790,143	3,900,589
Balance at the end of the period	\$(83,860)	\$(5,325,471)	\$(5,409,331)	\$(83,860)	\$(5,325,471)	\$(5,409,331)

The aging of the loan/lease portfolio by classes of loans/leases as of June 30, 2017 and December 31, 2016 is presented as follows:

Classes of Loans/Leases	As of June 30, 2017					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	\$937,716,988	\$271,248	\$430,367	\$45,812	\$4,074,004	\$942,538,419
Owner-Occupied CRE	316,555,536	514,499	-	-	155,020	317,225,055
Commercial Construction, Land Development, and Other Land	174,851,763	117,247	-	-	4,347,017	179,316,027
Other Non Owner-Occupied CRE	632,539,426	1,503,560	-	-	1,322,055	635,365,041
	151,027,116	155,553	106,185	-	2,047,694	153,336,548

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Direct Financing Leases												
Residential Real Estate	232,076,296	92,966	395,734	257,771	1,047,911	233,870,678						
Installment and Other Consumer	83,377,699	253,751	71,882	120,363	223,708	84,047,403						
	\$2,528,144,824	\$2,908,824	\$1,004,168	\$423,946	\$13,217,409	\$2,545,699,171						
As a percentage of total loan/lease portfolio	99.31	%	0.11	%	0.04	%	0.02	%	0.52	%	100.00	%

As of December 31, 2016

Classes of Loans/Leases	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases	Total
C&I CRE	\$821,637,507	\$1,455,185	\$10,551	\$346,234	\$4,187,786	\$827,637,263
Owner-Occupied CRE	331,812,571	-	242,902	-	332,148	332,387,621
Commercial Construction, Land Development, and Other Land	160,760,034	35,638	-	-	4,353,819	165,149,491
Other Non Owner-Occupied CRE	594,384,926	100,673	-	-	1,436,149	595,921,748
Direct Financing Leases	161,452,627	730,627	574,700	215,225	2,446,181	165,419,360
Residential Real Estate	227,023,552	473,478	365,581	294,854	1,075,639	229,233,104
Installment and Other Consumer	81,199,766	204,973	63,111	110,501	87,344	81,665,695
	\$2,378,270,983	\$3,000,574	\$1,256,845	\$966,814	\$13,919,066	\$2,397,414,282
As a percentage of total loan/lease portfolio	99.20	% 0.13	% 0.05	% 0.04	% 0.58	% 100.00

## Part I

## Item 1

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

NPLs by classes of loans/leases as of June 30, 2017 and December 31, 2016 are presented as follows:

Classes of Loans/Leases	As of June 30, 2017		Accruing TDRs	Total NPLs	Percentage of	
	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases *			Total NPLs	
C&I	\$45,812	\$4,074,004	\$4,858,983	\$8,978,799	43.68	%
CRE						
Owner-Occupied CRE	-	155,020	-	155,020	0.75	%
Commercial Construction, Land Development, and Other Land	-	4,347,017	-	4,347,017	21.15	%
Other Non Owner-Occupied CRE	-	1,322,055	-	1,322,055	6.43	%
Direct Financing Leases	-	2,047,694	1,689,086	3,736,780	18.18	%
Residential Real Estate	257,771	1,047,911	350,704	1,656,386	8.06	%
Installment and Other Consumer	120,363	223,708	16,400	360,471	1.75	%
	\$423,946	\$13,217,409	\$6,915,173	\$20,556,528	100.00	%

\*Nonaccrual loans/leases included \$2,167,863 of TDRs, including \$268,629 in C&I loans, \$1,148,818 in CRE loans, \$519,178 in direct financing leases, \$179,881 in construction loans, \$41,465 in residential real estate loans, and \$9,892 in installment loans.

Classes of Loans/Leases	As of December 31, 2016		Accruing TDRs	Total NPLs	Percentage of	
	Accruing Past Due 90 Days or	Nonaccrual Loans/Leases **			Total NPLs	

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

More

C&I	\$346,234	\$4,187,786	\$4,733,997	9,268,017	43.65	%
CRE						
Owner-Occupied CRE	-	332,148	-	332,148	1.56	%
Commercial Construction, Land Development, and Other Land	-	4,353,819	-	4,353,819	20.51	%
Other Non Owner-Occupied CRE	-	1,436,149	-	1,436,149	6.77	%
Direct Financing Leases	215,225	2,446,181	1,008,244	3,669,650	17.28	%
Residential Real Estate	294,854	1,075,639	585,541	1,956,034	9.21	%
Installment and Other Consumer	110,501	87,344	18,746	216,591	1.02	%
	\$966,814	\$13,919,066	\$6,346,528	\$21,232,408	100.00	%

\*\*Nonaccrual loans/leases included \$2,300,479 of TDRs, including \$48,501 in C&I loans, \$1,380,047 in CRE loans, \$816,149 in direct financing leases, \$43,579 in residential real estate loans, and \$12,203 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 six months ended June 30, 2017 and 2016, respectively, are presented as follows:

	Three Months Ended June 30, 2017					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$12,954,090	\$12,643,266	\$2,978,260	\$2,375,864	\$1,107,670	\$32,059,150
Provisions (credits) charged to expense	1,281,786	339,857	297,672	116,151	(12,473 )	2,022,993
Loans/leases charged off	(74,071 )	(10,375 )	(684,079 )	(61,561 )	(21,518 )	(851,604 )
Recoveries on loans/leases previously charged off	45,928	26,485	46,448	-	7,232	126,093
Balance, ending	\$14,207,733	\$12,999,233	\$2,638,301	\$2,430,454	\$1,080,911	\$33,356,632

	Three Months Ended June 30, 2016					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$10,991,979	\$10,090,567	\$3,287,231	\$1,836,622	\$1,189,043	\$27,395,442
Provisions (credits) charged to expense	(241,600 )	919,596	460,997	194,988	(136,131 )	1,197,850
Loans/leases charged off	(48,983 )	(23,101 )	(534,716 )	(17,523 )	(9,892 )	(634,215 )
Recoveries on loans/leases previously charged off	23,110	-	12,682	900	101,721	138,413
Balance, ending	\$10,724,506	\$10,987,062	\$3,226,194	\$2,014,987	\$1,144,741	\$28,097,490

## Six Months Ended June 30, 2017

Total

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	
Balance, beginning	\$ 12,545,110	\$ 11,670,609	\$ 3,111,898	\$ 2,342,344	\$ 1,087,487	\$ 30,757,448
Provisions (credits) charged to expense	1,875,144	1,306,128	802,687	159,671	(15,528 )	4,128,102
Loans/leases charged off	(292,344 )	(10,375 )	(1,342,763)	(75,184 )	(23,564 )	(1,744,230 )
Recoveries on loans/leases previously charged off	79,823	32,871	66,479	3,623	32,516	215,312
Balance, ending	\$ 14,207,733	\$ 12,999,233	\$ 2,638,301	\$ 2,430,454	\$ 1,080,911	\$ 33,356,632

Six Months Ended June 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	498,231	1,635,046	939,242	257,644	(59,328 )	3,270,835
Loans/leases charged off	(292,549 )	(23,101 )	(1,135,654)	(33,707 )	(17,488 )	(1,502,499 )
Recoveries on loans/leases previously charged off	34,744	-	27,518	900	125,086	188,248
Balance, ending	\$ 10,724,506	\$ 10,987,062	\$ 3,226,194	\$ 2,014,987	\$ 1,144,741	\$ 28,097,490

## Part I

## Item 1

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

The allowance by impairment evaluation and by portfolio segment as of June 30, 2017 and December 31, 2016 is presented as follows:

	As of June 30, 2017										
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total					
Allowance for impaired loans/leases	\$ 1,580,113	\$ 938,450	\$ 550,575	\$ 266,217	\$ 20,365	\$ 3,355,720					
Allowance for nonimpaired loans/leases	12,627,620	12,060,783	2,087,726	2,164,237	1,060,546	30,000,912					
	\$ 14,207,733	\$ 12,999,233	\$ 2,638,301	\$ 2,430,454	\$ 1,080,911	\$ 33,356,632					
Impaired loans/leases	\$ 8,985,913	\$ 5,727,375	\$ 3,553,173	\$ 1,398,615	\$ 240,107	\$ 19,905,183					
Nonimpaired loans/leases	933,552,506	1,126,178,748	149,783,375	232,472,063	83,807,296	2,525,793,988					
	\$ 942,538,419	\$ 1,131,906,123	\$ 153,336,548	\$ 233,870,678	\$ 84,047,403	\$ 2,545,699,171					
Allowance as a percentage of impaired loans/leases	17.58	% 16.39	% 15.50	% 19.03	% 8.48	% 16.86					%
Allowance as a percentage of nonimpaired loans/leases	1.35	% 1.07	% 1.39	% 0.93	% 1.27	% 1.19					%
Total allowance as	1.51	% 1.15	% 1.72	% 1.04	% 1.29	% 1.31					%

a percentage  
of total  
loans/leases

	As of December 31, 2016									
	C&I		CRE		Direct Financing Leases		Residential Real Estate		Installment and Other Consumer	
Allowance for impaired loans/leases	\$ 1,771,537		\$ 693,919		\$ 848,919		\$ 289,112		\$ 39,481	\$ 3,642,968
Allowance for nonimpaired loans/leases	10,773,573		10,976,690		2,262,979		2,053,232		1,048,006	27,114,480
	\$ 12,545,110		\$ 11,670,609		\$ 3,111,898		\$ 2,342,344		\$ 1,087,487	\$ 30,757,448
Impaired loans/leases	\$ 8,936,451		\$ 6,112,114		\$ 3,256,264		\$ 1,661,180		\$ 106,090	\$ 20,072,099
Nonimpaired loans/leases	818,700,812		1,087,346,746		162,163,096		227,571,924		81,559,605	2,377,342,183
	\$ 827,637,263		\$ 1,093,458,860		\$ 165,419,360		\$ 229,233,104		\$ 81,665,695	\$ 2,397,414,282
Allowance as a percentage of impaired loans/leases	19.82	%	11.35	%	26.07	%	17.40	%	37.21	% 18.15
Allowance as a percentage of nonimpaired loans/leases	1.32	%	1.01	%	1.40	%	0.90	%	1.28	% 1.14
Total allowance as a percentage of total loans/leases	1.52	%	1.07	%	1.88	%	1.02	%	1.33	% 1.28

## 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 six months ended June 30, 2017 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	\$993,551	\$1,003,988	\$-	\$802,367	\$ 16,751	\$ 16,751
CRE						
Owner-Occupied CRE	-	-	-	-	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	-	-	-
Other Non Owner-Occupied CRE	1,148,818	1,148,818	-	1,171,229	-	-
Direct Financing Leases	2,739,319	2,739,319	-	2,557,608	57,844	57,844
Residential Real Estate	710,118	784,896	-	628,555	1,161	1,161
Installment and Other Consumer	189,018	189,019	-	144,838	218	218
	\$5,780,824	\$5,866,040	\$-	\$5,304,597	\$ 75,974	\$ 75,974
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	\$7,992,362	\$7,996,201	\$1,580,113	\$7,930,142	\$ 97,721	\$ 97,721
CRE						
Owner-Occupied CRE	155,020	155,020	111,520	266,439	-	-
	4,347,017	4,347,017	820,811	4,350,034	-	-

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Commercial Construction, Land Development, and Other Land						
Other Non Owner-Occupied CRE	76,519	76,519	6,119	25,506	-	-
Direct Financing Leases	813,854	813,854	550,575	739,561	-	-
Residential Real Estate	688,497	688,497	266,217	604,450	7,229	7,229
Installment and Other Consumer	51,090	51,090	20,365	29,137	-	-
	\$ 14,124,359	\$ 14,128,198	\$ 3,355,720	\$ 13,945,269	\$ 104,950	\$ 104,950
Total Impaired Loans/Leases:						
C&I	\$ 8,985,913	\$ 9,000,189	\$ 1,580,113	\$ 8,732,509	\$ 114,472	\$ 114,472
CRE						
Owner-Occupied CRE	155,020	155,020	111,520	266,439	-	-
Commercial Construction, Land Development, and Other Land	4,347,017	4,347,017	820,811	4,350,033	-	-
Other Non Owner-Occupied CRE	1,225,337	1,225,337	6,119	1,196,735	-	-
Direct Financing Leases	3,553,173	3,553,173	550,575	3,297,169	57,844	57,844
Residential Real Estate	1,398,615	1,473,393	266,217	1,233,005	8,390	8,390
Installment and Other Consumer	240,108	240,109	20,365	173,975	218	218
	\$ 19,905,183	\$ 19,994,2388	\$ 3,355,720	\$ 19,249,865	\$ 180,924	\$ 180,924

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 June 30, 2017 and 2016, respectively, are presented as follows:

Classes of Loans/Leases	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
	Average Interest Recorded Investment	Interest Income Recognized for Cash Payments Received	Average Interest Recorded Investment	Interest Income Recognized for Cash Payments Received