

QCR HOLDINGS INC
Form 10-Q
August 05, 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 June 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 August 1, 2016, the Registrant had outstanding 13,062,382 shares of common stock, \$1.00 par value per share.

QCR HOLDINGS, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page Number(s)
<u>Part I</u>	
FINANCIAL INFORMATION	
Item 1	
Consolidated Financial Statements (Unaudited)	
Consolidated Balance Sheets As of June 30, 2016 and December 31, 2015	3
Consolidated Statements of Income (Loss) For the Three Months Ended June 30, 2016 and 2015	4
Consolidated Statements of Income For the Six Months Ended June 30, 2016 and 2015	5
Consolidated Statements of Comprehensive Income (Loss) For the Three and Six Months Ended June 30, 2016 and 2015	6
Consolidated Statements of Changes in Stockholders' Equity For the Three and Six Months Ended June 30, 2016 and 2015	7
Consolidated Statements of Cash Flows For the Six Months Ended June 30, 2016 and 2015	8
Notes to Consolidated Financial Statements	
Note 1. Summary of Significant Accounting Policies	10
Note 2. Investment Securities	12
Note 3. Loans/Leases Receivable	17
Note 4. Borrowings	27
Note 5. Earnings Per Share	27
Note 6. Fair Value	28
Note 7. Business Segment Information	31
Note 8. Regulatory Capital Requirements	33
Note 9. Acquisition of Community State Bank and Common Stock Offering	35
Item 2	
Management's Discussion and Analysis of Financial Condition and Results of Operations	

Introduction	36
General	36
Executive Overview	36
Long-Term Financial Goals	38
Strategic Developments	39
GAAP to Non-GAAP Reconciliations	41
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	57
Investment Securities	57
Loans/Leases	59
Allowance for Estimated Losses on Loans/Leases	61
Nonperforming Assets	63
Deposits	64
Borrowings	64
Stockholders' Equity	66
Liquidity and Capital Resources	66
Special Note Concerning Forward-Looking Statements	69
Item 3 Quantitative and Qualitative Disclosures About Market Risk	70
Item 4 Controls and Procedures	72
<u>Part II</u> OTHER INFORMATION	
Item 1 Legal Proceedings	73
Item 1A Risk Factors	73
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	73
Item 3 Defaults upon Senior Securities	73
Item 4 Mine Safety Disclosures	73
Item 5 Other Information	73
Item 6 Exhibits	74
Signatures	75
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, 2016 and December 31, 2015

	June 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$49,581,154	\$41,742,321
Federal funds sold	20,825,000	19,850,000
Interest-bearing deposits at financial institutions	47,607,304	36,313,965
Securities held to maturity, at amortized cost	280,345,532	253,674,159
Securities available for sale, at fair value	230,613,784	323,434,982
Total securities	510,959,316	577,109,141
Loans receivable held for sale	1,558,500	565,850
Loans/leases receivable held for investment	1,921,214,897	1,797,456,825
Gross loans/leases receivable	1,922,773,397	1,798,022,675
Less allowance for estimated losses on loans/leases	(28,097,490)	(26,140,906)
Net loans/leases receivable	1,894,675,907	1,771,881,769
Bank-owned life insurance	56,359,784	55,485,655
Premises and equipment, net	38,751,532	37,350,352
Restricted investment securities	16,693,125	14,835,925
Other real estate owned, net	6,179,102	7,150,658
Goodwill	3,222,688	3,222,688
Core deposit intangible	1,371,653	1,471,409
Other assets	37,207,723	26,784,392
Total assets	\$2,683,434,288	\$2,593,198,275
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	\$615,764,311	\$615,292,211
Interest-bearing	1,357,829,473	1,265,373,973
Total deposits	1,973,593,784	1,880,666,184
Short-term borrowings	51,561,748	144,662,716
Federal Home Loan Bank advances	196,900,000	151,000,000
Other borrowings	100,000,000	110,000,000
Junior subordinated debentures	33,412,643	38,499,052
Other liabilities	52,848,722	42,484,573
Total liabilities	2,408,316,897	2,367,312,525
STOCKHOLDERS' EQUITY		

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Preferred stock, \$1 par value; shares authorized 250,000 June 2016 and December 2015 - No shares issued or outstanding	-	-
Common stock, \$1 par value; shares authorized 20,000,000 June 2016 - 13,057,368 shares issued and outstanding December 2015 - 11,761,083 shares issued and outstanding	13,057,368	11,761,083
Additional paid-in capital	155,453,781	123,282,851
Retained earnings	105,024,027	92,965,645
Accumulated other comprehensive income (loss):		
Securities available for sale	2,730,155	(1,324,408)
Interest rate cap derivatives	(1,147,940)	(799,421)
Total stockholders' equity	275,117,391	225,885,750
Total liabilities and stockholders' equity	\$2,683,434,288	\$2,593,198,275

See Notes to Consolidated Financial Statements (Unaudited)

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

	2016	2015
Interest and dividend income:		
Loans/leases, including fees	\$20,238,179	\$18,245,724
Securities:		
Taxable	1,192,541	1,735,495
Nontaxable	2,276,203	1,890,320
Interest-bearing deposits at financial institutions	62,242	64,665
Restricted investment securities	133,546	108,161
Federal funds sold	10,573	6,247
Total interest and dividend income	23,913,284	22,050,612
Interest expense:		
Deposits	1,344,398	1,083,487
Short-term borrowings	18,065	53,244
Federal Home Loan Bank advances	415,933	1,001,646
Other borrowings	824,437	1,108,442
Junior subordinated debentures	301,638	312,957
Total interest expense	2,904,471	3,559,776
Net interest income	21,008,813	18,490,836
Provision for loan/lease losses	1,197,850	2,348,665
Net interest income after provision for loan/lease losses	19,810,963	16,142,171
Noninterest income:		
Trust department fees	1,512,083	1,511,176
Investment advisory and management fees	692,738	758,433
Deposit service fees	946,810	924,642
Gains on sales of residential real estate loans, net	84,413	95,535
Gains on sales of government guaranteed portions of loans, net	1,603,890	69,346
Swap fee income	167,582	393,723
Securities gains, net	18,030	-
Earnings on bank-owned life insurance	480,520	433,152
Debit card fees	343,748	255,000
Correspondent banking fees	244,939	285,379
Participation service fees on commercial loan participations	246,010	223,827
Fee income from early termination of leases	66,043	76,722
Credit card issuing fees	139,073	135,649
Other	216,522	298,650
Total noninterest income	6,762,401	5,461,234
Noninterest expense:		
Salaries and employee benefits	10,917,473	11,091,952

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Occupancy and equipment expense	1,884,556	1,865,552
Professional and data processing fees	1,542,322	1,470,695
Acquisition costs	354,969	-
FDIC insurance, other insurance and regulatory fees	649,604	730,563
Loan/lease expense	154,349	208,552
Net cost of operations of other real estate	277,911	(47,876)
Advertising and marketing	433,451	489,504
Postage and communications	256,567	214,142
Stationery and supplies	157,924	136,808
Bank service charges	415,350	358,996
Losses on debt extinguishment, net	-	6,894,185
Correspondent banking expense	181,776	165,091
Other	517,501	523,470
Total noninterest expense	17,743,753	24,101,634
Net income (loss) before income taxes	8,829,611	(2,498,229)
Federal and state income tax expense (benefit)	2,153,144	(1,974,411)
Net income (loss)	\$6,676,467	\$(523,818)
Basic earnings (loss) per common share	\$0.54	\$(0.05)
Diluted earnings (loss) per common share	\$0.53	\$(0.05)
Weighted average common shares outstanding	12,335,077	9,946,744
Weighted average common and common equivalent shares outstanding	12,516,474	9,946,744
Cash dividends declared per common share	\$0.04	\$0.04

See Notes to Consolidated Financial Statements (Unaudited)

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

	2016	2015
Interest and dividend income:		
Loans/leases, including fees	\$39,938,549	\$36,250,243
Securities:		
Taxable	2,548,744	3,678,260
Nontaxable	4,518,218	3,620,888
Interest-bearing deposits at financial institutions	122,559	141,719
Restricted investment securities	264,110	250,479
Federal funds sold	23,163	10,753
Total interest and dividend income	47,415,343	43,952,342
Interest expense:		
Deposits	2,634,196	2,155,932
Short-term borrowings	61,131	117,269
Federal Home Loan Bank advances	857,637	2,445,361
Other borrowings	1,649,520	2,340,328
Junior subordinated debentures	606,524	620,399
Total interest expense	5,809,008	7,679,289
Net interest income	41,606,335	36,273,053
Provision for loan/lease losses	3,270,835	4,059,121
Net interest income after provision for loan/lease losses	38,335,500	32,213,932
Noninterest income:		
Trust department fees	3,087,990	3,144,571
Investment advisory and management fees	1,351,123	1,468,476
Deposit service fees	1,877,889	1,825,998
Gains on sales of residential real estate loans, net	144,799	181,675
Gains on sales of government guaranteed portions of loans, net	2,482,418	140,319
Swap fee income	1,024,540	1,119,930
Securities gains, net	376,510	416,933
Earnings on bank-owned life insurance	874,129	911,891
Debit card fees	651,399	493,000
Correspondent banking fees	547,069	605,000
Participation service fees on commercial loan participations	456,719	445,776
Fee income from early termination of leases	77,793	161,560
Credit card issuing fees	275,728	269,810
Other	356,768	498,073
Total noninterest income	13,584,874	11,683,012
Noninterest expense:		
Salaries and employee benefits	21,718,380	22,126,404

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Occupancy and equipment expense	3,711,544	3,659,723
Professional and data processing fees	2,989,735	2,941,212
Acquisition costs	354,969	-
FDIC insurance, other insurance and regulatory fees	1,283,969	1,449,620
Loan/lease expense	317,168	511,475
Net cost of operations of other real estate	380,094	28,975
Advertising and marketing	819,710	907,741
Postage and communications	473,657	463,098
Stationery and supplies	322,795	279,363
Bank service charges	831,281	696,454
Losses on debt extinguishment, net	83,197	6,894,185
Correspondent banking expense	358,765	340,794
Other	1,052,987	1,006,751
Total noninterest expense	34,698,251	41,305,795
Net income before income taxes	17,222,123	2,591,149
Federal and state income tax expense (benefit)	4,172,167	(1,062,922)
Net income	\$13,049,956	\$3,654,071
Basic earnings per common share	\$1.08	\$0.41
Diluted earnings per common share	\$1.07	\$0.40
Weighted average common shares outstanding	12,064,349	8,961,327
Weighted average common and common equivalent shares outstanding	12,235,212	9,098,697
Cash dividends declared per common share	\$0.08	\$0.04

See Notes to Consolidated Financial Statements (Unaudited)

QCR HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)**
Three and Six Months Ended June 30, 2016 and 2015

	Three Months Ended June 30,	
	2016	2015
Net income (loss)	\$6,676,467	\$(523,818)
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period before tax	2,081,800	(3,954,857)
Less reclassification adjustment for gains included in net income before tax	18,030	-
	2,063,770	(3,954,857)
Unrealized gains (losses) on interest rate cap derivatives:		
Unrealized holding gains (losses) arising during the period before tax	(159,691)	119,433
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	20,154	9,561
	(179,845)	109,872
Other comprehensive income (loss), before tax	1,883,925	(3,844,985)
Tax expense (benefit)	703,292	(1,466,064)
Other comprehensive income (loss), net of tax	1,180,633	(2,378,921)
Comprehensive income (loss)	\$7,857,100	\$(2,902,739)
	Six Months Ended June 30,	
	2016	2015
Net income	\$13,049,956	\$3,654,071
Other comprehensive income (loss):		
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period before tax	6,945,518	443,347
Less reclassification adjustment for gains included in net income before tax	376,510	416,933
	6,569,008	26,414
Unrealized losses on interest rate cap derivatives:		
Unrealized holding losses arising during the period before tax	(549,627)	(252,950)
Less reclassification adjustment for ineffectiveness and caplet amortization before tax	35,591	10,463
	(585,218)	(263,413)
Other comprehensive income (loss), before tax	5,983,790	(236,999)
Tax expense (benefit)	2,277,746	(78,943)
Other comprehensive income (loss), net of tax	3,706,044	(158,056)

Comprehensive income	\$16,756,000	\$3,496,015
----------------------	--------------	-------------

See Notes to Consolidated Financial Statements (Unaudited)

6

QCR HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
Three and Six Months Ended June 30, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	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 30,331 shares of common stock as a result of stock options exercised	30,331	382,639	-	-	-	412,970
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 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

	Common Stock	Paid-In Capital	Additional 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)

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Common cash dividends declared, \$0.04 per share	-	-	(464,706)	-	-	(464,706)
Proceeds from issuance of 3,680,000 shares of common stock, net of issuance costs	3,680,000	59,804,123	-	-	-	63,484,123
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

See Notes to Consolidated Financial Statements (Unaudited)

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 13,049,956	\$ 3,654,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,552,176	1,520,380
Provision for loan/lease losses	3,270,835	4,059,121
Stock-based compensation expense	570,330	554,526
Deferred compensation expense accrued	623,831	767,292
Losses (gains) on other real estate owned, net	157,739	(69,923)
Amortization of premiums on securities, net	611,900	485,085
Securities gains, net	(376,510)	(416,933)
Loans originated for sale	(43,526,263)	(15,205,967)
Proceeds on sales of loans	45,160,830	14,532,761
Gains on sales of residential real estate loans	(144,799)	(181,675)
Gains on sales of government guaranteed portions of loans	(2,482,418)	(140,319)
Losses on debt extinguishment, net	83,197	6,894,185
Amortization of core deposit intangible	99,756	99,756
Accretion of acquisition fair value adjustments, net	(61,065)	(267,414)
Increase in cash value of bank-owned life insurance	(874,129)	(911,891)
Increase in other assets	(4,330,548)	(4,767,394)
Increase (decrease) in other liabilities	1,386,323	(1,722,759)
Net cash provided by operating activities	\$ 14,771,141	\$ 8,882,902
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in federal funds sold	(975,000)	24,225,000
Net increase in interest-bearing deposits at financial institutions	(11,293,339)	(12,348,141)
Proceeds from sales of other real estate owned	864,817	1,723,317
Activity in securities portfolio:		
Purchases	(97,132,279)	(181,272,218)
Calls, maturities and redemptions	96,704,276	177,366,721
Paydowns	13,321,512	8,003,250
Sales	61,075,145	54,966,923
Activity in restricted investment securities:		
Purchases	(1,857,200)	(1,338,650)
Redemptions	-	3,431,700
Net increase in loans/leases originated and held for investment	(124,972,098)	(85,814,353)
Purchase of premises and equipment	(2,953,356)	(3,927,981)
Net cash used in investing activities	\$ (67,217,522)	\$ (14,984,432)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	92,920,820	157,102,985
Net decrease in short-term borrowings	(93,100,968)	(99,776,818)
Activity in Federal Home Loan Bank advances:		

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Term advances	-	5,000,000
Maturities	(9,000,000)	(22,000,000)
Net change in short-term and overnight advances	64,900,000	21,500,000
Prepayments	(10,524,197)	(81,192,185)
Activity in other borrowings:		
Maturities and scheduled principal payments	-	(7,350,000)
Prepayments	(10,759,000)	(29,177,000)
Retirement of junior subordinated debentures	(3,955,000)	-
Payment of cash dividends on common stock	(939,456)	(315,954)
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	914,099	586,178
Net cash provided by financing activities	\$60,285,214	\$7,861,329
Net increase in cash and due from banks	7,838,833	1,759,799
Cash and due from banks, beginning	41,742,321	38,235,019
Cash and due from banks, ending	\$49,581,154	\$39,994,818

(Continued)

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

	2016	2015
Supplemental disclosure of cash flow information, cash payments for:		
Interest	\$5,852,789	\$7,903,945
Income/franchise taxes	\$4,869,300	\$1,940,275
Supplemental schedule of noncash investing activities:		
Change in accumulated other comprehensive income, unrealized gains (losses) on securities available for sale and derivative instruments, net	\$3,706,044	\$(158,056)
Exchange of shares of common stock in connection with payroll taxes for restricted stock and in connection with stock options exercised	\$(88,911)	\$(68,706)
Tax benefit of nonqualified stock options exercised	\$110,366	\$31,478
Transfers of loans to other real estate owned	\$51,000	\$837,782
Due to broker for purchases of securities	\$(1,500,000)	\$-
Tax basis adjustment related to the acquisition of noncontrolling interest in m2 Lease Funds	\$2,132,415	\$-

See Notes to Consolidated Financial Statements (Unaudited)

Part I

Item 1

QCR HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 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 June 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
ASU: Accounting Standards Update
BOLI: Bank-owned life insurance
Caps: Interest rate cap derivatives
Community National: Community National Bancorporation

GAAP: Generally Accepted Accounting Principles
HTM: Held to maturity
m2: m2 Lease Funds, LLC
MD&A: Management's Discussion & Analysis
NIM: Net interest margin
NPA: Nonperforming asset
NPL: Nonperforming loan

CNB: Community National Bank	OREO: Other real estate owned
CRBT: Cedar Rapids Bank & Trust Company	OTTI: Other-than-temporary impairment
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
FRB: Federal Reserve Bank of Chicago	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 three commercial banks: QCBT, CRBT, 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.

On May 23, 2016, the Company announced the signing of a definitive agreement to acquire CSB, headquartered in Ankeny, Iowa, from Van Diest Investment Company. The transaction is expected to close during the third quarter of 2016, subject to certain customary closing conditions. The financial results of CSB are not recognized in this Report. See Note 9 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. 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. 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.

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 June 30, 2016 and December 31, 2015 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2016:				
Securities HTM:				
Municipal securities	\$279,295,532	\$6,194,753	\$(731,170)	\$284,759,115
Other securities	1,050,000	-	-	1,050,000
	\$280,345,532	\$6,194,753	\$(731,170)	\$285,809,115
Securities AFS:				
U.S. govt. sponsored agency securities	\$87,068,743	\$1,332,981	\$(80,276)	\$88,321,448
Residential mortgage-backed and related securities	114,990,076	1,855,710	(80,276)	116,765,510
Municipal securities	22,463,188	945,994	(16,365)	23,392,817
Other securities	1,684,787	449,222	-	2,134,009
	\$226,206,794	\$4,583,907	\$(176,917)	\$230,613,784
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

12

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 June 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
June 30, 2016:						
Securities HTM:						
Municipal securities	\$5,805,354	\$(384,457)	\$14,508,402	\$(346,713)	\$20,313,756	\$(731,170)
Securities AFS:						
U.S. govt. sponsored agency securities	\$5,825,476	\$(80,276)	\$-	\$-	\$5,825,476	\$(80,276)
Residential mortgage-backed and related securities	4,337,187	(7,492)	8,829,330	(72,784)	13,166,517	(80,276)
Municipal securities	380,749	(206)	850,050	(16,159)	1,230,799	(16,365)
Other securities	-	-	-	-	-	-
	\$10,543,412	\$(87,974)	\$9,679,380	\$(88,943)	\$20,222,792	\$(176,917)

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 June 30, 2016, the investment portfolio included 447 securities. Of this number, 30 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 30 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 June 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 six months ended June 30, 2016 and 2015.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

All sales of securities for the three and six months ended June 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		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Proceeds from sales of securities	\$5,548,294	\$ -	\$61,075,145	\$54,966,923
Pre-tax gross gains from sales of securities	18,030	-	533,545	569,551
Pre-tax gross losses from sales of securities	-	-	(157,035)	(152,618)

The amortized cost and fair value of securities as of June 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	\$4,972,563	\$4,993,619
Due after one year through five years	20,232,407	20,415,409
Due after five years	255,140,562	260,400,087
	\$280,345,532	\$285,809,115
Securities AFS:		
Due in one year or less	\$2,133,829	\$2,141,186
Due after one year through five years	54,381,038	55,669,426
Due after five years	53,017,064	53,903,653
	\$109,531,931	\$111,714,265

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Residential mortgage-backed and related securities	114,990,076	116,765,510
Other securities	1,684,787	2,134,009
	\$226,206,794	\$230,613,784

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	\$ 153,065,142	\$ 156,170,970
Securities AFS:		
U.S. govt. sponsored agency securities	23,616,009	23,718,901
Municipal securities	13,844,290	14,296,378
	\$37,460,299	\$38,015,279

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of June 30, 2016, the Company's municipal securities portfolios were comprised of general obligation bonds issued by 77 issuers with fair values totaling \$69.0 million and revenue bonds issued by 99 issuers, primarily consisting of states, counties, towns, villages and school districts with fair values totaling \$239.1 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.

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:

June 30, 2016:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Iowa	13	\$19,441,057	\$19,965,926	\$1,535,840
Illinois	9	10,127,747	10,527,337	1,169,704
Missouri	12	7,349,505	7,519,474	626,623
North Dakota	6	16,208,320	16,872,189	2,812,032
Other	37	13,738,908	14,133,036	381,974
Total general obligation bonds	77	\$66,865,537	\$69,017,962	\$896,337

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:

June 30, 2016:

U.S. State:	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Missouri	41	\$89,033,470	\$90,174,695	\$2,199,383
Iowa	26	73,076,794	74,933,480	2,882,057
Indiana	18	40,009,789	40,615,477	2,256,415
Kansas	5	13,172,824	13,315,662	2,663,132
North Dakota	4	8,161,630	8,359,661	2,089,915
Other	5	11,438,676	11,734,995	2,346,999
Total revenue bonds	99	\$234,893,183	\$239,133,970	\$2,415,495

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 June 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 three 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, 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 June 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 June 30, 2016 and December 31, 2015 is presented as follows:

	As of June 30, 2016	As of December 31, 2015
C&I loans	\$ 706,261,186	\$ 648,159,892
CRE loans		
Owner-occupied CRE	258,688,445	252,523,164
Commercial construction, land development, and other land	48,948,825	49,083,844
Other non owner-occupied CRE	476,741,839	422,761,757
	784,379,109	724,368,765
Direct financing leases *	169,927,481	173,655,605
Residential real estate loans **	180,482,005	170,432,530
Installment and other consumer loans	73,658,172	73,669,493
	1,914,707,953	1,790,286,285
Plus deferred loan/lease origination costs, net of fees	8,065,444	7,736,390
	1,922,773,397	1,798,022,675
Less allowance	(28,097,490)	(26,140,906)
	\$ 1,894,675,907	\$ 1,771,881,769
* Direct financing leases:		
Net minimum lease payments to be received	\$ 190,107,687	\$ 195,476,230
Estimated unguaranteed residual values of leased assets	1,085,154	1,165,706
Unearned lease/residual income	(21,265,360)	(22,986,331)
	169,927,481	173,655,605
Plus deferred lease origination costs, net of fees	6,339,871	6,594,582
	176,267,352	180,250,187
Less allowance	(3,226,194)	(3,395,088)
	\$ 173,041,158	\$ 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 six months ended June 30, 2016 and 2015.

**Includes residential real estate loans held for sale totaling \$1,558,500 and \$565,850 as of June 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 June 30, 2016 and December 31, 2015 is presented as follows:

Classes of Loans/Leases	As of June 30, 2016					
	Current	30-59 Days Past	60-89 Days Past	Accruing Past	Nonaccrual Loans/Leases	Total
		Due	Due*	Due 90 Days or More		
C&I CRE	\$687,859,076	\$400,711	\$13,225,353	\$-	\$4,776,046	\$706,261,186
Owner-Occupied CRE	257,503,344	141,571	-	-	1,043,530	258,688,445
Commercial Construction, Land Development, and Other Land	48,759,844	-	-	-	188,981	48,948,825
Other Non Owner-Occupied CRE	473,256,279	530,808	1,384,387	84,500	1,485,865	476,741,839
Direct Financing Leases	165,927,453	1,036,764	1,230,235	-	1,733,029	169,927,481
Residential Real Estate	179,075,229	-	215,561	-	1,191,215	180,482,005
Installment and Other Consumer	72,831,797	446,971	59,391	1,868	318,145	73,658,172
	\$1,885,213,022	\$2,556,825	\$16,114,927	\$86,368	\$10,736,811	\$1,914,707,953
As a percentage of total loan/lease portfolio	98.46	% 0.13	% 0.84	% 0.00	% 0.56	% 100.00

As of December 31, 2015

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

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	\$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

* Inflated due to a small number of loans that were not renewed timely. Since June 30, 2016, these loans were renewed without issue.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

Classes of Loans/Leases	As of June 30, 2016			Total NPLs	Percentage of Total NPLs	
	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases *	Accruing TDRs			
C&I	\$-	\$ 4,776,046	\$ 171,108	\$ 4,947,154	39.34	%
CRE						
Owner-Occupied CRE	-	1,043,530	-	1,043,530	8.30	%
Commercial Construction, Land Development, and Other Land	-	188,981	-	188,981	1.50	%
Other Non Owner-Occupied CRE	84,500	1,485,865	-	1,570,365	12.49	%
Direct Financing Leases	-	1,733,029	1,059,919	2,792,948	22.21	%
Residential Real Estate	-	1,191,215	393,799	1,585,014	12.60	%
Installment and Other Consumer	1,868	318,145	128,151	448,164	3.56	%
	\$ 86,368	\$ 10,736,811	\$ 1,752,977	\$ 12,576,156	100.00	%

*Nonaccrual loans/leases included \$2,351,137 of TDRs, including \$767,261 in C&I loans, \$1,422,722 in CRE loans, \$34,850 in direct financing leases, \$113,031 in residential real estate loans, and \$13,273 in installment loans.

Classes of Loans/Leases	As of December 31, 2015			Total NPLs	Percentage of Total NPLs	
	Accruing Past Due 90 Days or More	Nonaccrual Loans/Leases **	Accruing TDRs			
C&I	\$-	\$ 5,791,975	\$ 173,087	\$ 5,965,062	50.96	%
CRE				\$-		

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

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 six months ended June 30, 2016 and 2015, respectively, are presented as follows:

	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

	Three Months Ended June 30, 2015					
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
Balance, beginning	\$ 9,093,650	\$ 8,838,204	\$ 3,310,973	\$ 1,597,754	\$ 1,042,693	\$ 23,883,274
Provisions charged to expense	604,731	1,081,753	473,982	122,381	65,818	2,348,665
Loans/leases charged off	(45,337)	-	(465,098)	-	(25,255)	(535,690)
Recoveries on loans/leases previously charged off	367,822	9,699	32,446	-	39,784	449,751
Balance, ending	\$ 10,020,866	\$ 9,929,656	\$ 3,352,303	\$ 1,720,135	\$ 1,123,040	\$ 26,146,000

Six Months Ended June 30, 2016

	Commercial and Industrial	Commercial Real Estate	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total
--	---------------------------------	---------------------------	-------------------------------	----------------------------	--------------------------------------	-------

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

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

Six Months Ended June 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	993,372	1,917,647	877,434	194,183	76,485	4,059,121
Loans/leases charged off	(245,638)	(351,076)	(1,012,590)	-	(34,049)	(1,643,353)
Recoveries on loans/leases previously charged off	522,815	9,699	44,544	-	78,809	655,867
Balance, ending	\$10,020,866	\$9,929,656	\$3,352,303	\$1,720,135	\$1,123,040	\$26,146,000

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

	As of June 30, 2016						
	C&I	CRE	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	
Allowance for impaired loans/leases	\$ 1,242,430	\$ 123,079	\$ 555,819	\$ 198,020	\$ 138,490	\$ 2,257,838	
Allowance for nonimpaired loans/leases	9,482,076	10,863,983	2,670,375	1,816,967	1,006,251	25,839,652	
	\$ 10,724,506	\$ 10,987,062	\$ 3,226,194	\$ 2,014,987	\$ 1,144,741	\$ 28,097,490	
Impaired loans/leases	\$ 4,454,638	\$ 2,616,301	\$ 2,678,521	\$ 1,585,013	\$ 446,297	\$ 11,780,770	
Nonimpaired loans/leases	701,806,548	781,762,808	167,248,960	178,896,992	73,211,875	1,902,927,183	
	\$ 706,261,186	\$ 784,379,109	\$ 169,927,481	\$ 180,482,005	\$ 73,658,172	\$ 1,914,707,953	
Allowance as a percentage of impaired loans/leases	27.89	% 4.70	% 20.75	% 12.49	% 31.03	% 19.17	%
Allowance as a percentage of nonimpaired loans/leases	1.35	% 1.39	% 1.60	% 1.02	% 1.37	% 1.36	%
Total allowance as	1.52	% 1.40	% 1.90	% 1.12	% 1.55	% 1.46	%

a percentage
of total
loans/leases

	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 six months ended June 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	\$639,448	\$780,390	\$-	\$3,197,308	\$ 5,343	\$ 5,343
CRE						
Owner-Occupied CRE	-	93,774	-	163,216	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	-	-	-
Other Non Owner-Occupied CRE	1,516,555	1,516,555	-	1,243,616	-	-
Direct Financing Leases	1,652,661	1,652,661	-	1,398,419	31,500	31,500
Residential Real Estate	672,061	711,262	-	627,715	2,051	2,051
Installment and Other Consumer	231,730	231,730	-	281,740	-	-
	\$4,712,455	\$4,986,372	\$-	\$6,912,014	\$ 38,894	\$ 38,894
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	\$3,815,190	\$3,819,029	\$1,242,430	\$1,775,881	\$ -	\$ -
CRE						
Owner-Occupied CRE	-	-	-	-	-	-
Commercial Construction, Land Development, and Other Land	188,981	200,981	79,911	191,384	-	-

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Other Non Owner-Occupied CRE	910,765	910,765	43,168	595,714	-	-
Direct Financing Leases	1,025,860	1,025,860	555,819	866,749	-	-
Residential Real Estate	912,952	948,530	198,020	872,297	3,906	3,906
Installment and Other Consumer	214,567	214,567	138,490	212,806	2,968	2,968
	\$7,068,315	\$7,119,732	\$2,257,838	\$4,514,831	\$ 6,874	\$ 6,874
Total Impaired Loans/Leases:						
C&I	\$4,454,638	\$4,599,419	\$1,242,430	\$4,973,189	\$ 5,343	\$ 5,343
CRE						
Owner-Occupied CRE	-	93,774	-	163,216	-	-
Commercial Construction, Land Development, and Other Land	188,981	200,981	79,911	191,384	-	-
Other Non Owner-Occupied CRE	2,427,320	2,427,320	43,168	1,839,330	-	-
Direct Financing Leases	2,678,521	2,678,521	555,819	2,265,168	31,500	31,500
Residential Real Estate	1,585,013	1,659,792	198,020	1,500,012	5,957	5,957
Installment and Other Consumer	446,297	446,297	138,490	494,546	2,968	2,968
	\$11,780,770	\$12,106,104	\$2,257,838	\$11,426,845	\$ 45,768	\$ 45,768

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

Classes of Loans/Leases	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
Impaired Loans/Leases with No Specific Allowance Recorded:						
C&I	\$2,524,056	\$ 3,519	\$ 3,519	\$320,187	\$ 1,860	\$ 1,860
CRE						
Owner-Occupied CRE	121,444	-	-	550,374	-	-
Commercial Construction, Land Development, and Other Land	-	-	-	222,926	-	-
Other Non Owner-Occupied CRE	1,311,540	-	-	2,474,448	-	-
Direct Financing Leases	1,510,987	19,897	19,897	582,316	1,878	1,878
Residential Real Estate	621,354	1,013	1,013	969,580	-	-
Installment and Other Consumer	229,207	-	-	705,750	475	475
	\$6,318,588	\$ 24,429	\$ 24,429	\$5,825,581	\$ 4,213	\$ 4,213
Impaired Loans/Leases with Specific Allowance Recorded:						
C&I	\$2,292,483	\$ -	\$ -	\$4,912,917	\$ -	\$ -
CRE						
Owner-Occupied CRE	-	-	-	-	-	-
Commercial Construction, Land Development, and Other Land	190,174	-	-	139,250	-	-
Other Non Owner-Occupied CRE	658,220	-	-	1,657,506	-	-
Direct Financing Leases	995,446	-	-	561,840	-	-
Residential Real Estate	919,271	1,948	1,948	869,073	1,967	1,967
Installment and Other Consumer	218,742	1,468	1,468	608,277	2,252	2,252
	\$5,274,336	\$ 3,416	\$ 3,416	\$8,748,863	\$ 4,219	\$ 4,219

Total Impaired Loans/Leases:						
C&I	\$4,816,539	\$ 3,519	\$ 3,519	\$5,233,104	\$ 1,860	\$ 1,860
CRE						
Owner-Occupied CRE	121,444	-	-	550,374	-	-
Commercial Construction, Land Development, and Other Land	190,174	-	-	362,176	-	-
Other Non Owner-Occupied CRE	1,969,760	-	-	4,131,954	-	-
Direct Financing Leases	2,506,433	19,897	19,897	1,144,156	1,878	1,878
Residential Real Estate	1,540,625	2,961	2,961	1,838,653	1,967	1,967
Installment and Other Consumer	447,949	1,468	1,468	1,314,027	2,727	2,727
	\$11,592,924	\$ 27,845	\$ 27,845	\$14,574,444	\$ 8,432	\$ 8,432

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Loans/leases, by classes of financing receivable, considered to be impaired as of December 31, 2015 are presented as follows:

Classes of Loans/Leases	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired Loans/Leases with No Specific Allowance Recorded:			
C&I	\$234,636	\$346,072	\$-
CRE			
Owner-Occupied CRE	256,761	350,535	-
Commercial Construction, Land Development, and Other Land	-	228,818	-
Other Non Owner-Occupied CRE	1,578,470	1,578,470	-
Direct Financing Leases	871,884	871,884	-
Residential Real Estate	613,486	649,064	-
Installment and Other Consumer	377,304	377,304	-
	\$3,932,541	\$4,402,147	\$-
Impaired Loans/Leases with Specific Allowance Recorded:			
C&I	\$5,051,846	\$5,055,685	\$2,592,270
CRE			
Owner-Occupied CRE	-	-	-
Commercial Construction, Land Development, and Other Land	193,804	205,804	76,934
Other Non Owner-Occupied CRE	-	-	-
Direct Financing Leases	829,457	829,457	306,193
Residential Real Estate	805,301	805,301	185,801
Installment and Other Consumer	210,438	210,438	143,089
	\$7,090,846	\$7,106,685	\$3,304,287
Total Impaired Loans/Leases:			
C&I	\$5,286,482	\$5,401,757	\$2,592,270
CRE			
Owner-Occupied CRE	256,761	350,535	-
Commercial Construction, Land Development, and Other Land	193,804	434,622	76,934
Other Non Owner-Occupied CRE	1,578,470	1,578,470	-
Direct Financing Leases	1,701,341	1,701,341	306,193

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Residential Real Estate	1,418,787	1,454,365	185,801
Installment and Other Consumer	587,742	587,742	143,089
	\$11,023,387	\$11,508,832	\$3,304,287

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

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

For each class of financing receivable, the following presents the recorded investment by credit quality indicator as of June 30, 2016 and December 31, 2015:

Internally Assigned Risk Rating	As of June 30, 2016				Total	As a % of Total
	C&I	CRE Owner-Occupied CRE	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other CRE		
Pass (Ratings 1 through 5)	\$678,225,838	\$247,914,237	\$44,672,408	\$458,961,143	\$1,429,773,626	95.92 %
Special Mention (Rating 6)	6,381,586	2,114,505	1,780,000	5,954,788	16,230,879	1.09 %
Substandard (Rating 7)	21,653,762	8,659,703	2,496,417	11,825,908	44,635,790	2.99 %
Doubtful (Rating 8)	-	-	-	-	-	-
	\$706,261,186	\$258,688,445	\$48,948,825	\$476,741,839	\$1,490,640,295	100.00 %

Delinquency Status *	As of June 30, 2016			Total	As a % of Total
	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer		

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Performing	\$ 167,134,533	\$ 178,896,991	\$ 73,210,008	\$ 419,241,532	98.86 %
Nonperforming	2,792,948	1,585,014	448,164	4,826,126	1.14 %
	\$ 169,927,481	\$ 180,482,005	\$ 73,658,172	\$ 424,067,658	100.00%

As of December 31, 2015
CRE

Internally Assigned Risk Rating	C&I	Owner-Occupied CRE	Non Owner-Occupied Commercial Construction, Land Development, and Other Land	Other CRE	Total	As a % of Total
Pass (Ratings 1 through 5)	\$ 616,200,797	\$ 238,119,608	\$ 46,929,876	\$ 406,027,442	\$ 1,307,277,723	95.24 %
Special Mention (Rating 6)	18,031,845	8,630,658	1,780,000	8,846,286	37,288,789	2.72 %
Substandard (Rating 7)	13,927,250	5,772,898	373,968	7,888,029	27,962,145	2.04 %
Doubtful (Rating 8)	-	-	-	-	-	-
	\$ 648,159,892	\$ 252,523,164	\$ 49,083,844	\$ 422,761,757	\$ 1,372,528,657	100.00%

As of December 31, 2015

Delinquency Status *	Direct Financing Leases	Residential Real Estate	Installment and Other Consumer	Total	As a % of Total
Performing	\$ 171,951,421	\$ 169,013,743	\$ 73,081,751	\$ 414,046,915	99.11 %
Nonperforming	1,704,184	1,418,787	587,742	3,710,713	0.89 %
	\$ 173,655,605	\$ 170,432,530	\$ 73,669,493	\$ 417,757,628	100.00%

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

As of June 30, 2016 and December 31, 2015, TDRs totaled \$4,104,114 and \$2,587,413, respectively.

For each class of financing receivable, the following presents the number and recorded investment of TDRs, by type of concession, that were restructured during the three and six months ended June 30, 2016. There were no TDRs that were restructured during the three and six months ended June 30, 2015. The difference between the pre-modification recorded investment and the post-modification recorded investment would be any partial charge-offs at the time of the restructuring.

Classes of Loans/Leases	For the three months ended June 30, 2016			Specific Allowance
	Number of Loans / Leases	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	
CONCESSION - Extension of Maturity C&I	1	\$ 52,286	\$ 52,286	\$ -
	1	\$ 52,286	\$ 52,286	\$ -
CONCESSION - Significant Payment Delay C&I	1	\$ 62,140	\$ 62,140	\$ -
Direct Financing Leases	4	494,692	494,692	-
	5	\$ 556,832	\$ 556,832	\$ -
CONCESSION - Interest Rate Adjusted Below Market CRE - Other	1	\$ 1,233,740	\$ 1,233,740	\$ -
	1	\$ 1,233,740	\$ 1,233,740	\$ -
TOTAL	7	\$ 1,842,858	\$ 1,842,858	\$ -
Classes of Loans/Leases	For the six months ended June 30, 2016			Specific Allowance
	Number of	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

	Loan / Leases	Investment	Investment	
CONCESSION - Extension of Maturity				
C&I	1	\$ 52,286	\$ 52,286	\$ -
Direct Financing Leases	4	410,653	410,653	-
	5	\$ 462,939	\$ 462,939	\$ -
CONCESSION - Significant Payment Delay				
C&I	1	\$ 62,140	\$ 62,140	\$ -
Direct Financing Leases	5	540,631	540,631	-
	6	\$ 602,771	\$ 602,771	\$ -
CONCESSION - Interest Rate Adjusted Below Market				
CRE - Other	1	\$ 1,233,740	\$ 1,233,740	\$ -
	1	\$ 1,233,740	\$ 1,233,740	\$ -
TOTAL	12	\$ 2,299,450	\$ 2,299,450	\$ -

Of the TDRs reported above, one with a post-modification recorded balance of \$1,233,740 was on nonaccrual as of June 30, 2016.

For the three and six months ended June 30, 2016 and 2015, none of the Company's TDRs had redefaulted within 12 months subsequent to restructure where default is defined as delinquency of 90 days or more and/or placement on nonaccrual status.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 4 – BORROWINGS

During the first quarter of 2016, the Company extinguished \$5.1 million of the QCR Holdings Capital Trust IV junior subordinated debentures (the full balance outstanding) and recorded a \$1.2 million gain on extinguishment (pre-tax), as the Company was able to acquire the related security at a discount through auction. This gain is included in the statements of income within losses on debt extinguishment. The interest rate on these debentures floated at 3-month LIBOR plus 1.80% and had a rate of 2.42% at the time of extinguishment. QCR Holdings Capital Trust IV was dissolved after the extinguishment.

Also during the first quarter of 2016, the Company executed balance sheet restructuring strategies at QCBT and CRBT, which included the repayment of \$10.0 million of wholesale structured repurchase agreements and \$10.0 million of FHLB advances with a combined weighted average interest rate of 3.92%. As a result of this restructuring, the Company incurred \$1.3 million (pre-tax) in losses on debt extinguishment that are included in the statements of income. The weighted average duration of this combined debt was 2.17 years, with \$10.0 million maturing in 2017 and \$10.0 maturing in 2018. This funding was replaced with short-term borrowings at an average interest rate of 0.50%.

As of December 31, 2015, the Company maintained a \$40.0 million revolving line of credit note, with interest calculated at the effective LIBOR rate plus 2.50% per annum (3.10% at December 31, 2015). At December 31, 2015, the Company had not borrowed on this revolving credit note and had the full amount available. At the renewal date in June 2016, the note was amended to provide a \$10.0 million revolving line of credit note and a \$30.0 million term note commitment with a 5-year term. Interest on both facilities is calculated at the effective LIBOR rate plus 2.50% per annum (3.13% at June 30, 2016). At June 30, 2016, the Company had not borrowed on either of these facilities and had the full amounts available. Similar to the previous revolving note agreement, the amended agreement contains covenants that place restrictions on additional debt and stipulate minimum capital and various operating ratios.

NOTE 5 - EARNINGS PER SHARE

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

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

	Three months ended		Six months ended	
	June 30, 2016	2015	June 30, 2016	2015
Net income (loss)	\$6,676,467	\$(523,818)	\$13,049,956	\$3,654,071
Basic EPS	\$0.54	\$(0.05)	\$1.08	\$0.41
Diluted EPS	\$0.53	\$(0.05)	\$1.07	\$0.40
Weighted average common shares outstanding*	12,335,077	9,946,744	12,064,349	8,961,327
Weighted average common shares issuable upon exercise of stock options and under the employee stock purchase plan**	181,397	-	170,863	137,370
Weighted average common and common equivalent shares outstanding**	12,516,474	9,946,744	12,235,212	9,098,697

*The increase in the weighted average common shares outstanding was primarily due to the common stock issuance discussed in Note 9 to the Consolidated Financial Statements.

**In accordance with U.S. GAAP, the common equivalent shares are not considered in the calculation of diluted EPS in periods when the numerator is a net loss.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 6 – FAIR VALUE

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

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in markets;
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis comprise the following at June 30, 2016 and December 31, 2015:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices	Significant	
	in	Other	Significant
	Active	Observable	Unobservable
	Markets	Inputs	Inputs
	for		
	Identical		
	Assets		
Fair Value	(Level 1)	(Level 2)	(Level 3)

June 30, 2016:
Securities AFS:

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

U.S. govt. sponsored agency securities	\$88,321,448	\$-	\$88,321,448	\$	-
Residential mortgage-backed and related securities	116,765,510	-	116,765,510		-
Municipal securities	23,392,817	-	23,392,817		-
Other securities	2,134,009	1,353	2,132,656		-
Interest rate caps	270,806	-	270,806		-
Interest rate swaps - assets	9,867,856	-	9,867,856		-
Total assets measured at fair value	\$240,752,446	\$1,353	\$240,751,093	\$	-
Interest rate swaps - liabilities	\$9,867,856	\$-	\$9,867,856	\$	-
Total liabilities measured at fair value	\$9,867,856	\$-	\$9,867,856	\$	-

December 31, 2015:

Securities AFS:

U.S. govt. sponsored agency securities	\$213,537,379	\$-	\$213,537,379	\$	-
Residential mortgage-backed and related securities	80,670,135	-	80,670,135		-
Municipal securities	27,578,588	-	27,578,588		-
Other securities	1,648,880	411	1,648,469		-
Interest rate caps	856,024	-	856,024		-
Interest rate swaps - assets	3,044,525	-	3,044,525		-
Total assets measured at fair value	\$327,335,531	\$411	\$327,335,120	\$	-
Interest rate swaps - liabilities	\$3,044,525	\$-	\$3,044,525	\$	-
Total liabilities measured at fair value	\$3,044,525	\$-	\$3,044,525	\$	-

There were no transfers of assets or liabilities between Levels 1, 2, and 3 of the fair value hierarchy for the three and six months ended June 30, 2016 or 2015.

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

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Interest rate caps are used for the purpose of hedging interest rate risk. The fair values are determined by pricing models that consider observable market data for derivative instruments with similar structures (Level 2 inputs).

Interest rate swaps are executed for select commercial customers. The interest rate swaps are further described in Note 1 of the Company's annual report filed on form 10-K as of December 31, 2015. The fair values are determined by comparing the contract rate on the swap with the then-current market rate for the remaining term of the transaction (Level 2 inputs).

Certain financial assets are measured at fair value on a non-recurring basis; that is, the assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Assets measured at fair value on a non-recurring basis comprise the following at June 30, 2016 and December 31, 2015:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
<u>June 30, 2016:</u>				
Impaired loans/leases	\$5,669,757	\$-	\$-	\$5,669,757
OREO	6,673,430	-	-	6,673,430
	\$12,343,187	\$-	\$-	\$12,343,187
<u>December 31, 2015:</u>				
Impaired loans/leases	\$4,545,966	\$-	\$-	\$4,545,966
OREO	7,722,711	-	-	7,722,711
	\$12,268,677	\$-	\$-	\$12,268,677

Impaired loans/leases are evaluated and valued at the time the loan/lease is identified as impaired, at the lower of cost or fair value, and are classified as Level 3 in the fair value hierarchy. Fair value is measured based on the value of the collateral securing these loans/leases. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values are discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business.

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

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

Quantitative Information about Level Fair Value Measurements						
	Fair Value	Fair Value	Valuation	Unobservable	Range	
	June 30, 2016	December 31, 2015	Technique	Input		
Impaired loans/leases	\$ 5,669,757	\$ 4,545,966	Appraisal of collateral	Appraisal adjustments	-10.00%	to -50.00%
OREO	6,673,430	7,722,711	Appraisal of collateral	Appraisal adjustments	0.00%	to -35.00%

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

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

There have been no changes in valuation techniques used for any assets measured at fair value during the three and six months ended June 30, 2016 and 2015.

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

	Fair Value Hierarchy Level	As of June 30, 2016		As of December 31, 2015	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and due from banks	Level 1	\$49,581,154	\$49,581,154	\$41,742,321	\$41,742,321
Federal funds sold	Level 2	20,825,000	20,825,000	19,850,000	19,850,000
Interest-bearing deposits at financial institutions	Level 2	47,607,304	47,607,304	36,313,965	36,313,965
Investment securities:					
HTM	Level 2	280,345,532	285,809,115	253,674,159	255,691,285
AFS	See Previous Table	240,481,640	240,481,640	323,434,982	323,434,982
Loans/leases receivable, net	Level 3	5,249,775	5,669,757	4,209,228	4,545,966
Loans/leases receivable, net	Level 2	1,889,426,132	1,897,957,225	1,767,672,541	1,764,178,772
Interest rate caps	Level 2	270,806	270,806	856,024	856,024
Interest rate swaps - assets	Level 2	9,867,856	9,867,856	3,044,525	3,044,525
Deposits:					
Nonmaturity deposits	Level 2	1,554,404,101	1,554,404,101	1,516,599,081	1,516,599,081
Time deposits	Level 2	419,189,683	420,107,000	364,067,103	364,192,000
Short-term borrowings	Level 2	51,561,748	51,561,748	144,662,716	144,662,716

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

FHLB advances	Level 2	196,900,000	198,373,000	151,000,000	153,143,000
Other borrowings	Level 2	100,000,000	106,692,000	110,000,000	116,061,000
Junior subordinated debentures	Level 2	33,412,643	24,627,848	38,499,052	27,642,093
Interest rate swaps - liabilities	Level 2	9,867,856	9,867,856	3,044,525	3,044,525

30

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 7 – BUSINESS SEGMENT INFORMATION

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

The Company’s primary segment, Commercial Banking, is geographically divided by markets into the secondary segments comprised of the three subsidiary banks wholly owned by the Company: QCBT, CRBT, and RB&T. Each of these secondary segments offers similar products and services, but is managed separately due to different pricing, product demand, and consumer markets. Each offers commercial, consumer, and mortgage loans and deposit services.

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

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

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

Selected financial information on the Company's business segments is presented as follows as of and for the three and six months ended June 30, 2016 and 2015.

	Commercial Banking			Wealth		Intercompany	Consolidated
	QCBT	CRBT	RB&T	Management	All Other	Eliminations	Total
Three Months Ended June 30, 2016							
Total revenue	\$ 14,162,914	\$ 10,438,092	\$ 3,918,629	\$ 2,204,821	\$ 8,244,495	\$ (8,293,266)	\$ 30,675,685
Net interest income	\$ 11,207,759	\$ 7,135,725	\$ 2,945,417	\$ -	\$ (280,088)	\$ -	\$ 21,008,813
Net income	\$ 3,898,343	\$ 3,144,986	\$ 772,169	\$ 386,202	\$ 6,676,467	\$ (8,201,700)	\$ 6,676,467
Total assets	\$ 1,390,025,232	\$ 904,367,275	\$ 402,157,473	\$ -	\$ 328,099,700	\$ (341,215,392)	\$ 2,683,434,288
Provision	\$ 747,850	\$ 150,000	\$ 300,000	\$ -	\$ -	\$ -	\$ 1,197,850
Goodwill	\$ 3,222,688	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,222,688
Core deposit intangible	\$ -	\$ 1,371,653	\$ -	\$ -	\$ -	\$ -	\$ 1,371,653
Three Months Ended June 30, 2015							
Total revenue	\$ 12,930,582	\$ 8,777,259	\$ 3,627,740	\$ 2,269,609	\$ 718,325	\$ (811,669)	\$ 27,511,846
Net interest income	\$ 9,741,899	\$ 6,522,511	\$ 2,684,330	\$ -	\$ (457,904)	\$ -	\$ 18,490,836
	\$ 229,577	\$ (316,567)	\$ 529,567	\$ 438,530	\$ (523,818)	\$ (881,107)	\$ (523,818)

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Net income (loss)							
Total assets	\$1,299,556,911	\$860,403,296	\$363,049,771	\$-	\$268,874,722	\$(248,915,854)	\$2,542,968,846
Provision	\$1,673,665	\$500,000	\$175,000	\$-	\$-	\$-	\$2,348,665
Goodwill	\$3,222,688	\$-	\$-	\$-	\$-	\$-	\$3,222,688
Core deposit intangible	\$-	\$1,571,165	\$-	\$-	\$-	\$-	\$1,571,165

Six Months Ended June 30, 2016

Total revenue	\$27,679,846	\$21,277,313	\$7,712,876	\$4,439,113	\$15,104,270	\$(15,213,201)	\$61,000,217
Net interest income	\$22,169,206	\$14,160,713	\$5,857,391	\$-	\$(580,975)	\$-	\$41,606,335
Net income	\$6,730,039	\$6,079,717	\$1,389,954	\$833,972	\$13,049,955	\$(15,033,681)	\$13,049,956
Total assets	\$1,390,025,232	\$904,367,275	\$402,157,473	\$-	\$328,099,700	\$(341,215,392)	\$2,683,434,288
Provision	\$1,970,835	\$700,000	\$600,000	\$-	\$-	\$-	\$3,270,835
Goodwill	\$3,222,688	\$-	\$-	\$-	\$-	\$-	\$3,222,688
Core deposit intangible	\$-	\$1,371,653	\$-	\$-	\$-	\$-	\$1,371,653

Six Months Ended June 30, 2015

Total revenue	\$25,732,000	\$18,302,906	\$7,169,330	\$4,613,047	\$6,334,768	\$(6,516,697)	\$55,635,354
Net interest income	\$19,016,937	\$12,880,808	\$5,318,412	\$-	\$(943,104)	\$-	\$36,273,053
Net income	\$2,792,190	\$1,751,739	\$1,048,224	\$897,860	\$3,654,071	\$(6,490,013)	\$3,654,071
Total assets	\$1,299,556,911	\$860,403,296	\$363,049,771	\$-	\$268,874,722	\$(248,915,854)	\$2,542,968,846
Provision	\$2,556,121	\$1,100,000	\$403,000	\$-	\$-	\$-	\$4,059,121
Goodwill	\$3,222,688	\$-	\$-	\$-	\$-	\$-	\$3,222,688
Core deposit intangible	\$-	\$1,571,165	\$-	\$-	\$-	\$-	\$1,571,165

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 8 – REGULATORY CAPITAL REQUIREMENTS

The Company (on a consolidated basis) and the subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and subsidiary banks' financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the subsidiary banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and the subsidiary banks to maintain minimum amounts and ratios (set forth in the following table) of total common equity Tier 1 and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets, each as defined by regulation. Management believes, as of June 30, 2016 and December 31, 2015, that the Company and the subsidiary banks met all capital adequacy requirements to which they are subject.

Under the regulatory framework for prompt corrective action, to be categorized as "well capitalized," an institution must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 leverage and common equity Tier 1 ratios as set forth in the following tables. The Company and the subsidiary banks' actual capital amounts and ratios as of June 30, 2016 and December 31, 2015 are also presented in the following table (dollars in thousands). As of June 30, 2016 and December 31, 2015, each of the subsidiary banks met the requirements to be "well capitalized".

	Actual	Ratio	For Capital Adequacy Purposes With Capital Conservation Buffer*	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions	Ratio
	Amount		Amount		Amount	
As of June 30, 2016:						
Company:						

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Total risk-based capital	\$ 322,562	14.29	%	\$ 194,670	≥	8.625	%	\$ 225,705	≥	10.0	%
Tier 1 risk-based capital	294,265	13.04	%	149,529	≥	6.625		180,564	≥	8.0	
Tier 1 leverage	294,265	11.18	%	105,263	≥	4.000		131,578	≥	5.0	
Common equity Tier 1	264,422	11.72	%	115,674	≥	5.125		146,708	≥	6.5	
Quad City Bank & Trust:											
Total risk-based capital	\$ 143,744	12.76	%	\$ 97,131	≥	8.625	%	\$ 112,616	≥	10.0	%
Tier 1 risk-based capital	131,003	11.63	%	74,608	≥	6.625		90,093	≥	8.0	
Tier 1 leverage	131,003	9.42	%	55,618	≥	4.000		69,523	≥	5.0	
Common equity Tier 1	131,003	11.63	%	57,716	≥	5.125		73,200	≥	6.5	
Cedar Rapids Bank & Trust:											
Total risk-based capital	\$ 110,325	13.82	%	\$ 68,850	≥	8.625	%	\$ 79,826	≥	10.0	%
Tier 1 risk-based capital	100,331	12.57	%	52,885	≥	6.625		63,861	≥	8.0	
Tier 1 leverage	100,331	11.20	%	35,830	≥	4.000		44,788	≥	5.0	
Common equity Tier 1	100,331	12.57	%	40,911	≥	5.125		51,887	≥	6.5	
Rockford Bank & Trust:											
Total risk-based capital	\$ 40,108	11.87	%	\$ 29,154	≥	8.625	%	\$ 33,801	≥	10.0	%
Tier 1 risk-based capital	35,877	10.61	%	22,393	≥	6.625		27,041	≥	8.0	
Tier 1 leverage	35,877	9.50	%	15,099	≥	4.000		18,874	≥	5.0	
Common equity Tier 1	35,877	10.61	%	17,323	≥	5.125		21,971	≥	6.5	

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

	Actual		For Capital Adequacy Purposes*		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:						
Company:						
Total risk-based capital	\$280,273	13.11%	\$170,969	≥ 8.0 %	\$213,711	≥ 10.0 %
Tier 1 risk-based capital	253,891	11.88%	128,227	≥ 6.0	170,969	≥ 8.0
Tier 1 leverage	253,891	9.75 %	104,163	≥ 4.0	130,203	≥ 5.0
Common equity Tier 1	220,800	10.33%	96,170	≥ 4.5	138,912	≥ 6.5
Quad City Bank & Trust:						
Total risk-based capital	\$135,477	12.50%	\$86,726	≥ 8.0 %	\$108,407	≥ 10.0 %
Tier 1 risk-based capital	123,498	11.39%	65,044	≥ 6.0	86,726	≥ 8.0
Tier 1 leverage	123,498	8.87 %	55,718	≥ 4.0	69,648	≥ 5.0
Common equity Tier 1	123,498	11.39%	48,783	≥ 4.5	70,465	≥ 6.5
Cedar Rapids Bank & Trust:						
Total risk-based capital	\$105,285	14.39%	\$58,537	≥ 8.0 %	\$73,172	≥ 10.0 %
Tier 1 risk-based capital	96,118	13.14%	43,903	≥ 6.0	58,537	≥ 8.0
Tier 1 leverage	96,118	10.96%	35,079	≥ 4.0	43,848	≥ 5.0
Common equity Tier 1	96,118	13.14%	32,927	≥ 4.5	47,562	≥ 6.5
Rockford Bank & Trust:						
Total risk-based capital	\$38,544	11.96%	\$25,772	≥ 8.0 %	\$32,216	≥ 10.0 %
Tier 1 risk-based capital	34,514	10.71%	19,329	≥ 6.0	25,772	≥ 8.0
Tier 1 leverage	34,514	9.59 %	14,401	≥ 4.0	18,001	≥ 5.0
Common equity Tier 1	34,514	10.71%	14,497	≥ 4.5	20,940	≥ 6.5

*The minimums under Basel III phase in higher by .625% (the capital conservation buffer) annually until 2019. The fully phased-in minimums are 10.5% (Total risk-based capital), 8.5% (Tier 1 risk-based capital), and 7.0% (Common equity Tier 1). At December 31, 2015, the New Basel III minimums mirrored the minimums required for capital adequacy purposes. The first phase-in of the Basel III capital conservation buffer occurred in 2016.

Part I

Item 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-continued

NOTE 9 – ACQUISITION OF COMMUNITY STATE BANK AND COMMON STOCK OFFERING

On May 23, 2016, the Company announced the signing of a definitive agreement to acquire CSB, headquartered in Ankeny, Iowa, from Van Diest Investment Company. CSB is an Iowa-chartered bank that operates ten banking locations throughout the Des Moines metropolitan area. As of June 30, 2016, CSB had \$571 million in assets, \$433 million in loans and \$481 million in deposits.

In the acquisition, the Company will acquire from Van Diest Investment Company 100% of the outstanding common stock of CSB for cash consideration of \$80 million. The transaction is subject to certain customary closing conditions and is expected to close during the third quarter of 2016. The Company intends to maintain CSB as an independent banking charter.

In connection with the planned acquisition, during the second quarter the Company sold 1,215,000 shares of its common stock at a price of \$24.75 per share, for approximate gross proceeds of \$30 million, before deducting anticipated expenses. The shares were offered to institutional investors in a registered direct offering conducted without an underwriter or placement agent. The offering was a take-down of a previously filed shelf registration and closed on May 23, 2016.

Cash received from the common stock offering will be used to help finance the purchase price of the pending acquisition. Additionally, the Company plans to draw approximately \$5 million on its \$10 million revolving line of credit and fully fund the \$30 million term facility it has available. Both of these facilities are described further in Note 4 to the Consolidated Financial Statements. Cash dividends of approximately \$15 million from QCBT and CRBT will be used to finance the remainder of the purchase price.

During the second quarter of 2016, the Company incurred \$355 thousand of expenses related to the planned acquisition, comprised primarily of legal and investment banking costs.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

This section reviews the financial condition and results of operations of the Company and its subsidiaries for the three and six months ending June 30, 2016. Some tables may include additional periods to comply with disclosure requirements or to illustrate trends. When reading this discussion, also refer to the Consolidated Financial Statements and related notes in this report. The page locations and specific sections and notes that are referred to are presented in the table of contents.

Additionally, a comprehensive list of the acronyms and abbreviations used throughout this discussion is included in Note 1 to the Consolidated Financial Statements.

GENERAL

QCR Holdings, Inc. is the parent company of QCBT, CRBT, and RB&T.

QCBT and CRBT are Iowa-chartered commercial banks, and RB&T is an Illinois-chartered commercial bank. All are members of the Federal Reserve system with depository accounts insured to the maximum amount permitted by law by the FDIC.

QCBT commenced operations in 1994 and provides full-service commercial and consumer banking, and trust and asset management services to the Quad City area and adjacent communities through its five offices that are located in Bettendorf and Davenport, Iowa and Moline, Illinois. QCBT also provides leasing services through its wholly-owned subsidiary, m2, located in Brookfield, Wisconsin. In addition, QCBT owns 100% of Quad City Investment Advisors, LLC, which is an investment management and advisory company.

CRBT commenced operations in 2001 and provides full-service commercial and consumer banking, and trust and asset management services to Cedar Rapids, Iowa and adjacent communities through its main office located on First Avenue in downtown Cedar Rapids, Iowa and its branch facility located on Council Street in northern Cedar Rapids. Cedar Falls and Waterloo, Iowa and adjacent communities are served through three additional CRBT offices (two in Waterloo and one in Cedar Falls).

RB&T commenced operations in January 2005 and provides full-service commercial and consumer banking, and trust and asset management services to Rockford, Illinois and adjacent communities through its main office located on Guilford Road at Alpine Road in Rockford and its branch facility in downtown Rockford.

EXECUTIVE OVERVIEW

The Company reported net income of \$6.7 million for the quarter ended June 30, 2016, and diluted EPS of \$0.53. By comparison, for the quarter ended March 31, 2016, the Company reported net income of \$6.4 million, and diluted EPS of \$0.53. For the second quarter of 2015, the Company reported a net loss of \$524 thousand, and diluted EPS of (\$0.05).

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

For the six months ended June 30, 2016, the Company reported net income of \$13.0 million, and diluted EPS of \$1.07. By comparison, for the six months ended June 30, 2015, the Company reported net income of \$3.7 million, and diluted EPS of \$0.40.

The second quarter of 2016 was highlighted by several significant items:

Loan and lease growth at an annualized rate of 13.9% through the first six months of the year;
Strong swap fee income and gains on the sale of government guaranteed portions of loans, totaling \$3.5 million year-to-date;
NIM improvement of 3 basis points quarter-over-quarter; and
ROAA improvement to 1.01% for the current quarter.

Following is a table that represents the various net income measurements for the Company.

	For the three months ended			For the six months ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net income (loss)	\$6,676,467	\$6,373,489	\$(523,818)	\$13,049,956	\$3,654,071
Diluted earnings (loss) per common share	\$0.53	\$0.53	\$(0.05)	\$1.07	\$0.40
Weighted average common and common equivalent shares outstanding*	12,516,474	11,953,949	9,946,744	12,235,212	9,098,697

*The increase in the weighted average common and common equivalent shares outstanding was primarily due to the common stock issuance discussed in Note 9 to the Consolidated Financial Statements.

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Following is a table that represents the major income and expense categories for the Company.

	For the three months ended			For the six months ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net interest income	\$21,008,813	\$20,597,522	\$18,490,836	\$41,606,335	\$36,273,053
Provision expense	1,197,850	2,072,985	2,348,665	3,270,835	4,059,121
Noninterest income	6,762,401	6,822,473	5,461,234	13,584,874	11,683,012
Noninterest expense	17,743,753	16,954,498	24,101,634	34,698,251	41,305,795
Federal and state income tax expense (benefit)	2,153,144	2,019,023	(1,974,411)	4,172,167	(1,062,922)
Net income (loss)	\$6,676,467	\$6,373,489	\$(523,818)	\$13,049,956	\$3,654,071

In comparing quarter-over-quarter, following are some noteworthy changes in the Company's financial results:

Net interest income increased 2% compared to the first quarter of 2016 and increased 14% from the same period in 2015.

Provision decreased 42% compared to the first quarter of 2016. Provision decreased 49% from the same period of 2015. Both decreases were primarily due to continued strong asset quality.

Noninterest income decreased less than 1% compared to the first quarter of 2016. Noninterest income increased 24% from the second quarter of 2015. Noninterest income fluctuations are primarily driven by swap fee income and gains on the sale of government guaranteed portions of loans (totaling \$1.8 million for the quarter ended June 30, 2016 compared to \$1.7 million and \$463 thousand for the quarters ending March 31, 2016 and June 30, 2015, respectively).

Part I

Item 2

MANAGEMENT’S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Noninterest expense increased 5% compared to the first quarter of 2016. The second quarter of 2016 included higher commissions and incentive accruals directly related to the swap fee income and gains on the sale of government guaranteed loans. Noninterest expense decreased 26% from the second quarter of 2015. The second quarter of 2015 included several nonrecurring expense items totaling approximately \$7.7 million, \$6.9 million of which related to the extinguishment of debt.

Federal and state income tax expense increased 7% compared to the first quarter of 2016. Federal and state income tax increased significantly compared to the second quarter of 2015. See the Income Taxes section of this report for additional details.

LONG-TERM FINANCIAL GOALS

As previously stated, the Company has established certain financial goals by which it manages its business and measures its performance. The goals are periodically updated to reflect changes in business developments. While the Company is determined to work prudently to achieve these goals, there is no assurance that they will be met. Moreover, the Company’s ability to achieve these goals will be affected by the factors discussed under “Forward Looking Statements” as well as the factors detailed in the “Risk Factors” section included under Item 1A. of Part I of the Company’s Form 10-K. The Company’s long-term financial goals are as follows:

Improve balance sheet efficiency by targeting a gross loans and leases to total assets ratio in the range of 70 – 75%;

Improve profitability (measured by NIM and ROAA);

Continue to improve asset quality by reducing NPAs to total assets to below 0.75% and maintain charge-offs as a percentage of average loans/leases of under 0.25% annually;

Reduce reliance on wholesale funding to less than 15% of total assets;

Grow noninterest bearing deposits to more than 30% of total assets;

Increase the commercial lease portfolio so that it represents 10% of total assets;

Grow gains on sales of government guaranteed portions of loans and swap fee income to more than \$4 million annually; and

Grow wealth management segment net income by 15% annually.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

The following table shows the evaluation of the Company's long-term financial goals.

Goal	Key Metric	Target**	For the Quarter Ending		
			June 30, 2016	March 31, 2016	June 30, 2015
Balance sheet efficiency	Gross loans and leases to total assets	70 - 75%	72%	71%	67%
Profitability	NIM	> 3.50%	3.62%	3.59%	3.33%
	ROAA	> 1.00%	1.01%	0.98%	-0.08%
Asset quality	NPAs to total assets	< 0.75%	0.70%	0.71%	1.07%
	Net charge-offs to average loans and leases*	< 0.25% annually	0.12%	0.16%	0.12%
Lower reliance on wholesale funding	Wholesale funding to total assets	< 15%	18%	17%	22%
Funding mix	Noninterest bearing deposits as a percentage of total assets	> 30%	23%	24%	25%
Commercial leasing	Leases as a percentage of total assets	10%	6%	7%	7%
Consistent, high quality noninterest income revenue streams	Gains on sales of government guaranteed portions of loans and swap fee income*	> \$4 million annually	\$7.1 million	\$6.9 million	\$2.5 million
	Grow wealth management segment net income*	> 15% annually	2%	10%	8%

* Ratios and amounts provided for these measurements represent year-to-date actual amounts for the respective period, that are then annualized for comparison.

** Targets will be re-evaluated and adjusted as needed.

STRATEGIC DEVELOPMENTS

The Company took the following actions to support its corporate strategy and the long-term financial goals shown above.

Loan and lease growth year-to-date was 6.9%, or an annualized rate of 13.9%. This exceeded the Company's target organic growth rate of 10-12%. A majority of this growth was in the C&I and CRE loan categories. This loan and lease growth has continued to help move the loan and lease to total asset ratio upward to 72%, from 71% in the prior quarter and 67% a year ago.

The Company intends to participate as an acquirer in the consolidation taking place in our markets to further boost ROAA and improve the Company's efficiency ratio. In the second quarter of 2016, the Company announced the acquisition of Community State Bank, headquartered in Ankeny, Iowa. Refer to Note 9 of the Consolidated Financial Statements for more details.

The Company continued to focus on reducing the NPAs to total assets ratio and decreased this ratio from 0.74% at December 31, 2015 to 0.70% at June 30, 2016. Although NPAs remained relatively flat from the prior quarter, the Company remains committed to further improving asset quality ratios in 2016.

Management continued to focus on reducing the Company's reliance on wholesale funding. The modest restructuring executed in the first quarter of 2016 (as described in Note 4 of the Consolidated Financial Statements) has further reduced the Company's reliance on long-term wholesale funding. In the second quarter of 2016, the Company utilized overnight FHLB advances as a cost-effective alternative funding source. Management continues to closely evaluate opportunities for continued reduction in wholesale funding.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Correspondent banking continues to be a core line of business for the Company. The Company is competitively positioned with experienced staff, software systems and processes to continue growing in the three states currently served – Iowa, Illinois and Wisconsin. The Company acts as the correspondent bank for 176 downstream banks with average total noninterest bearing deposits of \$299.8 million during the second quarter of 2016. This line of business provides a strong source of noninterest bearing deposits, fee income and high-quality loan participations.

The Company provides commercial leasing services through its wholly-owned subsidiary, m2 Lease Funds, which has lease specialists in Iowa, Wisconsin, Minnesota, South Carolina, Georgia, Florida, Colorado, Texas and Pennsylvania. Historically, this portfolio has been high yielding, with an average gross yield in 2016 approximating 8.2%. This portfolio has also shown strong asset quality throughout its history.

SBA and USDA lending is a specialty lending area on which the Company has focused. Once these loans are originated, the government-guaranteed portion of the loan can be sold to the secondary market for premiums. The Company intends to make this a more significant and consistent source of noninterest income.

As a result of the historically low interest rate environment, the Company is focused on executing interest rate swaps on select commercial loans. The interest rate swaps allow the commercial borrowers to pay a fixed interest rate while the Company receives a variable interest rate as well as an upfront fee dependent on the pricing. Management believes that these swaps help position the Company more favorably for rising rate environments. The Company will continue to review opportunities to execute these swaps at all of its subsidiary banks, as the circumstances are appropriate for the borrower and the Company.

Wealth management is another core line of business for the Company and includes a full range of products, including trust services, brokerage and investment advisory services, asset management, estate planning and financial planning. As of June 30, 2016 the Company had \$1.76 billion of total financial assets in trust (and related) accounts and \$702 million of total financial assets in brokerage (and related) accounts. Continued growth in assets under management will help to drive trust and investment advisory fees. The Company offers trust and investment advisory services to the correspondent banks that it serves. As management focuses on growing fee income, expanding market share will continue to be a primary strategy.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

GAAP TO NON-GAAP RECONCILIATIONS

The following table presents certain non-GAAP financial measures related to the “tangible common equity to tangible assets ratio”, “core net income”, “core net income attributable to QCR Holdings, Inc. common stockholders”, “core earnings per common share” and “core return on average assets”. The table also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

The tangible common equity to tangible assets ratio has been a focus for investors and management believes that this ratio may assist investors in analyzing the Company's capital position without regard to the effects of intangible assets.

The table below also includes several “core” measurements of financial performance. The Company's management believes that these measures are important to investors as they exclude non-recurring income and expense items; therefore, they provide a better comparison for analysis and may provide a better indicator of future run-rates.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by investors to evaluate a company, they have limitations as analytical tools and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

	As of		
	June 30,	March 31,	December
GAAP TO NON-GAAP RECONCILIATIONS	2016	2016	31, 2015
	<i>(dollars in thousands, except per share data)</i>		
TCE / TA RATIO			
Stockholders' equity (GAAP)	\$275,117	\$235,143	\$225,886
Less: Intangible assets	4,595	4,645	4,694
TCE (non-GAAP)	\$270,522	\$230,498	\$221,192
Total assets (GAAP)	\$2,683,434	\$2,640,673	\$2,593,198
Less: Intangible assets	4,595	4,645	4,694
TA (non-GAAP)	\$2,678,839	\$2,636,028	\$2,588,504
TCE / TA ratio (non-GAAP)	10.10	% 8.74	% 8.55

	For the Quarter Ended			For the Six Months Ended	
	June 30,	March 31,	December	June 30,	June 30,
CORE NET INCOME	2016	2016	31, 2015	2016	2015
Net income (GAAP)	\$6,676	\$6,373	\$6,785	\$13,050	\$3,654
Less nonrecurring items (post-tax) (*):					
Income:					
Securities gains, net	\$12	\$233	\$211	\$245	\$274
Total nonrecurring income (non-GAAP)	\$12	\$233	\$211	\$245	\$274

Expense:

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Losses on debt extinguishment	\$-	\$54	\$189	\$54	\$4,481
Acquisition costs	231	-	-	231	-
Other non-recurring expenses	-	-	-	-	513
Accrual adjustments	-	-	(487)	-	-
Total nonrecurring expense (non-GAAP)	\$231	\$54	\$(298)	\$285	\$4,994

Core net income (non-GAAP) \$6,895 \$6,194 \$6,276 \$13,090 \$8,374

CORE EPS

Core net income (non-GAAP) (from above)	\$6,895	\$6,194	\$6,276	\$13,090	\$8,374
Weighted average common shares outstanding	12,335,077	11,793,620	11,744,495	12,064,349	8,961,327
Weighted average common and common equivalent shares outstanding	12,516,474	11,953,949	11,926,038	12,235,212	9,098,697
Core EPS (non-GAAP):					
Basic	\$0.56	\$0.53	\$0.53	\$1.09	\$0.93
Diluted	\$0.55	\$0.52	\$0.53	\$1.07	\$0.92

CORE ROAA

Core net income (non-GAAP) (from above)	\$6,895	\$6,194	\$6,276	\$13,090	\$8,374
Average Assets	\$2,640,678	\$2,602,350	\$2,611,276	\$2,621,514	\$2,512,334
Core ROAA (annualized) (non-GAAP)	1.04	% 0.95	% 0.96	% 1.00	% 0.67

* Nonrecurring items (after-tax) are calculated using an estimated effective tax rate of 35%.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

NET INTEREST INCOME - (TAX EQUIVALENT BASIS)

Net interest income, on a tax equivalent basis, increased 14% to \$22.4 million for the quarter ended June 30, 2016, compared to the same quarter of the prior year. For the six months ended June 30, 2016, net interest income, on a tax equivalent basis, increased 15% to \$44.3 million, compared to the same period of 2015. Net interest income improved due to several factors:

The Company's strategy to redeploy funds from the taxable securities portfolio into higher yielding loans and leases; Organic loan and lease growth has been strong over the past twelve months, as evidenced by average gross loan/lease growth of 13% in that period; and

The Company's balance sheet restructuring and deleveraging strategy executed throughout 2015 and the first quarter of 2016.

A comparison of yields, spread and margin from the second quarter of 2016 to the second quarter of 2015 is as follows (on a tax equivalent basis):

The average yield on interest-earning assets increased 16 basis points.
The average cost of interest-bearing liabilities decreased 15 basis points.
The net interest spread increased 31 basis points from 3.08% to 3.39%.
The NIM improved 29 basis points from 3.33% to 3.62%.

A comparison of yields, spread and margin from the first half of 2016 to the first half of 2015 is as follows (on a tax equivalent basis):

The average yield on interest-earning assets increased 13 basis points.
The average cost of interest-bearing liabilities decreased 21 basis points.
The net interest spread increased 34 basis points from 3.04% to 3.38%.
The NIM improved 32 basis points from 3.29% to 3.61%.

The Company's management closely monitors and manages NIM. From a profitability standpoint, an important challenge for the Company's subsidiary banks and leasing company is the improvement of their NIM. Management continually addresses this issue with pricing and other balance sheet management strategies.

The Company continues to place an emphasis on shifting its balance sheet mix. With a stated goal of increasing loans/leases as a percentage of assets to a range of 70-75%, the Company funded its loan/lease growth with a mixture of short-term borrowings and cash from the investment securities portfolio. Cash from called securities and the targeted sales of securities was redeployed into the loan portfolio, resulting in a significant increase in yield, while minimizing any extension of duration. Additionally, the Company has recognized net gains on these sales due to the current rate environment. As rates rise, the Company should also have less market volatility in the investment securities portfolio, as this becomes a smaller portion of the balance sheet.

The Company continues to monitor and evaluate both prepayment and debt restructuring opportunities within the wholesale funding portion of the balance sheet, as executing on such a strategy could potentially increase NIM more quickly than holding the debt until maturity.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

The Company's average balances, interest income/expense, and rates earned/paid on major balance sheet categories, as well as the components of change in net interest income, are presented in the following tables:

	For the three months ended June 30,				2015			
	2016							
	Average	Interest	Average		Average	Interest	Average	
	Balance	Earned	Yield		Balance	Earned	Yield	
		or Paid	or			or Paid	or	
			Cost				Cost	
	(dollars in thousands)							
ASSETS								
Interest earning assets:								
Federal funds sold	\$ 14,174	\$ 11	0.31	%	\$ 19,523	\$ 6	0.12	%
Interest-bearing deposits at financial institutions	50,747	62	0.49	%	45,229	65	0.58	%
Investment securities (1)	505,697	4,573	3.64	%	608,688	4,548	3.00	%
Restricted investment securities	14,171	134	3.80	%	15,083	108	2.87	%
Gross loans/leases receivable (1) (2) (3)	1,899,932	20,497	4.34	%	1,686,068	18,541	4.41	%
Total interest earning assets	\$ 2,484,721	\$ 25,277	4.09	%	\$ 2,374,591	\$ 23,268	3.93	%
Noninterest-earning assets:								
Cash and due from banks	\$ 50,461				\$ 42,810			
Premises and equipment	38,178				38,666			
Less allowance	(27,811)				(24,405)			
Other	95,129				86,508			
Total assets	\$ 2,640,678				\$ 2,518,170			
LIABILITIES AND STOCKHOLDERS' EQUITY								
Interest-bearing liabilities:								
Interest-bearing deposits	\$ 941,856	600	0.26	%	\$ 784,148	450	0.23	%

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Time deposits	425,216	744	0.70	%	384,895	634	0.66	%
Short-term borrowings	50,122	18	0.14	%	160,479	53	0.13	%
FHLB advances ..	128,956	416	1.30	%	173,742	1,002	2.31	%
Junior subordinated debentures	33,396	302	3.64	%	40,475	313	3.10	%
Other borrowings	100,008	824	3.31	%	129,802	1,108	3.42	%
Total interest-bearing liabilities	\$1,679,554	\$2,904	0.70	%	\$1,673,541	\$3,560	0.85	%
Noninterest-bearing demand deposits	\$666,044				\$629,744			
Other noninterest-bearing liabilities	39,689				33,074			
Total liabilities	\$2,385,287				\$2,336,359			
Stockholders' equity	255,391				181,811			
Total liabilities and stockholders' equity	\$2,640,678				\$2,518,170			
Net interest income		\$22,373				\$19,708		
Net interest spread			3.39	%			3.08	%
Net interest margin			3.62	%			3.33	%
Ratio of average interest-earning assets to average interest-bearing liabilities	147.94	%			141.89	%		

(1) Interest earned and yields on nontaxable investment securities and nontaxable loans are determined on a tax equivalent basis using a 35% tax rate.

(2) Loan/lease fees are not material and are included in interest income from loans/leases receivable in accordance with accounting and regulatory guidance.

(3) Non-accrual loans/leases are included in the average balance for gross loans/leases receivable in accordance with accounting and regulatory guidance.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Analysis of Changes of Interest Income/Interest Expense**For the three months ended June 30, 2016**

	Inc./Dec. Components from of Change (1)		
	Prior Period	Rate	Volume
	2016 vs. 2015		
	(dollars in thousands)		
INTEREST INCOME			
Federal funds sold	\$5	\$16	\$(11)
Interest-bearing deposits at financial institutions	(3)	(36)	33
Investment securities (2)	25	3,459	(3,434)
Restricted investment securities	26	66	(40)
Gross loans/leases receivable (2) (3) (4)	1,956	(1,921)	3,877
Total change in interest income	\$2,009	\$1,584	\$425
INTEREST EXPENSE			
Interest-bearing deposits	\$150	\$54	\$96
Time deposits	110	42	68
Short-term borrowings	(35)	30	(65)
Federal Home Loan Bank advances	(586)	(369)	(217)
Junior subordinated debentures	(11)	213	(224)
Other borrowings	(284)	(35)	(249)
Total change in interest expense	\$(656)	\$(65)	\$(591)
Total change in net interest income	\$2,665	\$1,649	\$1,016

(1) The column "Inc./(Dec.) from Prior Period" is segmented into the changes attributable to variations in volume and the changes attributable to changes in interest rates. The variations attributable to simultaneous volume and rate

changes have been proportionately allocated to rate and volume.

(2) Interest earned and yields on nontaxable investment securities and nontaxable loans are determined on a tax equivalent basis using a 35% tax rate.

(3) Loan/lease fees are not material and are included in interest income from loans/leases receivable in accordance with accounting and regulatory guidance.

(4) Non-accrual loans/leases are included in the average balance for gross loans/leases receivable in accordance with accounting and regulatory guidance.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

	For the six months ended June 30,					
	2016			2015		
	Average	Interest	Average	Average	Interest	Average
	Balance	Earned	Yield	Balance	Earned	Yield
		or Paid	or		or Paid	or
			Cost			Cost
	(dollars in thousands)					
ASSETS						
Interest earning assets:						
Federal funds sold	\$15,703	\$23	0.29 %	\$16,606	\$11	0.13 %
Interest-bearing deposits at financial institutions	45,691	123	0.54 %	57,602	142	0.50 %
Investment securities (1)	528,034	9,257	3.53 %	617,261	9,037	2.95 %
Restricted investment securities	14,156	264	3.75 %	15,513	250	3.25 %
Gross loans/leases receivable (1) (2) (3)	1,866,941	40,454	4.36 %	1,660,887	36,893	4.48 %
Total interest earning assets	\$2,470,525	\$50,121	4.08 %	\$2,367,867	\$46,333	3.95 %
Noninterest-earning assets:						
Cash and due from banks	\$48,176			\$43,547		
Premises and equipment	37,963			38,373		
Less allowance	(27,256)			(23,911)		
Other	92,107			86,458		
Total assets	\$2,621,514			\$2,512,334		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Interest-bearing deposits	\$933,551	1,214	0.26 %	\$785,749	892	0.23 %
Time deposits	412,410	1,420	0.69 %	379,630	1,264	0.67 %
Short-term borrowings	68,331	61	0.18 %	170,697	117	0.14 %
FHLB advances	128,696	858	1.34 %	190,109	2,446	2.59 %
Junior subordinated debentures	34,023	606	3.58 %	40,458	620	3.09 %
Other borrowings	100,873	1,650	3.29 %	139,408	2,340	3.38 %

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Total interest-bearing liabilities	\$1,677,884	\$5,809	0.70	%	\$1,706,051	\$7,679	0.91	%
Noninterest-bearing demand deposits	\$660,625				\$607,617			
Other noninterest-bearing liabilities	39,687				33,691			
Total liabilities	\$2,378,195				\$2,347,359			
Stockholders' equity	243,319				164,975			
Total liabilities and stockholders' equity	\$2,621,514				\$2,512,334			
Net interest income		\$44,312				\$38,654		
Net interest spread			3.38	%			3.04	%
Net interest margin			3.61	%			3.29	%
Ratio of average interest-earning assets to average interest-bearing liabilities	147.24	%			138.79	%		

(1) Interest earned and yields on nontaxable investment securities and nontaxable loans are determined on a tax equivalent basis using a 35% tax rate.

(2) Loan/lease fees are not material and are included in interest income from loans/leases receivable in accordance with accounting and regulatory guidance.

(3) Non-accrual loans/leases are included in the average balance for gross loans/leases receivable in accordance with accounting and regulatory guidance.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Analysis of Changes of Interest Income/Interest Expense**For the six months ended June 30, 2016**

	Inc./Dec. Components from of Change (1)		
	Prior Period	Rate	Volume
	2016 vs. 2015		
	(dollars in thousands)		
INTEREST INCOME			
Federal funds sold	\$12	\$14	\$(2)
Interest-bearing deposits at financial institutions	(19)	29	(48)
Investment securities (2)	220	3,146	(2,926)
Restricted investment securities	14	65	(51)
Gross loans/leases receivable (2) (3) (4)	3,561	(2,680)	6,241
Total change in interest income	\$3,788	\$574	\$3,214
INTEREST EXPENSE			
Interest-bearing deposits	\$322	\$139	\$183
Time deposits	156	42	114
Short-term borrowings	(56)	76	(132)
Federal Home Loan Bank advances	(1,588)	(952)	(636)
Junior subordinated debentures	(14)	192	(206)
Other borrowings	(690)	(64)	(626)
Total change in interest expense	\$(1,870)	\$(567)	\$(1,303)
Total change in net interest income	\$5,658	\$1,141	\$4,517

(1) The column "Inc./Dec.) from Prior Period" is segmented into the changes attributable to variations in volume and the changes attributable to changes in interest rates. The variations attributable to simultaneous volume and rate

changes have been proportionately allocated to rate and volume.

(2) Interest earned and yields on nontaxable investment securities and nontaxable loans are determined on a tax equivalent basis using a 35% tax rate.

(3) Loan/lease fees are not material and are included in interest income from loans/leases receivable in accordance with accounting and regulatory guidance.

(4) Non-accrual loans/leases are included in the average balance for gross loans/leases receivable in accordance with accounting and regulatory guidance.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

CRITICAL ACCOUNTING POLICIES

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Certain critical accounting policies are described below.

ALLOWANCE FOR LOAN AND LEASE LOSSES

Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance.

The Company's allowance methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in NPLs, and other factors. Quantitative factors also incorporate known information about individual loans/leases, including borrowers' sensitivity to interest rate movements.

Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest, and in particular, the state of certain industries. Size and complexity of individual credits in relation to loan/lease structures, existing loan/lease policies and pace of portfolio growth are other qualitative factors that are considered in the methodology.

Management may report a materially different amount for the provision in the statement of income to change the allowance if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the section entitled "Financial Condition" of this Management's Discussion and Analysis that discusses the allowance.

Although management believes the level of the allowance as of June 30, 2016 was adequate to absorb losses in the loan/lease portfolio, a decline in local economic conditions, or other factors, could result in increasing losses that cannot be reasonably predicted at this time.

OTHER-THAN-TEMPORARY IMPAIRMENT

The Company's assessment of OTTI of its investment securities portfolio is another critical accounting policy due to the level of judgment required by management. Investment securities are evaluated to determine whether declines in fair value below their cost are other-than-temporary.

In estimating OTTI losses, management considers a number of factors including, but not limited to, (1) the length of time and extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions, and (4) the Company's lack of intent to sell the security prior to recovery and whether it is not more-likely-than-not that the Company will be required to sell the security prior to recovery. The discussion regarding the Company's assessment of OTTI should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

RESULTS OF OPERATIONS

INTEREST INCOME

Interest income increased 8%, comparing the second quarter of 2016 to the same period of 2015 and comparing the first half of 2016 to the same period of 2015.

A portion of this growth was the result of the Company's strategy to redeploy funds from the securities portfolio into higher yielding loans and leases. In addition, organic loan and lease growth has been strong over the past twelve months.

Overall, the Company's average earning assets increased 5%, comparing the second quarter of 2016 to the second quarter of 2015. During the same time period, average gross loans and leases increased 13%, while average investment securities decreased 17%.

The securities portfolio yield continued to increase (from 3.00% for the second quarter of 2015 to 3.64% for the second quarter of 2016) as the Company continued to sell low-yielding investments taking advantage of favorable market opportunities. Call activity picked up in the second quarter of 2016, resulting in the call of some lower-yielding callable agency securities. Additionally, the Company continued to take actions to diversify its securities portfolio, including increasing its portfolio of tax-exempt municipal securities, in an effort to increase tax equivalent interest income without additional income tax expense.

The Company intends to continue to grow quality loans and leases as well as diversify its securities portfolio to maximize yield while minimizing credit and interest rate risk.

INTEREST EXPENSE

Interest expense for the second quarter of 2016 decreased 18% from the second quarter of 2015. For the first six months of 2016, interest expense decreased 24% compared to the first six months of 2015. The Company has been successful in maintaining pricing discipline on deposits and decreasing the cost of borrowings, which has more than offset the growth impact and contributed to the net decline in interest expense.

Management has placed a strong focus on reducing the reliance on long-term wholesale funding as it tends to be higher cost than deposits. In the second quarter of 2015, the Company executed a balance sheet restructuring that is saving approximately \$4.2 million of interest expense annually. Continued balance sheet restructurings in the fourth quarter of 2015 and first quarter of 2016 (refer to Note 4 of the Consolidated Financial Statements) have further reduced interest expense. Refer to Note 12 in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for additional details.

The Company's management intends to continue to shift the mix of funding from wholesale funds to core deposits, including noninterest-bearing deposits. Continuing this trend is expected to strengthen the Company's franchise value, reduce funding costs, and increase fee income opportunities through deposit service charges.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

PROVISION FOR LOAN/LEASE LOSSES

The provision is established based on a number of factors, including the Company's historical loss experience, delinquencies and charge-off trends, the local and national economy and risk associated with the loans/leases in the portfolio as described in more detail in the "Critical Accounting Policies" section.

The Company's provision totaled \$1.2 million for the second quarter of 2016, which was down \$1.2 million, or 49%, from the same quarter of the prior year. Provision for the first half of the year totaled \$3.3 million, which was down \$788 thousand, or 19%, compared to the first half of 2015. The decrease in provision expense was primarily due to stronger asset quality in recent periods.

The Company had net charge-offs of \$496 thousand for the second quarter of 2016 which, when coupled with the provision of \$1.2 million, increased the Company's allowance to \$28.1 million at June 30, 2016. As of June 30, 2016, the Company's allowance to total loans/leases was 1.46%, which was flat from 1.46% at March 31, 2016 and down from 1.52% at June 30, 2015, respectively.

A more detailed discussion of the Company's allowance can be found in the "Financial Condition" section of this report.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

NONINTEREST INCOME

The following tables set forth the various categories of noninterest income for the three and six months ended June 30, 2016 and 2015.

	Three Months Ended				
	June 30, 2016	June 30, 2015	\$ Change	% Change	
Trust department fees	\$1,512,083	\$1,511,176	\$907	0.1	%
Investment advisory and management fees	692,738	758,433	(65,695)	(8.7))
Deposit service fees	946,810	924,642	22,168	2.4	
Gains on sales of residential real estate loans, net	84,413	95,535	(11,122)	(11.6))
Gains on sales of government guaranteed portions of loans, net	1,603,890	69,346	1,534,544	2,212.9	
Swap fee income	167,582	393,723	(226,141)	(57.4))
Securities gains, net	18,030	-	18,030	100.0	
Earnings on bank-owned life insurance	480,520	433,152	47,368	10.9	
Debit card fees	343,748	255,000	88,748	34.8	
Correspondent banking fees	244,939	285,379	(40,440)	(14.2))
Participation service fees on commercial loan participations	246,010	223,827	22,183	9.9	
Fee income from early termination of leases	66,043	76,722	(10,679)	(13.9))
Credit card issuing fees	139,073	135,649	3,424	2.5	
Other	216,522	298,650	(82,128)	(27.5))
Total noninterest income	\$6,762,401	\$5,461,234	\$1,301,167	23.8	%

	Six Months Ended				
	June 30, 2016	June 30, 2015	\$ Change	% Change	
Trust department fees	\$3,087,990	\$3,144,571	\$(56,581)	(1.8))%
Investment advisory and management fees	1,351,123	1,468,476	(117,353)	(8.0))

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Deposit service fees	1,877,889	1,825,998	51,891	2.8
Gains on sales of residential real estate loans	144,799	181,675	(36,876)	(20.3)
Gains on sales of government guaranteed portions of loans	2,482,418	140,319	2,342,099	1,669.1
Swap fee income	1,024,540	1,119,930	(95,390)	(8.5)
Securities gains, net	376,510	416,933	(40,423)	(9.7)
Earnings on bank-owned life insurance	874,129	911,891	(37,762)	(4.1)
Debit card fees	651,399	493,000	158,399	32.1
Correspondent banking fees	547,069	605,000	(57,931)	(9.6)
Participation service fees on commercial loan participations	456,719	445,776	10,943	2.5
Fee income from early termination of leases	77,793	161,560	(83,767)	(51.8)
Credit card issuing fees	275,728	269,810	5,918	2.2
Other	356,768	498,073	(141,305)	(28.4)
Total noninterest income	\$13,584,874	\$11,683,012	\$1,901,862	16.3 %

In recent years, the Company has been successful in expanding its wealth management customer base, which has helped drive increases in fee income. While trust department fees continue to be a significant contributor to noninterest income, due to poor market conditions early in 2016, coupled with a large amount of distributions to clients and beneficiaries, trust department fees were flat compared to the first quarter of 2016. Trust department fees decreased 2% when comparing the first half of 2016 to the same period of the prior year. Income is generated primarily from fees charged based on assets under administration for corporate and personal trusts and for custodial services. The majority of the trust department fees are determined based on the value of the investments within the fully managed trusts. Additionally, the Company recently started offering trust operations services to correspondent banks. Fees are expected to grow in light of this new offering.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Management has placed a strong emphasis on growing its investment advisory and management services. Part of this initiative has been to restructure the Company's Wealth Management Division to allow for more efficient delivery of products and services through selective additions of talent as well as leverage of and collaboration among existing resources (including the aforementioned trust department). Similar to trust department fees, these fees are largely determined based on the value of the investments managed. And, similar to the trust department, the Company has had some success in expanding its customer base. However, due to poor market conditions early in 2016, investment advisory fees decreased 9% from the second quarter of 2015 to the second quarter of 2016 and they decreased 8% when comparing the first half of 2015 to the first half of 2016.

Deposit service fees expanded 2%, comparing the second quarter of 2016 to the same period in 2015 and expanded 3% when comparing the first half of 2016 to the same period of the prior year. The Company continues its emphasis on shifting the mix of deposits from brokered and retail time deposits to non-maturity demand deposits across all its markets. With this shift in mix, the Company has increased the number of demand deposit accounts, which tend to be lower in interest cost and higher in service fees. The Company plans to continue this shift in mix and to further focus on growing deposit service fees.

Gains on sales of residential real estate loans decreased 12%, comparing the second quarter of 2016 to the second quarter of 2015 and decreased 20% when comparing the first half of 2016 to the same period of the prior year. With the sustained historically low interest rate environment, refinancing activity has slowed, as many of the Company's existing and prospective customers have already executed a refinancing. Therefore, this area has become a much smaller contributor to overall noninterest income.

The Company's gains on the sale of government-guaranteed portions of loans for the second quarter and first six months of 2016 were up significantly, compared to the same periods of 2015, due to the strong demand for these types of loans in 2016. As one of its core strategies, the Company continues to leverage its expertise by taking advantage of programs offered by the SBA and the USDA. The Company's portfolio of government-guaranteed loans has grown as a direct result of the Company's strong expertise in SBA and USDA lending. In some cases, it is more beneficial for the Company to sell the government-guaranteed portion on the secondary market for a premium rather than retain the loans in the Company's portfolio. Sales activity for government-guaranteed portions of loans tends to fluctuate depending on the demand for loans that fit the criteria for the government guarantee. Further, the size of the

transactions can vary and, as the gain is determined as a percentage of the guaranteed amount, the resulting gain on sale can vary. Lastly, a strategy for improved pricing is packaging loans together for sale. From time to time, the Company may execute on this strategy, which may delay the gains on sales of some loans to achieve better pricing. The Company has added additional talent and is executing on strategies in an effort to make this a more consistent and larger source of revenue. The pipelines for SBA and USDA lending are strong, and management believes that the Company will continue to post solid numbers in this category.

As a result of the sustained historically low interest rate environment, the Company was able to execute several interest rate swaps on select commercial loans. The interest rate swaps allow the commercial borrowers to pay a fixed interest rate while the Company receives a variable interest rate as well as an upfront fee dependent upon the pricing. Management believes that these swaps help position the Company more favorably for rising rate environments. Management will continue to review opportunities to execute these swaps at all of its subsidiary banks, as the circumstances are appropriate for the borrower and the Company. Swap fee income totaled \$168 thousand in second quarter of 2016, as compared to \$394 thousand in second quarter of 2015. Swap fee income totaled \$1.0 million for the first half of 2016, compared to \$1.1 million in the first half of 2015. Future levels of swap fee income are dependent upon prevailing interest rates.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Securities gains were \$18 thousand for the second quarter of 2016. There were no gains recognized in the second quarter of 2015. Securities gains totaled \$377 thousand for the first six months of 2016, compared to \$417 thousand for the first six months of 2015. The Company took advantage of market opportunities by selling approximately \$5.5 million of investments that were low-yielding during the quarter ended June 30, 2016 and \$61.1 million for the first six months of 2016. Proceeds were then used to purchase higher-yielding tax-exempt municipal bonds with a modest duration extension and to fund loan and lease growth.

Earnings on BOLI increased 11% from the second quarter of 2015 to the second quarter of 2016 and decreased 4% comparing the first half of 2015 to the first half of 2016. There were no purchases of BOLI within the last twelve months. Notably, a small portion of the Company's BOLI is variable in nature whereby the returns are determined by the performance of the equity market. The poor market performance in the first half of 2016 contributed to the decrease in earnings on BOLI year-to-date. Management intends to continue to review its BOLI investments to be consistent with policy and regulatory limits in conjunction with the rest of its earning assets in an effort to maximize returns while minimizing risk.

Debit card fees are the interchange fees paid on certain debit card customer transactions. Debit card fees increased 35% comparing the second quarter of 2016 to the second quarter of 2015 and increased 32% comparing the first half of 2016 to the first half of 2015. These fees can vary based on customer debit card usage, so fluctuations from period to period may occur. As an opportunity to maximize fees, the Company offers a deposit product with a modestly increased interest rate that incentivizes debit card activity.

Correspondent banking fees decreased 14%, comparing the second quarter of 2016 to the second quarter of 2015 and decreased 10% when comparing the first half of 2016 to the first half of 2015. As correspondent bank deposit balances rise, they receive a higher earnings credit, which then reduces the direct fees that the Company receives. There was an earnings credit rate increase implemented in the first quarter of 2016. Correspondent banking continues to be a core strategy for the Company, as this line of business provides a high level of noninterest bearing deposits that can be used to fund loan growth as well as a steady source of fee income. The Company now serves approximately 176 banks in Iowa, Illinois and Wisconsin.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

NONINTEREST EXPENSE

The following tables set forth the various categories of noninterest expense for the three and six months ended June 30, 2016 and 2015.

	Three Months Ended		\$ Change	% Change
	June 30, 2016	June 30, 2015		
Salaries and employee benefits	\$10,917,473	\$11,091,952	\$(174,479)	(1.6)%
Occupancy and equipment expense	1,884,556	1,865,552	19,004	1.0
Professional and data processing fees	1,542,322	1,470,695	71,627	4.9
Acquisition costs	354,969	-	354,969	100.0
FDIC insurance, other insurance and regulatory fees	649,604	730,563	(80,959)	(11.1)
Loan/lease expense	154,349	208,552	(54,203)	(26.0)
Net cost of operations of other real estate	277,911	(47,876)	325,787	(680.5)
Advertising and marketing	433,451	489,504	(56,053)	(11.5)
Postage and communications	256,567	214,142	42,425	19.8
Stationery and supplies	157,924	136,808	21,116	15.4
Bank service charges	415,350	358,996	56,354	15.7
Losses on debt extinguishment, net	-	6,894,185	(6,894,185)	(100.0)
Correspondent banking expense	181,776	165,091	16,685	10.1
Other	517,501	523,470	(5,969)	(1.1)
Total noninterest expense	\$17,743,753	\$24,101,634	\$(6,357,881)	(26.4)%

	Six Months Ended		\$ Change	% Change
	June 30, 2016	June 30, 2015		
Salaries and employee benefits	\$21,718,380	\$22,126,404	\$(408,024)	(1.8)%
Occupancy and equipment expense	3,711,544	3,659,723	51,821	1.4

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

Professional and data processing fees	2,989,735	2,941,212	48,523	1.6
Acquisition costs	354,969	-	354,969	100.0
FDIC insurance, other insurance and regulatory fees	1,283,969	1,449,620	(165,651)	(11.4)
Loan/lease expense	317,168	511,475	(194,307)	(38.0)
Net cost of operations of other real estate	380,094	28,975	351,119	1,211.8
Advertising and marketing	819,710	907,741	(88,031)	(9.7)
Postage and communications	473,657	463,098	10,559	2.3
Stationery and supplies	322,795	279,363	43,432	15.5
Bank service charges	831,281	696,454	134,827	19.4
Losses on debt extinguishment, net	83,197	6,894,185	(6,810,988)	(98.8)
Correspondent banking expense	358,765	340,794	17,971	5.3
Other	1,052,987	1,006,751	46,236	4.6
Total noninterest expense	\$34,698,251	\$41,305,795	\$(6,607,544)	(16.0)%

Management places a strong emphasis on overall cost containment and is committed to improving the Company's general efficiency.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Salaries and employee benefits, which is the largest component of noninterest expense, decreased from the second quarter of 2015 to the second quarter of 2016 by 2%. This line item also decreased 2% when comparing the first half of 2016 to the first half of 2015. This was primarily due to the acquisition of the noncontrolling interest in m2 in 2015, thus eliminating the related salary expense. This amount represented the former minority owner's 20% interest in the earnings of m2, as further described in Note 23 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Additionally, management focused on taking steps to reduce salary and employee benefits expense during the last half of 2015 and the first half of 2016, consistent with the Company's stated goal of carefully managing noninterest expense growth.

Occupancy and equipment expense increased slightly, comparing the second quarter of 2016 to the same period of the prior year and comparing the first half of 2016 to the same period of the prior year. The increased expense was mostly due to higher service contract-related expenses.

Professional and data processing fees increased 5%, comparing the second quarter of 2016 to the same period in 2015 and increased 2% comparing the first half of 2016 to the same period in 2015. Generally, professional and data processing fees can fluctuate depending on certain one-time project costs. Management will continue to focus on minimizing such one-time costs and driving recurring costs down through contract renegotiation or managed reduction in activity where costs are determined on a usage basis.

Acquisition costs for the second quarter of 2016 and for the first half of 2016 total \$355 thousand. These costs are related to the planned acquisition of Community State Bank, as described in Note 9 to the Consolidated Financial Statements.

FDIC and other insurance expense decreased 11%, comparing the second quarter of 2016 to the second quarter of 2015, and decreased 11% comparing the first half of 2016 to the same period of 2015. The decrease in expense was due to a decrease in the assessment rate designated by the FDIC.

Loan/lease expense decreased 26%, comparing the second quarter of 2016 to the same quarter of 2015 and decreased 38% when comparing the first half of 2016 to the same period of 2015. The Company incurred elevated levels of expense during 2015 for certain existing NPLs in connection with the work-out of these loans. Generally, loan/lease expense has a direct relationship with the level of NPLs; however, it may deviate depending upon the individual NPLs.

Net cost of operations of other real estate includes gains/losses on the sale of OREO, write-downs of OREO and all income/expenses associated with OREO. Net costs of operations of other real estate totaled \$278 thousand for the second quarter of 2016, compared to (\$48) thousand for the second quarter of 2015. Net costs of operations of other real estate totaled \$380 thousand for the first six months of 2016, compared to \$29 thousand for the first six months of 2015.

Bank service charges, a large portion of which includes indirect costs incurred to provide services to QCBT's correspondent banking customer portfolio, increased 15% from the second quarter of 2015 to the second quarter of 2016 and increased 19% from the first half of 2015 to the first half of 2016. The increase was due, in large part, to the success QCBT has had in growing its correspondent banking customer portfolio. As transactions volumes continue to increase and the number of correspondent banking clients increases, the associated expenses will also increase. This may not directly correlate to correspondent banking balances, as quarter-end balances can fluctuate.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

In the first half of 2016, the Company incurred \$83 thousand of losses on debt extinguishment, net. This amount included \$1.3 million of losses related to the prepayment of certain FHLB advances and whole structured repurchase agreements, as well as a \$1.2 million gain recognized through the repurchase of trust preferred securities. For further details, please refer to Note 4 of the Consolidated Financial Statements. In the first half of 2015, the Company incurred \$6.9 million of losses on debt extinguishment, net, due to the prepayment of certain FHLB advances and structured repurchase agreements, as described in detail within Note 12 of the Company's annual report on Form 10-K for the year ended December 31, 2015.

Correspondent banking expense was up 10% when comparing the second quarter of 2016 to the second quarter of 2015 and up 5% when comparing the first six months of 2016 to the same period of 2015. These are direct costs incurred to provide services to QCBT's correspondent banking customer portfolio, including safekeeping and cash management services.

INCOME TAXES

In the second quarter of 2016, the Company incurred income tax expense of \$2.2 million. For the first half of the year, the Company incurred income tax expense of \$4.2 million. Following is a reconciliation of the expected income tax expense to the income tax expense included in the consolidated statements of income for the three and six months ended June 30, 2016 and 2015.

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2016	% of Pretax Income	2015	% of Pretax Income	2016	% of Pretax Income	2015	% of Pretax Income
Computed "expected" tax	\$3,090,364	35.0 %	\$(874,380)	35.0 %	\$6,027,743	35.0 %	\$906,902	35.0 %

Edgar Filing: QCR HOLDINGS INC - Form 10-Q

expense								
Tax exempt income, net	(988,488)	(11.2)	(882,613)	35.3	(1,954,806)	(11.4)	(1,708,730)	(65.9)
Bank-owned life insurance	(168,182)	(1.9)	(151,603)	6.1	(305,945)	(1.8)	(319,162)	(12.3)
State income taxes, net of federal benefit, current year	297,130	3.4	(85,113)	3.4	564,038	3.3	85,217	3.3
Other	(77,680)	(0.9)	19,298	(0.8)	(158,863)	(0.9)	(27,149)	(1.1)
Federal and state income tax expense	\$2,153,144	24.4 %	\$(1,974,411)	79.0 %	\$4,172,167	24.2 %	\$(1,062,922)	(41.0)%

The effective tax for the quarter ended June 30, 2016 was 24.4% which was an increase over the effective tax rate of 79% for the quarter ended June 30, 2015. The effective tax rate for the six months ended June 30, 2016 was 24.2%, which was an increase over the effective tax rate of (41.0%) for the six months ended June 30, 2015. The increase in pre-tax income was derived from a larger portion of taxable income which drove the increase in the effective tax rate. The Company's tax-exempt income sources include interest income from tax-exempt municipal bonds and loans as well as earnings on BOLI. Tax-exempt income grew over the past year; however, the growth in taxable income far outpaced the growth in non-taxable income. In 2015, the Company had more nontaxable income and deductible expenses (including \$6.9 million of losses on debt extinguishment, net) than taxable income, which led to tax benefits in both periods presented above.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

FINANCIAL CONDITION

Following is a table that represents the major categories of the Company's balance sheet.

	As of		June 30, 2016		March 31, 2016		December 31, 2015		June 30, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(dollars in thousands)</i>									
Cash and due from banks	\$49,581	2 %	\$44,931	2 %	\$41,742	2 %	\$39,995	2 %		
Federal funds sold and interest-bearing deposits	68,432	3 %	57,229	2 %	56,164	2 %	70,238	3 %		
Securities	510,959	19 %	537,317	20 %	577,109	22 %	592,368	23 %		
Net loans/leases	1,894,676	71 %	1,846,428	70 %	1,771,882	68 %	1,689,238	66 %		
Other assets	159,786	6 %	154,768	6 %	146,301	6 %	151,130	6 %		
Total assets	\$2,683,434	100%	\$2,640,673	100%	\$2,593,198	100%	\$2,542,969	100%		
Total deposits	\$1,973,594	74 %	\$1,989,573	75 %	\$1,880,666	72 %	\$1,836,767	72 %		
Total borrowings	381,875	14 %	347,901	13 %	444,162	17 %	456,567	18 %		
Other liabilities	52,848	2 %	68,056	3 %	42,484	2 %	37,938	2 %		
Total stockholders' equity	275,117	10 %	235,143	9 %	225,886	9 %	211,697	8 %		
Total liabilities and stockholders' equity	\$2,683,434	100%	\$2,640,673	100%	\$2,593,198	100%	\$2,542,969	100%		

During the second quarter of 2016, the Company's total assets increased \$42.8 million, or 2%, to a total of \$2.7 billion, while total gross loans and leases grew \$48.2 million, or 3%. The loan and lease growth was funded primarily by called securities and short-term borrowings. Deposits decreased \$16.0 million, or 1%, during the quarter. Borrowings increased \$34.0 million (mostly overnight FHLB advances) in the second quarter to \$381.9 million. Stockholders' equity increased \$40.0 million, or 17%, in the current quarter due to net income, as well as the common stock offering

described in Note 9 to the Consolidated Financial Statements.

INVESTMENT SECURITIES

The composition of the Company's securities portfolio is managed to meet liquidity needs while prioritizing the impact on interest rate risk and maximizing return, while minimizing credit risk. The Company has further diversified the portfolio by decreasing U.S government sponsored agency securities, while increasing residential mortgage-backed securities and tax-exempt municipal securities. Of the latter, the large majority are privately placed tax-exempt debt issuances by municipalities located in the Midwest (with some in or near the Company's existing markets) and require a thorough underwriting process before investment. Additionally, management will continue to diversify the portfolio with further growth strictly dictated by the pace of growth in deposits and loans.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Following is a breakdown of the Company's securities portfolio by type, the percentage of unrealized gains (losses) to carrying value on the total portfolio, and the portfolio duration:

	As of							
	June 30, 2016		March 31, 2016		December 31, 2015		June 30, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(dollars in thousands)</i>							
U.S. govt. sponsored agency securities	\$88,321	17 %	\$132,742	25 %	\$213,537	37 %	\$256,444	43 %
Municipal securities	302,689	59 %	285,009	53 %	280,203	49 %	251,992	42 %
Residential mortgage-backed and related securities	116,765	23 %	116,452	22 %	80,670	14 %	80,844	14 %
Other securities	3,184	1 %	3,114	0 %	2,699	0 %	3,088	1 %
	\$510,959	100 %	\$537,317	100 %	\$577,109	100 %	\$592,368	100 %
Securities as a % of Total Assets	19.04	%	20.35	%	22.25	%	23.29	%
Net Unrealized Gains (Losses) as a % of Amortized Cost	1.95	%	1.05	%	(0.03%)		(0.69%)	
Duration (in years)	5.1		5.2		5.1		4.9	
Yield on investment securities (tax equivalent)	3.64	%	3.42	%	3.07	%	3.00	%

As a result of fluctuations in longer-term interest rates, the fair value of the Company's securities portfolio went from a net unrealized gain position of 1.05% of amortized cost at March 31, 2016 to a net unrealized gain position of 1.95% of amortized cost at June 30, 2016. Management performs an evaluation of the portfolio quarterly to understand the current market value as well as projections of market value in a variety of rising and falling interest rate scenarios. In addition, management has evaluated those securities with an unrealized loss position to determine whether the loss is derived from credit deterioration or the movement in interest rates. The evaluation determined that there were no securities in the portfolio with OTTI. See the "Critical Accounting Policies" section of this report for further discussion of this evaluation.

The duration of the securities portfolio has stayed relatively flat over the past several quarters. Duration was extended from the strong growth in longer term fixed rate municipal securities, but was mostly offset by the duration shortening of agency and mortgage-backed securities portfolios resulting from targeted sales of longer duration investments and as the remaining agency portfolio rolled closer to maturities or call dates.

The Company has not invested in commercial mortgage-backed securities or pooled trust preferred securities. Additionally, the Company has not invested in the types of securities subject to the Volcker Rule (a provision of the Dodd-Frank Act).

See Note 2 to the Consolidated Financial Statements for additional information regarding the Company's investment securities.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

LOANS/LEASES

Total loans/leases grew 13.9% on an annualized basis during the first six months of 2016. The mix of the loan/lease types within the Company's loan/lease portfolio is presented in the following table.

	As of		March 31, 2016		December 31, 2015		June 30, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(dollars in thousands)</i>							
C&I loans	\$706,261	37 %	\$682,057	37 %	\$648,160	36 %	\$606,826	36 %
CRE loans	784,379	41 %	766,159	41 %	724,369	40 %	696,122	41 %
Direct financing leases	169,928	9 %	172,774	9 %	173,656	10 %	170,799	10 %
Residential real estate loans	180,482	9 %	173,096	9 %	170,433	10 %	161,985	9 %
Installment and other consumer loans	73,658	4 %	71,842	4 %	73,669	4 %	72,448	4 %
Total loans/leases	\$1,914,708	100 %	\$1,865,928	100 %	\$1,790,287	100 %	\$1,708,180	100 %
Plus deferred loan/lease origination costs, net of fees	8,065		7,895		7,736		7,204	
Less allowance	(28,097)		(27,395)		(26,141)		(26,146)	
Net loans/leases	\$1,894,676		\$1,846,428		\$1,771,882		\$1,689,238	

As CRE loans have historically been the Company's largest portfolio segment, management places a strong emphasis on monitoring the composition of the Company's CRE loan portfolio. For example, management tracks the level of owner-occupied CRE loans relative to non owner-occupied loans. Owner-occupied loans are generally considered to have less risk. As of June 30, 2016 and March 31, 2016, respectively, approximately 33% and 34% of the CRE loan

portfolio was owner-occupied.

Over the past several quarters, the Company has been successful in shifting the mix of its commercial loan portfolio by adding more C&I loans. C&I loans grew \$99.4 million, or 16% over the past twelve months, which increased its percentage to total loans/leases from 36% to 37%.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Following is a listing of significant industries within the Company's CRE loan portfolio:

	As of June 30, 2016		As of March 31, 2016		As of December 31, 2015		As of June 30, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(dollars in thousands)</i>							
Lessors of Nonresidential Buildings	\$285,522	37 %	\$277,822	36 %	\$264,133	37 %	\$248,315	35 %
Lessors of Residential Buildings	104,395	13 %	99,104	13 %	89,189	12 %	87,424	12 %
Lessors of Other Real Estate Property	21,803	3 %	21,895	3 %	22,009	3 %	18,251	3 %
Hotels	19,804	3 %	19,694	3 %	19,228	3 %	17,648	3 %
Land Subdivision	18,034	2 %	18,467	2 %	17,839	2 %	15,494	2 %
Nonresidential Property Managers	17,517	2 %	17,003	2 %	10,500	1 %	5,360	1 %
Nursing Care Facilities	15,070	2 %	13,807	2 %	17,288	2 %	15,293	2 %
New Car Dealers	10,856	1 %	11,430	2 %	11,656	2 %	12,978	2 %
Other *	291,378	37 %	286,937	37 %	272,527	38 %	275,359	40 %
Total CRE Loans	\$784,379	100%	\$766,159	100%	\$724,369	100%	\$696,122	100%

* "Other" consists of all other industries. None of these had concentrations greater than \$15.0 million, or approximately 2% of total CRE loans in the most recent period presented.

The Company's residential real estate loan portfolio consists of the following:

Certain loans that do not meet the criteria for sale into the secondary market. These are often structured as adjustable rate mortgages with maturities ranging from three to seven years to avoid the long-term interest rate risk. A limited amount of 15-year fixed rate residential real estate loans that meet certain credit guidelines.

The remaining residential real estate loans originated by the Company were sold on the secondary market to avoid the interest rate risk associated with longer term fixed rate loans. Loans originated for this purpose were classified as held for sale and are included in the residential real estate loans above. In addition, the Company has not originated any subprime, Alt-A, no documentation, or stated income residential real estate loans throughout its history.

See Note 3 to the Consolidated Financial Statements for additional information regarding the Company's loan/lease portfolio.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

ALLOWANCE FOR ESTIMATED LOSSES ON LOANS/LEASES

Changes in the allowance for the three and six months ended June 30, 2016 and 2015 are presented as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	<i>(dollars in thousands)</i>		<i>(dollars in thousands)</i>	
Balance, beginning	\$27,395	\$23,883	\$26,141	\$23,074
Provisions charged to expense	1,198	2,349	3,271	4,059
Loans/leases charged off	(634)	(536)	(1,502)	(1,643)
Recoveries on loans/leases previously charged off	138	450	187	656
Balance, ending	\$28,097	\$26,146	\$28,097	\$26,146

The allowance was determined based on factors that included the overall composition of the loan/lease portfolio, types of loans/leases, past loss experience, loan/lease delinquencies, potential substandard and doubtful credits, economic conditions, collateral positions, governmental guarantees and other factors that, in management's judgment, deserved evaluation. To ensure that an adequate allowance was maintained, provisions were made based on a number of factors, including the increase in loans/leases and a detailed analysis of the loan/lease portfolio. The loan/lease portfolio is reviewed and analyzed monthly with specific detailed reviews completed on all loans risk-rated worse than "fair quality" and carrying aggregate exposure in excess of \$250 thousand. The adequacy of the allowance is monitored by the loan review staff and reported to management and the board of directors.

The Company's levels of criticized and classified loans are reported in the following table.

Internally Assigned Risk Rating *	As of			
	June 30, 2016	March 31, 2016	December 31, 2015	June 30, 2015
	<i>(dollars in thousands)</i>			
Special Mention (Rating 6)	\$ 16,231	\$ 28,065	\$ 37,289	\$ 35,093
Substandard (Rating 7)	44,636	38,273	27,962	24,688
Doubtful (Rating 8)	-	-	-	-
	\$ 60,867	\$ 66,338	\$ 65,251	\$ 59,781
Criticized Loans **	\$ 60,867	\$ 66,338	\$ 65,251	\$ 59,781
Classified Loans ***	\$ 44,636	\$ 38,273	\$ 27,962	\$ 24,688
Criticized Loans as a % of Total Loans/Leases	3.17 %	3.54 %	3.63 %	3.48 %
Classified Loans as a % of Total Loans/Leases	2.32 %	2.04 %	1.56 %	1.44 %

* Amounts above include the government guaranteed portion, if any. For the calculation of allowance, the Company assigns internal risk ratings of Pass (Rating 2) for the government guaranteed portion.

** Criticized loans are defined as commercial and industrial and commercial real estate loans with internally assigned risk ratings of 6, 7, or 8, regardless of performance.

*** Classified loans are defined as commercial and industrial and commercial real estate loans with internally assigned risk ratings of 7 or 8, regardless of performance.

The Company experienced an increase in classified loans during the first half of 2016, while criticized loans decreased during this same period. The increase in classified loans during the first half of 2016 was primarily due to a limited number of relationship downgrades. The Company continues its strong focus on improving credit quality in an effort to limit NPLs.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
 FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

The following table summarizes the trend in the allowance as a percentage of gross loans/leases and as a percentage of NPLs.

	As of							
	June	March	December	June				
	30,	31,	31, 2015	30,				
	2016	2016		2015				
Allowance / Gross Loans/Leases	1.46	%	1.46	%	1.45	%	1.52	%
Allowance / NPLs *	223.42	%	228.75	%	223.33	%	176.02	%

*NPLs consist of nonaccrual loans/leases, accruing loans/leases past due 90 days or more, and accruing TDRs.

Although management believes that the allowance at June 30, 2016 was at a level adequate to absorb losses on existing loans/leases, there can be no assurance that such losses will not exceed the estimated amounts or that the Company will not be required to make additional provisions in the future. Unpredictable future events could adversely affect cash flows for both commercial and individual borrowers, which could cause the Company to experience increases in problem assets, delinquencies and losses on loans/leases, and require further increases in the provision. Asset quality is a priority for the Company and its subsidiaries. The ability to grow profitably is in part dependent upon the ability to maintain that quality. The Company continually focuses efforts at its subsidiary banks and leasing company with the intention to improve the overall quality of the Company's loan/lease portfolio.

See Note 3 to the Consolidated Financial Statements for additional information regarding the Company's allowance.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

NONPERFORMING ASSETS

The table below presents the amounts of NPAs.

	As of June 30, 2016	As of March 31, 2016	As of December 31, 2015	As of June 30, 2015
	<i>(dollars in thousands)</i>			
Nonaccrual loans/leases (1) (2)	\$10,737	\$10,772	\$ 10,648	\$13,542
Accruing loans/leases past due 90 days or more	86	47	3	46
TDRs - accruing	1,753	1,157	1,054	1,266
Total NPLs	12,576	11,976	11,705	14,854
OREO	6,179	6,680	7,151	11,952
Other repossessed assets	154	46	246	297
Total NPAs	\$18,909	\$18,702	\$ 19,102	\$27,103
NPLs to total loans/leases	0.65 %	0.64 %	0.65 %	0.87 %
NPAs to total loans/leases plus repossessed property	0.98 %	0.99 %	1.06 %	1.57 %
NPAs to total assets	0.70 %	0.71 %	0.74 %	1.07 %
Texas ratio (3)	6.28 %	7.23 %	7.62 %	11.50 %

(1) Includes government guaranteed portion of loans, as applicable.

(2) Includes TDRs of \$2.4 million at June 30, 2016, \$1.6 million at March 31, 2016, \$1.5 million at December 31, 2015, and \$3.9 million at June 30, 2015.

Texas Ratio = Nonperforming Assets (excluding Other Repossessed Assets) / Tangible Equity plus Allowance.

(3) Texas Ratio is a non-GAAP financial measure. Management included this ratio as it is considered by many investors and analysts to be a metric with which to analyze and evaluate asset quality. Other companies may calculate this ratio differently.

NPAs at June 30, 2016 were \$18.9 million, which were flat from March 31, 2016 and down \$8.2 million from June 30, 2015. In addition, the ratio of NPAs to total assets was 0.70% at June 30, 2016, which was down from 0.71% at March 31, 2016, and down from 1.07% at June 30, 2015.

The large majority of the NPAs consist of nonaccrual loans/leases, accruing TDRs, and OREO. For nonaccrual loans/leases and accruing TDRs, management has thoroughly reviewed these loans/leases and has provided specific allowances as appropriate.

OREO is carried at the lower of carrying amount or fair value less costs to sell.

Additionally, a portion of several of the nonaccrual loans are guaranteed by the government. At June 30, 2016, government guaranteed amounts of nonaccrual loans totaled approximately \$713 thousand, or 7% of the \$10.7 million of total nonaccrual loans/leases.

The Company's lending/leasing practices remain unchanged and asset quality remains a top priority for management.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

DEPOSITS

Deposits decreased \$16.0 million during the second quarter of 2016. The table below presents the composition of the Company's deposit portfolio.

	As of		March 31, 2016		December 31, 2015		June 30, 2015	
	June 30, 2016		March 31, 2016		December 31, 2015		June 30, 2015	
	<i>(dollars in thousands)</i>							
	Amount	%	Amount	%	Amount	%	Amount	%
Noninterest bearing demand deposits	\$615,764	31 %	\$641,859	32 %	\$615,292	33 %	\$633,370	34 %
Interest bearing demand deposits	918,036	47 %	916,455	46 %	886,294	47 %	785,705	43 %
Time deposits	337,584	17 %	331,786	17 %	309,974	16 %	322,826	18 %
Brokered deposits	102,210	5 %	99,473	5 %	69,106	4 %	94,866	5 %
	\$1,973,594	100%	\$1,989,573	100%	\$1,880,666	100%	\$1,836,767	100%

The Company has been successful in growing its noninterest bearing deposit portfolio over the past several years, although during the second quarter, noninterest bearing demand deposits decreased 4%.

Quarter-end balances can greatly fluctuate due to large customer and correspondent bank activity. Management will continue to focus on growing its noninterest bearing deposit portfolio, including its correspondent banking business at QCBT, as well as shifting the mix from brokered and other higher cost deposits to lower cost core deposits.

BORROWINGS

The subsidiary banks offer short-term repurchase agreements to some of their significant customers. Also, the subsidiary banks purchase federal funds for short-term funding needs from the Federal Reserve Bank of Chicago or from their correspondent banks. The table below presents the composition of the Company's short-term borrowings.

	As of			
	June 30, 2016	March 31, 2016	December 31, 2015	June 30, 2015

(dollars in thousands)

Overnight repurchase agreements with customers	\$21,441	\$52,153	\$73,873	\$118,795
Federal funds purchased	30,120	11,870	70,790	49,780
	\$51,561	\$64,023	\$144,663	\$168,575

The Company is nearing the end of transitioning its overnight repurchase agreements with customers into a comparable interest bearing demand deposit product that offers full FDIC insurance. This transition freed up securities that were previously pledged as collateral to the overnight repurchase agreements with customers. This enhanced the Company's ability to further rotate its earning assets from securities to loans.

As a result of their memberships in either the FHLB of Des Moines or Chicago, the subsidiary banks have the ability to borrow funds for short or long-term purposes under a variety of programs. FHLB advances are utilized for loan matching as a hedge against the possibility of rising interest rates, and when these advances provide a less costly or more readily available source of funds than customer deposits.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

Other borrowings consist of structured repos which are utilized as an alternative funding source to FHLB advances and customer deposits. Structured repos are collateralized by certain U.S. government agency securities and residential mortgage backed securities. Structured repos totaled \$100 million, \$100 million, \$110 million and \$115 million as of June 30, 2016, March 31, 2016, December 31, 2015 and June 30, 2015, respectively.

It is management's intention to continue to reduce its reliance on wholesale funding, including FHLB advances, structured repos, and brokered deposits. Replacement of this funding with core deposits helps to reduce interest expense as the wholesale funding tends to be higher cost. However, the Company may choose to utilize advances and/or brokered deposits to supplement funding needs, as this is a way for the Company to effectively and efficiently manage interest rate risk. The table below presents the maturity schedule including weighted average interest cost for the Company's combined wholesale funding portfolio.

Maturity:	June 30, 2016		December 31, 2015			
	Amount Due	Weighted Average Interest Rate	Amount Due	Weighted Average Interest Rate		
Year ending December 31: <i>(dollar amounts in thousands)</i>						
2016	\$222,873	0.56	% \$125,038	0.59	%	
2017	39,055	1.61	49,055	2.07		
2018	45,233	2.70	57,283	2.87		
2019	46,950	3.21	50,089	3.14		
2020	45,000	2.66	45,000	2.66		
Thereafter	-	0.00	3,641	2.51		
Total Wholesale Funding	\$399,111	1.45	% \$330,106	1.89	%	

During the first six months of 2016, wholesale funding increased \$69.0 million. While the Company increased overall wholesale funding, the increase was all short-term in nature, as 2016 maturities increased \$97.8 million, while all future year maturities saw a decrease due to brokered CDs that were called and prepayments of certain FHLB

advances and structured repos (as further described in Note 4 of the Consolidated Financial Statements).

The table below presents the Company's term FHLB advances and overnight FHLB advances.

As of
 June 30, March December June 30,
 2016 31, 2016 31, 2015 2015

(dollars in thousands)

Term FHLB advances	\$ 78,000	\$ 80,000	\$ 97,000	\$ 104,000
Overnight FHLB advances	118,900	70,500	54,000	28,500
	\$ 196,900	\$ 150,500	\$ 151,000	\$ 132,500

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

STOCKHOLDERS' EQUITY

The table below presents the composition of the Company's stockholders' equity.

	As of June 30, 2016 Amount	March 31, 2016 Amount	December 31, 2015 Amount	June 30, 2015 Amount
<i>(dollars in thousands)</i>				
Common stock	\$13,057	\$11,815	\$11,761	\$11,820
Additional paid in capital	155,454	124,058	123,283	122,511
Retained earnings	105,024	98,868	92,966	81,066
AOCI (loss)	1,582	402	(2,124)	(2,094)
Less: Treasury stock	-	-	-	(1,606)
Total stockholders' equity	\$275,117	\$235,143	\$225,886	\$211,697
TCE* / TA	10.10 %	8.74 %	8.55 %	8.15 %

*TCE is defined as total common stockholders' equity excluding goodwill and other intangibles. This ratio is a non-GAAP financial measure.

During the second quarter of 2015, the Company finalized its acquisition of the 20% noncontrolling interest in m2 (further described in Note 23 of the Company's annual report filed on Form 10-K as of December 31, 2015). As final 2015 tax returns were filed in early 2016, the Company made necessary final adjustments to the related deferred tax accounts. This resulted in an increase of \$2.1 million to deferred tax assets and additional paid in capital during the second quarter of 2016.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures the ability of the Company to meet maturing obligations and its existing commitments, to withstand fluctuations in deposit levels, to fund its operations, and to provide for customers' credit needs. The Company monitors liquidity risk through contingency planning stress testing on a regular basis. The Company seeks to avoid over-concentration of funding sources and to establish and maintain contingent funding facilities that can be drawn upon if normal funding sources become unavailable. One source of liquidity is cash and short-term assets, such as interest-bearing deposits in other banks and federal funds sold, which averaged \$115.4 million during the second quarter of 2016 and \$129.5 million during 2015. The Company's on balance sheet liquidity position can fluctuate based on short-term activity in deposits and loans.

The subsidiary banks have a variety of sources of short-term liquidity available to them, including federal funds purchased from correspondent banks, FHLB advances, wholesale structured repurchase agreements, brokered deposits, lines of credit, borrowing at the Federal Reserve Discount Window, sales of securities available for sale, and loan/lease participations or sales. The Company also generates liquidity from the regular principal payments and prepayments made on its loan/lease portfolio, and on the regular monthly payments on its securities portfolio (both residential mortgage-backed securities and municipal securities).

At June 30, 2016, the subsidiary banks had 33 lines of credit totaling \$359.0 million, of which \$12.0 million was secured and \$347.0 million was unsecured. At June 30, 2016, \$339.0 million was available as \$20.0 million was utilized for short-term borrowings needs at QCBT.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

At December 31, 2015, the subsidiary banks had 32 lines of credit totaling \$346.6 million, of which \$14.6 million was secured and \$332.0 million was unsecured. At December 31, 2015, \$286.6 million was available as \$60.0 million was utilized for short-term borrowing needs at QCBT.

The Company has emphasized growing the number and amount of lines of credit in an effort to strengthen this contingent source of liquidity. Additionally, the Company maintains a \$10.0 million secured revolving credit note with a variable interest rate and a maturity of June 30, 2017. At June 30, 2016, the Company had not borrowed on this revolving credit note and had the full amount available.

The Company currently has \$299.8 million in correspondent banking deposits spread over 176 relationships. While the Company feels that these funds are very stable, there is the potential for large fluctuations that can impact liquidity. Seasonality and the liquidity needs of these correspondent banks can impact balances. Management closely monitors these fluctuations and runs stress scenarios to measure the impact on liquidity and interest rate risk with various levels of correspondent deposit run-off.

Investing activities used cash of \$67.2 million during the first six months of 2016, compared to \$15.0 million for the same period of 2015. Proceeds from calls, maturities, paydowns, and sales of securities were \$171.1 million for the first six months of 2016, compared to \$240.3 million for the same period of 2015. Purchases of securities used cash of \$97.1 million for the first six months of 2016, compared to \$181.3 million for the same period of 2015. The net increase in loans/leases used cash of \$125.0 million for the first six months of 2016 compared to \$85.8 million for the same period of 2015.

Financing activities provided cash of \$60.3 million for the first six months of 2016, compared to \$7.9 million for same period of 2015. Net increases in deposits totaled \$92.9 million for the first six months of 2016, compared to \$157.1 million for the same period of 2015. During the first six months of 2016, the Company's short-term borrowings decreased \$93.1 million, while they decreased \$99.8 million for the same period of 2015. During the first six months of 2016, the Company used \$25.2 million to prepay select FHLB advances and other borrowings. In the same period, the Company received \$29.8 million of proceeds from the common stock offering of 1.2 million shares of common

stock. During the first six months of 2015, the Company received \$63.5 million of proceeds from the common stock offering of 3.7 million shares of common stock. In the same period, the Company used \$110.4 million to prepay select FHLB advances and other borrowings.

Total cash provided by operating activities was \$14.8 million for the first six months of 2016, compared to \$8.9 million for the same period of 2015.

Throughout its history, the Company has secured additional capital through various sources, including the issuance of common and preferred stock, as well as trust preferred securities. Trust preferred securities are reported on the Company's balance sheet as liabilities, but currently qualify for treatment as regulatory capital.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

The following table presents the details of the trust preferred securities outstanding as of June 30, 2016 and December 31, 2015.

Name	Date Issued	Amount	Amount	Interest Rate	Interest	Interest
		Outstanding	Outstanding		Rate	Rate
		6/30/16	12/31/15		as of	as of
					6/30/16	12/31/2015
QCR Holdings Statutory Trust II	February 2004	\$10,310,000	\$10,310,000	2.85% over 3-month LIBOR	3.48%	3.18%
QCR Holdings Statutory Trust III	February 2004	8,248,000	8,248,000	2.85% over 3-month LIBOR	3.48%	3.18%
QCR Holdings Statutory Trust IV	May 2005	-	5,155,000	1.80% over 3-month LIBOR	N/A	2.12%
QCR Holdings Statutory Trust V	February 2006	10,310,000	10,310,000	1.55% over 3-month LIBOR	2.18%	1.87%
Community National Statutory Trust II	September 2004	3,093,000	3,093,000	2.17% over 3-month LIBOR	2.82%	2.74%
Community National Statutory Trust III	March 2007	3,609,000	3,609,000	1.75% over 3-month LIBOR	2.40%	2.26%
		\$35,570,000	\$40,725,000	Weighted Average Rate	2.94%	2.60%

The Company assumed the trust preferred securities originally issued by Community National in connection with its acquisition in May 2013. As a result of acquisition accounting, the liabilities were recorded at fair value upon acquisition with the resulting discount being accreted as interest expense on a level yield basis over the expected term. The original discount totaled \$2.6 million. As of June 30, 2016, the remaining discount was \$2.2 million.

QCR Holdings Statutory Trust IV was extinguished in the first quarter of 2016. Refer to Note 4 of the Consolidated Financial Statements for additional information.

On August 27, 2015, the Company filed a universal shelf registration statement on Form S-3 with the SEC. This registration statement, declared effective by the SEC on October 5, 2015, allows the Company to issue various types of securities, including common stock, preferred stock, debt securities or warrants, from time to time, up to an aggregate amount of \$100 million. The specific terms and prices of the securities will be determined at the time of any future offering and described in a separate prospectus supplement, which would be filed with the SEC at the time of the particular offering, if any. On May 23, 2016, the Company completed a \$30 million takedown from its shelf registration statement for the common stock issuance discussed in Note 9 of the Consolidated Financial Statements, leaving \$70 million for future offerings.

The Company (on a consolidated basis) and the subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and subsidiary banks' financial statements. Refer to Note 8 of the Consolidated Financial Statements for additional information regarding regulatory capital.

Part I

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS – continued

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995. This document (including information incorporated by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company's management and on information currently available to management, are generally identifiable by the use of words such as "believe," "expect," "anticipate," "bode," "predict," "suggest," "project," "appear," "plan," "intend," "estimate," "may," "will," "would," "could," "should," "likely," or other similar expressions. Additional statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. The factors which could have a material adverse effect on the Company's operations and future prospects are detailed in the "Risk Factors" sections included under Item 1A of Part I of the Company's Annual Report on Form 10-K and Item 1A of Part II of this report. In addition to the risk factors described in that section, there are other factors that may impact any public company, including the Company, which could have a material adverse effect on the Company's operations and future prospects of the Company and its subsidiaries.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Part I

Item 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company, like other financial institutions, is subject to direct and indirect market risk. Direct market risk exists from changes in interest rates. The Company's net income is dependent on its net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than interest-earning assets. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income.

In an attempt to manage the Company's exposure to changes in interest rates, management monitors the Company's interest rate risk. Each subsidiary bank has an asset/liability management committee of the board of directors that meets quarterly to review the bank's interest rate risk position and profitability, and to make or recommend adjustments for consideration by the full board of each bank.

Internal asset/liability management teams consisting of members of the subsidiary banks' management meet weekly to manage the mix of assets and liabilities to maximize earnings and liquidity and minimize interest rate and other risks. Management also reviews the subsidiary banks' securities portfolios, formulates investment strategies, and oversees the timing and implementation of transactions to assure attainment of the board's objectives in an effective manner. Notwithstanding the Company's interest rate risk management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net income.

In adjusting the Company's asset/liability position, the board of directors and management attempt to manage the Company's interest rate risk while maintaining or enhancing net interest margins. At times, depending on the level of general interest rates, the relationship between long-term and short-term interest rates, market conditions and competitive factors, the board of directors and management may decide to increase the Company's interest rate risk position somewhat in order to increase its net interest margin. The Company's results of operations and net portfolio values remain vulnerable to increases in interest rates and to fluctuations in the difference between long-term and short-term interest rates.

One method used to quantify interest rate risk is a short-term earnings at risk summary, which is a detailed and dynamic simulation model used to quantify the estimated exposure of net interest income to sustained interest rate

changes. This simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest sensitive assets and liabilities reflected on the Company's consolidated balance sheet. This sensitivity analysis demonstrates net interest income exposure annually over a five-year horizon, assuming no balance sheet growth and various interest rate scenarios including no change in rates; 200, 300, 400, and 500 basis point upward shifts; and a 100 basis point downward shift in interest rates, where interest-bearing assets and liabilities reprice at their earliest possible repricing date.

The model assumes parallel and pro rata shifts in interest rates over a twelve-month period for the 200 basis point upward shift and 100 basis point downward shift. For the 400 basis point upward shift, the model assumes a parallel and pro rata shift in interest rates over a twenty-four month period. For the 500 basis point upward shift, the model assumes a flattening and pro rata shift in interest rates over a twelve-month period where the short-end of the yield curve shifts upward greater than the long-end of the yield curve.

Part I

Item 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Further, in recent years, the Company added additional interest rate scenarios where interest rates experience a parallel and instantaneous shift upward 100, 200, 300, and 400 basis points and a parallel and instantaneous shift downward 100 basis points. The Company will run additional interest rate scenarios on an as-needed basis.

The asset/liability management committees of the subsidiary bank boards of directors have established policy limits of a 10% decline in net interest income for the 200 basis point upward parallel shift and the 100 basis point downward parallel shift. For the 300 basis point upward shock, the established policy limit has been increased to 25% decline in net interest income. The increased policy limit is appropriate as the shock scenario is extreme and unlikely and warrants a higher limit than the more realistic and traditional parallel/pro-rata shift scenarios.

Application of the simulation model analysis for select interest rate scenarios at the most recent quarter-end available is presented in the following table:

INTEREST RATE SCENARIO	POLICY LIMIT	NET INTEREST INCOME EXPOSURE in YEAR 1		
		As of March 31, 2016	As of December 31, 2015	As of December 31, 2014
100 basis point downward shift	-10.0%	-1.2%	-2.1%	-1.7%
200 basis point upward shift	-10.0%	-3.4%	-2.7%	-5.0%
300 basis point upward shock	-25.0%	-7.1%	-7.1%	-11.9%

The simulation is within the board-established policy limits for all three scenarios. Additionally, for all of the various interest rate scenarios modeled and measured by management (as described above), the results at March 31, 2016 (the most recent quarter available) were within established risk tolerances as established by policy or by best practice (if the interest rate scenario didn't have a specific policy limit).

In 2014, the Company executed two interest rate cap transactions, each with a notional value of \$15.0 million, for a total of \$30.0 million. The interest rate caps purchased essentially set a ceiling to the interest rate paid on the \$30.0

million of short-term FHLB advances that are being hedged, minimizing the interest rate risk associated with rising interest rates. The Company will continue to analyze and evaluate similar transactions as an alternative and cost effective way to mitigate interest rate risk.

Interest rate risk is considered to be one of the most significant market risks affecting the Company. For that reason, the Company engages the assistance of a national consulting firm and its risk management system to monitor and control the Company's interest rate risk exposure. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company's business activities.

Part I

Item 4

CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act of 1934) as of June 30, 2016. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report, to ensure that information required to be disclosed in the reports filed and submitted under the Exchange Act was recorded, processed, summarized and reported as and when required.

Changes in Internal Control over Financial Reporting. There have been no significant changes to the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II

QCR HOLDINGS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 1 Legal Proceedings

There are no material pending legal proceedings to which the Company or any of its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

Item 1A Risk Factors

There have been no material changes in the risk factors applicable to the Company from those disclosed in Part I, Item 1.A. "Risk Factors," in the Company's 2015 Annual Report on Form 10-K. Please refer to that section of the Company's Form 10-K for disclosures regarding the risks and uncertainties related to the Company's business.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 Defaults Upon Senior Securities

None

Item 4 Mine Safety Disclosures

Not applicable

Item 5 Other Information

None

73

Part II

QCR HOLDINGS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION - continued

Item 6 Exhibits

2.1 Stock Purchase Agreement, between QCR Holdings, Inc. and Van Diest Investment Company, dated May 23, 2016 (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on May 23, 2016).

10.1 2016 Equity Incentive Plan (incorporated by reference to Appendix A of the Company's definitive proxy statement on Schedule 14A filed on April 1, 2016).

10.2 Form of Securities Purchase Agreement, between the Company and certain investors, dated May 20, 2016 ((incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on May 23, 2016).

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015; (ii) Consolidated Statements of Income for the three and six months ended June 30, 2016 and June 30, 2015; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and June 30, 2015; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three and six months ended June 30, 2016 and June 30, 2015; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and June 30, 2015; and (vi) Notes to the Consolidated Financial Statements.

SIGNATURES

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

QCR HOLDINGS, INC.

(Registrant)

Date August 5, 2016

/s/ Douglas M. Hultquist
Douglas M. Hultquist, President
Chief Executive Officer

Date August 5, 2016

/s/ Todd A. Gipple
Todd A. Gipple, Executive Vice
President
Chief Operating Officer
Chief Financial Officer

Date August 5, 2016

/s/ Elizabeth A. Grabin
Elizabeth A. Grabin, Vice President
Controller & Director of Financial
Reporting
Principal Accounting Officer